



# Wisdom & Trust

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### Useful websites

[www.oil-price.net](http://www.oil-price.net)

[www.bloomberg.com/energy](http://www.bloomberg.com/energy)

### Coming Soon:

Eratz Oil and Gas Investor Guide by Clifford Ratza

### Contact Us

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## President's Corner

It's the third quarter, the summer heat has broken, and the kids are back in school. You can literally feel the energy, the sense of renewal in the air! Regular season football starts next week and if you just stand still around sunset, you can feel a teasing waft of cool air fluttering across your skin. And for you O&G investors, it's also time to consider your end-of-year tax situation as the tax benefits remain impressive. Every man's tax situation is different so please consult your tax advisor about IDC and depletion allowances, And for those of you who are still clutching your grimy, dog-eared copy of 1001 Ways to Say "No", now that the elections are just around the corner and the oil prices climb to our projected mid-\$50s by end of year; you can rip those pages out for good! The future favors the bold, and like Teddy Roosevelt, be the man in the arena rather than one of those cold timid souls who sit watching others, risking neither failure nor glory. Buffet said it best, "Be greedy when others are fearful and be fearful when others are greedy." Spoken by one of the world's richest and most common-sense investors of all time. Buffet routinely seeks investments that are out of favor. Why do think he invested in BNSF RR in 2009? The only investor that consistently loses is the guy that sits nervously on the sidelines too scared to act, waiting for someone or something to change for the better. Our economy has never based on one man or woman! Remember in the '90s the Clintons enjoyed a robust economy and they had almost nothing to do with it! That administration was so straddled with internal conflicts and scandals that the Clintons couldn't get out of their own way! And like business cycles, history will repeat regardless who ascends the throne in November.

## Company Highlights

In almost 28 years of continuous operation, we have approached and have been approached hundreds of times about oil and gas leases. It's worth repeating: it all starts with a great lease! True, field operations are important; the integrity and motivation of the principals are critical, but unless the venture is built on a great lease that plays to our strengths, we don't move forward. When it comes to considering new leases, Eratz only considers projects brought to us by credible geologists with successes in the field --not field engineers, land managers nor land owners--never land owners! You can never have too many smart, dedicated people working for and around you. The leases we consider fall into two piles: our reliable vertical 4-5000 foot offset well with multiple target oil sands, which is also known as a safe developmental lease (and is what we have been drilling for the past three years). The other is the exciting 6,000 + Wildcat. These leases involve riskier formations requiring more money and resources but reserves are much larger and the rewards are much bigger. We don't go into Wildcat leases lightly or often but when we do, we really depend on available talent and technology. So, Instead of the 90:35:10 ratio with offset wells, Eratz thinks 70:50:30. 70% of the time we hit oil; 30% we don't or we can't get it profitably; and half of the wells produce as predicted. Why the somber numbers? It speaks to setting expectations. Remember, our expected numbers are modest

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precisely for this reason. Even at the humble number of 32 bpd at \$40 net with 73% ROI, your investment pays back within 22 months. We only consider projects that can meet our minimum expectations—remember, we have *significant skin in the game* too!

## Oil Patch Highlights

So how does Eratz evaluate a lease? At any time we have up to eight field geologists bringing us projects. The president culls the stack and passes them to our geologist. Using his 50 years of experience, he breaks down the hard data. He researches past and present leases, and he talks to people—especially the old ranchers because they know everything and everybody! He notes the lay of the land, the rock forms, the wildlife, flora and fauna. You'd be amazed what a seasoned geologist can tell by just tasting the soil. He samples the water and notes the locations and depths of man-made and natural ponds and lakes. Surface erosion, natural and man-made, is critical. Are the roads any good and can they handle heavy equipment? And that's just the start. Then our man hits the books, pulling the drilling logs from all nearby projects, past and present. He compares core-sample data and notes dates while simultaneously cross-checking his findings with the Texas Railroad Commission. Our geologist visits the site often, visiting field engineers, land managers, anyone who can shed light on our project. Finally, he weighs in and if there's a thumbs-up, we secure another geologist to independently evaluate the data. If there is sufficient positive correlation, Eratz makes an offer. **We pay more therefore we produce more so you, our investors, can profit more.**

## Things to Think About

Truth be told, every O&G investor will have hits and misses. We at Eratz aren't batting a thousand, but our average is way above others because we stay in our lane. And we always learn a lesson from wells that underperform. In business and academia, it's called failure analysis – not success analysis. So we get better. We talk to many who are eager to share their war stories. We hear **I Was Ripped Off**. Probably were. Most operators, all brokers and promoters make their money up front, meaning they've banked before the bit hits the mud. Also, these projects often sound too good to be true; words like *guarantee, no risk or we'll move your money into the next well if...* are tossed around like treacly candy on Halloween. The low-dollar investor is particularly vulnerable. Visions of their \$8K investment mushrooming to \$50K in two years fill their heads. And when he realizes there's something wrong, the odds that he'll get a decent lawyer are almost zero—and these perpetrators know it! **They Didn't Know What They Were Doing**. Probably didn't. This calamity happens most often when oil and gas prices are high or spiking. Part-time players morph overnight into an oil and gas cowboys (formerly roofers, car or time-share salesmen). Are they deliberately trying to rip you off? Not likely but will they give you your money back if it goes predictably south? No, you're just paying big bucks for *their* OJT and since legally your money is in their pocket, morality is an unnecessary burden. **Nature Isn't Cooperating or Things are Breaking**. It happens. We've had the wettest spring and summer in years so things go wrong even with the best operator. But how often? If the driller or operator keeps breaking equipment or halts production for this or that, there are bigger problems than bad luck. So look at yourself and your situation honestly. When I was a young boy my mother offered me this advice: "Victims are often self-appointed, self-anointed. Don't be a victim, son."

Again, it's important to Eratz—and to you as well—that you familiarize yourself with our website, [www.eratz.com](http://www.eratz.com). You should know who we are, what we do and how we do it.