

Connecting the Quotes...

...for Oil and Gas Joint Ventures

All of us are familiar with humorous quotes providing insight into life. Let's see how some of them connect with oil and gas (O&G) joint ventures.

- *Think Mr. Haney in Green Acres, 1966-1971...* **“I’m glad you asked, Mr. Douglas. Right here is a genuine, bonified Texas oil gusher!”** Folks, for those of us who remember Pat Buttram, you just knew that whatever he was selling, Eddie Albert better not buy. Many times in the O&G world you hear what sounds too good to be true. You’re right. If you hear how you’re \$40,000 investment will make you a million in about three years or you should expect \$10-20,000 per month, listen to your common sense. This is just wishful thinking. It could happen...just not likely. If you’re happy to earn somewhere between 23-45% ROI annually, not including the lucrative tax write-offs, then you should consider O&G.
- **“We’re really, really sorry for ruining your grandmother’s heirloom wedding dress...to compensate, how about \$40 worth of free dry cleaning?!”** You might have heard a version of this and it sounded reassuring—at first. When a company “talks up” if or when they don’t hit oil but “not to worry” because they’ll roll you into the next venture free of charge, think about it--does it truly make sense? No respectable company in any industry makes that offer. Every **good** company lives and dies on their efforts. True, even the best will hit a dry hole once in a while. That’s why it’s a risk. However, most private joint venture companies make their money on the front end so they don’t even have to hit oil to make *their* money!
- **“Don’t worry about oil prices! They’re bound to go back up right away!”** More wishful thinking. Truth is, no one can accurately forecast oil prices, but like the stock market, the same goes for O&G. The long-term economics are irrefutable. Oil and gas are finite resources while future world-demand is infinite. True, there are temporary downward demand spikes but the long-term trend is steadily up. Until we make profitable energy out of salt water or city air, our petroleum-based economies will need oil and gas.
- **“They’re selling like hot cakes! You better get in now while you still can!”** There will always be opportunities if you are working with the right people. The good companies operate with an enlightened philosophy: talk to the right people, at the right time for the right reason. If a salesman sounds desperate or pushy like a used-car salesman, do you really want to do business? On the other hand, good companies appreciate honest closure. If you don’t think O&G is for you, now or in the future, do everyone a favor and let them know. Good companies respect your candor.

“Why... no, personally I don’t own that stock, but, hey, it’s a great buy!” Words you never want to hear from your broker. The sad fact is this: most O&G offers are heavily promoted (another company is representing the interest of another promoter or driller) meaning the person or company you are talking to has no “skin in the game”. You can quickly tell if this is the case by noting that their drilling costs are greater than \$250/foot or their one-percent ownership is higher than \$8500. You do the numbers. Get as close to the driller and operator as you can. And if they don’t address your questions, move on.

- *Think Groucho Marx...* **“I refuse to join any club that would have me as a member!”** An ethical company will never talk you into something that’s not good for you. Period. Sometimes you’ll hear a rep talk around the SEC guidelines or explain how it really doesn’t apply. It does. Each investor must be accredited by net worth (over a million dollars not including primary residence) or by annual income (\$200K if single, \$300K

if married for the last two years with the expectation to do the same this year.) Suitable investors want to grow their net worth and can take “a hit” if the venture doesn’t pay out. Unsuitable investors are swayed by recapturing past or maintaining current lifestyles. Worse yet, if a company waxes about how an investment will pay for your kids’ or grandkids’ education, buy the house you always wanted, or be the talk of your next reunion...don’t walk away, run! Don’t be a member of that club!

We could list more, but you get the idea: there is nothing mysterious about investing in the oil patch. The well understood “rules of life/investing” apply. The solid independent oil and gas companies know and want to share this with all potential investors.

We at Eratz Investments have recently talked with you about an oil patch joint venture, and there’s a lot you need to think about. The humorous anecdotes above simply illustrate that we will always keep your interests ahead of everything else whenever we talk.

So if you would like to discuss further, we are ready when you are.

Please call John Clune at 972 716-9982