Here’s Why Everyone Should Hold Canadian Oil Stocks

Description

There may come a time when society no longer has a need for oil, but that won’t happen anytime soon. Oil and gas are central to pretty much *all* production and consumption right now. Plugging into the fuel source that drives industry makes a lot of sense as an investor. And what better market to do that than on the TSX? Here’s why you should cover yourself with some of the best oil around.

If you don’t hold Canadian oil stocks, you don’t know what you’re doing

Delays in pipelines and a surging US dollar don’t sound like good playmates. But when it comes to oil stock value, it means deep discounts. Buy Canadian oil stocks and you’ll be getting a defensive equity that pays dividends, can sit in your portfolio for years, and requires very little maintenance. If you buy stocks on the TSX and don’t hold oil, you may want to rethink your game.

The situation reflects the state of the Canadian economy, and while we won’t get into that here in too much detail, there are a couple of key takeaways here. Global investors know that individual debt is high in Canada, which means that consumption will start to run low. This lack of cash flow from abroad means that domestic investors have the run of the TSX. It also means that the economy itself is poorly diversified.

Sometimes your portfolio should resemble the economy

Simply put, oil dominates in Canada not just because we have such huge reserves of the stuff. Technology, for instance, is poorly represented in the Canadian economy, which is why tech stocks don’t get much airtime here. The tech sector is booming in other countries, which reflects spending at high levels, with more emphasis on land (such as real estate) than on research and development.

If you’re following the thread of my argument, you’ll see that Canadian oil stocks form the backbone of the entire TSX. Heavy on resources and not booming in the way they should be, oil stocks are nevertheless solid and will perform well long-term. Here’s how to get in on this.

There are many ways to play the oil game

You can play defensively by sticking to a stock with a proven track record. Go for a solid dividend performer like **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). It’s an obvious choice, but sometimes the obvious choices are the best ones. Buy it, hold it, and enjoy years of dividends – what’s not to like about that?

Conversely, you can dig around for a deep discount and back an undervalued stock such as **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET). It’s a good choice if you’re looking for well-diversified value. Vermillion is a good way to go if you want a long-term player with strong assets.

Or you can look mid- to long-term and take a gamble on a smaller oil producer with a lower market cap, such as **Bonavista Energy Corporation** (TSX:BNP). A Calgary oil and gas producer with a market cap of $307.5 million, Bonavista has reserves that far exceed its current production, which means that it can keep chugging for longer than its competitors: over 140 years compared to its peers' average of 30 years.

The bottom line

Canadian oil stocks are far from being overlooked. Indeed, there are thousands of investment think pieces out there telling you why you need them. But they *are* discounted, and the somewhat neglected Canadian stock exchange is dominated by energy. If you own oil stocks in Canada, you're sitting on an investment that will set you up for years to come. Simply put, Canadian oil stocks should form part of *any* portfolio.

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