Oil Price Crash: How to Find Energy Stocks That Won't Destroy Your Portfolio

Description

The TSX was buoyed Friday by Ottawa's multi-billion-dollar pledge to prop up the oil sector. Canada's main stock exchange still held onto 3% five-day gains come Monday morning. Investors eyeing Canadian energy stocks at the open were no doubt wondering whether they should wait for the next dip.

Then came the bloodbath. WTI crude fell 310% within a few hours. Breathless pundits proclaimed $1 oil, then free oil, and finally watched as the price of oil settled negative US$54 a barrel. The Dow immediately fell 600 points. Western Canadian Select also went negative. The TSX lost the gains afforded by Ottawa's oil patch Band-Aid and was negative 3% by Tuesday morning. So much for the oil price war.

For a moment, it looked as though oil could rally. There was headway being made by OPEC, and Ottawa was started to get the ball rolling on a bailout. An oil rally by the end of 2020 wasn't beyond the realms of imagination. Indeed, an end to the quarantine market could have seen oil prices recover somewhat. It would take the most bullish of oil contrarians to hold onto this projection now.

Three main energy investing themes are now emerging as the intensely frothy market continues: stay away from oil producers, go easy on electricity, and bet on the green economy. But don't try to time the TSX, because the bottom is a long way off.

The oil price crash is a warning sign

Forget about oil stocks. Jim Cramer gave up on them long ago, and he was one of the most bullish voices out there. The contrarian case for buying these battered companies is now extremely weak. The sector is unlikely to recover, including midstreamers. Even if the oil price crash had been caused by a technical fault, a key vulnerability has been revealed. At the end of the day, there is no upside in oil.

Instead, get into green energy names like **Northland Power**, **Brookfield Renewable Partners**, and **Algonquin Power & Utilities**. This is a great trio of stocks that steers investors' portfolios away from the toxic oil patch.

Finding defensive dividends is suddenly a much harder game. Ordinarily, transport and energy businesses would benefit from cheap, or even free, oil. But travel is currently non-existent, and energy usage is down as businesses remain shuttered. The hunt is on for upside and dividends, and green power offers both.

All three of these green energy stocks offer a sturdy mix of geographical and business diversification. Northland is a strong play for growth in offshore wind and pays a 4% dividend yield. Algonquin matches this yield. Brookfield is a play for asset management know-how and yields a higher 4.6%.

The bottom line

Cheap oil would, in a normal world, mean that other sectors have lower overheads. But almost every industry that uses crude is depressed right now. The best thing for a long-term investor to do now is to strip out oil and replace it with a mix of renewables, tech, and consumer staples. The key is to replace long-term dividend growth, whatever the sector.

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