



Is Now the Right Time to Bet on an Energy Turnaround?

Description

One of Warren Buffett's most-cited investing quotes says you should "Be greedy when others are fearful and be fearful when others are greedy." In other words, stock markets tend to overreact to good news as well as bad news. And if you're able to see past the short-term biases of others, you will outperform.

Here in Canada, this quote makes me think of the energy sector. After all, the price of oil has plummeted (despite a recent rebound), as have the stock prices of oil producers.

But just how much fear is there in Canada's energy sector? The answer is not as much as we may think. Below we take a look.

Different views across the border

According to *The Globe and Mail*, Canadians are generally more optimistic of the energy sector than Americans are. To be more specific, the "short interest" (which represents the percentage of a company's shares sold short) of Canadian energy companies is 3.1%. This is actually down from June of last year, when that number was 3.5%. South of the border, this figure has increased from almost 4% to nearly 6% over the same time period.

This optimism is reflected in Canadian energy stock prices. Take **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) as an example. The company's shares have actually increased by 7% over the past year, even though oil prices are down by about half.

Canada's optimism is also reflected by these energy companies' actions. Again, Suncor offers a perfect example. The company is surging ahead with the \$13.5 billion Fort Hills oil sands mega-project, even though far higher oil prices are needed to justify the investment. Why is it doing this? Well, CFO Alister Cowan has said he sees oil prices rising to "US\$90 in three to four years' time".

There are other examples. **Manulife Financial Corp.** CEO Donald Guloien has said the company is "trying to back up the truck to buy more oil and gas." The CEO of the Canada Pension Plan Investment Board has expressed similar optimism. And David Mazza, head of ETF research at State Street Corp.,

recently told *BNN* that “There definitely seems to be evidence of investors seeking to bottom-fish this market and pre-position for 2015. Some investors we’ve spoken with don’t believe the negative picture on energy that’s become consensus.”

Beware the other big bias

In investing, sometimes it’s appropriate to sell a stock at a loss. Unfortunately, it’s a very difficult thing to do psychologically. As a result, too many investors hang on to declining stocks as the fundamentals worsen. Consequently, stock prices sometimes don’t fall as far as they should.

And this may very well be happening in the Canadian energy sector. So if you’re looking to be contrarian, and outsmart everyone else, now might be the time to be fearful.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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bensinclair

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