OIL

CRAMER ROSENTHAL WAS RUNNING on all cylinders. We had a combination of knowledge, information, and wisdom, and we were making money. We were also having so much fun. On lunch hour every Tuesday, we played tennis at an indoor court. We felt good about ourselves. We were building a business, and we still had enough time to laugh and hit some tennis balls. (We still have time to laugh, but leisure time is scarce.)

But when things are too good, beware.

We decided to pyramid our knowledge in the oil industry. I had learned a lot about the industry while at Oppenheimer, where oil drilling was part of our tax-related investments. The oil industry was, and still is, one of the better areas where you can invest and have the government as a partner. You get a tax deduction on your drilling costs, the equipment, the pipes, even the cement. When the oil comes out of the ground, you get a depletion allowance, meaning you don't have to pay the full tax on 100 percent. (The percentage changes, but typically you may have to pay a tax on only 85 percent of the oil produced.)

Clients of Cramer Rosenthal drilled for oil and natural gas and found some. Then we got really lucky. The price of oil soared from about $12 a barrel to about $40 a barrel, and we made a fortune. But what happens after you make so much money? You begin smelling your own perfume, and we decided to take our expertise and create a portfolio for investing in the oil business. We would follow our usual investment matrix and hire the smartest oil drillers who worked beneath the normal radar. Not the Exxons and Mobils, but those small exploration companies such as those who drilled in the Wilcox geological zone in Mississippi. We would find four or five of these, create a portfolio around them and then go to Wall Street to raise some big-time money for us to invest. We raised about $50 million and were in business.

The prices of these commodities were appreciating by normal supply-and-demand characteristics. The discovery of major oil fields was diminishing, and the world economics thirst for energy constantly increased the demand.

In 1975, Cramer Rosenthal and its clients started to explore for oil. Through our Israel family connections in New Orleans, we met Dlynn Braswell and other locals who were drilling contractors specializing in the Wilcox zone. The cost of drilling the 6,000 feet to find the oil vs. the then-current price of $20 a barrel and the 100-barrel-a-day life of the well made it most rewarding when and if we found this "black gold."

Well, the price of oil stayed high for another week or two after we'd created our portfolio, and then the law of supply and demand began to kick in. The high price lured more people to look for oil, and that increased the cost of drilling, because of a shortage of drilling rigs. They can't just be manufactured in a few weeks or months. The increase in drilling brought about an increase in oil supplies, which in turn knocked down the price of oil. The combination of high drilling costs and low oil prices cost the oil business its financial attraction. As a result, we didn't do a good job employing the money that Bear Stearns, one of our limited partners, had raised for us.

One of the investors, Fred Zissu, sued us, demanding that we return his money, around $7 million, because we hadn't found enough oil.

What a shock. I had never been sued before. Now, the only thing we have going for us in our business is our reputation, and our reputation was such that it was "death before dishonor." We decided to fight the suit with all our resources. We had done everything legitimate and yet Zissu was accusing us of fraud.

Zissu was the board chairman of a public company on the New York Stock Exchange and a lawyer to boot. Yet one of his arguments in the suit was that he was not sophisticated enough to understand what the risks were.

We, in turn, cited his legal background and his professional experiences as evidence that he was no naïf in the world of business. Our legal expenses were probably close to $1 million, big money by today's standards but super-big money back in the 1970s.

We won the suit, which is still in the historical case studies as a frivolous lawsuit. Yet Cramer Rosenthal was out $1 million, and we went to our insurance company, A.I.G., which was supposed to reimburse us. We almost had to sue A.I.G. to get any money, and even then, we didn't get the full $1 million.

It was a major defeat for us. And it took a toll beyond the wasted time, fraught emotions, sleepless nights, and financial loss. Rick Segal, who was responsible for managing the energy business activity, originally very successfully, lead our defense for maintaining our ethical reputation, broke down from the extreme psychological pressure and not long afterward resigned from the firm.

For me, that was the worst part of the whole activity. An intelligent young man, one of Gerry's boys, now a casualty.