Oil Investors: Prepare for Another Drop

Description

If you hadn't already noticed, there was yet another drop in oil prices this week. That's thanks in part to yet another meeting of the Organization of the Petroleum Exporting Countries (OPEC). The two-day meeting that started July 14 aimed to bring more oil to market. Ideally, the goal was to bring the current cutback of 9.6 million barrels per day down to 7.7 million barrels per day.

The news brought the already sluggish price of crude down even further to about USD$40 per barrel. If it slips any further, analysts worry it will be incredibly hard for any type of recovery. Luckily, the meeting came to a solution bringing down cutbacks to 8 million barrels per day.

While the news brought prices back up to around USD $43, analysts worry oil prices may not stay this way for long.

COVID-19 future fears

OPEC's recent moves comes as the world starts to reopen yet again. Countries worldwide have begun to loosen restrictions as finally there seems to be some sort of flattened curve to new COVID-19 cases. But economists and health organizations have a stiff warning. This recent outbreak could just be the first of many outbreaks.

In fact, as countries open up, it's highly likely that another outbreak could hit by the end of the year. As countries go into lockdown mode yet again, that means there will be yet another drop in oil demand. That in turn would lead to yet another drop in oil prices — and likely bring back these cutbacks.

Should OPEC have increased cuts?

In short, yes. While this may not last long, an oil demand is an oil demand. There is a serious glut around the world that needs to be solved. It was already hard enough to convince Saudi Arabia and Russia to decrease production of oil. The entire world is champing at the bit to get oil moving again.So, likely, OPEC hardly had a choice. Especially given this latest meeting was led by Russia.

So while it may not last long, it's still something. Investors could see at least some sort of boost to share prices in the short term. But if you're a long time investor, there are some things to consider. Most importantly, how long could this recent rebound last? In fact, could it be the very last rebound you'll see *ever*?

Times are changing

Oil has always seemed like a great bet. However, it's been about three years since the slump in oil prices. The demand might be there, but the shipping is becoming more and more of a problem. COVID-19 has brought this to a head, and many economists believe the time is right to start looking at other options.

One of the best options you could take is looking into renewable energy companies that already have a solid foundation. In this case, I would look into **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN). The company is a utility company that has been growing through acquisitions over the last two decades.

It has solid cash coming in from both these acquisitions and the fact that people always need to keep the lights on. Even during a downturn, the company continues to see strong revenue reports.

The company has also expanded into renewable energy, so is primed to see huge gains as the world moves to this form of energy production. It has the cash available from its utilities sector to fund this movement, so investors should see strong and stable gains in revenue and share prices for the next few decades. It also offers a nice 4.54% dividend yield as of writing.

Bottom line

Time could be up for oil-producing companies. It might be time to take a hard look at your portfolio during this downturn. You'll soon have to decide if you're in and willing to wait years (if ever) to sell, or out and buy on the cheap. The market won't wait for long, so talk to your advisor and see what your next move should be.

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alegatewolfe