



MAY 15, 2016



**Julie Bryan, CFA**  
**Portfolio Manager**

## Energy Tipping Point

For decades the commonly-held belief was that easy-to-access oil in non-OPEC countries was quickly depleting and the world would depend ever more on OPEC oil. The U.S. shale boom and the Paris climate accords challenged that model on both the supply and demand side. If that were not enough, evolutionary advances in shale technology are not only further reducing the cost to drill oil, but are also enabling the reuse of nonproductive past shale sites at a further reduced cost. The implications of this fundamental change are enormous, including U.S. energy independence and cost input reductions for years to come.



(Source: <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=10y>)

The longer-term outlook for energy use in the United States is structurally changing. New modes of transportation such as Uber, big data analytics for such decisions as which plane to fly based on its efficiency for any given weather pattern, and the coming of age of the Millennial generation (born between 1982 and 2004), who are as large in numbers as the baby boomer generation and do prioritize the value of protecting the environmental ecosystem, are just a few of the change catalysts. Prices are moving forward along a new, lower curve.

To the extent the longer-term outlook for oil prices is lower than previously believed, the present value of oil in the ground is increasingly less attractive than conventional thinking has held, and in fact some of the global oil assets may become stranded assets. In the near term, stock prices of energy companies will likely continue to move with the ebbs and flows of current supply and demand, but in the longer term, it could be that companies without a solid strategy to adapt to revolutionary changes under way either will not survive or will experience permanent impairment of their valuation.