3 Reasons to Avoid Oil Stocks

Description

It's no secret that Canadian oil isn't performing well. Even if you're not into following the markets, if you own a car, you've seen it at the pump. The oil and gas slump has reached a new low this year, with prices not seen in decades. Yet it has some investors thinking now could be a great opportunity to buy up oil stocks. After all, the stocks are cheap. Buy low, sell high, right?

There are a few problems to this statement in the case of oil stocks, however. I'm going to go over just a few of them, and what you can choose to invest in instead.

Oil stocks have been hammered

Back in 2018, oil stocks reached an all-time high almost across the board. Then, the slump began as the oil and gas glut hit Canada. Energy companies across the board were told to cut back on production. This all came from the lack of ways to ship out the vast amount of crude oil Canada has.

Since then, it's only gotten worse. The Organization of the Petroleum Exporting Countries (OPEC) has been trying to fend off countries that find ways to ship out oil. Most recently, at the beginning of 2020, Russia stated it wouldn't cut back on production, and Saudi Arabia said it would increase it. Since then, OPEC managed to have them agree to cut back production. But this is a band-aid on a bullet wound.

Canada need ways to ship out oil, and fast. If not, oil stocks will continue to be hammered in the markets.

It could take a long, long time

This underperformance isn't going to go away overnight. After all, it's not the energy companies that are the problem. These companies can pump out a lot of crude oil, but there isn't a way to ship it out. Until this solution is resolved, the oil glut will continue, and so will the slump in oil stocks.

Yet it's true; eventually, oil will rally. A solution will come to light, and finally oil stocks will have a day in the black yet again. But unless you're incredibly patient, that is still a long time off.

Expect bankruptcies

Even if you are patient, and even if you have faith in your oil stocks, those energy companies may end up having to declare bankruptcy. Other larger companies could end up acquiring them, but those companies will have had to diversify in the meantime to afford the costs of acquisitions. These opportunities are going to be few and far between.

In the meantime, pay close attention to the earnings reports of your oil stocks. If it looks like report after report is only sinking the companies further into debt, it might be best to cut your losses and choose a bigger, more sustainable stock.

One option: Pipelines

Instead of investing in oil stocks, consider the solution to the problem: pipelines. Pipelines, once built, will solve the oil and gas glut and get crude oil moving again. Once this happens, pipeline and oil stock prices will soar. But I would expect pipeline companies to see stock increases well before the energy companies.

In that case, I would certainly look at **Pembina Pipeline**. This company has $5.6 billion set aside in secured growth projects for its Peace Pipeline expansion. Once complete, the company should see an incredible increase in share price. In the meantime, Pembina has long-term contracts to keep cash coming in and support these growth projects, along with its solid 8.15% dividend yield. That's cash in your pocket while you wait out what could be years before any type of rebound among oil stocks.

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