This Leading Hedge Fund Manager Is Recommending You Buy Oil Stocks

Description

When billionaire investor and hedge fund manager Jeffrey Gundlach speaks, people usually sit up and listen.

And rightfully so.

Gundlach earned himself a reputation as one of the premier fixed-income investors of the 2000s. He was once featured on the cover of a popular investing publication under the headline “King of Bonds.”

So, what is it that has the “King of Bonds” so interested in the energy sector lately?

Gundlach’s big announcement at the Sohn Conference

At the prestigious Sohn Conference last week, a conference designed so famous hedge fund managers can promote their best investment ideas to the rest of community, Gundlach announced that he was recommending a short trade on **Facebook, Inc.** (NASDAQ:FB) and that he thought buying stock in the oil sector was one of the best trades available in the market right now.

The idea is that inflation — and with that, energy prices — is starting to pick up in the later stages of the current economic cycle, and this should bode well for energy producers.

At the conference, Gundlach specifically mentioned **SPDR S&P Oil & Gas Explore & Prod. (ETF)** (NYSEARCA:XOP), which includes the likes of **Apache Corporation** (NYSE:APA), **ConocoPhillips** (NYSE:COP), and several others.

Meanwhile, within the Canadian energy market, a similar benchmark of oil and gas names would likely include companies like **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), and **Canadian Natural Resource Ltd.** (TSX:CNQ)(NYSE:CNQ).

All three of those companies showed very impressive gains in April, including Baytex, which is up an incredible 61% for the month.

Consider Gundlach’s background in investing

But what’s really interesting about Gundlach’s latest bet on the energy sector is that even though he made his name in the bond markets and not the stock markets, he has extensive experience in forecasting macroeconomic factors like inflation.

In his prior role as the former head of TCW’s $9.3 billion Total Return Bond Fund, he would have been on the constant look out for inflationary pressures. That’s because inflation is bad for bond investors — in fact, inflation would almost have to be considered a bond investor’s worst nightmare, as it effectively erodes the “real value” of monies being received.

Could it get any better?

But what’s interesting from a Canadian investor’s standpoint is that it could just turn out that the opportunity to invest in Canada’s oil sands producers proves even more lucrative than the ETF Gundlach touted in his speech.

One obvious reason is that ETFs, by their very nature, are heavily diversified, and while that can, at times, help to offset some risks, it also stands to temper the potential for maximum outperformance as well.

But in addition to that, thanks to some troublesome bottlenecks that have hampered Canada’s pipeline transportation capacity so far in 2018, the price of Canadian oil has been trading at a large discount to West Texas Intermediate Crude, meaning there’s still plenty of room to run before the Canadian market catches up to the U.S.

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