

[Home](#) > [Investment Newsletters](#)

[E-mail](#) | [Print](#) | [Comments](#) | [License Reprints](#) | [E-Mail Newsletters](#) | [RSS](#) [XML](#)

Adviser Soapbox

Playing The Energy Trifecta

Sam Subramanian, AlphaProfit, 12.13.05, 6:00 PM ET

**Subscribe to
 Forbes Newsletters**

HOUSTON - Energy-related stocks have put in a stellar performance over the past 12 months, and the breadth of the energy rally has extended well beyond major integrated oils, like **Exxon Mobil** and **British Petroleum**.

The **Dow Jones U.S. Exploration & Production Index** and **Dow Jones U.S. Oil Equipment & Services Index** are both up over 50%. Meanwhile,

oil refiners, like **Valero Energy** (nyse: [VLO](#) - [news](#) - [people](#)), and coal producers, like **Peabody Energy** (nyse: [BTU](#) - [news](#) - [people](#)), have been on a tear, surging over 100% each.

Today's Top Stories

- [U.S. Trade Deficit Hits All-Time High](#)
- [General Dynamics To Buy Anteon](#)
- [Court Backs Panel On GE-Honeywell](#)
- [Wal-Mart Buys Brazilian Stores](#)
- [WTO Protesters, Police Clash Again](#)

Strong demand for oil from emerging economies, such as China and India, as well as disruption of Gulf Coast production caused by Hurricane Katrina contributed to prices spiking over \$70 per barrel in August. Oil prices have since then retreated and hovered around \$60 per barrel. This has caused investors to ponder if the bull run in energy-related stocks is over, and what lies ahead for the energy stocks in 2006.

Special Offer: [Click here to download "Oil and Gas: Slam Dunk Investing for Income and Capital Gains," a special report from Professional Timing Service.](#)

This fall, the declines in oil prices have centered on concerns of heating oil and gasoline demand falling in response to higher prices. Meanwhile, Gulf Coast oil production has gradually recovered, as the hurricane-inflicted damage is being undone. Of late, oil and natural gas traders have been looking to weather forecasts for clues on near-term price trends. Shares of oil-service companies rallied even against the backdrop of falling oil prices. **Oil Service HOLDRS** (amex: [OIH](#) - [news](#) - [people](#)) recently set a new 52-week high, suggesting that a free-fall in oil prices is unlikely.

Over the long run, global economic growth will trump weather and drive the demand for petroleum products. With the Federal Reserve resolved to contain inflation, economic growth in the United States will likely moderate. The Paris-based International Energy Agency estimates global daily oil demand in 2006 to exceed that in 2005 by 1.66 million barrels. On the supply side, OPEC appears to have little spare capacity. As such, additional oil supplies required to meet growing demand will likely be hard to come by.

Assuming that Federal Reserve policy does not result in a slowdown, moderate increases in both demand and supply should result in high yet range-bound oil prices. If so, 2006 will likely be another good year for the energy patch.

E-Mail Alerts

 **Get new stories by e-mail as they are published *FREE***

Get one free month of Vonage broadband phone service

Companies

- PowerShares Dynamic Oil Services
- Royal Dutch Shell
- Capstone Turbine
- Baker Hughes

Topics

- Oil Prices
- Energy Prices
- Natural Gas
- Fidelity Select Funds

Enter E-Mail Address:

[FAQ](#) [Privacy Policy](#)

**E-MAIL
 NEWSLETTERS**

**DESKTOP
 ALERTS**

[Make Forbes.com My Home Page](#)

[Bookmark This Page](#)

[Free Trial Issue](#)

[Gift Subscriptions](#)



ON DEMAND BUSINESS™

Learn more about enhancing IT security

[ibm.com/helpdesk](#)

Major integrated oil companies operate businesses in the exploration-and-production, refining and marketing segments of the energy-value chain across the globe. Diversification makes their earnings more stable and their shares less volatile. The dividends they pay typically appeal to conservative investors. As such, shares of major integrated oil companies will likely fare better, after the Federal Reserve stops raising interest rates.

For dividend-lovers, shares of **BP** (nyse: [BP](#) - news - people), **Chevron** (nyse: [CVX](#) - news - people), **Texaco** (nyse: [CVX](#) - news - people) and **Royal Dutch Shell** (nyse: [RDSA](#) - news - people) yield in excess of 2.9% each and are appealing. The **iShares S&P Global Energy Sector** (amex: [IXC](#) - news - people), with over half of its assets in the integrated oil titans, is an option for exchange-traded fund (ETF) aficionados.

Special Offer: Forbes Growth Investor just sold Coventry Health (CVH) after racking up a 94% gain. Click here for Editor Vahan Janjigian's latest buys in biotechnology and energy.

Going Aggressive With Oil Services

High oil prices provide substantial incentive for oil producers to increase production. As a result, oil exploration-and-production companies are increasing their capital spending. There is risk of oil company margins being pressured from rising costs, particularly if the rate of oil price increases starts to moderate. Oil service companies, on the other hand, stand to benefit from rising capital spending in exploration and production. Strong demand for services is endowing oilfield-service providers with substantial pricing power. As a result, better investment opportunities are in the oilfield-service companies.

One way to participate in the oilfield-service business is to get into shares of the three heavyweights: **Schlumberger** (nyse: [SLB](#) - news - people), **Halliburton** (nyse: [HAL](#) - news - people) and **Baker Hughes** (nyse: [BHI](#) - news - people).

Investors looking to no-load mutual funds and ETFs have a few pickings to choose from. **Fidelity Select Energy Service** (FSESX) is the largest pure-play no-load mutual fund that specializes in the oil service group. Oil Service HOLDRS and **PowerShares Dynamic Oil Services** (amex: [PXJ](#) - news - people) represent the ETFs.

Speculating With Alternative Energy

As the price of oil continues to remain high, the emphasis on alternative energy and on energy conservation technologies is likely to increase. The warm reception investors recently provided to the IPO of solar-cell manufacturer **SunPower** (nasdaq: [SPWR](#) - news - people) is an indication of interest in this space.

Many of the alternative energy companies are development stage entities that stand to strike it rich if the technology or products they offer gain widespread adoption. Here are a couple that stand out:

-- **Energy Conversion Devices** (nasdaq: [ENER](#) - news - people), the developer of Ni-metal hydride battery technology, may well thrive if its batteries find increasing adoption in hybrid-fuel vehicles.

-- **Capstone Turbine** (nasdaq: [CPST](#) - news - people) seeks to score big with its microturbines. **Wal-Mart Stores** (nyse: [WMT](#) - news - people) is evaluating Capstone's microturbines in a drive to increase the use of renewable energy sources and reduce energy consumption.

While companies like Energy Conversion and Capstone Turbine have little debt, they continue to burn cash and profitability may be some years away. Investors seeking to reduce company-specific risk by investing in a basket of alternative energy companies will find **PowerShares WilderHill Clean Energy** (amex: [PBW](#) - news - people) in line with their needs.

Sam Subramanian is managing principal of AlphaProfit Investments. He edits the independent AlphaProfit Sector Investors' Newsletter, which makes recommendations on Fidelity mutual funds. Click here for more analysis from Subramanian or to subscribe to the AlphaProfit Sector Investors' Newsletter.

Disclosure: Subramanian owns shares in Fidelity Select Energy Service, SunPower

ForbesAutos.com



Is Bigger Better?

With gas guzzlers now going green, the 'go heavy or go home' maxim no longer applies. See the biggest, the best and all the rest in our **2006 SUV Buyer's Guide**.

- [Hot List](#)
- [Mad Mods](#)
- [Recommended Models](#)

Reviews, pricing and photos on 2006 SUVs on ForbesAutos.com

Marketplace (Sponsored Links)

[\\$150k Mortgage For As Low As \\$483/Month!](#)

Refinance with low monthly payments. Compare up to 4 FREE offers. All credit types accepted!

[www.pickAmortgage.com](#)

[Costa Rica Real Estate Opportunity](#)

Property values on the central Pacific coast are skyrocketing. Now is the perfect time to invest in mountain and ocean view homesites at pre-developm...

[www.CostaLandSales.com](#)

[Compare Credit Cards - Apply Online](#)

Compare credit cards that offer 0% APR, cash back, travel rewards, gas rebates and more. Compare offers and apply online.

<http://www.e-wisdom.com>

[Use MS Word as your Report Generator](#)

Create reports in PDF, RTF, HTML, TXT, XLS & more. Use MS Word to design the reports and reduce development time by 90%. Easy-to-use custom secure re...

[www.windwardreports.com](#)

[Elite Rewards MasterCard](#)

0% Intro APR on balance transfers for 12 billing cycles. No Annual Fee MasterCard! Receive 500 Bonus Points after your first purchase and redemptions...

[www.did-it.com](#)

CEO Book Club

[more >](#)

and Wal-Mart Stores.

[More Adviser Soapbox Columns](#)

Send comments and questions to newsletters@forbes.com.

**Want to track news by this author or about this industry?
Forbes Attache makes it easy. [Click here.](#)**

1 of 1

[E-mail](#) | [Print](#) | [Comments](#) | [License Reprints](#) | [E-Mail Newsletters](#) | [RSS](#) 

[News Headlines](#) | [More From Forbes.com](#) | [Special Reports](#)

[Subscriptions >](#)

[Free Trial Issue of Forbes](#)

[Forbes Gift Subscription](#)

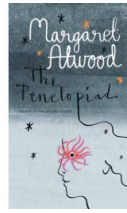
[Subscribe To Newsletters](#)

[Subscriber Customer Service](#)



Book Review

Without A Dinar To Your Name



Book Review

Homer 2.0

Amanda Ernst

Margaret Atwood reveals the other side of "The Odyssey."

Search Books

[Advanced Search](#)

[New & Notable](#)

THE PRUDENT SPECULATOR
CLICK HERE FOR 2 FREE REPORTS

Forbes.com
Investment Newsletter Channel
www.forbes.com/newsletters
CLICK HERE

VONAGE
THE BROADBAND PHONE COMPANY
Small Business Unlimited
\$49.99 /month
CLICK HERE

Sponsored Links
[VONAGE phone service](#)
Unlimited local and long distance calling for \$24.99/month!
<http://www.vonage.com>

Special Advertising

[Sitemap](#)[Help](#)[Contact Us](#)[Investment Newsletters](#)[Forbes Conferences](#)[Forbes Magazines](#)[Forbes Autos](#)

[Ad Information](#) [Forbes.com Wireless](#) [RSS](#)  [Reprints/Permissions](#) [Subscriber Services](#)

© 2005 Forbes.com Inc.™ All Rights Reserved [Privacy Statement](#) [Terms, Conditions and Notices](#)

Delivered By



Tested By



Market Data By



Market Data By



Market Data By



History Partner



Stock quotes are delayed at least 15 minutes for Nasdaq, at least 20 minutes for NYSE/AMEX. U.S. indexes are delayed at least 15 minutes with the Jones Industrial Average and S&P 500 which are 2 minutes delayed.

Powered By

