

Azelton, Aaron M & Teufel, Andrew S. - Fisher Investments on Energy

John Wiley & Sons, 2009, [Equity Investing] Grade ★★☆☆

The sector analysts at the asset management firm Fisher Investments, run by investment celebrity Ken Fisher, are working through the ten GICS-sectors and presenting them one by one in a number of books. I read this one on the energy sector in parallel with an unpublished manuscript called Global Exhaustion by UBS analyst Andrew Lees. They represent two useful but very different takes on energy and its usage. Where Azelton gives the reader the structure and overview, Lees provides passion and the pursuit of a thesis.

According to Lees the world is being increasingly squeezed between a rock and a hard place, or more precisely between peak energy and the low energy density of renewable energy. Not only are we somewhere close to peak oil, but also peak gas, coal and even uranium 235. As lower quality resources now are extracted at higher costs the Energy Return on Invested Energy, EROIE, goes down lowering the productivity of the economies. Fossil fuel is in essence 100 millions of years concentrated energy from the sun, hence the energy density is really high. It's, according to Lees, an illusion to believe that we could keep today's society using only energy from the sun in real time. The renewable energies are at best complements and at worst complete non-starters. The EROIE is too low. Try to run a jumbo jet on solar power.

The solution is human ingenuity and technology to create new energy sources with high energy density. The main candidate is fusion energy. The power generated is magnitudes more potent than the one from fission energy, the raw materials are abundant and non-radioactive so the process leaves no toxic waste. The problem is that fusion energy has been promising for so long that it's developed a bad name. Lees proposes that the reason for the slow development has been caused by shoestring financing due to short-termism among politicians and financial markets rather than lack of scientific

merit. Lees plea is that politicians in the richest countries must take their responsibility and start funding a multitude of research project on fusion energy.

What Lees text lack in structure Azelton makes up with flying colours. The main segments in the value chain are presented: Upstream – exploration and taking resources out of the ground; Midstream – processing, storage and transportation; and Downstream – refining for example oil and gas to usable products and selling them to end customers. The reader is guided through topics like conventional hydrocarbon resources trapped between layers of solid rock and unconventional resources trapped within rock and sand, Oil qualities such as light and heavy or sweet and sour, but also business models, the role of OPEC and how the market is constructed in terms of the geographies of the buyer and sellers, the end usage of the energy bought etc. In the last part of the book then Fisher Investments top down method combining macro/strategy, screening and fundamental analysis.

The corresponding book on the health care sector was reviewed September 23, 2011. The books follow the same script and they share the same weakness. They are impersonal, they lack meat and blood. However, they are extremely practical if you want to pick up the basics of a sector. Non-other has published a similar series of books to allow you to familiarize yourself with the entire stock market from a sector perspective. The text from Lees in contrast cannot serve this purpose. His writing is meant to lead to debate and even if it's full of facts you don't get the kind of overview that a portfolio manager needs.

Contact your UBS sales representative and read Lees' cry for action, but only if you know the basics of the energy sector. If you don't, Fisher Investments offers a guide that will do the job.

Mats Larsson, January 15, 2012