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"We must learn from the mistakes of others. We can't possibly live long enough to make them all ourselves."
Sam Levenson, American humorist

Taking Mr. Levenson's advice, let's enjoy a story from the Wall Street Journal today. It begins with this picture, which is enough to make any of us wince even though it's one of those "mistakes of others."

Down 98%: a Shale Oil Mistake

Two years ago a few Wall Street investment banks—the cream of the crop—persuaded a sort-of-retired shale oil executive, Mr. Jim Hackett, to accept one billion dollars of investor money and use it to buy something—anything which suited him—in the shale oil sector. He put together Alta Mesa Resources, buying shale fields in Oklahoma whose price was cheap compared to Texas' Permian Basin, which was and still is the flaming hot spot for shale in the world. Mr. Hackett felt he had acquired a hidden gem. As we see above, for around 9 months the market agreed with him—or at least, gave him the benefit of the doubt. But in the last 14 months Alta Mesa has lost 98% of its value, written off $3.1 billion, drawn every dime of its $370 million bank credit line, and scraped up the last few dollars lying around to hire a law firm specializing in hopeless cases.

The Oklahoma shale fields gushed for 2 or 3 months, then plunged downward in the general direction of "dry holes." The company's geologists were wrong. That's the oil business.

The Journal story educated us about the "blank check" sector of the investment world in which, basically, brokers find "celebrity executives," then persuade wealthy "backers" to buy shares in the celebrity's new company, whose motto is something like, "We'll make money for you, but we won't tell you how until

later." That sounds pretty startling, doesn't it? It reminds Outlook of two historical items: one from Hollywood, one from real history.

- During Britain's famous "South Sea Bubble" around 1720, featuring an investment craze triggered by exploration of the mysterious lands on the other side of the world, the London brokers of the day actually did sell stock in companies described as "An Enterprise to Make Much Money, but the Methods to Be a Secret."

- And from Hollywood, which gives us a worthwhile needle now and then even if buried in a haystack, came the old movie "10 Things I Hate About You," based on Shakespeare's Taming of the Shrew, in which one character says to another, "We need a backer!" "What's a backer?" asks his friend. "Someone with money who's stupid," is the reply.

The world has changed in 3 centuries . . . but people have not. In the investment world there will always be a vast crowd of speculators; and there will also be a good many people who don't *call* themselves speculators, and don't *think* they are . . . but are mistaken. This second category of people can teach us something.

The kind of people who supplied Mr. Hackett's billion-dollar blank check probably won't be hurt by that 98% loss—but they did not intend it. They meant to make money—like a truly remarkable number of similarly well-heeled and supposedly sophisticated investors, over all the years, who've made investment mistakes which can only be called "astonishing" when examined later on. Two of the foundations for most of those mistakes are whatever the moment's "hot spots" are, in the investment world; and the connection of some celebrated investor or executive to the new venture in the hot spots. Both factors are rather good at persuading people <u>not</u> to be skeptical, hard-headed thinkers for themselves.

The energy sector's "shale hot spot" is absolutely real, of course. Wonderful new technology joined hands with wonderfully-underappreciated fields of oil-in-the-ground, and in 10 years America found itself elbowing Saudi Arabia aside as a global oil producer. The trouble is that "wonderful" can be real . . . but still can't grow to the sky. Nothing can. And one of the oddest things about markets in general—and certainly about today's stock market—is that the foolhardy belief that certain companies <u>can</u> grow to the sky stands side by side with the foolhardy belief that other companies can never grow again—to any height worth noticing—despite their emphatic and obvious strengths.

The market is always wrong about both beliefs. In Alta Mesa's case it only took 2 years to prove it—and people began to suspect it after only 9 months. That's not too much of a wait, by the market's historical standards . . . but a year or two is altogether too much to endure for a good many investors, who share the natural anxiety about money which we all must carry. Outlook's job is never to touch companies which may have grown partway to the sky, but won't get there; while placing our money in companies which will certainly grow again, when the crowd won't believe it. That describes most of our core companies today. Their future is not in Alta Mesa's neighborhood, but in the opposite direction.

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