5 Lessons From Investing in the Energy Sector in the Last 2 Years

Description

Some investors believe that investment success comes from the time in the market and not timing the market. In a sense, you'll have success if you buy quality companies. As long as these companies continue to do well, eventually, the price will reflect the companies' achievements.

However, it's not quite the same for companies whose profitability relies more or less on the prices of the underlying commodities.

I'll be reflecting on the energy downturn, which began in July 2014 when the WTI oil price started falling from over US$100. Timing the market would have made a big difference.

Shares can go much lower than anticipated

I'd already held shares in some energy stocks before the downturn, including some shares of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which is a quality name in the industry.

As the WTI oil price started falling, I bought more Suncor shares at higher prices than my original cost. Little did I know that the oil price would fall to as low as US$30 almost one-and-a-half years later.

Compared to other energy companies, Suncor fared much better. Suncor's share price was less volatile, but it still fell to as low as $30 in January.

Of course, by that time I'd already trained myself to tune out the news because I was afraid of emotional trading, so I missed the opportunity to buy in the lows.

Lesson learned: Don't buy on initial dips companies whose profitability relies on underlying commodity prices. At least wait until the bad earnings report comes out.

oil large

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Buying and holding worked, but buying on the dips would have worked better

After holding for about two years, my Suncor shares finally turned a profit. So, buying and holding worked. However, if I had bought when the shares showed support at a certain price level, it would have been a much more lucrative investment.

It's the difference between getting a 14% gain and a 46% gain!

Lesson learned: When should you buy? Wait until shares show support. If you look back in Suncor's price chart, shares showed support around $30. (Of course, this is much easier to recognize in retrospect than in practice.)

Dividends weren't all that trustworthy

When an industry gets whipsawed, you can't really blame the companies for cutting their dividends. The energy downturn is a good reminder that companies aren't obliged to pay dividends. They can cut or eliminate them at any time.

However, it doesn't mean that they can't reinstate their dividends when the industry stabilizes and their strategies to lower costs and improve efficiency lead to more stable and higher profits.

Lesson learned: Don't bet on dividends from energy companies, but don't count them out either.

Sustained–or, better yet–increased dividends help with returns

Although dividends weren't trustworthy throughout the downturn, some energy companies managed to sustain their dividends. Since mid-2014, Suncor and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) have increased their dividends by 26% and 11%, respectively. Although they only yield 2.6% and 2.3%, respectively, any received dividends can only boost investor returns.

Lesson learned: Most gains from investing in energy companies should come from capital gains, but that doesn't change the fact that dividends still boost returns.

Stick with quality names

In a downturn, it's easier to hold on to quality names such as Suncor and Canadian Natural Resources, which are financially strong.

In fact, averaging in to them at opportune support levels would have made an investment in them that much more profitable when they rebounded.

Lesson learned: It's easier to hold on to quality names in a downturn.

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