



Is Oil Entering a New Bull Market?

Description

Last week, the price of oil rose by slightly more than 6% to close at US\$49.79 per barrel. For investors, that is a good week for any commodity. To make things better, oil increased by more than 10% last month. Clearly, the tide has shifted (at least in the short term) for investors who are long oil.

Going back one year, oil has essentially traded sideways, increasing by slightly more than 4%. On a year-to-date basis, however, the resource has declined by more than 12%. This translates to is a short-term bounce, but oil is trying to find direction.

The question investors need to ask themselves is, “How does this affect me?”

Although the lower price of oil recently is not a good thing for those long any security in the sector, it is worth stopping to take notice of the difference between the prices of securities in March (the last time oil traded near the US\$50 range) and today.

Consider **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). Its shares currently trade near the \$10 mark; it previously traded as low as \$8.99. Several months ago, shares maintained a trading range around the \$14 mark, although the price of oil was priced (like today) closer to \$50 per barrel.

Given that the underlying commodity has recovered, but the share prices of many oil-discovery companies have not, there may be a substantial profit to be made by investors should there be a recovery in the price of oil. Basically, as oil has rebounded in the past month, shares of Crescent Point have traded completely sideways.

The stock may present investors with an interesting opportunity in the future.

When considering shares of **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)), the current share price of approximately \$42.50 per share is less than a 1% decline from one month earlier. During March, shares traded mainly between the \$42 and \$43 range. Again, the stock has not recovered alongside the price of oil. Investors just do not believe that this upward swing in the commodity is sustainable.

Investors have learned there are sometimes circumstances where things will only happen after the

market (the aggregation of investors) have completely lost hope. With oil, this could be that very same song on repeat.

The danger for investors purchasing oil stocks is the chance that the recent increase experienced over the past few weeks will open the door for the commodity to trade substantially lower in the future. Investors in oil stocks are simply not prepared to pay up for anything given the bad experiences over the past few years.

With a relatively high risk/reward potential, as always: invest diligently.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:VRN (Veren)
3. TSX:PPL (Pembina Pipeline Corporation)
4. TSX:VRN (Veren Inc.)

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Date

2025/08/24

Date Created

2017/08/04

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