Are TSX Oil Stocks Too Volatile for Casual Investing?

Description

An improvement in oil prices helped the **TSX** open higher at the beginning of the week. For some investors, this is a cause for celebration – if a somewhat muted one. Because it was only last week that the opposite situation unfolded, with tumbling oil prices wiping out similar gains. This is likely to be a pattern in the latter half of 2020 as oil producers struggle to regulate prices.

A choppy energy market

Oil prices weighed on the TSX last week, dragging down the share prices of some major energy companies. It was a stark reminder for Canadian investors of just how strongly correlated our largest stock market is with the so-called black gold. **Suncor** stood out as a near-perfect example of the kind of stock most at risk from lower oil. It was one of the most heavily traded stocks at one point last week, down 7.4% over a five-day period.

Worse, though, is the fact that Suncor is down 45% year on year. And it's not alone. Other major Canadian oil producers are still severely beaten up. **Canadian Natural Resources** is faring somewhat better, with an 18.6% average loss in the last 12 months. But like Suncor, CNQ took a nosedive last week, losing 5.5%. These are therefore risky investments highly correlated with oil prices.

Trimming risk from a stock portfolio

Should investors keep on holding oil stocks or is it time they removed these high-risk assets from their portfolios? In light of last week's poor performance on the markets, let's weigh the pros and cons of some alternatives.

Investors who do wish to keep some exposure to the oil patch may want to go the midstreamer route. This entails holding shares in one of the big pipelines companies. The biggest and therefore arguably the safest option would have to be **Enbridge**. This is a company with a heavily fortified economic moat. It also pays a tasty dividend, currently yielding 7.5%.

Then again, investors may feel that the time may have come to get out of oil altogether. Volatility is increasing in energy stocks, as the last few weeks have shown. As oil producers struggle to get a hold on prices, the stock markets are whipsawing. The past fortnight has seen the TSX bobbing like a buoy at sea as oil prices fail to stabilize. This asset type might therefore be unsuitable for the low-risk, long-term investor.

Investors should consider changing teams and going after growth. Consider the green economy, a global growth trend that is presenting oil producers with some of their stiffest headwinds. From solar to thermal, hydro to nuclear, there's a range of alternatives that could pack some serious upward momentum post-pandemic.

If investors wish to sidestep oil, they may wish to go whole hog and cut down on another heavily oil exposed sector: banking. It's no big secret that oil companies are heavily indebted to banks. While this might not be a great concern to oil investors, it might feature higher on the list of 3:00 a.m. worries for buy-and-hold bank shareholders.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/06/29
Date Created
2020/08/26
Author
vhetherington