



In Pursuit of Value

October, 2017

SL Advisors, LLC is a registered investment advisor offering separately managed accounts to individuals, family offices and institutions.



The Green and the Black

The Green and the Black; The Complete Story of the Shale Revolution, the Fight Over Fracking and the Future of Energy offers an insider's view. Gary Sernovitz provides the perspective of someone whose job is to persuade investors to finance it. Greg Zuckerman's *The Frackers* remains a highly readable account and one of our favorites. Sernovitz incorporates additional features; one is that he became a fossil fuel advocate only after his first passion of writing fiction came up short of providing a meaningful paycheck. The world has enough starving writers. While Sernovitz the novelist isn't a household name, his writing engages the reader and breezily moves you through his story. New York-based aspiring writers whose very livelihood in the energy sector is opposed by the Sierra Club require nimble social skills. Moving between socially liberal literary circles and promoting the investment merits of fracking to clients can lead to soul-searching. Sernovitz displays fact-based mental agility in occupying two worlds that rarely touch, while also conceding to some doubts. Few have to examine their actions so thoughtfully. Sernovitz freely admits to holding two apparently contradictory ideas.

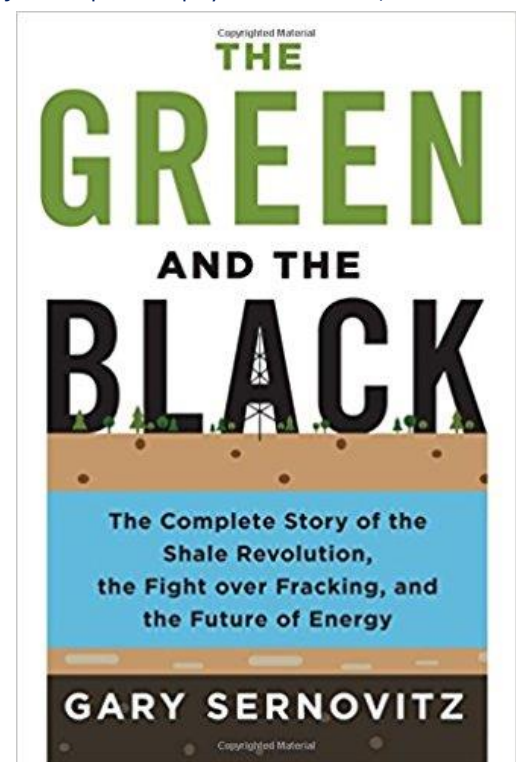
Gary Sernovitz quit Goldman Sachs after three years to focus on writing. With "fettuccine money dwindling", six years later he conceded he was no F. Scott Fitzgerald and joined a private equity firm. Ever since, his Houston

friends needle him about "your New York Times" while his literary friends ask, "Do you really frack?" Sernovitz holds a client facing role, so he's raising the money from institutions for others in his firm to invest. In the process he develops his monologue about the Shale Revolution, including the many advantages that make America dominant in this field, and how it's leading to Energy Independence. In a few places it may even resonate with regular readers of SL Advisors blog posts. Some of his explanations of recent history are so good we wish we'd used them ourselves.

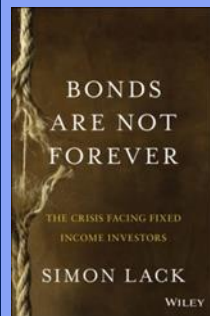
The Green and the Black seeks a balanced outlook. In today's politically polarized world, it would probably draw critics on both sides which might confirm its even handedness. There are some familiar forecasts, such as the possibility of U.S. oil production reaching 12 million barrels a day (from around 9.3 million currently) by 2025, and some novel facts. The 95 billion pounds of fracking sand used in 2014 weighs about the same as 200 Willis Towers in Chicago. Given the recent jump in sand volumes that's 400 towers today. Some will find towers more easily visualized than thousands of trucks of sand.

Superlatives are frequent descriptors of the Shale Revolution. And yet, even though hydraulic fracturing (to use its long name), or fracking, used an estimated 44 billion gallons of water in 2012, we learn that represents only 0.03% of American water use. It's 6% of the water used for livestock and only 0.1% of that used for irrigation. The Shale Revolution has provided cheaper, cleaner, domestic energy for America. It seems like a good use of these resources.

Sernovitz tackles some common criticisms, such as that fracking fluid contaminates drinking water (extremely rare, not least because shale wells are far deeper than aquifers). He acknowledges the thundering disruption that well construction is for the landowner and his neighbors. Up close, the energy business is loud and messy. As



*SL Advisors, LLC
focuses on
investment strategies
that provide income
without relying on
fixed income
securities.*



benefits his socially compromised existence, he writes, "From a global perspective, the U.S. gas boom has given birth to the possibility of unprecedented common cause between environmentalists and the oil business. Natural gas can and is displacing coal, which emits twice as much carbon dioxide for the same amount of fuel. Acceleration of this displacement may be one of the most practical weapons to reduce carbon dioxide emissions that the world has...Can environmentalists and oil industry advocates stand together for gas consumption while accepting the divide on the larger issue of fossil fuel use?" This seems to us highly pragmatic.

Some of the best writing is about what you see and hear at a well site. Drilling for oil and natural gas is first of all noisy. The heavy equipment necessary to bore a hole in the earth is loud, and convoys of trucks pass by constantly with the hardware, drilling mud, cement, sand and water that are part of the Shale Revolution. Sernovitz likens the shaking and rumbling to, "...as if every washing machine in town had been placed in a field and set on a spin cycle." In Britain, the Lancashire County Council forbade further such wells in 2015 because of "unacceptable noise impacts." Unlike in the U.S. where mineral rights are privately owned, in the UK the government owns anything of value that's below ground (similar to virtually every other country in the world).

America's system of privately owned mineral rights is one of the least-appreciated drivers of the Shale Revolution. A landowner will tolerate substantial inconvenience from drilling in exchange for royalties. Even less fortunate neighbors with no valuable hydrocarbons below can still receive payments to compensate for their inconvenience. There can be little doubt that if the U.S. states or Federal government owned mineral rights from private land like the rest of the world, America would be relying a great deal more on foreign sources of energy.

The weakest part of the book is later on, when Sernovitz contemplates the geopolitical consequences of the Shale Revolution. While he has much of interest to share on Shale's recent history and his first-hand experience, Part IV. The Global Perspective is not especially insightful and can be skipped without missing much. Part III: The Financial Perspective lacked an understanding of the impact of wealth from discovered resources on economies providing an overly simplistic analysis that underestimates the economic impact of the shale revolution. But for those building a library of books covering the Shale Revolution and the consequent evolution towards American Energy Independence, the Green and the Black deserves a place.

To Our Clients

At SL Advisors it's important to us that your investments with us are aligned with your financial situation and objectives. If there have been any relevant changes from your perspective or any reasonable restrictions you wish to impose, please let us know and we'll be happy to discuss appropriate modifications. Of course, anytime you have any questions or concerns don't hesitate to contact us. We value your business, and never forget the faith you have placed in us as stewards of your capital.