

Gas In The Tank

One of the most intriguing stories of 2015 has been energy. The drama playing out on the world stage has been in the news continuously throughout the year. New and rapidly developing technologies for extracting oil and gas from the ground dramatically increased supply to world markets to the point of exceeding the demand. For so long the worry had been about having too great a need for oil and gas, but now what do we do when we have too much of the stuff?

Gas Lines

Way back when I was in college in the mid 1970's, we suffered a gasoline shortage in the US, brought on by an OPEC oil embargo. There were times when, depending on your license plate number, you were only allowed to buy gasoline on certain days of the week. There were long lines of cars outside gas stations and down the street, waiting to buy gas. Perhaps a little like Costco today, but much worse. Doomsday predictions of the time projected the US running out of oil in a few decades, with dire consequences to our economy and way of life.

Incentive and Technology

Make something scarce and its cost will go up. Make it abundant and it will become cheap. The scarcity of gasoline allowed its price to go up until people had the incentive to figure out how to find more of the raw material. It also spawned an entire movement to improve "Miles Per Gallon" efficiencies and to develop alternative sources of energy. Potential profits and ingenuity make a potent combination, so much so that there was realistic discussion of the US reaching energy self-sufficiency at some point in the not too distant future. This self-sufficiency requires investment and we'll come back to that.

Price or Market Share?

Looking at a chart for global crude oil demand from British Petroleum, you would see rapid increase from 1965 from about 30 million barrels a day to about 55 million barrels in the mid-1970s. A slower, but steady, increase since the 70s has the world currently using over 90 million barrels a day, with demand continuing to increase. Saudi Arabia, until about a year ago, would increase or decrease supply to maintain an orderly price for oil. Orderly pricing of crude oil is OPEC's main objective. Last year the Saudis decided to protect their share of the global oil market by not reducing their production. This resulted in a global oversupply of oil and the subsequent reduction in the price of crude oil by about two thirds.

Out of Balance

Today's price of crude oil is hurting many of the OPEC nations and Russia, in the same way it is impacting the oil and gas industry in the United States. An interesting side and perhaps intended impact is the effect on investments in oil and gas production and related industries. As the price of oil has dropped, even investments less dependent on the price of oil, such as pipelines and refiners, have experienced significant reductions of investor interest. This reduction has been both in the value of current investments and the availability of new investment capital.

Seeds

Like any out of balance situation, the factors that led to the oversupply are already reversing themselves. This comes as a result of crude oil prices that are too low to be sustained economically by suppliers for more than a few years at most. Couple this with the fact that most OPEC nations need higher prices to balance their government budgets, run their economies and avoid unrest among their own citizens, and the result is pressure that will mount for decreasing supply more in line with demand. The seeds of balance are being sown even as oil prices reach new post-recession lows.

Bottom Line

2015 was a very tough investment year. Most investment categories saw losses, especially those involving some energy exposure. It is tough to say what 2016 will bring. If your portfolio is worth a bit less than it was at the start of the year, you are like most investors who were globally diversified. This should not discourage you, but rather encourage you for what potentially lies ahead. If you would like to review the results of 2015 for your investments and discuss any possible adjustments or opportunities for 2016 please know that I would be very happy to sit down with you. Here's wishing you a healthy, happy and prosperous New Year!!

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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