Oil Price Falls: What Should You Do?

Description

The **TSX Composite Index** dipped 1.3% yesterday amid growing uncertainty around oil price. Energy stocks were the biggest losers falling 2.4%. At the same time, an increase in COVID-19 cases spells a warning sign for the fourth wave, sending the recovery stocks down and gold stocks upward. This uncertainty caused a disturbance in the force and pulled the market down. How should you invest in such a market?

How to understand the disturbance in oil prices

Oil is a major source of energy as it powers most forms of transportation, from trucks to planes. Even Warren Buffett loves oil prices for their high utility. The Organization of Petroleum Exporting Countries (OPEC) controls the oil supply to balance it with the demand. During the pandemic, OPEC reduced oil supply as demand dipped significantly and oil prices went into negative.

Now, as global economies reopen, oil demand is rising. But there is a dispute between the United Arab Emirates (UAE) and Saudi Arabia over increasing oil supply. This has stalled OPEC supply talks for an indefinite period. If these countries continue to dispute and individually increase or decrease oil supply, oil prices could go either way.

Brent crude price jumped to its three-year high of over US$77/barrel, but the OPEC dispute pulled the price down 6.5% to US$72.76/barrel on July 7. This uncertainty in oil prices has put downward pressure on oil companies worldwide.

Buffett even liquidated his stakes in **Suncor Energy** (TSX:SU)(NYSE:SU). Perhaps he doesn't want any noise in his portfolio. He even sold airline stocks in April 2020 because they were filled with noise. I agree that the Gulf wars stir up volatility in an already volatile oil market, but you can't deny the power of recovery.

Riding the oil price volatility

Oil prices will remain volatile, not only because of OPEC disputes but also because of rising COVID-19 cases and fears of the fourth wave. Hence, Suncor stock dipped more than 4% as it relies heavily on oil prices. But oil prices will surge in the long term when all this is over. Suncor stock is still trading at a 30% discount from its pre-pandemic level.

Oil prices will continue to fluctuate. Most oil giants have also stated in their energy outlook that oil demand reached its peak in 2019. The move to renewable would slow oil demand. But that will take years. The pent-up demand for air travel will boost oil demand and push oil prices upwards.

Take this correction as an opportunity to buy Suncor stock at a discount as it rides the recovery rally. You can hedge against the oil price volatility by diversifying your exposure to natural gas with **Enbridge** (TSX:ENB)(NYSE:ENB).

Enbridge does not have direct exposure to oil prices, but it secures its cash flow by transmitting oil and natural gas. The company has proved its resilience in the last 20 years. It survived the 2014 oil crisis and even increased dividends because it diversified its revenue streams. It even increased its dividend during the 2020 pandemic crisis. The stock can protect you from this oil price volatility with its 6.87% dividend yield.

Final thoughts

Enbridge stock dipped 1.2% on July 7. Buying this stock at the dip will allow you to lock in a higher dividend yield. Instead of fearing this dip and booking profits, stay invested and buy the dip.

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