OIL MYTHS: THE FINAL CHAPTER
SEPTEMBER 2006

Earlier this past year I was at a dinner party hosted by my friends and Godparents to my daughter, the Corcoran's. Dinner parties at the Corcoran's are great fun unless of course you are dieting. It is nearly impossible to articulate the quality and quantity of food that is served at Corcoran events but, put it this way, their desert tables at their last Christmas party could have passed for a *Willie Wonka and the Chocolate Factory* set. Anyway...There I was sitting down with a group of buddies gorging myself on a pile of ribs Fred Flintstone would have choked on, when all of a sudden, out of the blue the conversation turned to oil prices.

There is a great scene in the film *Godfather II*, where Michael Corleone realizes that it was his own brother that set him up. You could feel Michael's shock and pain when his brother Fredo reveals himself to be his betrayer with a slip of the tongue discussing his exploits with Johnny Ola in Havana. This leads to the classic scene when Michael kisses his brother while telling him that he knew it was him, while simultaneously Castro takes over Cuba. The conversation about rising oil and gasoline prices I was engaged in with two of my friends (one happens to be a top eye surgeon and the other a fantastic real estate attorney) led to my understanding of the pain and shock Michael Corleone felt after being betrayed.

Much to my dismay and bewilderment my friends, like Fredo, got caught up with the wrong crowd. Instead of Johnny Ola and Hyman Roth, the enemy this time was conventional wisdom. Their belief was that the oil companies were behind the rising price of oil and high gasoline prices. According to two of Sarasota's best and brightest, oil companies were gouging the public through greed. I was shocked that they bought into the conventional wisdom bunk that most of America was buying into. As our conversation winded down and I was unable to convince otherwise, I rose from the table and asked them both if they wished to go fishing.

In case you haven't realized it yet, I like to illustrate absurdity by being a bit absurd myself. When two of the smartest guys I know *"broke my heart"* by succumbing to the conventional wisdom, when gentlemen of their stature (notice I am buttering them up a bit) could be duped by big government and big media propaganda I knew I had a fight on my hands. Since that conversation I have written two columns, made countless guest appearances on radio programs throughout the country and have made it a major point of conversation on my program in an effort to defy the great oil myths.

Some of the points we have put forward...

Sheer Stupidity and our National Energy Policy
We currently have hundreds of different blends of gasoline that cause supply and efficiency problems, for example how dumb is it that gasoline sold in New York cannot be sold in New Jersey. If New Jersey has a shortage of gasoline and New York has a surplus, by law they cannot help each other out. Also, our country has not built a new oil refinery since the Starland Vocal Band was steaming up the Billboard charts with *Afternoon Delight* (1976). The moronic equivalent of that might be if General Electric decided that computers were just a fad and decided to stick with the old Smith-Corona typewriter.

Supply and Demand
I have illustrated the myth of oil supply problems by showing that there is more than enough oil in the ground by using government energy statistics which can be looked up by any prudent journalist online. In fact, the President of the Saudi Arabian Oil Company recently stated that the world has tapped just 18% of global oil supplies. He also states that the world has the potential of

4.5 trillion barrels which is enough to power the globe at current levels of consumption for another 140 years, giving us plenty of time to buy a Prius and convert to solar. Furthermore, contrary to conventional wisdom, world oil demand growth in 2006 has been revised downward by 100,000 barrels per day according to OPEC. Last but not least, new oil discoveries. This past month, the largest domestic oil discovery was made since Prudhoe Bay in the Gulf of Mexico. This find contains an estimated 15 billion barrels. (I would have paid top dollar to be a fly on the wall at Al Gore's office the day that was announced.)

Taxes

The oppressive effect of taxes on gasoline on the consumer and the never-spoken-of reality that the government makes a greater profit from the sale of gasoline then Exxon/Mobil ever could dream of is magically overlooked by politicians and the media. The infamous Highway Bill which is funded every time we fill-up the tank is one of our most pork-laden spending bills with 6,371 pet projects in 2006.

Wall Street

We have made fun of the idiot politicians holding propaganda press conferences in front of gas stations and parading oil company executives in front of Congress and wave their finger at them. We told you that the real culprit behind oil prices wasn't oil companies, hurricanes, Dick Cheney, the Knights Templar, *Montgomery Burns*, or Yoko Ono, but Wall Street speculators.

Noel Sheppard, a writer for American Thinker asks this question...

"If a Senate study concluded that legislation signed by President George W. Bush and supported by Halliburton was partially responsible for today's high oil and gas prices, do you think you would have heard about it?"

A report was released by the Senate entitled **The Role of Market Speculation and Oil Prices: a Need to Put the Cop Back on the Street** was released on June 26th with zero press coverage; no soap-box political rants and not a peep from the talking heads on CNBC. This report identifies that not George W. Bush, but William Jefferson Clinton signed the *Speculator's Gone Wild Law* which was lobbied on behalf of Enron and Wall Street. Senators Norm Coleman (R-Minnesota) and Carl Levin (D-Michigan) released this report that is a virtual echo chamber in regards to the position we have taken dealing with Wall Street speculators and their responsibility for driving oil prices higher.

The Senate study points to a piece of legislation known as *"The Enron Loophole"* which was a piece of the **Commodity Futures Modernization Act of 2000**. This act was approved by Congress and signed into law by President Clinton on December 21, 2000. In 1936 President Franklin Delano Roosevelt signed into law the **Commodity Exchange Act**, which was designed to create greater government oversight of commodities markets after the collapse of grain prices in 1933. The CFMA of 2000 not only extended this act, but also detailed new regulatory authorities for the Commodity Futures Trading Commission (CFTC). At the bequest of Enron, and the large investment houses, the trading of energy commodities by these companies and now Wall Street were exempt from CFTC oversight.

The CFMA of 2000 allowed for the creation of electronic futures exchanges that would no longer be governed by the CFTC and for energy futures and derivatives contracts to be traded on such exchanges with zero oversight. Wall Street licked its chops! The Senate report takes the position that this precipitated the enormous expansion in the demand for energy futures and the ability for firms to manipulate the markets. Echoing what I have been stating on the *Watchdog On Wall Street* Radio Show, the Senate report states that such speculation has **INCREASED THE PRICE OF OIL BY AT LEAST $25 A BARREL** (I hate using all caps in articles but in this case I will make an exception).

The Senate report also notes that despite the rising demand for oil worldwide and all the bloviating by politicians and journalists that global oil supplies have increased by an even greater amount.

"Over the past two years crude oil inventories have been steadily growing, resulting in U.S. crude oil inventories that are now higher than at any time in the previous eight years. The last time crude oil inventories were this high, May 1998 at about 347 million barrels, the price of crude oil was about $15 per barrel. By contrast, the price of crude oil is now about $70 per barrel. The large influx of speculative investment into oil futures has led to a situation where we have high crude oil prices despite high levels of oil inventory."

Wall Street and hedge funds use the Enron Loophole to exacerbate the problem. Wall Street loves to trade away from the watchful eye of the CFTC-regulated exchanges. These off-shore exchanges have none of the rules the CFTC has like maintaining orderly and fair markets such as position and leverage limits. Noel Sheppard explains this by stating, *"Without getting overly complex, on every commodities exchange in America, futures and options contracts carry a finite limit as to how many an investor may hold. This is specifically designed to prevent anyone from cornering the market on a particular commodity."* The off-shore exchanges do not contain position limits on their contracts which allow the big investment houses and hedge funds the ability to build enormous positions in energy contracts at levels much greater than allowed on conventional exchanges. This in turn creates an artificial demand for oil that the markets cannot digest.

Sheppard also makes the point that off-shore exchanges do not require Large Trader reports from its participants which denies the ability for any routine audits of transactions.

The Senate report quotes CFTC Chairman Reuben Jeffrey, *"The Commission's Large Trader information system is one of the cornerstones of our surveillance program and enables detection of concentrated and coordinated positions that might be used by one or more traders to attempt manipulation."* This allows the big brokerage firms and hedge funds the ability to hold positions significantly greater than what decades of commodities regulations in this country have deemed appropriate for the best interest of consumers while hiding their true positions from regulators. What is worse is that in January 2006 the CFTC decided to allow the largest off-shore electronic exchange, the Intercontinental Exchange (ICE) to use its system to trade U.S. crude oil futures. Institutions from all over the world can trade U.S. energy contracts without any oversight by an American regulatory body. ***Does anyone see the national security problem with this?*** Politicians rushed to the podium to condemn the Dubai ports deal, but they have no problem with foreign banks, institutions or governments having the ability to corner a market. According to the Senate report, 30% of all U.S. crude oil futures now trade at the ICE. So for all intensive purposes one third of the U.S. crude oil futures are trading with no regulation by any government agency.

Wall Street is having a field day. Take a close look at the earnings reports from the major brokerage firms. Adrian Cox and Christine Harper from Bloomberg estimate that the large five brokerage firms will earn $28 billion in the third quarter. The results show how Wall Street's five big boys, Morgan Stanley, Goldman Sachs, Merrill Lynch, Lehman Brothers and Bear Stearns are hedging, speculating and investing on their own behalf and making a fortune doing it. In another Bloomberg piece from Saijel Kishan, it is stated that commodity traders are making quintuple what they were making in 2000.

The million dollar question is: ***Why is this story being buried?*** We have discussed in previous columns the hand in hand relationship the big investment houses have with the media. Look no further than the volume of advertisements they run. I have come to the conclusion that advertisements are not just there to get them more business, but are also there to keep the bad press away.

Politicians are letting this story go for the same reason, money. According to data collected by the Center for Responsive Politics, for the election cycles dating back to the year 2000, $289,575,786 was given to politicians by Wall Street firms with 50% going to Democrats and 50% going to Republicans. ***Talk about a hedge!*** Hedge funds have also gotten into the giving mood. In the current 2006 cycle they gave over $7 million according to Bloomberg. Even more frightening and enlightening is that some hedge funds are now taking the steps of registering as lobbyists in order to push their interests.

We have been lied to once again by Wall Street and the media. Americans have just lived through one of greatest financial frauds in history and it was all perfectly legal. I want to emphasize...not right, but legal. I had a dotcom era Groundhog Day moment last year when a Goldman Sachs oil analyst in March 2005 put a $105 price target on oil but giving no hard number supply and demand justification for the target. His language was 1990's-esquestating that we are entering a *"super-spike period."* That statement gave me a *Dennis Hopper-like* flashback of 1990's Wall Street catch phrases like *"new economy"* and *"earnings don't matter."* The oil analyst was correct in that oil prices did spike, but it wasn't because of hurricanes, China, a *magical super-spike* or any of the other nonsense that the media and Wall Street was force-feeding the public. It was manufactured!

The reason I have covered this story so extensively over the past couple of years is to demonstrate the incompetence of the main-stream media and to further my position on the systematically appalling conduct of Wall Street's large investment firms. After observing, reporting and chronicling the conduct and practice of the big investment houses I have come to the conclusion that they operate in a manner much like the science-fiction perfect killer, the *Terminator*. Instead of being programmed to do everything and anything to kill Sarah Connor, Wall Street's mission is to do anything and everything to further their bottom line.

I am a capitalist, I am all for profits and making money. However, I believe like Adam Smith, who contended over 200 years ago in his **<u>Theory on Moral Sentiments,</u>** that capitalism requires a moral and ethical center if it is to function correctly. In their *Terminator-like* pursuit, I contend that Wall Street has treated the American people like statistics that in turn become collateral damage on their road to higher profits. Despite their lovey-dovey advertising campaigns and how they hold themselves out to the American public, their actions are the inverse. It is my opinion that the oil fiasco is just another example of Wall Street's large firms ripping off the American people. These firms have proven time and time again that they are not looking out for you and thus, do not deserve your patronage.

Epilogue

Because I took some shots at a couple of friends of mine, I thought it would only be fair to chronicle instances where I was wrong over the past year. I thought long and hard and I have come up with two...Fateful day one: On Super bowl Sunday I incorrectly identified the location of the Isle of Man. Fateful day two: I incorrectly identified the year in which Derek Jeter made *"the flip"* to nail Jeremy Giambi at home plate in the playoffs.

For a complete list of errors and omissions you are going to have to speak with my wife.