The Best Oil Stocks for Your RRSP

Description

With oil finding a bottom around US$60 per share, many investors who have been very good at shunning the resource may now be ready to reallocate a part of their portfolios to this asset class, as the bulls may finally be starting to return to the market. Another run could break out soon.

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With so many excellent names to pick from, investors need to figure out just where they want to be positioned on the risk/reward spectrum, as they deploy their capital in the very lucrative oil market. At the very beginning of the spectrum are Canada's pipeline companies, which have an extensive infrastructure in place and the ability to make a significant amount of free cash when things go according to plan.

Inter Pipeline Ltd. (TSX:IPL) has recently reported quarterly earnings which exceeded expectations and resulted in a share price decline. Although the yield was already well above average, investors willing to take on the risk associated with a pipeline company have the opportunity to receive a dividend yield of more than 7.25%, as shareholders' equity continues to increase.

Further on down the risk/reward spectrum are shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). At a current price of $8.81 per share, Crescent Point offers investors a dividend yield of no less than 4.09% which is paid on a monthly basis. Although shares have pulled back substantially from their short-term high of approximately $11.50, investors can appreciate the potential that this name has to offer.

Another point which should be understood is where each company lies in the chain of production within the oil industry. Crescent Point is in the exploration game, which is only profitable with high oil prices. As oil prices decline, many projects shift from being profitable to being money losers. Although the upside is very high, the truth is that the downside can also be substantial. For a stock that traded at a price of slightly less than $50 per share in 2014, the current price proves that there is substantial upside and downside.

In the case of Inter Pipeline Ltd, shares traded at a high of almost $40 per share around the same time. At a current price of more than half that amount, shareholders are clearly taking on much less risk. The caveat is, of course, when things go very well, the upside is more limited. As a pipeline company, the main risk is that oil producers stop producing oil altogether, which translates to having nothing to run through the pipeline. This leads to a decline in revenues and can be very dangerous.

As long as oil is produced somewhere in the oil patch, revenues (and earnings) will continue to flow.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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