



Can You Get Rich on Soaring Oil Prices?

Description

Some pundits, like Damien Courvalin, a senior commodity strategist from **Goldman Sachs**, believe that [high oil prices](#) are here to stay for much longer than many people think. The investment bank has the Brent oil price going to US\$90 per barrel as the base case for the end of the year. As of writing, the Brent has already crept up to US\$84 and change per barrel, which isn't far off from that target.

The argument for sustainable high oil prices, at least for the year ahead, is a tight supply supported by a rebound in demand. The tight supply is a ripple effect of the pandemic. Because of low oil prices last year, oil and gas producers have only kept the bare-bones investment at that time. Economic reopenings are supporting great demand for energy and higher oil prices.

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It certainly feels good to own energy stocks that are oil and gas producers. **Canadian Natural Resources**, **Whitecap Resources**, and **Enerplus** are a few such stocks that have at least doubled from price appreciation alone in the last 12 months. So, surely, you could get rich from buying low and selling high in energy stocks.

Just keep in mind that the easy money has already been made. The Brent oil price already made a huge jump from the US\$41 level a year ago. The West Texas Intermediate (WTI) oil price is also up from that level to US\$82 and change per barrel today. Similarly, the Western Canadian Select (WCS) oil price had roughly doubled from US\$32 to US\$67 per barrel.

Fund managers loaded up on the best oil and gas producers when investors threw them away. Indeed, it was horrific for do-it-yourself investors when they saw the WTI oil price falling off a cliff to negative territory in 2020. It was a phenomenon that was even difficult for professionals to wrap their heads around. Canadian Natural Resources stock is almost a three-bagger from the pandemic market crash bottom. Whitecap Resources stock is a six-bagger. And Enerplus stock is a five-bagger.

Over the near term, many [energy stocks](#) are bound to report better earnings and cash flows. However, a lot of that is already priced into the stocks that have rallied. If you are bullish on oil prices, be

selective. You might focus on the ones that are more weighted towards oil production and have favourable commodity hedge positions. Of course, ones that have strong balance sheets would be safer investments if oil prices turned south for whatever reason.

The Foolish investor takeaway

High oil prices may be ushering you to allocate a higher percentage of your portfolio to energy stocks. Heck, some high-risk investors might even throw all their excess capital into energy stocks or start thinking about playing oil futures. These are dangerous moves.

While the notion of high oil prices is exciting, investors should stick to prudent risk management for their investment portfolios. Just because oil prices are high now doesn't mean you should make bets. Other areas of investment can give you good returns as well — likely good *long-term* returns — and your money will be much safer invested across a diversified portfolio.

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