



## Here's a Stock That Takes the Pain out of Investing in Alberta's Oil Patch

### Description

When it comes to Canadian energy stocks, there are a lot of landmines out there, especially with overleveraged small-cap names that have higher breakeven costs. Although such fundamentally unsound “cigar butt” firms possess more upside potential if oil prices sustainably move back to the US\$100 levels, your invested capital could go up in a poof of smoke should another unforeseen oil plunge put the company on the brink.

Thus, Canadian investors interested in profiting off the “black gold” opportunity will need a guide to avoid picking a stock that will later blow up in their faces if oil prices suddenly reverse directions again. Investing in Canadian oil stocks can be really painful. But it really doesn't have to be this way if you know where to look!

Moreover, implementing a cigar butt approach of picking the most battered of stocks with the cheapest valuations based on traditional metrics could probably result in disappointing results, even if oil prices continue to surge higher. Firms with poor management teams that lack leadership will not do much for your portfolio. When it comes to selecting businesses with significant upside, one does not simply look for a firm with patches of land that are deemed as “promising” by management.

By selecting such cigar butt stocks with high potential upside, one may realize a return that's not enough given the exorbitant amount of risk that's taken on. In many cases, an investor would be better off in a “safe” integrated oil bet that would continue to reward shareholders with dividends regardless of what the price of oil is.

### Where's oil headed next?

Over the last few years, many energy investors have realized substantial losses, and although it appears that the [tide has finally turned](#) with the recent rally in WTI, there's no telling which direction the commodity is heading next. Nobody really knows, and it wouldn't be a wise decision to place an unhedged bet.

Another tweet from President Trump could send oil prices bad in the red, so investors looking to profit from a rebound in oil should tread carefully and remain cautiously optimistic by favouring higher-quality

oil plays versus their more vulnerable counterparts.

When it comes to financially stressed oil sands operators with inefficient operations, you're essentially speculating and not investing like you would if you were to own a name that's more resilient in the face of a challenging environment.

### **A smarter long-term investment to make if you're bullish on oil**

With lower-quality oil sands producers, you're not even guaranteed a vastly greater magnitude of upside should oil prices continue to rally. In fact, lower-risk integrated juggernauts like [Canadian Natural Resource Ltd. \(TSX:CNQ\)\(NYSE:CNQ\)](#) may stand to rally a great deal without needing you to risk your shirt. Canadian Natural Resource stock has rallied ~20% in just over a month's time, which is remarkable, especially considering the lower risks involved with an investment versus many of its severely battered competitors that lack refining operations.

For income investors, Canadian Natural Resource makes for a low-risk/high-reward way to play Alberta's oil patch. You're getting a ~3% dividend yield as an incentive to stick around, regardless of where oil is trading on any given day. That certainly beats staring at oil prices on a day-to-day basis, just hoping they'll rise.

Although Canadian Natural Resource is one of my favourite ways for the average investor to safely bet on the oil sands, shares appear to be fully valued at current levels and could be ripe for a short-term pullback. If this pullback happens, I'd pounce on the opportunity. For now, keep the stock on your watch list and wait for your chance!

Stay hungry. Stay Foolish.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### Tags

1. Editor's Choice

### Date

2025/08/29

### Date Created

2018/05/04

### Author

joefrenette

default watermark

default watermark