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My boys, ages 16 and 13, don't get me. When I confessed the other day that as a kid, I volunteered to go to summer school, they looked at me in horror and disbelief. How could they be related by blood to such a geek?

What can I say? I love learning stuff, a natural inclination that has held me in good stead in this business. Investing is perfect for curious cats like me - it's a career that compels you to leverage your experience, continually learn new things, and pull it all together in a way that makes it near impossible to be bored.

So, given a chance to attend a "Drilling for Dummies" class (oil and gas, not Marines), there was no holding me back. Shell holds classes in Louisiana for its non-geological staff, something they also make available to Wall Streeters. They wisely figure that even the bean-counters at corporate HQ ought to know how all those beans come to need counting. Plus, it helps the white-collar cost centers appreciate and respect the hard and dangerous work that the revenue-generating roughnecks do.

Our instructor was Mark Venettozzi, a charming and funny guy. Mark had been a high school teacher before going to work in the oil field, and eventually worked himself up to the position of derrickman, a drilling hand in charge of feeding pipe into a well-bore (pre-automatic pipe feeders - picture a guy 90 feet up in the air getting pipe in place for pick-up by a hoisting system). Thus, he was supremely overqualified to teach a bunch of latte-sipping suits how hydrocarbons are extracted from the earth.

Personally, while I've visited any number of drill sites and long ago mastered the acronym-deciphering requirements of oil and gas investing, I was still hazy on how EXACTLY drilling works. Thanks to Mark's ministrations, however, I think I got the concept - it's all about hydrostatic pressure.
As the drill bit grinds into earth, drilling mud is poured in to lift the debris, cool the bit and match the pressure underground. Along the way, it's very important - I mean really, really important - to make sure that the pressure going down mirrors the pressure going up.

Too much, and the flow of hydrocarbons gets choked off; too little, and you risk a well blowout. The list of things that can go hideously awry is long and apocalyptic-ish: explosions, fires, flammable gas spewing uncontrollably out of the bowels of the earth. Real Cecil B. DeMille stuff.

In short, I enjoyed the class. A few weeks later, and now back home in the relative safety of Manhattan, I found myself describing the Drilling for Dummies class to an investor who stopped by our office on his annual due diligence tour.

I was explaining our process for finding new ideas when I had this epiphany: Oil and gas companies use the drill bit to grow revenues; portfolio managers use new ideas to generate additional returns in a portfolio. Both work hard to keep a constant pressure - a steady flow - of hydrocarbons or ideas, as the case may be.

In stock picking, however, maintaining the new idea pressure on a portfolio is largely fiction - markets don't strictly follow the laws of physics (too many human beings involved). And so, while we aim for a steady, garden hose stream of new ideas, they tend to make themselves available between the two extremes of "fire hose" and "dripping faucet."

When markets are cheap, we have more ideas than time; triage of the best is the way we add value. When markets are expensive and ideas are scarce, we get the job done by scouring efficiently, patiently and thoroughly.

Yes, we're always on the lookout for new ideas to put pressure on our existing positions. And yes, there are many opportunities (particularly in smaller companies) to fix an operating hiccup that temporarily depresses a stock price. After all, in any given portfolio, on any given day, there are positions that are working, those that are mistakes, and those that are getting long in the tooth. But steady new idea pressure â€” à la hydrostasis? Fairy tales.

And that's the point. Because in our experience, both investors and clients find comfort in believing that there exists a steady flow of new ideas. But we shouldn't collude in that desire for comfort. The commonly asked question, "Where do your new ideas come from?" is largely missing the bigger, more essential point:
Given the cycle of floods and droughts in investment idea generation, what really matters is having a sound strategy for uncovering the best when ideas are as plentiful as mushrooms after a rain, and locating the gems when the pendulum inevitably swings back the other way.

How Well Do You Know Your Oilfield? And speaking of Drilling for Dummies, Shell Deepwater Learning Advisor, Mark Venettozzi, has graciously offered his presentation - "How Well Do You Know Your Oilfield?" - for us to share with our readers.

To download this intriguing, 11-page document, just follow this link.

Thanks Mark!

* Mariko O. Gordon is founder, CEO and CIO of Daruma Asset Management, a NY-based small cap investment management firm. Subscribe to her free monthly e-newsletter On Daruma’s Watch here.

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