By Kathy Warbelow

Dense clouds of debt hang over Europe; a cooldown of the Chinese economy could ripple worldwide; concerns loom about Iran's nuclear ambitions. Panelists at the annual Alternative Investment Conference offered sobering assessment of the risks and opportunities for investors in an unsettled world, balanced by broad optimism about real estate and the shale gas revolution in the United States.

"It's the biggest thing since Spindletop in 1901," the Beaumont gusher that set off Texas' first oil boom, said Ron Hulme, CEO of Parallel Resource Partners, a Houston-based private equity firm with an oil and gas focus.

Some of the best minds in the alternative investing world provided their insights in the daylong event at the AT&T Conference center, hosted by McCombs with Apollo Global Management as primary sponsor. The conference covered the alternative investing landscape, starting with a crash course in global macroeconomics.

"The largest peacetime accumulation of debt in world history" – from \$80 billion to \$200 million in the last 10 years - will make this hardest period to invest for the next five to 10 years, said Kyle Bass, managing partner of Hayman Capital Management LP in Dallas.

In Europe, central bankers are struggling to find the right route out of the debt morass, said Greg Jensen, co-CEO and co-CIO of Bridgewater Associates, the world's largest hedge fund, with \$130 billion under management.

"It will require an incredible degree of cooperation and giving up of sovereign rights" to dig out of the debt, he said. "It is highly risky, highly unknowable how political leaders will deal with the imbalances."

Richard Perry, CEO of Perry Capital, a New York-based hedge fund, sees the Eurozone situation up close, with trips about every six weeks to Germany, which is carrying the load for struggling economies such as Spain and Greece. He had a sobering forecast: "We expect a rolling recession for somewhere in the range of 5 to 10 years and equity returns that will be very unattractive."

The X Factor: China's economy, once growing at 8 percent a year, has slowed down, an event that will be felt worldwide. "It's pretty frightening about what's going on China right now," Bass said.

"China remains the most important sun in the solar system, and everything revolves around that," Perry said. "There will be an unbelievably profound impact if Chinese growth falls to, say, 3 percent."

Natural Resources

In the United States, the shale oil and gas boom has boosted the recovery and fueled employment.

"There's been almost a doubling of the recoverable supply of natural gas in this country," Hulme said, giving the U.S. cheap prices and an energy cost edge over countries where prices are much higher. "It's a \$400 billion advantage to the U.S. economy."

Scott Nyquist, global co-leader of the sustainability and resource productivity practice at McKinsey, credits shale gas for 3 million new direct and indirect jobs. He sees the potential for the United States to be self-sufficient on oil by 2025, considering factors such as expanded domestic production, biofuels and the growth of electric and plug-in electric vehicles.

But cheap natural gas – now about \$3 per million BTUs -- has not been good for renewable energy, said Puon Penn, head of the national clean and emerging tech markets sector at Wells Fargo.

"Shale gas caught the renewable sector by surprise," he said. Cheap shale gas will make it tough for utility-scale renewable projects, especially wind, with a tax credit set to expire Dec. 31 and the need for substantial investment in the grid.

The X Factor: An uncertain regulatory climate, as federal and local authorities debate how to handle fracking and related issues such as pipelines.

"The need for economic and employment growth will trump environmental concerns in the near term," Scott predicted.

Private Equity

The private equity panel took a different course, with a case study on Apollo's 2009 purchase of Parallel Petroleum, a Midland-based exploration and production firm that Ron Oldham and his wife founded in 1979.

Parallel rode out the ups and downs of the oil industry, but Oldham said the 2008 economic and financial meltdown knocked the wind out of the company. The capital budget was slashed from \$150 million in 2008 to \$30 million in 2009. The board decided the best course was to find a buyer.

Apollo already had identified E&P as a promising investment target; with Parallel, "we got an opportunity to acquire an asset with a top management team," said Rakesh Wilson, senior manager of Apollo's natural resources team.

In 2009, Apollo bought Parallel in a \$483 million transaction, including debt. The Texas Teachers Retirement Fund invested in the deal through its standing relationship with Apollo, as well as a separate co-investment -- a first for the \$110 billion pension fund, said Neil Randall, a director in TRS' private equity group.

"We could see our way to getting our investment capital out of the transaction within four years," Randall said.

Apollo helped the company restructure its finances and pump up capital spending. Last year, Apollo sold Parallel to an affiliate of Samsung.

The X Factor: Oldham said he worked out a retention incentive deal with Apollo that extended to every Parallel employee, including workers out in the field. "Not a single person left."

Real estate

After several brutal years for the industry, the panelists offered an upbeat but tempered forecast for investors who pick the right targets. The companies represented ranged from a publicly traded REIT to an Austin private equity firm.

Here's what they had to say:

"Housing is the place to be, whether single family or multifamily. We are massively undersupplied." -- Coburn Packard, a principal in real estate at Apollo, which has \$8 billion in sector assets under management. "

"I'm more optimistic by nature. I do see were getting a lot more meetings, but people are a lot more selective" about deals. "Appetite is growing; the Chinese are really starting to step up" as investors. -- Chris Casey, institutional portfolio manager at Franklin Templeton Real Asset Advisors.

"At the end of 2010, we were telling anyone who would listen that 2011, 2012 and 2013 would be the best years of our career. We're not even closed to the number of apartments we should be building to keep up with population." – Keith Oden, president and trust manager, Camden Property Trust, which owns 200 properties across the country.

"We think this is a very optimal time to be an investor in real estate. A lot of real estate has been neglected," as owners focused on paying down debt. "You don't have to take on a lot of leverage to do well." -- Claudia Faust, co-founder and managing partner of Hawkeye Partners in Austin, which helps institutional investors develop direct relationships with emerging managers.

The X Factor: "A lot of consolidation has gone on in the industry. That's never good for companies, for investors," Faust said. "It's a lot of money in too few hands."