As Oil Prices Trend Higher, Investors Have Bulletproof Opportunities

Description

Investors who have been long the oil sector over the past month have seen substantial gains in their investment portfolio. In spite of lower oil prices this past Friday, the price per barrel of oil remains above the US$65 mark, which is substantially higher than the average price of the past few years.

Investors who are worried about a correction may want to take a step back and think things through prior to taking any drastic action that could come at a cost of major profits in the coming months. Although the oil market is a very fragmented and complex market, investors must understand one major part of the puzzle: Saudi Arabia has a major impact on the direction of oil prices.

The initial public offering (IPO) of government-owned oil giant Saudi Aramco was announced and subsequently delayed, but investors should not feel discouraged. As the value of the company will be measured as a function of oil prices, investors need to consider that a higher spot price for oil will provide a substantially higher valuation at the time of the IPO. Arguably, the price of oil will go nowhere but up if the government of Saudi Arabia has its way.

Looking back, it's now very easy to understand why Saudi Arabia refused to curtail their production of oil over the past few years. By driving the price down, many highly leveraged oil firms have been forced out of the market.

For Canadian investors seeking to turn a profit from higher oil prices, there are several options: higher risk or lower risk.

At a current price of $10.22 per share, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) trades at a substantial discount to tangible book value and pays a generous dividend of no less than 3.5%. To make this name more attractive, the dividend is paid on a monthly basis, which makes the stock easy to hold. Like many, I enjoy being paid more often.

As an oil production company, shares have substantial upside should the price of oil remain above the cost of production.

The less risky "Plan B" is for investors to purchase shares in pipeline company **Inter Pipeline Ltd.** (TSX:IPL). The defensive name is in the business of moving oil through a pipeline for a fee. As long as oil is produced the company will continue to take in revenues and investors will continue to receive dividends of no less than 6.9% at the current price of $24.50 per share.

In addition to the dividend, investors have the potential to receive capital appreciation from holdings shares of this Canadian gem on the condition that oil prices remain at elevated levels and hopefully continue to move further upwards. Only time will tell.

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