Infomail
June 2, 2014

# Black Gold

*"To buy when others are desperately selling and sell when others are greedily buying requires the greatest fortitude and pays the greatest reward."*

Sir John Templeton

In early April, Exxon Mobile (XOM) laid out the facts of energy demands and supplies and felt confident enough to say that all their reserves will have been exploited. Despite the constant fear mongering about climate, population, income inequality and desperate efforts to redistribute billions of dollars from rich nation's to poor nations……the world's thirst for oil only increases. And that is due to the fact the world's thirst for oil is driven by prosperity.

Exxon has taken information from the International Energy Agency on reaching the goal of reducing global greenhouse gas emissions by 50% (below the 2005 level) by the year 2050. The tally to do so according to Exxon is a cool $45 trillion. So in other words: it ain't going to happen.

Moreover, a UN report on climate change released around the same time came to the conclusion that rich nations in Europe and North America owe poor nations $100 billion a year to protect them from the ravages of climate change.

Be that as it may, it's clear the hype over renewable sources of energy displacing fossil fuels is a myth, but not for lack of effort. In 2013, renewable energy sources generated about 6.2% of total US electricity supplies, an increase from 5.4% in 2012, according to the US Energy Information Administration (EIA). Eleven states notably produced more than double the national average, with Maine leading the way

generating 32% of its electricity from non-hydro renewables, primarily biomass generating by the wood industry.

Despite the billions of dollars thrown at them, wind seems dead, but solar seems to have taken a life of its own, and might be able to stand without government help. But the big news is that the world will need oil and gas for many years to come. In addition to China and India, amazing economic growth will spark a surge in demand for many nations including:

- Brazil
- Indonesia
- Iran
- South Africa
- Nigeria
- Thailand
- Egypt
- Mexico
- Turkey

By 2040, it is estimated there will be 2.6 billion more people on planet Earth, and according to Exxon Mobile, the global economy will grow by another 130%. Oil and gas is expected to meet 60% of energy demand driven by transportation.

Which brings me to coal……

Coal powered the First Industrial Revolution and was replaced by oil and gas for the Second Industrial Revolution. The fracking miracle taking place seems to ensure that natural gas will displace coal as the #2 source of energy in the near future……in North America anyway. But the natural gas phenomenon has been stalled by a lack of pipelines and infrastructure.

But while the current US President has insisted on the destruction of the coal industry, that has not only cost ten's of thousands of jobs, but also sent electricity costs to all time highs, that fact remains that the fastest growing source of energy in the world last year was……yep, coal. So while the USA usage is down, coal still remains the main source of energy for many of those countries listed above, most notably, China and India.

And after the tsunami disaster forced Japan to shut down all of its nuclear plants, they turned to? Once again……coal. And France, who

has announced they will reduce reliance on nuclear energy by 50%, what will they replace that with?

What's interesting is that as I write, US giant General Electric is in the process of purchasing Alstrom of France for $13.5 billion. And why? So they can be more competitive in the rapid growth of coal-fired plants around the world. In fact, GE's CEO Jeffrey Immelt was recently quoted as saying:

*"Probably for the next decade, the most dominate technology around the world will be coal."*

That's right. The President's very own head of his Jobs Council crushed his domestic opposition to fossil fuels in general, but coal in particular.

America continues to heap more and more regulations on the coal industry, including demands for a so-called carbon capture system which is regulatory vision of spotting Bigfoot. This is happening while the rest of the world is building their economies with the cheapest source of energy out there. It is no mystery that China and India will not sign deals to reduce their use of coal. France's Alstrom has 20% of the world's installed crushing mills and here's what's gone on JUST IN 2014 so far:

- Feb 4 - Alstrom awarded 2 of 5 contracts in what will be Poland's largest coal plant at $2 billion and which will power 2 million homes by 2019
- Feb 7 – First Northeast Electric Power (Unit of China Engineering) awards Alstrom a contract for a plant coming onstream in 2016.
- April 9 – James River announces bankruptcy protection citing new regulations
- April 18 – Bharat Heavy Electrical awards Alstrom a contract to supply equipment for construction of a coal plant in Orissa (India).

Alstrom has 65,000 employees, of which only 14% are in France, 80% of its business is outside that nation, and 85% is outside of the USA.

According to the Heritage Foundation (www.heritage.org), the war on coal has had a staggering impact on the entire USA, especially lower income households:

From 2015 to 2023:

- Estimated 600,000 jobs lost

- $2.25 trillion aggregate hit to GDP
- $1200 hit to the average household due to higher energy costs

If the global economy is truly recovering, then the world will need more steel. And the formula to make steel has not changed much the last century, and specifically requires……that's right, coal.

Germany is importing tons of American coal right now as blackouts and "brown outs" have taken a toll on the nation. Their dream that 25% of electricity would come from renewable sources has become a nightmare. Every major manufacturer in Germany has complained and have shifted production to Asia where electricity is 30% cheaper than Europe (and 50% cheaper than the USA). Currently due to spikes in prices, 800,000 German households cannot afford their electricity bills.

So as the quote from Sir John started this communiqué, one only has to look at some of the price moves in the coal stocks and wonder if it's time to take a look:

| Company | Stock Symbol | 2008 Price | Current Price |
|---|---|---|---|
| Peabody Energy | BTU | $88 | $16 |
| Cliffs | CLF | $122 | $16 |
| Arch Coal | ACI | $77 | $3.60 |
| Alpha Natural | ANR | $120 | $3.40 |
| Walter Energy | WLT | $143 (2011) | $5.00 |

We recommended the casino names when it looked like their debt loads would take them down. We recommended the energy names when they were down a couple years ago and they've paid handsomely as well. I think looking at a basket of the names above, and maybe even include Teck Resources (TCK'B – Close May 30 @ $24.20) or the coal ETF – KOL (Close May 30th @ $18.35, down from $60+) might pay off with some patience. Please discuss with us if the above names are appropriate for your portfolio.

Stay tuned,

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