



John Stancavage: Falling oil price drags down energy stocks

By JOHN STANCAVAGE World Business Columnist | Posted: Sunday, October 26, 2014 12:00 am

The recent plunge in oil prices is having a big impact on stock portfolios in the area.

Oklahoma is an energy state, and many residents either work for publicly traded oil companies or hold their shares.

With crude at \$100 a barrel, energy businesses had enough margin to hire and pay good salaries, in addition to aggressively producing hydrocarbons in costly formations such as the Bakken Shale.

But with oil closer to \$80 as it is now, pressure is being put on the entire industry. This is especially evident in the prices of most oil stocks, which have fallen 20 percent to 40 percent or more.

Take Helmerich & Payne Inc. Just this summer, the Tulsa-based driller was enjoying a \$119 stock price and was increasing how many rigs it built per month. About 100 days later, though, the stock dropped to \$86.98.

Or, consider Oklahoma City's Devon Energy Corp. This stock was selling for more than \$80 a share prior to the oil price downturn. It now is selling for \$59.91.

As a result, investors have bailed out of these and other petroleum stocks.

“The feeling is that oil is not likely to jump back to \$100 any time soon,” said Phillip Bell, a partner in Financial Planning Resources Inc. in Tulsa.

Bell said there are a number of factors behind the trend. They include:

An oversupply of oil. “This is especially true of U.S. light, sweet crude,” he said. The shale production boom has put the nation on the verge of being energy independent again, but too much oil has been produced too fast for the current market.

“It was only a matter of time before prices dropped,” Bell said.

In addition, the difficulty of drilling in certain shale formations and the cost of enhanced production techniques such as fracking add to the economics of a well.

“The break-even point for wells in the Bakken Shale, for example, is about \$80 a barrel,” Bell said.

Slack demand. The summer driving season was not a record-breaker, and drivers around the globe seem less inclined to venture out.

The strong dollar. The rise in our currency can help put a dent in other economies. Europe is in a recession, Bell pointed out, and Japan is on the verge of one.

Political pressures. Cheap oil hurts countries like Russia and organizations such as ISIS, the analyst said.

As a result, the U.S. is likely to continue for a while with any policy that helps keep oil prices low, he said.

With oil stocks beaten down, this may be the time to add to a position in an energy company you already own, or buy shares in others that look attractive, analysts say.

Energy firms such as Schlumberger already are doing this themselves. Schlumberger recently bought back 15.9 million shares of its own stock, said Fred Russell, principal of Fredric E. Russell Investment Management in Tulsa.

“One of the keys to investing is to be greedy when everyone else is fearful,” said Russell, whose firm has a position in Schlumberger.

What makes this strategy tricky is that it’s nearly impossible to guess the bottom.

And, Russell warns, there’s likely to be more volatility ahead.

“That can be difficult,” he said. “I know it’s not good for my digestion when there’s an 11 percent drop in one afternoon.”

Depressed energy stocks

Company	52-week high	Friday close
Helmerich & Payne	\$118.95	\$86.98
Unit Corp.	\$70.37	\$48.39
Cimarex Corp.	\$150.71	\$109.16
Devon Energy Corp.	\$80.63	\$59.91
Laredo Petroleum	\$34.60	\$18.92
Parker Drilling	\$8.67	\$4.54
Continental Resources	\$80.91	\$56.73
Halcon Resources	\$7.50	\$3.05

Source: Bloomberg