



Stop Trying to Predict the Price of Oil

Description

As much as it might pain us to realize, there's very little investors like us can control.

Massive hedge funds are able to take a big position in a company and use that influence to get elected to the board, which could lead to some pretty big changes in a company's direction. The trading desks at the world's largest financial institutions are able to bring some of the biggest commodity markets to their knees, just look at the price of gold and oil over the last few years. Don't think that those price declines happened just because of weakening fundamentals.

Most investors have no hope of finding out these things, which collectively make us pretty bad at predicting large macroeconomic events.

Take the decline in the price of oil. After peaking at more than \$110 per barrel in the summer, oil is down some 60%, touching \$45 per barrel during trading on Monday. And while I don't follow all of the pundits, I think I pay enough attention to make an observation about the oil market. Almost nobody saw this coming, myself included.

Nobody was talking about oil being overvalued at \$110. Nobody was even talking about it being overvalued at \$100 or \$90 per barrel. And now that we're approaching lows not seen in the energy sector since 2009, there don't seem to be many writing about how energy is undervalued at these levels. I'm seeing those articles, but they're drowned out by the folks calling for oil to end up in the \$20s or \$30s.

There are a couple of simple reasons for this. First off, humans are wired to go along with the overwhelming trend. It's one of the things that helped our ancestors become productive members of society, so it's deeply ingrained in almost all of us. And secondly, nobody is going to remember if an analyst or pundit gets something wrong if they're part of the crowd. The person who gets remembered is the person who makes the call that goes against the grain.

Saying all that, the conclusion is obvious. Most folks shouldn't bother to predict things like the price of oil, which is why I stopped trying a while ago. Instead, I just focus on individual companies with the assumption that oil recovers at some point. I'm looking for cheap valuations, beaten-up areas, and

stocks with a good amount of upside.

One company that has caught my attention is **Husky Energy Inc.** (TSX:HSE), one of Canada's largest oil sands operators. While the low price of oil doesn't bode well for its operations in the region, the company is somewhat insulated from the commodity because of its Asian natural gas exposure and its downstream operations which include several refineries and more than 500 gas stations spread across Western Canada.

Plus, the company is downright cheap, trading right around book value. It also has a rock solid balance sheet — just \$4.8 billion in debt compared to \$39 billion in assets — and the company's 4.9% dividend provides a nice incentive for patient investors waiting for the energy market to turn around.

Another cheap producer is **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), which is sitting on a lot of land in the oil sands that will be pretty valuable one day. In the meantime the company is still on track to increase total production in 2015 by 4% and management is committed to keeping the company's 4.6% dividend intact, a statement they can make because of the company's more than \$1 billion worth of cash.

The market underestimates the ability of Cenovus to generate cash. Based on the company's updated 2015 guidance, it can earn enough to maintain the dividend and spend on capital expenditures without having to touch its cash reserves if oil averages \$65 per barrel. That may seem like a tall order now, but it just goes to show that the company has some of the lowest cost oil sands operations out there.

All a regular investor can control is finding undervalued stocks. Quit worrying about short-term oil moves and invest for the long-term. I think investors who do so will end up pretty happy with the results in a couple of years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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