

# Oil Pressure

We all rely on engines to get us places. For these engines to work, oil needs to reach most areas of the engine to lubricate the parts and reduce friction. When you have enough oil, under enough pressure to reach all the right parts, things run smoothly. Too much or too little for too long can cause problems. Funny how the same thing applies to the domestic and global economies.

## Gas Lines

In the summer of 1973 I was entering college and there was a lot going on in the US and the world. It was the summer of Watergate and of people lining up on alternating days to be able to buy gas. You see, there was too little oil being produced to meet demand. As a result, there was a shortage and every car owner had to endure long lines, sometimes down the street, in order to buy gasoline.

## Revenue Driven Innovation

There were very real concerns in the 1970s that the world would run out of oil. However, given the importance of this commodity to our modern lives and the profits that providing oil to the world creates, what was true four decades ago has changed. Through innovation in how we access oil and in our efficiencies of oil consumption, the world has achieved a surplus of available oil.

## The Good, The Bad and The Temporary

Have you seen more smiling faces at the gas station lately? If you have a moment, Google "uses of a barrel of oil". From cosmetics to charcoal briquettes, from food processing to plastics, from asphalt to airlines, you'll find that a lower oil price will help the cost structures of a huge number of businesses. However, many of the better jobs created since the recession have been in the oil and gas business and the layoffs have begun in that industry. So too have the stocks in those and related industries decreased with the fall in oil prices. The pendulum has swung and as it tends to do with oil, the swings tend to be pretty significant. Still, it may begin to swing back more quickly than many people might think.

## Balance

Length considerations for this newsletter limit how deeply we can examine what may cause oil prices to rise 15-20% by the end of the year. Over \$100 a barrel you find that consumers and businesses will suffer. Below \$60 a barrel it becomes unprofitable for many producers to bring the crude oil to market. Add to this that consumption trends up a bit when oil is cheap, and

producers tend to pull back a bit when oil prices are lower and you have natural forces that act to correct any temporary imbalance. If you doubt this, watch larger SUV sales trends over the next few months.

### **The Bottom Line**

We needed a bit of a reprieve from higher oil prices. Overall, it should have a broader positive effect on our economy, something that will take a little while to show up in the economic numbers. If you are a "buy on bad news" investor, this may provide some interesting opportunities to acquire some assets at lower prices. In the longer run, we should all be encouraged by the abundance of energy sources available and with the price balancing at work between producers and consumers.

### **Your Feedback**

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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