

The Outlook: Feb. 12, 2023

Old sayings for oil: “too clever by half”; “miss the forest for the trees”; or “the piper must be paid . . . always.”

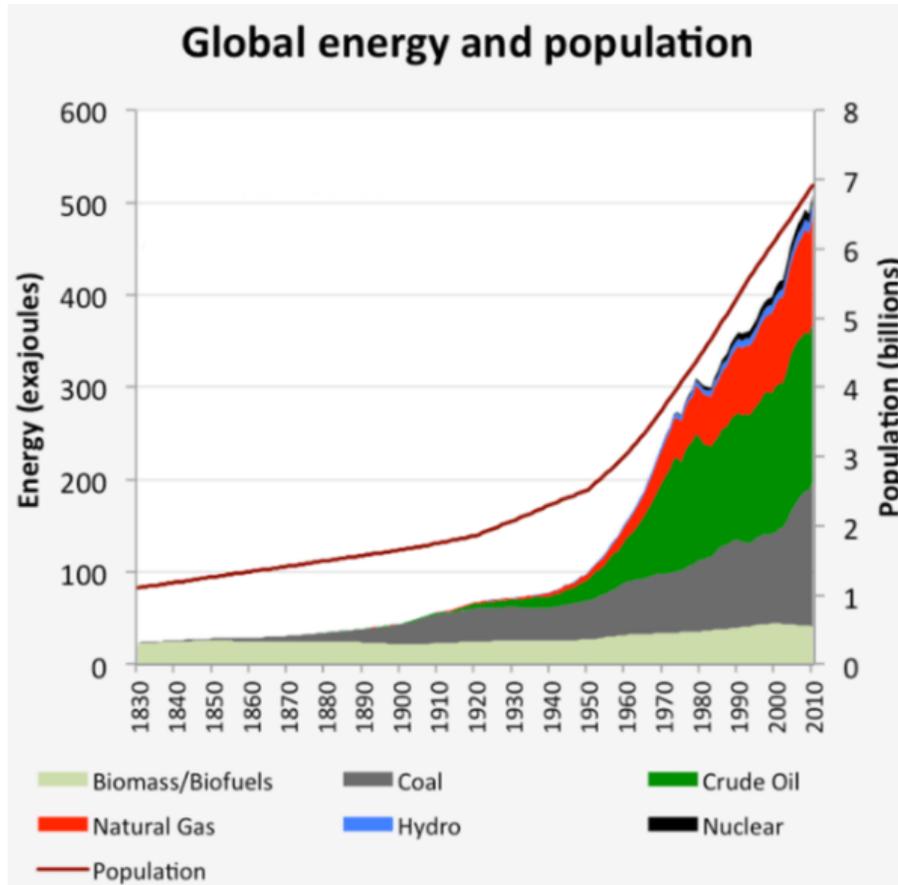
“Hmm, yes. Billingsley-Cripps over there is clever, all right . . . too clever by half, I’d say.”

Upper-crust British have been putting each other down for a few centuries with that old phrase. We can always think of somebody who is smart, all right; and who knows a lot about something . . . but who’s also so cocksure that he’s right and we’re wrong that it annoys the heck out of us. “Too clever by half” does turn out to be wrong pretty often. At Outlook we’d guess it’s because we all have brains which sometimes work pretty well; we all have access to a Pacific Ocean of information for our brains to try swallowing; and it’s hard to resist the feeling that the more facts we know and the more cleverly we’ve analyzed them, the more superior our judgments must be.

Nope.

The problem is that “too clever by half” so often “misses the forest for the trees.” (Back to good old American put-downs.) The more expert we feel, the more we’re tempted to lecture about the chemical composition of various barks, and the more we’re inclined to miss the main point: for example, that we’re lost in the middle of a giant forest and we’d like to find the way out.

We were reminded of all that, last week, by a headline: “Russia Cuts Oil Production! Oil Market Spikes Up!” Within minutes of this flash, the tide of expert analysis began washing ashore, dissecting the daylights out of every scrap of tree bark at hand, and letting us know how many weeks the spike might last, and how many dollars-per-barrel the spike might climb. As always, it left us plain investors to remind ourselves that our brains should indeed be used; and we certainly ought to let them chew on a good many facts; but “The Truth of Things” never hides itself at the bottom of an ocean of facts. It shows itself when we shine the light of principle at it, and refuse to be distracted by too many facts. The principle that counts, in every free market, is the behavior of demand and supply . . . which is the behavior of normal human beings reacting sensibly to problems and opportunities. Here are some pictures:



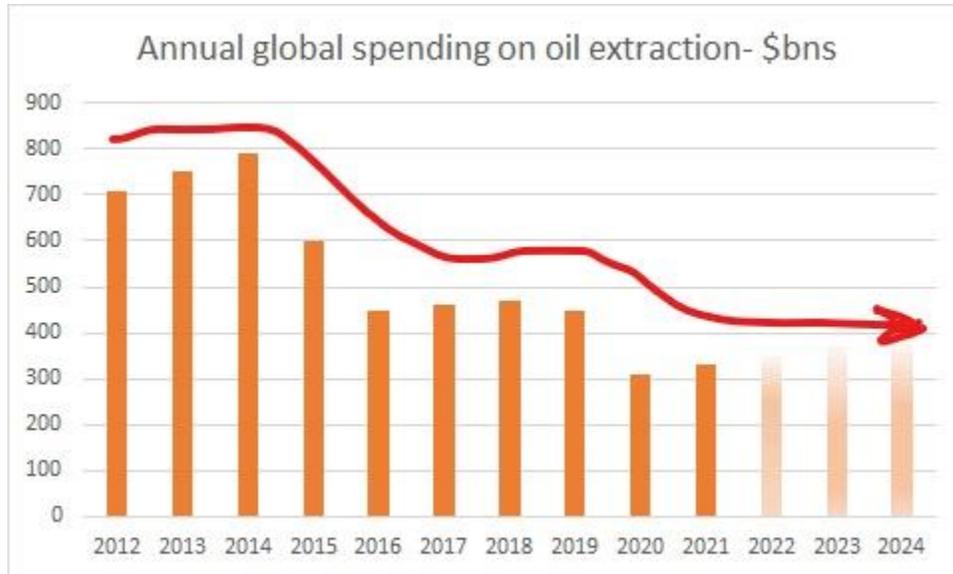
This chart ends at 2010, but its message is exactly the same today. The number of people in the world has exploded, pretty much, over the last 60 years. (The red line.) People need energy to survive and thrive (the color sections) so global usage of energy has also exploded. The overwhelming majority of energy comes from fossil fuels: coal, gas and oil. There is an overwhelming reason for that: the energy-per-dollar of cost is galactically higher than everything else, including “green energy.” The richest parts of the world can afford to ignore that huge cost advantage . . . to a degree. Nobody else can. See the next picture.

Per Capita Oil Consumption			
In Barrels			
	Population	Annual Oil Consumption	Per Capita Oil Consumption
U.S.	331,002,651	7,108,375,000	21.48
China	1,439,323,776	5,111,825,000	3.55
India	1,380,004,385	1,878,865,092	1.36
Africa	1,340,598,147	1,495,770,000	0.90
Bangladesh	164,689,383	64,240,000	2.56
Indonesia	273,523,615	593,533,526	2.17
Malaysia	32,365,999	307,115,189	9.49
Philippines	109,581,078	167,369,023	1.53
Thailand	69,799,978	512,729,077	7.35
Vietnam	97,338,579	203,329,218	2.09
Total	747,298,632	1,848,316,033	2.47

Sources: Worldometer, BP Statistical Review of World Energy.

In America we 330 million citizens consume 21.5 barrels of oil (worth of energy) per person per year. The 5 billion people in Asia and Africa, up there, consume 2.5 barrels. We might say a lot of things about that “galactic” difference; but one thing we must understand is that those 5 billion people desperately want to better themselves, and the only way they can afford to do that is with oil and gas . . . for a good while ahead, given what today’s alternatives cost, and can do; and anything like a realistic judgment of how fast they get better at “costing less” and “doing more.”

A final picture:



That red arrow is the world’s effort to find more oil . . . dropping in half, pretty much, over the last 10 years. Now, the bark-scrutinizers and “too clever by half” folks inform us that there are many reasons for that drop: falling energy prices, for a while; American shale investors getting fed up with throwing money away by pumping out oil “no matter what;” green politics, which have certainly made Big Oil more cautious about spending on something so evil; and more. But for those of us just looking for the forest exit path, all that really matters is that “less spending to find it means less oil to use.” It doesn’t mean it instantly. It doesn’t mean it without nerve-wracking reversals and interruptions, and no end of subtle details for the clever people to lecture about. But it does mean it, eventually . . . period. We are indeed “too clever by half” sometimes. We do indeed “miss the forest for the trees,” sometimes. But “the piper must be paid” . . . always. That’s why we own Conoco and Exxon, and plan to keep them.

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