Seeking Alpha α
Dividend Ideas

Oil: Every Investor Needs To Consider These Factors

Apr. 27, 2020 1:37 PM ET90 comments | 22 Likes
by: Richard Berger

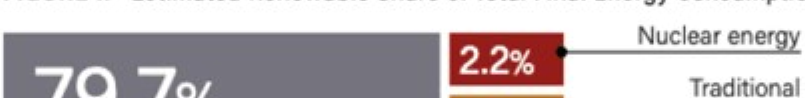
Summary

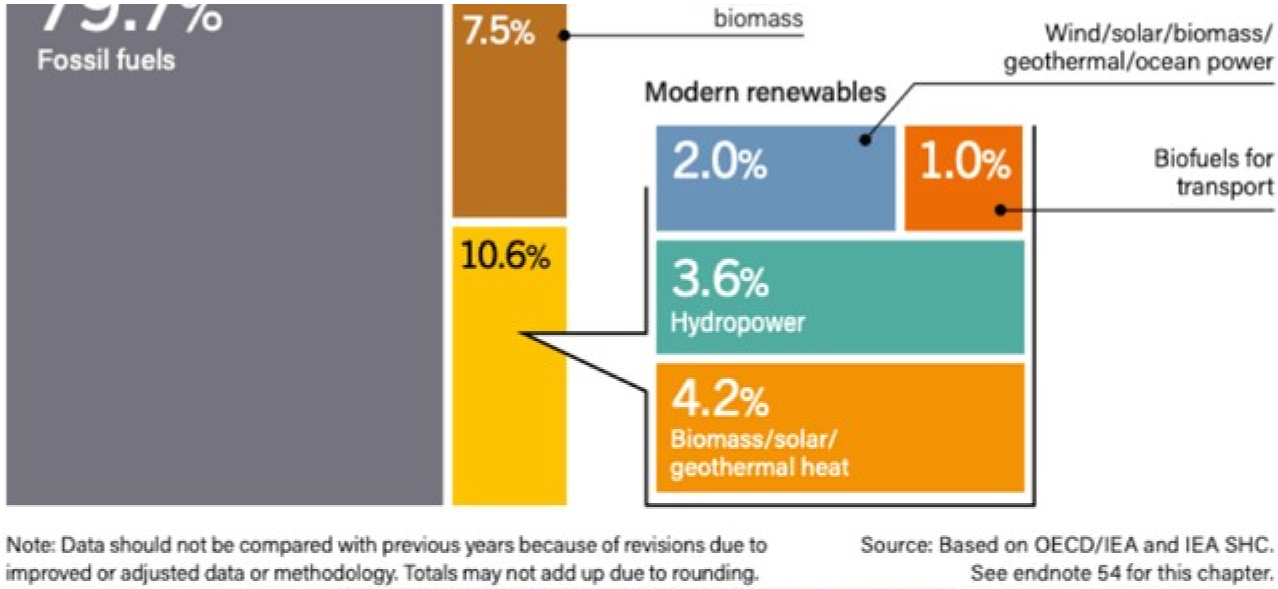
- Many investors are tempted by the huge crash in oil to make a market entry now.
- A look at historical trends of price, supply/demand, technology, and returns provides the same answers investors need to know.
- Short-term opportunities are identified for 15-52% annualized yields with 42-44% downside market protection.

There are signs that warn us of danger, advising to "keep out." In other cases, no warning sign is present to warn us of looming trouble ahead. For those holding oil company stocks or thinking it's time to "buy low," let's look at the right time to "hold'em, time to fold'em, time to walk away."

The age of fossil fuels has dominated the global economy since the time of Colonel Drake's first oil well drilled at Titusville, Pennsylvania, in 1859. Initially primarily a lubricant and lighting medium replacing whale oil, coal dust, and kerosene from coal, by the 1901 discovery of the Texas Spindletop discovery, oil was set to become the world's energy medium. The reign of oil as king among fossil fuels energy royalty continues to this day. In 2017, fossil fuels accounted for ~80% of global energy production and renewables ~10%.

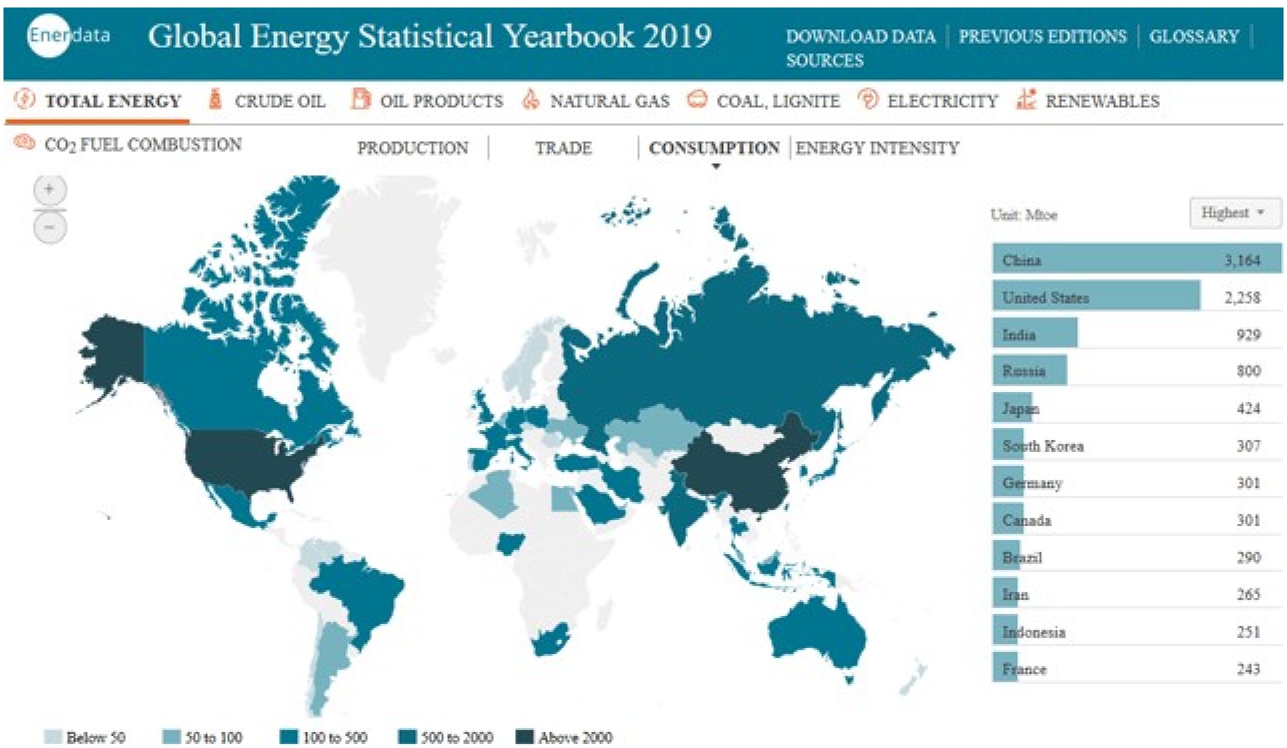
FIGURE 1. Estimated Renewable Share of Total Final Energy Consumption, 2017





Renewable Energy Policy Network for the 21st Century, p. 31. (2019)

We need only look at three nations on earth to understand and project energy consumption. In order of top three rank of consumers, China, the US, and India account for 6,351 Mtoe global energy use. This is more than the rest of the world combined.

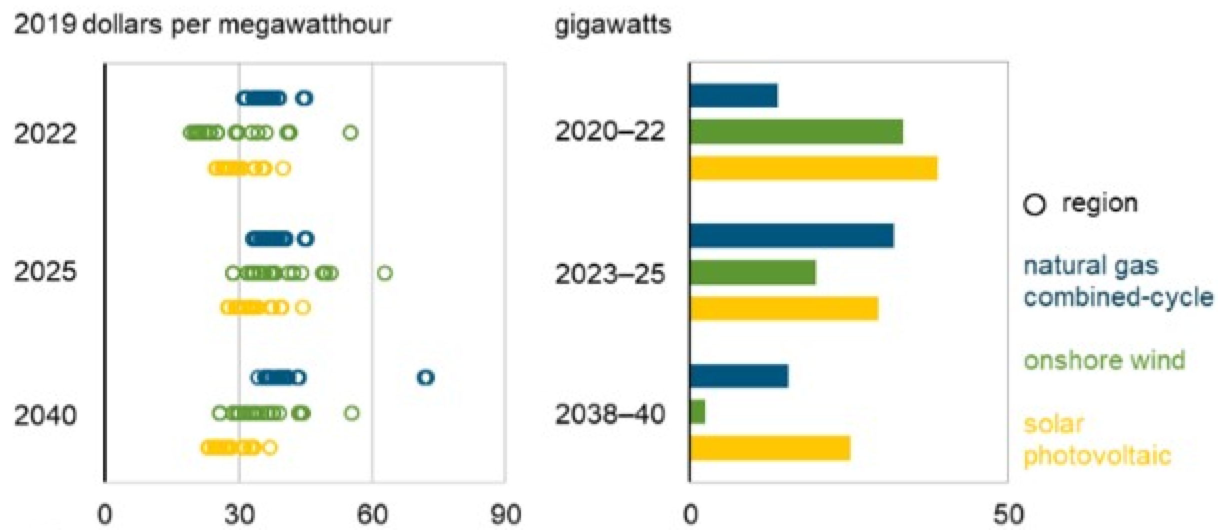


Three things will drive the future evolution of energy consumption mix: price, legislative policy, availability. All of these factors are somewhat interrelated. Price is strongly influenced by supply/demand balance (technologically and legislatively influenced), policy (environment, supply, and cost mediated), and availability driven by capital investment directed by policy, price, and technology.

Ultimately, price is the factor that controls the mix of energy sources. If policy is not aligned overall with the price per standardized unit of energy used, then a nation places itself at a competitive disadvantage of locking into higher costs of energy and the products it produces. This results in flight of industry, jobs, and net balance of payments. The pressure of these three leads to social and political unrest that in turn moderates policy.

With these basics out of the way, let's look at the relative cost of various energy types today, fossil fuel vs. renewables especially. As the chart below shows, natural gas is the current non-hydro cheapest cost for electrical generation, but this will be reversed in the next few years, with onshore wind power rising to the cheapest source and the trend of solar photovoltaic cost dropping steadily.

Figure 1. Levelized cost of electricity (with applicable tax subsidies) by region and total incremental capacity additions for selected generating technologies entering into service in 2022, 2025, and 2040



eia Source: U.S. Energy Information Administration, *Annual Energy Outlook 2020*

In fact, even today, the cost of electricity production by solar photovoltaics ($0.038/kWhr) is lower than that from coal ($0.043 - $0.13/kWhr) and competitive with even hydro ($0.039/kWhr). Oil and gas have simply seen the age of petroleum as an energy fuel source reach transition economics to new technologies with better prices and less adverse features. Technology trends will continue to lower the cost of these renewables while petroleum slowly passes from the mix over the next several decades. This is a trend already begun and irreversible going forward.

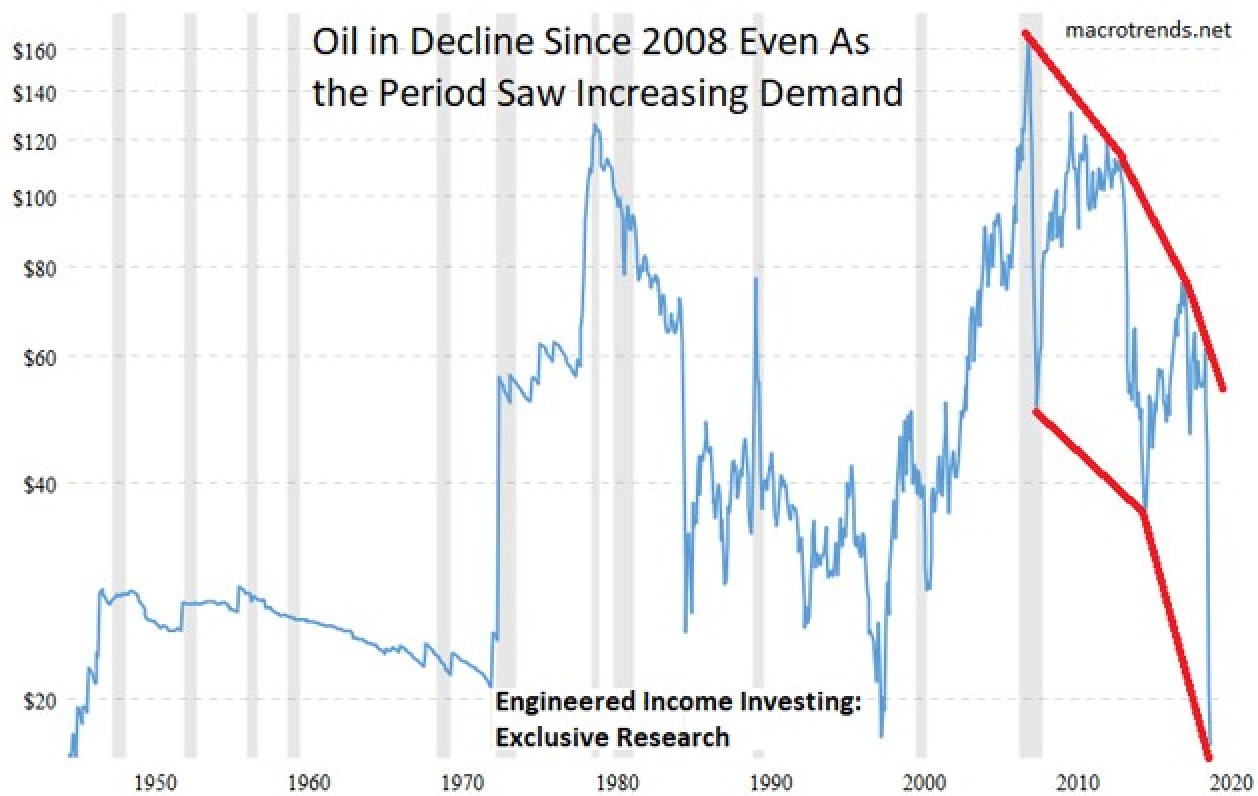
Power Plant Type	Cost (LCOE) $/kW-hr
Coal with CCS	$0.12-0.13
CC Natural Gas	$0.043

CC Natural Gas	$0.04[illegible]
CC with CCS	$0.075
Nuclear	$0.093
Wind onshore	$0.037
Wind offshore	$0.106
Solar PV	$0.038
Solar Thermal	$0.165
Geothermal	$0.037
Biomass	$0.092
Hydro	$0.039

Adapted from US DOE[2]

renewable-energysources.com

Petroleum price trends reflect the peak demand reached in 2011 and in decline since that time. We have seen each cycle of highest highs and highest lows decrease.



The Future Of Oil - Projecting A Path

The historical path for petroleum has been reviewed, but what of the future? Nobody has a crystal ball, but the price trends, driven by the control factors of technology, policy, and supply/demand, point in a steady direction. Paradigm shifts, black swans, and unicorns can and do occur, but smart and safe money follows the trends rather than living in the past or investing in a future not yet arrived.

Many investors still dwell in the past in planning for the future. These are dreams subject to eventual painful awakenings. A Seeking Alpha reader commented in a recent article warning of a likely Exxon Mobil (XOM) dividend cut:

> **ginsaw**
>
> Comments (2929) | + Follow
>
> "Anyone buying for a dividend must be deaf, dumb and blind."
>
> Trust me.
>
> You wouldn't say that if you'd owned XOM from way back. Back before anyone even thought of changing the name from Esso.
>
> I have. And I've made over the decades a boat load off the divs. And the yield per the original price, I don't think you'd believe if I said what it is.
>
> Continuing to hold...only thing that'd really worry me is a political crew of the wrong sort getting control of the country. But if it goes that way, then what happens to XOM's dividend will be the least of our worries...the stock market totally would be in serious question.

Looking at the past eight years, not only has XOM consistently underperformed the broad market, it has delivered a total negative return on share price plus dividend distributions even prior to the current crash. We have seen $2,334 for every $10,000 XOM dollars invested. Deduct that drop in dividends and the results are a negative 3.15% average annual yield rate. If re-investing dividends, the result is worse, at a negative 4.55% average annual yield rate. Sharply negative average annual dividends for eight years is hardly a holding to brag about for dividend income!

	XOM	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$86.00	$127.50
End price/share:	$42.13	$279.10
Starting shares:	116.28	78.43
Ending shares:	155.16	92.61
Dividends reinvested/share:	$23.79	$35.96
Total return:	-34.63%	158.47%
Average Annual Total Return:	-4.99%	12.12%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$6,537.23	$25,856.74
Years:	8.30	8.30

	XOM	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$86.00	$127.50
End price/share:	$42.13	$279.10
Dividends collected/share:	$23.79	$35.96
Total return:	-23.35%	147.11%
Average Annual Total Return:	-3.15%	11.51%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$7,666.02	$24,711.50
Years:	8.30	8.30

Another reader spoke up in the comments to voice his support for another of the integrated international oil company super-majors, Royal Dutch Shell (RDS.A, RDS.B).

156K of Divvy Income

Comments (773) | + Follow

@Richard Berger

Thanks for the comment. Shell will be paying me eye-popping dividends until the day I die. Thanks though ! I've done well by not overthinking things. Many can't get out of their own way.......

In truth, these eye-popping dividends come at the wealth-bursting cost of deeper declines in share price, delivering a total net return on dividends plus share price of negative $1,580 for each $10,000 investment for the past eight years. Without dividend re-investment, this is a negative average annual yield rate of 2.05%. With dividend re-investment, results are even worse - an average annual yield rate of negative 3.67%

	RDS.A	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$74.22	$127.50
End price/share:	$34.86	$279.10
Starting shares:	134.73	78.43
Ending shares:	210.34	92.61
Dividends reinvested/share:	$27.62	$35.96
Total return:	-26.68%	158.47%
Average Annual Total Return:	-3.67%	12.12%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$7,330.85	$25,856.74
Years:	8.30	8.30

	RDS.A	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$74.22	$127.50
End price/share:	$34.86	$279.10
Dividends collected/share:	$27.62	$35.96
Total return:	-15.82%	147.11%
Average Annual Total Return:	-2.05%	11.51%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$8,419.76	$24,711.50
Years:	8.30	8.30

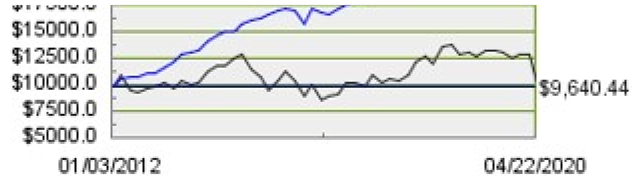
Are these results just isolated cherry-picking, or do they represent the industry sector as a whole? Let's look at the total net return charts for the rest of the super-majors for the same period. Chevron (CVX) ekes out a tiny total net return gain over the past eight years, generating an average annual yield from combined dividends and share price of just 0.96% without dividend re-investment. A dividend re-investing DGI investor would see even worse performance, at 0.59% average annual yield for eight years.

Results for the rest of the super-majors are equally disappointing: BP plc's (BP) -0.44% average annual yield, Total's (TOT) 1.19% average annual yield, and Eni's (E) -1.44% average annual yield are sadly disappointing.

	BP	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$44.14	$127.50
End price/share:	$23.33	$279.10
Starting shares:	226.55	78.43
Ending shares:	367.85	92.61
Dividends reinvested/share:	$19.23	$35.96
Total return:	-14.18%	158.47%
Average Annual Total Return:	-1.82%	12.12%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$8,585.36	$25,856.74
Years:	8.30	8.30

	BP	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$44.14	$127.50
End price/share:	$23.33	$279.10

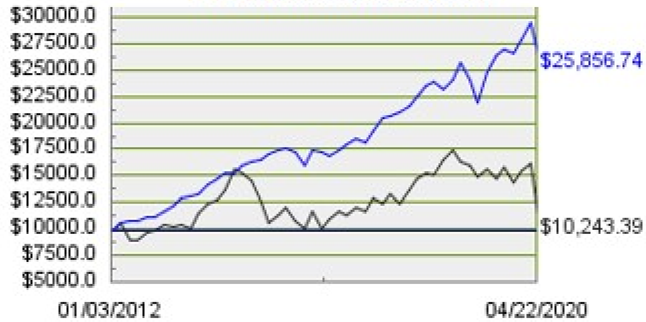
Dividends collected/share:	$19.23	$35.96
Total return:	-3.58%	147.11%
Average Annual Total Return:	-0.44%	11.51%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$9,640.44	$24,711.50
Years:	8.30	8.30



TickerTech.com Apr 23, 2020

	TOT	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$52.47	$127.50
End price/share:	$34.37	$279.10
Starting shares:	190.59	78.43
Ending shares:	298.12	92.61
Dividends reinvested/share:	$23.50	$35.96
Total return:	2.47%	158.47%
Average Annual Total Return:	0.29%	12.12%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$10,243.39	$25,856.74
Years:	8.30	8.30

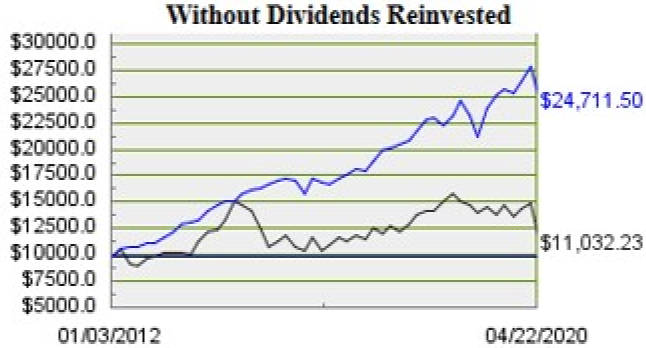
Growth of $10,000.00
With Dividends Reinvested



TickerTech.com Apr 23, 2020

	TOT	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$52.47	$127.50
End price/share:	$34.37	$279.10
Dividends collected/share:	$23.50	$35.96
Total return:	10.29%	147.11%
Average Annual Total Return:	1.19%	11.51%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$11,032.23	$24,711.50
Years:	8.30	8.30

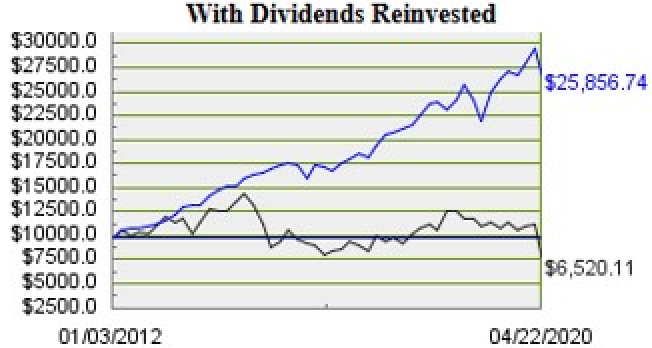
Growth of $10,000.00
Without Dividends Reinvested



TickerTech.com Apr 23, 2020

	E	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$43.14	$127.50
End price/share:	$18.21	$279.10
Starting shares:	231.80	78.43
Ending shares:	358.00	92.61
Dividends reinvested/share:	$16.94	$35.96
Total return:	-34.81%	158.47%
Average Annual Total Return:	-5.02%	12.12%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$6,520.11	$25,856.74

Growth of $10,000.00
With Dividends Reinvested



TickerTech.com Apr 23, 2020

Years:	8.30	8.30

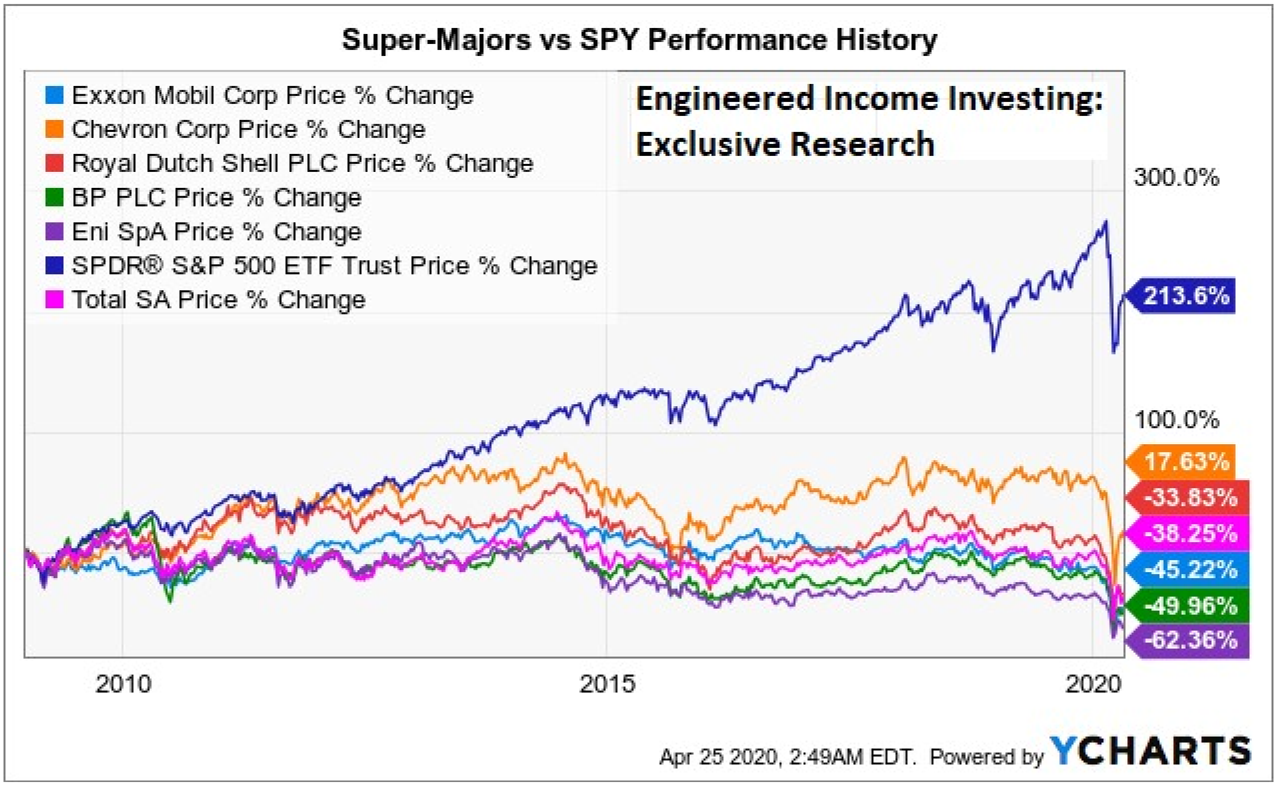
	E	SPY
Start date:	01/03/2012	01/03/2012
End date:	04/22/2020	04/22/2020
Start price/share:	$43.14	$127.50
End price/share:	$18.21	$279.10
Dividends collected/share:	$16.94	$35.96
Total return:	-18.53%	147.11%
Average Annual Total Return:	-2.44%	11.51%
Starting investment:	$10,000.00	$10,000.00
Ending investment:	$8,145.39	$24,711.50
Years:	8.30	8.30

Conclusions

The past eight years, since peak 2011, have been miserable for the oil industry and its investors, providing negative average annual net yields or barely scratching out a small positive yield rate. Price trends of alternate energy renewables, especially onshore wind and solar photovoltaics, have declined to where they are competitive with even hydroelectric and beat much of coal, petroleum, natural gas, and nuclear. These trends will continue even more from technology advancement, policy developments, and new developments in in-situ coal gasification, synthetic crude oil, and other technologies. All these trends will continue to steadily displace oil at a pace faster than energy demand increases. The net result will be an ever-growing glut in petroleum production capacity in excess of demand. This, in turn, will result in very weak upside pressure on petroleum product prices and long-term outright declines in these commodities.

The long-term future is not totally bleak for the oil sector outlook. As companies come to the reality that the age of oil as energy is over, they will stop new investment in finding and developing new reserves. The super-majors have vast billions of barrels of proven developed oil and gas reserve assets in the ground. These are the largest part of their balance sheets. Once future capital investment to preserve long-term ongoing sustainability as petroleum producers is abandoned, they will be magnificent cash cows as they convert these in-ground assets to cash at the pump for a few decades. However, the next few years as this transition takes place can be expected to be as disappointing as the past eight years post recovery from the Global Financial Crisis 2008/9 recession and market crash.

The wise investor will take these trend lessons to heart and formulate a plan to avoid the oil sector and exit any existing positions in it. Short-term trading opportunities, of course, will arise from time to time, but long-term avoid is the watchword as the world continues the already begun long transition beyond the age of petroleum.



Covered Option Opportunities

A few low risk short-term covered option opportunities appear at this time.

Total (TOT) is the only super-major that turned in a weak but positive total net return - at a 1.19% average annual yield rate for the past eight years, it offers a short-term trade using the 18-day cash secured puts for 5/15/20 $20.00 @ $0.15 premium. This gives a 15.32% annualized yield on net covering cash of $19.85 at a breakeven $2.28 below the recent low turned in 3/18/20, with downside protection $14.30 (41.87%) below current market. Keep aware of the upcoming earnings call 5/5/20 that may result in high volatility.

TOT TOTAL SA ADR SPONSORED 34.15 NYSE

Engineered Income Investing: Exclusive Research

Underlying

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
34.15 N	-.46	34.30 P	34.40 P	1 x 1	2,673,551	35.16	35.23	34.15

Option Chain Exp. types: Regular Deliverables: Regular Spread: Single Layout: Mark, Last X, Covered Return, Open Inte...

Strikes: 14

15 MAY 20 (20) 100

CALLS Mark	Last X	Cov R...	Open...	Volume	Positi...	Bid X	Ask X	Exp	Strike	PUTS Bid X	Ask X	Mark	Last X	Cov R...	Open...	Volume
17.100	0	15.21%	0	0		14.90 C	19.30 B	15 MAY 20	17.5	0 N	.45 Q	.225	1.70 Z	11.41%	1	0
14.150	0	-7.61%	0	0		12.10 C	16.20 Q	15 MAY 20	20	0 N	.30 A	.150	.15 Q	7.61%	4	0
12.500	4.50 W	35.49%	1	0		10.90 C	14.10 Q	15 MAY 20	22.5	.05 Q	.30 Q	.175	.17 Q	8.87%	61	1
9.350	11.00 Z	2.54%	3	0		7.50 C	11.20 Q	15 MAY 20	25	0 Q	.30 Q	.150	.15 Z	7.61%	105	10
6.700	8.52 C	-5.07%	28	0		5.90 C	7.50 N	15 MAY 20	27.5	0 B	.75 M	.375	.40 E	19.02%	36	0
4.300	5.62 C	0.00%	1,519	0		3.20 C	5.40 M	15 MAY 20	30	0 E	.60 Z	.300	.55 Q	15.21%	319	118
2.300	3.50 D	25.35%	566	0		1.30 E	3.30 M	15 MAY 20	32.5	.90 P	1.30 D	1.100	1.22 Z	55.78%	529	2
.850	1.50 Z	43.10%	1,044	109		.10 E	1.60 M	15 MAY 20	35	.50 E	2.15 A	1.325	2.00 Q	31.69%	161	0
.350	.60 N	17.75%	285	25		.05 C	.65 M	15 MAY 20	37.5	3.10 P	4.10 M	3.600	3.60 Z	20.28%	243	0
.125	.30 N	6.34%	494	4		.05 D	.20 D	15 MAY 20	40	4.10 E	7.40 E	5.750	7.00 Q	2.54%	175	0
.100	.05 M	5.07%	660	8		0 N	.20 N	15 MAY 20	42.5	6.30 C	10.10 E	8.200	8.90 C	0.00%	106	0
.050	.05 Q	2.54%	349	2		0 W	.10 Z	15 MAY 20	45	10.30 P	11.20 P	10.750	12.50 N	2.54%	1,264	0
.050	.04 M	2.54%	1,508	0		0 P	.10 P	15 MAY 20	47.5	12.80 P	13.60 P	13.200	13.10 D	0.00%	492	8

.025	.05 Q	1.27%	2,837	0		0 P	.05 P	15 MAY 20	50	13.40 C	17.50 E	15.450	15.20 C	-12.68%	744	0

Also of interest could be 18-day cash secured puts for RDS.A 5/15/20 $20.00 @ $0.50 premium for a 51.99% annualized yield rate with $15.53 (44.33%) downside protection.

RDS/A ROYAL DUTCH SHELL ADR SPONSORED 35.03 NYSE

Engineered Income Investing: Exclusive Research

Underlying

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
35.03 N	-.13	34.50 P	35.20 P	2 x 10	5,907,578	35.60	35.725	34.45

Trade Grid

Option Chain Exp. types: Regular Deliverables: Regular Spread: Single Layout: Mark, Last X, Covered Return, Open Inte...

CALLS								Strikes: 38		PUTS						
Mark	Last X	Cov R...	Open...	Volume	Positi...	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Mark	Last X	Cov R...	Open...	Volume
15 MAY 20 (20) 100																
20.000	17.70 N	-1.49%	2	0		17.60 X	22.40 X	15 MAY 20	15	0 N	.05 N	.025	0	1.24%	0	0
17.500	0	-1.49%	0	0		15.10 X	19.90 X	15 MAY 20	17.5	0 E	.85 X	.425	0	21.10%	0	0
15.150	0	5.96%	0	0		12.80 I	17.50 I	15 MAY 20	20	0 E	1.00 X	.500	.20 Q	24.83%	80	0
12.500	14.80 M	-1.49%	8	0		10.30 P	14.70 I	15 MAY 20	22.5	0 N	1.30 X	.650	.25 Q	32.27%	7	0
10.200	0	8.44%	0	0		7.90 X	12.50 B	15 MAY 20	25	0 T	.50 N	.250	.24 X	12.41%	94	4

Closing Thoughts

Numbers like these in a hostile market with deep downside protection coupled with excellent locked in double-digit annualized yield rates are a rare find indeed.

Thank you for taking the time to read my work. If you are interested in dividends, retirement income, option boosting yields, and fundamental value analysis and appraisal, consider becoming a follower by clicking the orange "Follow" button. I invite you to join in the comment section below to join a discussion of the ideas presented in this article.

Stay safe and well.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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Comments (90)

hyhl
Premium
Hi Richard, thanks for the great analysis. I did learn a lot from you. One comment I have is that another driver for oil price, other than supply/demand, is US dollar index (DXY). DXY rarely stays above 100 in the 21st century. Once it starts another down trend, Oil price will go up. So I think there is a good chance that brent oil price can go back to $60+ within the next 1-2 years. I do agree with

you that in the long term, oil is doomed, probably like coal.

10 May 2020, 08:19 PM

Richard Berger
Premium Marketplace
Author's reply » hyhl,

You make a good point. Dollar value will certainly have some impact on oil prices. Whether that is enough to reach a $60 sustained price in the next 2 years remains to be seen. I do not think we will that far, but we shall see.

Richard

10 May 2020, 09:05 PM

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hyhl
Premium
Hi Richard, Thanks for your response! BTW, what is your take on Oil service companies? Do you think OIH has a chance to rebound in the future? Would it do better or worse then E&P companies?

11 May 2020, 09:39 PM

Richard Berger
Premium Marketplace
Author's reply » hyhl,

Service companies are going to severely downsize and there will be a glut of available services and products that means deep price deflation. The strong will gobble up the weak as happens in every bust cycle.

For now, I am avoiding the entire O&G sector. The large and strong service companies (Schlumberger, Haliburton, etc will be the first to see strong sustained recovery as oil E&P companies first look to remedial work and opening zones already behind pipe to open for added production as things ramp back up with the economy.

Richard

12 May 2020, 08:59 AM

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hyhl
Premium
Thanks, Richard!

12 May 2020, 01:15 PM

SLMM

Hi Richard- Thanks for the great article and research. Question, as i can see your -investment analysis end date April/2020, any possible that the conclusion is biased e.g. oil major stock price drop close or more than 50 percent for the past year or less, oil price drop more than 100% and become negative. Thanks and looking forward to learn more from you.

29 Apr 2020, 11:25 AM

Richard Berger
Premium Marketplace
Author's reply » SLMM,

If you roll the total net return period being studied back to Jan 1, 2020, well before any virus impact or current oil crash, the results for a couple of the super-majors are no longer negative, but only positive in a minor way. Unless you begin to extend back well before the start of the oil decline in 2011, Net total returns, while positive, are minor, generally less than 4% annual yield rates and strongly UNDER-performing SPY.

Richard

29 Apr 2020, 11:29 AM

clarkaroo

Richard, now that you've shown this to me, I'll never be able to un-see it. I'm going to put stop-losses on all my new oil buys, and look at my legacy BP as a capital loss to match each capital gain. TY

29 Apr 2020, 06:16 PM

Grandpa in Tucson

Richard - Thank you for a well researched / documented article. Like many of my counterparts (older retirees who are invested in the energy sector) we are heavily invested in dividend paying equities.As the energy sector has been among the most reliable for us generating dividend income, we would like to hear your dividend paying alternatives to the major oil cos.

29 Apr 2020, 12:11 AM

Richard Berger
Premium Marketplace
Author's reply » Grandpa in Tucson,

Thanks for reading and taking the time to join our discussion.

I look for high quality dividends with a history demonstrating comp;any commitment to them, cash flow supporting them, and a long historical record of the company being able to weather all sorts of crisis events, from pandemics to wars, depressions, evolving from horse and buggy to landing men on the moon. First among these are my dividend Zombies (seekingalpha.com/...) with the current exception of XOM. Also the Dividend Aristocrats (www.buyupside.com/...), and similar that perhaps have missed a dividend raise or suspended a dividend for just a brief time as part of good financial management of resources in trying times. Certain parts of the infrastructure sector also attract me, including selective telecoms, data centers, cell tower REITs, and on-line payment processing and management systems.

My method is to id such target tickers, confirm current dividend safety via cash flow analysis primarily, then appraise fair value based on my YDP system (seekingalpha.com/...) and several other traditional financial metric ratios, all of which I back test for historical correlation to actual trends and absolutes in market trading prices. The better the correlation and the better the agreement of multiple methods, the more confidence in valuation number. Once Fair Value of the target ticker is known, I then employ my Engineered Income Investing strategies to use the writing of covered options to pay me while I wait for over priced shares to drop to my target bargain range and to boost income and yield while lowering (but never fully eliminating) market risk.

Richard

29 Apr 2020, 12:34 AM

Grandpa in Tucson
Thank you.

29 Apr 2020, 03:34 PM

Skip Kapur
A well put together thesis, very compelling.

Energy makes up 4.8% of my portfolio and consists of (descending order of size) XOM, CVX, BP, RDS.B, TOT and OXY. Good yield, awful total return.

I suspect that the oil majors will grab assets on the cheap and strengthen their hand. The long term trend, alas, is likely simply dividends with little to no capital gains.

28 Apr 2020, 01:18 PM

Mark Mackoviak
You're comparing oil companies to SPY starting when oil was $100 a barrel.

Nobody in 2020 is investing in an oil company while oil is $100 a barrel.

This is absolutely useless.

28 Apr 2020, 12:16 PM

Richard Berger
Premium Marketplace
Author's reply » Mark Mackoviak,

You would be surprised at how many do indeed to expect to see oil at $100 again within a few years. Oil is not going back to $100, nor $80, nor even $60 for sustained periods. A decade from now, $50 oil will seem like an unimaginably high price. That is my point. Not that oil is down to the 20s and teens to stay now, but the trend is down and total net returns have been very poor for a long time and were not getting better prior to the current crash.

You found the work useless. Get back to me in 5 years and let me know how your oil sector is doing compared to the broad market. Good luck.

Richard

28 Apr 2020, 01:35 PM

Gobe
@Richard Berger So you "know" what the price of oil will be in 5 years! Do you forecast the weather as well?

28 Apr 2020, 05:01 PM

Richard Berger
Premium Marketplace
Author's reply » Gobe,

As I have mentioned many times, none of us, including myself, has a crystal ball. Obviously nobody knows where the price of oil will be. But I do have an opinion and stated it.

My opinion happens to have the beneift of over 40 years in all phases of oil and gas exploration and development to help guide it. Expertise such at this is admittedly quite fallable, but there is a a basis and experience behind my opinions. And your's? You haven't given your thoughts, just a quick troll-by?

Please do share your thoughts with us and the basis for them.

Richard

28 Apr 2020, 06:04 PM

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craftbrewinfo
@Richard Berger Gobe's comment above is snide and off base.. exactly why I wouldnt want

to write for SA, because of stupid comments like that berating an author's work.. If one agrees or disagrees that's ok, but stupid remarks like that are uncalled for.. I found the article very interesting and I am glad I sold off my XOM and RDS in February (taking losses) but not at the basement lows.. More and better places to plunk your hard earned cash!

28 Apr 2020, 06:37 PM

Richard Berger
Premium Marketplace
Author’s reply » craftbrewinfo,

Thanks for reading and taking time to share your kind comments.

I have a thick skin and do not mind most comments, unless they are personal attacks or clearly mis-represent my stated thesis. Writing helps me keep my thesis focused and my research rigorous no matter if it contradicts my initial bias, as some of the economics of renewables did in this research. This makes me a better investor for my own accounts also.

Good luck. Stay safe and well.

Richard

29 Apr 2020, 12:37 AM

Gobe

@Richard Berger Not at all a "troll-by," I read your article and did not suggest you don't know what you are talking about. I am simply objecting to the way you and some others on SA suggest they "know" what will happen in a year, or two, or five, when in reality you are giving an opinion. It may be an educated opinion, based on research and experience, but still only an opinion. I wish you, and all of us, could be sure. No offense intended.

29 Apr 2020, 03:37 PM

Richard Berger
Premium Marketplace
Author’s reply » Gobe,

Fair enough. We agree that nobody knows the future. Still we, as investors, all try to anticipate the future.

Richard

29 Apr 2020, 06:17 PM

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clarkaroo

Hello Richard Berger! I was a OK-based oilfield worker. I understand the thesis you're explaining to us. Thanks. A few years back I received an inheritance that was cash plus a shipload of BP and

CVX. I left it that way until this March and early April. A few days up from the bottom I put cash into OKE, KMI, XOM. RDS.B, FENY and IYE. The yields were huge and I figured they had to recover at least two-thirds. I didn't conceive the stupidity/willful destruction of Corona would continue. I'm going to follow you on SA.

But a question about the future: Do you think the US could improve economy/security by withdrawing from world oil markets as a buyer although remain a seller? Seems to me it'd be possible/favorable to have low price US-only (maybe include Canada) natural gas market. All of our industries would be advantaged by the lowest fuel costs - if the 'supply chains' come home.

28 Apr 2020, 12:15 PM

Richard Berger
Premium Marketplace
Author's reply » clarkaroo,

Thanks for joining our discussion.

I am still very cautious on the entire market for now. The recent bottom is very likely not "THE BOTTOM" of this cycle. It lacks many of the technical characteristics of a true cycle bottom (double or triple test being one of the most glaring in abscence). Also, the recovery is clearly going to take a lot longer than a few months. Things are not going back to normal in the next few months. The first wave has not even hit a large part of the world yet and as the CDC pointed out this past week, there is no evidence indicating that having contracted the virus imparts any immunity. Vaccines are tricky things and may take a long time to develop. Optomisim is great, but it is not a good basis for investment.

Beyond the virus, the huge global debt growth and fundamental weakening of the underpinnings of the global financial system is a piper that will have to be paid via far higher taxes or other ways going forward. No, business as ususal is not near at hand.

For the oil patch, there will be a rebound no doubt, but it will be a slower one and not to the prior pre-crash levels. Also, I do not like the idea of investing in a market where one single player controls the game. The Saudis remain the swing producer and can arbitrarily choose the difference between global supply shortfall and glut (not for a sustained period but for weeks and months at a time). This gives them the power to manipulate markets. Knowing they are about to create a shortage or glut, they can pre-establish long or short positions in the futures market beforehand and reap huge rewards at the cost of chaos in the oil markets for others. It will be a very profitable game (and tool of cold war against their declared enemies such as Iran). This is not a market I want to be exposed to. It matters not for now if it will happen. It is enough that it can happen and there is no way to counter it since the power is on one side and the trades not transparent.

The question of US energy is an interesting one. Every net imported barrel is a permanent drain on our economy. Those dollars are not coming back. This makes energy policy a matter of economic and national security policy. Alas, our nation has struggled since the oil embargos of the early 1970s and been unable to come up with a coherent and sustained policy. Part of the problem is that National OIl Companies now control the vast majority of the global petroleum reserves and policy is thus set by those sovereign governments. The US has no national oil buyer/seller to negotiate from a position of equal strength. US policy for energy is therefore doomed to be fragmented.

Renewables are the future, but it is by and large a very distant future before they can carry most of the heavy demand. For the present, we have coal and natural gas and the ability with proven technology to create economically competitive synthetic crude from that coal and natural gas. In fact, the US is the Saudi Arabia of coal, with enough reserves to supply global energy needs for over 1000 years.

The problem (besides politics and policies) is that massive upscale of syncrude and renewables requires massive investment of capital in the infrastructure to produce them. Even though economic at the $50 to $60 per barrel of oil equivalent (boe), these $100s of billlions in capital investment can not and will not be made so long as it is possible for the price of oil to be cut into the $20s and teens as we see now, thus making those $billions of new investment un-economic. Beyond that, we can not lock ourselves into an energy cost that *could be* higher than that available to others in the world. In large part, the cost of energy is the cost of produced goods. Cheaper energy translates to cheaper cost goods. So, we can not place ourselves in a position where any trading partner has the potential to have cheaper energy than we do. This would make our products un-competitive on global markets and crash our economy, killing our exports and sucking in cheaper imports. This is largely what is going on for decades now, first due to cheap labor intially, now due to high costs we have related to environment protection and labor safety and health. These are important social choices we have made and we are a better society for them. However, the result is that when coupled with free trade, jobs and manufacturing have fled overseas to where the cost of such regulation compliance is much less and so the goods and services are cheaper than we can compete with. We need fair trade, not free trade. Every policy cost we, as a society, opt to burden ourselves with should be equalized by import tarriff such that the advantage of not having those burdens is eliminated from our foreign trading partners. This includes costs of any long term energy policy.

Clearly, these policy things have not come to pass in the past 50 years and are not likely to do so anytime soon. Politically it is not possible to tell citizens that things are going to cost more because of the policy choices we have made and desire. We can not have both our cake and eat it too, but voters will continue to feel good by voting for green policies an nanny state safety nets while demanding the cheapest possible goods produced from places without the cost burdens of such prudent policies. The result is rising prosperity in the developing world and diminishing home economy. I see no practical solution to that in a democratic society that has our consumer mentality. None the less, I am willing to invest to benefit from it!! :)

Richard

28 Apr 2020, 02:13 PM

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clarkaroo

Oh my! You have my gratitude for this thoughtful reply! I think about this stuff a lot. Lately I've come to see that experts and professionals in many fields make a lot of errors at clients' expense because of lack of awareness and habitual process. I see it as they lack effort. I am beginning to trust my own opinions more and more.

It impressed me that you give full replies to readers who misstate what you said. We all learned a little better from your effort. TY. Really you had me at this, "We need fair trade, not free trade. Every policy cost we, as a society, opt to burden ourselves with should be equalized by import tariff ..." Woo-hoo for the whole post.

That's the core of how I see the idea of energy independence based on oil export and US industrializing the cheapest natural gas on the globe. I wouldn't mind coal-fired electricity either. Do we actually need heavy oil from anywhere other than Canada?

Richard, here's hoping you get to be on a panel for our wolverine Wilbur Ross. He needs support from people like you. I'm saving your work on computer and will try hard not to misuse it.

Clark

29 Apr 2020, 05:56 PM

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enge2103

@Richard Berger

My compliments Sir, for your excellent article and comments.

With regards from The Netherlands

01 May 2020, 03:33 PM

Richard Berger
Premium Marketplace
Author's reply » enge2103,

Thanks for reading and taking the time to share your kind comments.

Richard

01 May 2020, 10:34 PM

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mintwoodbay

@Richard Berger Thank you for your hard work. What does this mean for MLPs, specifically EPD and MMP?

TY.

28 Apr 2020, 10:23 AM

Richard Berger
Premium Marketplace
Author's reply » mintwoodbay,

I do not follow either of those MLPs. Both are midstream companies and should continue to see throughput on their facilities pipelines, compression, etc. However, the glut may reslut in shutin production and thus lower shipments flowing through for them. Also, revenues impact will depend on if they have exposure to carriage contracts that the rate is related to the product price. Overall, I would expect the impact of the virus economy on most midstream MLPs to be minor unless they are so heavily leveraged that a 20% decrease in revenues or default on payments by a few of their weaker clients would threaten their cash flow ability to service debt. Long term, there will still be product shipping through their lines for decades, just at cheaper product prices that may eventually lead to a downward renegotiation of prices.

Each MLP is fairly unique in its cash flow strengths and weaknesses and needs to be evaluated individually for impacts. Some midstreams for instance are heavily dependent on shale oil or other marginal products that will be the first to be shut-in.

Richard

28 Apr 2020, 11:33 AM

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fhbecker
The renewable cost chart you show, includes all carbon capture costs for the hydrocarbon sources. Since those cost are not required by law, think it is a slanted comparison, perhaps unintentionally, but it shows a slanted view as apposed to what a consumer would expect to pay.

28 Apr 2020, 09:58 AM

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windsearcher
very long term I agree with the writer. however the biggest consumer of oil/gas is transportation. The storage ability and fast charge ability/infrastructure is not yet available to replace oil and gas with electric. It will be one day... but not yet. There is some good profits to be made in oil gas in the short term... but again, as writer says, long term an exit strategy needs to be developed.

27 Apr 2020, 10:24 PM

Richard Berger
Premium Marketplace
Author's reply » windsearcher,

Good points. I agree with them in large part. Short term trading profits in oil are available when fair value bargains arise. Some are at bargain prices now, but still have the threat of downward market momentum and virus economy headwinds for another 6 to 30 months, and the huge global contango storage will keep a dampening lid on any upward price pressure that tries to develop at least that long. Overall, some fast dash trading gains are available. I even provide 2 very profitable trades with deep downside protection right now. No need to even see shares go up.

On the other hand, overall, as a buy and hold for several years, one can expect oil to deeply UNDERperform the broad market and many alternatives.

Richard

27 Apr 2020, 11:13 PM

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awstout1
let me be a contearian: The ecological impact of ' green energy' is actively obscured, from tens of thousands of bald eagle butcherings, to millions of other species, just from the rounding-error energy generation the onshore windmills provide today. If somebody chose to run an add showing some oil guy shoveling traincars full of writhing Bald eagles into a furnace, you better beleive that company would be shut down, but here we are with wind Turbine companies OK. Solar companies literally incinerate tens of thousands of birds mid flight in the air. Renewables, from solar to wind, are also notorously inconsistent, requiring Fossil Fuel backup systems, and batteries. Heavy-Metal, Toxic-Landfill filling batteries, I stead of Point-of-use, Plant-Food making Car Engines. And while I know Global warming driven by C02 is a hoax, I DO expect that's too much for the establishment to admit politically. So Natural Gas expansion will be the order of the day through the end of the century. Keep an eye on Discrepancies between Anthropogenic Emissions & Global Atmospheric emissions, for possible tells how much is even Human-caused to begin with.

27 Apr 2020, 08:29 PM

Richard Berger
Premium Marketplace
Author's reply » awstout,

Thanks for sharing your thoughts with us.

So called green energy is indeed full of its own set of issues and not as pristine as its advocates often picture it. Don't even get me started on the climate change priesthood that insist the time for debate is over. The fundamental basis of ALL SCIENCE is that debate is never over, Only in religion is debate closed off.

Natural gas certainly has a big role to play going forward for a long time. However, look at the facts, the numbers, as presented in the article on the cost per Kwh across the board for various traditional and renewables. Advances in solar efficiency and manufacturing techniques, the rapid growth of onshore wind, and the use of small scale hydro and geothermal are making very fast in-roads.

I am an oil guy. My career and fortune (such as it is) was built on a career in Oil and Gas E&P, including as Chief Operating Officer for the Energy subsidiary of a Fortune 200 size company. I have sat on the boards and consulted for many oil companies, large and small (I still do for a few). I am simply a realist about oil and facts and trends. I am not an alarmest and do not see the end of oil anytime soon, but rather slowly as it has started now almost a decade ago with steady erosion that will continue.

Richard.

27 Apr 2020, 09:58 PM

Fernando6

In my opinion, theoretically your tesis in NG is correct, but, reality shows that methane emissions wich is more strong warmer gas than Co2, due to non efective or simply dont care extraction methods, area a much more enviromental harm than Co2 actually, and disgracefully, and not single authority is controlling that.

28 Apr 2020, 04:47 AM

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awstout1

Fair enough!

28 Apr 2020, 05:26 PM

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awstout1

I'm a subscriber to the Spectral Opacity argument : we know the frequency bands at which energy is absorbed/ blocked by what molecules. Water Vapor , by far and away the most present greenhouse gas, also by far and away has the biggest footprint absorbing outgoing IR radiation , including over the two largest spikes in Methane's spectral footprint. I don't really see Methane being of consequence either. This is off topic vs Investments, but I research it for fun. Methane or CO2, either, has increased during decades of modern of agro industry, but still, those gas concentrations do not seem to effect Climate Change a bit. A simple juxtaposition would be to look @ Human Emissions exploding post WWII (taking the IPCC as a given), VS global Tide Gauge records (by NOAA). Supposedly, higher temps have driven accelerating glacier loss, thus accelerated sea level change, but when you overlay the explosion of emissions vs the sea level records, which go back into the 1800s, long before modern emissions, you can witness ZERO acceleration - or change- in the trajectory of sea level, when it's rising or when it's falling, *whatsoever*. Not anywhere in the world. You can see an article I wrote addressing this here (part of a larger debunking of Extinction Rebellion). Cheers,

www.theclimaterecord.com/...

28 Apr 2020, 05:51 PM

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kieks

You seem very knowledgeable about oil, so I'm sure your opinion is very well informed and reasoned. L-T you May very well be right about oil and it may not be a good investment well into the future. Near term, oil is way over sold and buying a well research related company is a good bet . Oil will rebound and so that company will with the economy. Maybe one can use those those profits to buy into a good alternative energy stock in a few years .

27 Apr 2020, 07:11 PM

Richard Berger
Premium Marketplace
Author's reply » kieks,

I am fairly confident that most of the super-majors discussed in this article will be at higher prices 18 to 30 months from now. I also think there is a very high chance they will see new and deeper bottoms in this cycle that will scare out those that move into them now.

I am also virtually certain that going forward in the long term (5+ year window), the super-majors will very strongly UNDERPERFORM the broad market. There are simply far better places to park direct investment in my view.

Richard

27 Apr 2020, 10:01 PM

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kieks

Thanks for your reply! You could be right but perhaps we should put a place marker on the end of April and compare back in 6 month or a year. Maybe you can offer a follow up article at some point. Who knows, we both just might find a way to be humbled in our opinions . Very best.

29 Apr 2020, 09:39 AM

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utsw.step1.prep
Marketplace
@Richard Berger - What is your methodology for picking the starting date for returns and the ending date for them? It kinda looks like you cherry-picked data to support your thesis. Yes, the past

decade has been bad for oil, if you start at the peak and end with the bottom. By your reasoning, a writer in 2003 should have warned people to stay away from Apple due to the zero period returns from 1988 - 2003. Avoid Microsoft at all costs, a 2013 writer would say, since returns were NEGATIVE from 2000 - 2013. Going farther back, a writer in the early fifties might have encouraged people stay away from stocks entirely, since the period since 1929 had produced zero (or negative) returns.

A stronger methodology would be to present us with the average 10 year historical returns, simulated over large #s of 10 year periods.

I hope that in the long run you are right, and that renewable energy saves us all. As an investor, however, I'm looking for value. When I saw that Shell had lost 70% of its value in one month, I quite happily bought a few shares (which makes up for plenty of mistakes I've made over the years!)

Investors who bought oil majors during the major selloffs of 1998, 2003, 2009, and 2016 were richly rewarded over the following few years. Best of luck.

27 Apr 2020, 06:49 PM

Richard Berger
Premium Marketplace
Author’s reply » utsw.step1.prep,

Thanks for joining our discussion.

I did not cherry pick my start points for the returns, but looked for a logical point without bothering to go back to the "early days" when oil was indeed a great investment. I looked at a 2009 to present date to start with the Global Financial Crisis

market lows and allow for recovery from there results were similar to what I present using the more logical change in oil from 2011/12 forward, coinciding with the start of decline in highest highs, highest lows. There simply is no point in looking back to the earlier days when indeed oil was a growing and strong investment. Such a longer look would mask the more recent change in paradigm.

You say investors that bought at prior lows were well rewarded. That assumes they knew when to get out too., It also does not speak to well rewarded in comparison to what. I have used the widely accepted S&P500 index (via the proxy ETF SPY) as such a measure and you can see the oils again underperform even more so against that metric.

Ultimately, I am a value investor. You mention Shell lost 70% of value. You make the mistake of confusing price with value, they are not the same at all. The 70% decline you cite is a matter of momentum, not value. I do not dismiss momentum. In fact, I rarely go against momentum, even when a value bargain is otherwise present. Instead, I use the appropriate covered option strategy to be paid strong double digit yields (locked in at the moment I write the contracts, no speculation needed). In most cases, the yields I engineer in this manner exceed any reasonable expected yield from intrinsic growth for the same period of time. Of course, one can trade off current premium for more upside potential also, but in addition to coming at a cost of secure guaranteed premium cash up front, it also reduces downside protection. In volatile markets such as now, I like to have a blend of both.

Richard

27 Apr 2020, 09:48 PM

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utsw.step1.prep
Marketplace
@Richard Berger - Thanks for your reply. In your comment above, you state: "...but looked for a logical point without bothering to go back to the "early days" when oil was indeed a great investment." 2. "There simply is no point in looking back to the earlier days when indeed oil was a growing and strong investment. Such a longer look would mask the more recent change in paradigm."

For anyone that thinks there is a point in considering the returns of earlier days, read on! Caveat: Consider that I am writing comments to a blog post, so here's a quick analysis that I leave to more capable hands to perfect. Using the only back-testing tool currently at my disposal (I am an amateur indeed - portfoliovisualizer.com, which starts with data in 1985), I computed the returns of Shell vs. the S&P for every 10 year stretch available to me, starting in 1985. Someone with more time and more resources could extend similar analysis further back, look at more granular data, and extend to a broader group of oil companies. Here's what I found:

Data is in terms of:

(Starting 10 yr period, Shell CAGR, S&P CAGR)

(1985, 15.71, 15.45)

(1986, 17.38, 16.25)

(1987, 18.89, 17.84)

(1988, 15.61, 18.78)

(1989, 18.9, 19.22)

(1990, 15.46, 15.3)

(1991, 12.49, 14.32)

(1992, 11, 9.1)

(1993, 13.25, 10.89)

(1994, 12.13, 10.97)

(1995, 13.15, 11.32)

(1996, 11.76, 9.59)

(1997, 10.91, 8.07)

(1998, 3.89, 0.95)

(1999, 6.97, 0.8)

(2000, 5.87, 0.32)

(2001, 7.24, 1.37)

(2002, 8.46, 3.94)

(2003, 9.83, 9.06)

(2004, 7.67, 7.84)

(2005, 2.66, 6.96)

(2006, 4.32, 7.6)

(2007, 5.22, 8.1)

(2008, 2.71, 7.13)

(2009, 7.11, 14.53)

(2010, -0.38, 10.67)

Shell's average rolling 10 year CAGR was 9.93%; the S&Ps was 9.86%. The STD of the 10 year CAGR for each 10 year period was 5.2% for Shell vs. 5.44% for the S&P.

It is not unusual for there to be 10 year periods where certain sectors outperform others. I recall about a decade ago when emerging markets were all the rage; they haven't done great more recently. Oil's absolute worst performance over the past 40 years has been the most recent 10 year stretch. Back in around 2010, people may have observed that oil had crushed the 10 yr performance of the S&P; I wouldn't be surprised if many commentators of the time urged larger portfolio allocations to commodities like oil. In 2010, should investors have given up on broad stock indexes, and focused on oil (since oil had outperformed the S&P)?

This data shows some 10 year periods where Shell crushed the S&P and visa versa. If you buy either Oil or the S&P at high valuations, your subsequent returns won't be great. If you buy near the bottom, they'll be better. Right now, oil is battered and bruised relative to the S&P, which makes me bullish on Shell and other majors for the next few years. Cheers.

27 Apr 2020, 11:35 PM

Richard Berger
Premium Marketplace

Author’s reply » utsw,

Again, you have missed the point. It is you that seeks to find supporting periods by cherry picking. As I have now stated twice (once in the article and once replying to your comment), I selected the starting date for total net return based on the change in trends of all the things I listed, not on an arbitrary attempt to find periods that fit a pattern I wished to see. I picked a thesis and let the data validate it or not.

None the less, you are welcome to use whatever methodology you find you like. I did not see you mention what basis you pick which periods to be in for and which out. Perhaps your's is a buy and hold forever strategy. Good luck.

Richard

28 Apr 2020, 05:06 AM

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enge2103
@Richard Berger

Sorry Mr. Richard Berger, I am still invested in about 25 to 30 different Shares, different regions, etc., all my modern day worldwide renewables investments have been for the last 5 years my most miserable ones, and on average I lost 85 % to 90 % of my invested money and never received any dividends,

So quite frankly, I will stick with the Nestle`s, Unilever, RDS, TOTAL, ENI dividend paying investments and whenever they drop 40 % like now, I buy more of these shares.

Wishing all of you good luck with investments in renewables companies,

Regards,

27 Apr 2020, 06:35 PM

Richard Berger
Premium Marketplace
Author’s reply » enge2103,

You choices of Nestle's & Unilever are great. I would suggest you consider adding my other dividend zombies (other than XOM) as core holdings in most portfolios. seekingalpha.com/...

I think it is very early yet to add green energy, in fact, I don't know how one would go about it at this time. The oils certainly can make good money by trading (rather than long term investing). In fact, I have 2 such trades at the end of this article, both with excellent double digit annualized yield rates while providing deep downside protection from even current market levels. Beware the deadcat bounce.

Richard

27 Apr 2020, 09:36 PM

Dividend Pro

@enge2103

“ I will stick with the Nestle`s, Unilever, RDS, TOTAL, ENI dividend paying investments and whenever they drop 40 % like now, I buy more of these shares.”

Except that UL has not dropped “40% like now“.....not even close.

Long UL, RDS.B

28 Apr 2020, 01:26 AM

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willyfield

Here on the south shore of Lake Erie, as anyone who fishes can attest, the wind always is blowing. 3-4 foot waves is deemed a "walleye chop." A windmill was erected, and every time I would fish, there it sat turning making "cheap" electricity. One day, a storm blew through. The giant windmill lost an arm, and its turbine was fried as well. That was three, or four years ago. The armless giant still sits there. The company that installed it said it was too expensive to fix for the electricity it produced. Conneaut told them to tear it down. The company that owns it said" Too expensive!" So there it sits, a testament to the failure of green energy. This armless giant competes (or used to) with First Energy which is running two HUGELY costly nuclear power plants. So costly that FE has been awarded millions by our state in corporate welfare to keep itself afloat.

27 Apr 2020, 06:28 PM

Richard Berger
Premium Marketplace
Author’s reply » willyfield,

An excellent story. Thanks for sharing it.

However, your lesson learned is wrong. The lesson is that technology marches on and the one you described is already long obsolete. You are looking at the Stanley steamer to decry investing in automobiles in the 1950s.

Richard

27 Apr 2020, 10:04 PM

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willyfield

Maybe, but if was so cheap to produce electricity with a wind turbine on the shore of a wind swept giant lake would have been an excellent spot to put another one. They never did.

28 Apr 2020, 07:48 AM

Richard Berger
Premium Marketplace
Author’s reply » willyfield,

Never? Has the universe collapsed and time come to an end? Do you know the terms of the land lease and permits from regulatory agencies they have and possible ownership interests if they have investors in the exiting (broken) project? You seem to have a dilatants knowledge and insights into just what it takes to manage a capital intensive, complex, and highly regulated project .... at least your comments suggest that to me.

You conclusion seems to be that your observation of one broken wind tower leads to a conclusion that wind power is not a viable energy option at this time. Yet you make no effort to explain why wind is the fastest growing energy segment in the world and displacing conventional energy and at a pace faster than any other technology and resource. How does that fit your view point?

I own no wind and not a pundit for it but I can read data and use it rather than ignore it.

Richard

28 Apr 2020, 09:17 AM

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willyfield
I do not know the particulars of WE. Are there large government subsidies involved? We have some of the highest electric rates in the USA, and over 300 miles of windswept shoreline here in OH. We have talked endlessly in this state about offshore wind farms, but it always comes down to that the turbines cannot compete with First Energy despite FE's costly nuclear power plants. Cleveland was a begging for it to happen a year, or two ago. Not to mention eager icebergs the size of a large house readily lurking in the cold water waiting to obliterate anything in their paths. No one wants to see FE go bankrupt more than me. They are a horrible company. Whenever they need more welfare they get it off the backs of us rate payers in government approved rate increases. Out here in the rural hinterlands of FE's customer base, you pay over 1k a month to heat an average size house when you use a heat pump since no nat gas is available except for the Utica shale formation right under our feet! Hence the reason no tree is safe out here. We kill 14 cords a year worth to keep from freezing to death.

28 Apr 2020, 11:10 AM

Richard Berger
Premium Marketplace
Author’s reply » willyfield,

I was surprised in doing my research for this article to see how competitive renewables have become and how fast they continue to drop in capital and operating costs. I was doubly surprised to find that onshore wind is the fastest growing energy segment in the world (and in the US itself). Some subsidies for some parts of the renewables, including wind, do exist. But subsidies exist for all forms of energy if you begin to look hard. What is the cost of a bbl of oil when you consider the security costs to protect the global supply of it, without which the price of oil would be far far higher due to supply chain instability. How cheap is nuclear energy whe we factor in the long term cost to manage the disposal. Such costs are being hidden by a lack of long term disposal and management being formulated even though efforts continue for over 60 years now and remain on-going. So, pinning down subsidies is hard, but my research suggests that "experts in the fields" find the competitive threshold of renewables without direct subsidies is already here and will continue to deepen in favor of the renewables.

Richard

28 Apr 2020, 02:21 PM

willyfield

All the best to you Richard. I truly hope solar can get cheap enough here in NE OH for us to use solar.

28 Apr 2020, 06:18 PM

$Das Kapital
Premium

First let me say that I think Richard Berger is one of the best authors here on SA.

I agree with all the author's analysis of the past eight years in the oil patch.

However, the question before us now is not whether we should invest in oil in 2011, but whether we should invest in oil today in 2020.

Another author here on SA makes the excellent point that U.S. shale has been the difference-maker in world oil prices for the last several years.

The world oil market has been crashed by the influx of U.S. shale oil. However, investors in U.S. shale have lost many billions of dollars, because production costs have mostly been higher than the earnings. One definition of an oil well is "a hole in the ground with a liar standing next to it," and that definition has been particularly apt for shale oil wells.

Not only has U.S. shale oil been exposed as the Ponzi scheme that it mostly seems to be, but there is less and less "Tier 1" shale acreage to be drilled.

So shale oil production is set to drop, even if investors were willing to keep funding it, which increasingly they are not.

Meanwhile, mature oil fields around the world, including Saudi Arabia's Ghawar Field, are likely to be past their peak.

What this means is that world oil production could well be set to decrease over the next several years. Renewable energy sources are on the way, but they may not arrive fast enough. This scenario suggests that the 2020's may be the "Roaring Twenties" for oil prices.

Over the next few months, oil prices may be very volatile, as storage fills up around the world. But in my layman's opinion, 2020 is a time to buy oil, and wait for better days. Not as a short-term trade, but as a value investment, if you can afford to wait a year or two. Oil demand will probably return, but production may not.

27 Apr 2020, 05:49 PM

Richard Berger
Premium Marketplace
Author’s reply » $DasKapital,

Thanks for joining our discussion.

As I have said in the comment stream here, my task with this article is to lay out facts and the negative picture they present. My own projections of conclusions from those lessons are of secondary importance. The key is investors be aware of them and go forward with reality as a base.

You are aware of the decade long historical trend and opt to believe there are good reasons to believe it will reverse. That a rising price (that again makes shale oil attractive) will not re-stimulate shale oil investment and production. I guess you think investors learned their lesson. Yet, the super-majors were late to come to the shale oil game and will still be deeply invested in those properties as prices begin to rise. Cheap idled rigs, frac equipment, and sand propant will make shale oil even more profitable and lower costs than before. But your model is a different view and I respect that. I suggest you study by use of cash covered puts to generate very high yield now by being paid to wait for the market to rise , moving your strike prices closer to in the money (at market price) as things do recover. You will make more now, and with great downside protection without needing a crystal ball for when the turnaround will occur.

The example I gave are short term, but options with attractive premium yields can lock in such yields for up to 2 years while giving even far deeper downside protection from the premiums you collect now immediately upon writing the contracts.

Good luck to all, whatever strategies you pursue.

Richard

27 Apr 2020, 06:05 PM

$Das Kapital
Premium
@Richard Berger, thanks for your reply. I am considering signing up for your service because I think it could work for me.

27 Apr 2020, 06:29 PM

Richard Berger
Premium Marketplace
Author's reply » $Das Kapital,

Thanks for your interest in my work. I hope you opt for a 2 week free trial to check out the method and review the archives for the track record in more detail.

Richard

27 Apr 2020, 09:49 PM

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russlaw2014
I really don't see Joe Consumer coming out of this pandemic after a vaccine is found and saying, that's it I'm buying an electric car. Probably a good thing. Grids can't support this immediate sea change, battery life and range is still an issue, aircraft don't use the, the military doesn't plug in the aircraft carriers or combat vehicles..in Europe because of distance they are accepted until you park on the street and there is no where to recharge them. Solar and other renewables are not at issue in the perfect storm that set out to break American shale..Oil will go back up once the unprecedented circumstances that turned off whole economies resets. It may take time for levels to set realistic pricing for up and downstream.. but it's doubtful that a virus reset will be responsible for a boom unreliable Chinese solar panels and windmills springing up throughout suburbia.

Wishful thinking on the author's part that the "end is nigh" and A renewables Transition is just around the corner. Someday but not in this next half century..there has to be the political will and the economic savings for such a transition. Neither exist at this point.

27 Apr 2020, 04:40 PM

Richard Berger
Premium Marketplace
Author's reply » russlaw2014,

I did not say oil prices would remain this low, only that the long term trend is down down down. I also did not say the transition was triggered by the virus. In fact, I said it began way back in 2011, before Covid-19 existed. I did not say the transition would displace oil in the next year or two, not even three. In fact, I said it would be a few DECADES and that even then oil would remain a part of the fuel mix because it will have become very cheap.

Do you often get so many things wrong in so short a time? I am glad to discuss my thesis but not things you have made up from the thin air of your over active imagination.

Richard

27 Apr 2020, 05:23 PM

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adaret

I bought some oils and MLP's during the capitulation phase. I look at the energy stocks as cyclical trades, and the MLP's as potential long term holds due to their dividends (which have been reduced in some cases). Hotels and Reits also proved to be great buys as well as investors panicked on headline news and media induced hysteria.

27 Apr 2020, 04:28 PM

RenoGuy

The author is very smart and makes a good case that oil is not the future of energy. But the question neither he nor anyone can answer is: How much of that dim future is already priced in? Since many oil producers are priced about 40% - 70% where they started the year, the question becomes: Is the dim long term future for oil 40 - 70% worse than it was in January? Perhaps, but I think there are some relative bargains worth playing with now.

27 Apr 2020, 04:09 PM

Richard Berger
Premium Marketplace
Author's reply » RenoGuy,

Yes, the super-majors have been in price decline for a decade now. The fading glory is certainly partly priced in. With a decade and continuing trend of negative total net returns, what more do you really need to see that even a return to pre-virus is an unattractive return?

Richard

27 Apr 2020, 05:26 PM

William Nuke

As renewables meet more and more energy demand, their utilization factors will go down, thereby increasing their production costs (unless energy storage breakthroughs are made). No sun, no wind = no power. Interesting information on renewables can be found at: www.youtube.com/...

27 Apr 2020, 03:47 PM

Richard Berger
Premium Marketplace
Author's reply » W N,

Sorry, I can not make any sense of what you said. As more demand is met (more is used), utiilization will go down? You must have made some assumptions in there that just do not fit the observed reality of recorded history of higher use leading to lower unit costs. Also, the higher use is from lower costs. Margins may go down, but that is a whole other discussion.

Richard

27 Apr 2020, 03:50 PM

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farwest

No surprise CVX is the only positive chart - only major worth owning, but that's not saying much. I retired at 40 off my 2000's microcap internationally oil investments, but since 2015, don't own any oil except for quick trades. The Oil Age is over and the many bagholders on these boards are finding out the hard way.

27 Apr 2020, 03:43 PM

Richard Berger
Premium Marketplace
Author’s reply » farwest,

We used to have a joke in the oil patch....

The difference between a mining investment and an oil limited partnership is that mining investors knew quickly that they had lost their money. 15% of oil investors knew this when their well came up a dry hole, 80% thought they were making money, only to discover when the well ran dry before payout that they had lost, and 5% actually made some money.

Reality is hard for any investor to accept when the news is bad. Especially when the train wreck is slow, not fast.

Richard

27 Apr 2020, 03:54 PM

NorthStarAlpha

As someone who wants to actually own my own renewable production the idea of the price going lower over time is discouraging. Easch turbine costs $$millions and maintenance costs are high. USA needs to tariff 50 cents per KWH by law to encourage investment. This is not likely to happen.

27 Apr 2020, 03:25 PM

Richard Berger
Premium Marketplace
Author’s reply » NorthStarAlpha,

Technology drives the price of almost everything lower over time. Land may be the rare exception, except once we open the planets to colonization, even that commodity will eventually fall to the techno-price decline.

Richard

27 Apr 2020, 03:34 PM

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farwest

Land will see significant valuation declines as people start noticing the big population declines in developed countries. Most of the developed world has negative birth/death rates - Japan is on trend to lose half its population in the next century - who wants to own Japanese real estate when there's double the number of homes/shops/factories/bridges/roads than needed - with an extremely old population who isn't buying much? And absent continued large immigration rates to the US, we'll also see a declining population.

27 Apr 2020, 03:52 PM

TrumpwillEndtheFed

Oil majors are investing in cleaner technologies. Exxon in fuelcell. Genie bought a private solar panel manufacturer. Companies can and will evolve.

27 Apr 2020, 03:10 PM

Richard Berger
Premium Marketplace
Author's reply » Yes, many will. But that will be a long and slow transition and they will NOT be the same companies as yesteryear. Why invest in the unkown in need of a turnaround and restructure into a whole new type of company. And certainly why would anyone do so based on the past performance as oil companies, which will become irrelvant. GE surely has taught some lessons !!!

Richard

27 Apr 2020, 03:24 PM

Seekingalfalfa
Premium
Are you similarly negative on the pipeline companies likes Williams?

27 Apr 2020, 02:01 PM

Richard Berger
Premium Marketplace
Author's reply » Seekingalfalfa,

Pipelines are somewhat different. Oil will flow through them even if it is very cheap oil. Oil as a primary energy fuel and petro chemical feedstock will be a few decades before it is phased out. The warning for pipelines and mid-stream in general is to be very leery of leverage and examine contracts to see if carriage rates are tied to oil price or not.

Richard

27 Apr 2020, 03:07 PM

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jasonjones

Remember the days when we were running out of oil. LOL!. I think it's not so bleak for natural gas. Electric cars have to charged. How is power increasingly generated? Natural gas because its cheap. Oil products will still be made. All these cooped up people will be driving soon. The Indus won't die but dividends will.

27 Apr 2020, 01:52 PM

New Low Observer

This is right on the mark.

27 Apr 2020, 02:05 PM

Richard Berger

Premium Marketplace

Author’s reply » jasonjones,

Oil is an economic mineral and as such obeys the log-normal distribution of economically recoverable reserves. Simply stated, the higher the price the more available recoverable reserves there are. Each small rise in price makes vast more otherwise marginal reserves economic to produce.

Natural gas does has a much more favorable outlook than oil because it is cheaper on a btu basis and is much cleaner as a fuel. As to rising demand, the displacement of fossil fuels by economic renewables has been rising faster than the growth of demand for over a decade now and that trend is accelerating. Policy choices are making it even more so. Facts again get in the way of hopes. Oil has much of an uphill battle that it simply can not sustain. On the other hand, as liquidating cash cows not spending any money except on lifting costs and some remedial activities for repair and maintenance, that phase will be very rewarding to investors. It is simply the current decade of transition to into that end phase that will see painful times for investors.

Go back and look at the total net return charts for all of the super-majors, even if they shift to a positive total net return for the decade ahead, they still will be vastly under-performing the broad market as represented by SPY.

Richard

27 Apr 2020, 03:15 PM

RickJensen
Premium
"Natural gas does has a much more favorable outlook than oil because it is cheaper on a btu basis and is much cleaner as a fuel. "

-- truer words.

Out of everything crude. Even dumped my socialist supported BP.

Thx for the input. (:->

27 Apr 2020, 03:19 PM

RickJensen
Premium
I used to work in exploration and production in Tulsa. We saw what damage can happen to an industry and the affect it had on economies.

Oil as a fuel is in decline. Drill, baby, drill, bought about the supply side needed to permanently change the entire supply/demand curve. Now with newer technology and finds both identified and slowly coming online, the world will stay awash in oil.

Prices will recover, but the "old days" are gone. There is a very good chance that supply will exceed demand for the rest of fossil fuels timeline. Maybe for very short periods it might be otherwise, but it is a fuel with ever lessening demand.

27 Apr 2020, 01:47 PM

Richard Berger
Premium Marketplace
Author's reply » RickJensen,

Well said. Most all of us in the oil patch are well aware of this circumstance. Boom times are long gone and busts will be more and more frequent.

Richard

27 Apr 2020, 03:16 PM

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hamphouse
Premium
I bought RSD in early April for two reasons — A dividend yield that was not only as high as it's ever been, nearly 12% when I bought, but also extremely safe and the virtual guarantee that the stock price will be significantly higher in one or two years. Beyond two years, yes, the returns may turn out

to be small compared to other sectors of the economy, but for the next one to two years I'll probably be getting a return that I could find in few other places. Today, RSD's share price is still 44% below its Jan. 8 price and its yield is still 11%. So I disagree that there is no entry point for certain high-quality energy stocks at the moment. JMHO. Others may have other thoughts on this.

27 Apr 2020, 01:45 PM

jasonjones

Yep. I agree gas prices will go up with a vengeance!

27 Apr 2020, 01:53 PM

Richard Berger
Premium Marketplace
Author's reply » hamphouse,

I wish you good luck. Even if we back off the current Saudi oil crash and only look at the most recent 15 years up to Jan 1, 2020 for RDS, the total net return was a whopping average annual 3.36% for investors. Is that really the returns you want to be chasing? SPY for the same period was 9.31% avearge annual rate.

Richard

27 Apr 2020, 03:31 PM

hamphouse
Premium
I'm not in this for 15 years. I'm in it for one or two until the share price has recovered and I've harvested the most gain I can through massive dividends and share price appreciation.

27 Apr 2020, 05:05 PM

Richard Berger
Premium Marketplace
Author's reply » hamphouse,

Ah, you plan to get in at the bottom and out at the top. Good plan, Good luck with the execution of it.

Richard

27 Apr 2020, 05:27 PM

hamphouse
Premium
so far, so good. The good thing about buying near the bottom is that you can't really miss the

top. As long as the stock recovers to anywhere near its former price, even to 75 percent of its former price, you can sell for a big profit. So it doesn't require hitting the absolute top to have been successful

27 Apr 2020, 05:34 PM