

OGIB INTERIM BULLETIN #455 - February 4th, 2016

COULD OIL AND OIL STOCKS HAVE A RUN ON A WEAKER USD

The intriguing factor in the oil market this week is...sentiment towards the USD has changed. Maybe it's from uber-bullish to flat, but the idea of continued rate hikes in the US for the remainder of 2016 is now being questioned by the Market.



That has helped give WTI pricing a big lift from the low of \$26 & change just over a week ago to US\$32.57 as I write, and Brent is at \$35.36.

I may start accumulating some oil positions, and will do it in Canadian stocks to get any uplift in the Canadian dollar, which has gone from a low of 69 cents up to 73 cents today.

Again, the ones to own in Canada are **Crescent Point (CPG-NYSE/TSX)**

at the intermediate level and in the juniors:

Parex Resources	PXT-TSX	27,377 boepd
Raging River	RRX-TSX	16,000 boepd ~10% gas

With these not far behind

Whitecap	WCP-TSX	40,000 boepd, 25% gas
Cardinal	CJ-TSX	11,220 boepd, 8% gas
Tamarack Valley	TVE-TSX	8700 boepd, 46% gas
Spartan	SPE-TSX	9100 boepd, 6% gas

Parex is an international producer (generally a lower multiple) and has net CASH with 155 M shares out, while domestically **RRX** has very low costs—it and **Spartan** below would be lowest cost for the more pure oil players, but **SPE** has 260 M shares out vs. **RRX** at 215 M for 80% more production.

The high-beta, riskier, levered trade is **Baytex** bought in Canadian dollars, i.e. the TSX listing, not on the NYSE. Symbol **BTE** on both exchanges.

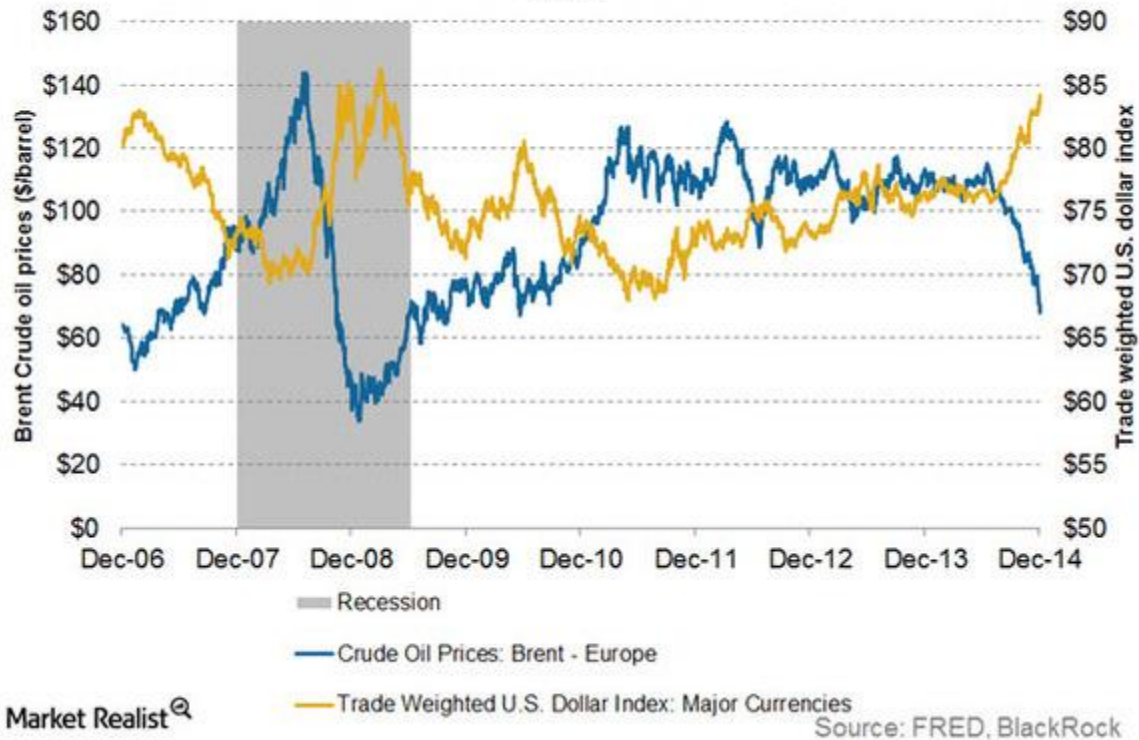
Of course, the issue for investors dipping their toe back into producers' stocks has been volatility—3-5% swings are normal in oil these days, and 6-10% swings in stock prices are almost normal. I don't do well in volatility! I'm a true retail nervous nellie sometimes!

I let volatility take me out of my Valero trade on the way up last year and I missed the stock's Big Run. And on my shorts in January, I did make money but my stops were NOT triggered yet (which were \$72-ish on a \$69 short) and here it is at \$60.

So I don't know how big an investment I'm going to make in these oil stocks.

Part of my experience with commodity stocks says that the Big Moves come on supply-demand developments. Currency plays—like the one I think we are seeing now—result in smaller moves. At the same time, investors can argue all they want about fundamentals (and hey, a ton of people get paid CRAZY money to analyze all that for investors...but...) but when you see a near perfect inverse relationship on an oil price chart overlain by a USD chart, it's hard to argue the correlation.

Oil prices depict a strong negative correlation with the U.S. dollar



(Now, I think the fundamentals of oil will likely weigh on oil prices, and right now, IMHO, gold stocks are likely the better way to play a USD pause or reversal. It is not an OGIB portfolio stock, but I bought 1000 shares of **Agnico Eagle (AEM-NYSE/TSX)** today, my first gold stock ever since leaving that business in 2009.)

THEN AGAIN, fundamentals **may** be playing a role here. Brent crude is re-asserting itself, now \$3/b above WTI, and that may signal that the Market no longer expects a brazen assault of Iranian barrels on the supply side.

Oil bulls now have a USD slightly in their favour, and ongoing rumours of Russian-Saudi joint production cuts, and...you never know. My attitude is follow your gut on your trade ideas and keep your stops *religious*.

By the way, when you look at technical trading, this 1 yr chart on Tamarack Valley shows three of my textbook rules--1. when the moving averages converge, a big move happens. 2. The 200 dma acts as resistance--until it doesn't. 3. After a stock breaks out, it comes back to touch its support and then moves up. When a stock does that it's a very very good sign. TVE

has the highest gas weighting of those producers but has the best chart. You would think a higher gas weighting would weigh against the stock, but the Market seems to be re-rating it and CEO Brian Schmidt. Another good reason to come to the Subscriber Summit.



DHT-NYSE--increased their dividend to 21 cents for the next quarter; annualized that's 84 cents or 15% yield based on the \$5.60 it's trading at in after-hours. They did miss revenue estimates by a bit, but not much. Day rates averaged about \$64K for Q4, which is what the spot rate came down to from \$100K/d. I'm not a seller, and I hate averaging down so I'm likely to stand pat for now.

I still think this is a viable trade--their average day rate should increase over 2016 even if spot rates stay right here--BUT the main issue for me is the long term chart is not one of management adding a lot of value for shareholders. The long term chart is downright ugly. So I'm not rushing out to buy more just yet.



SUBSCRIBER SUMMIT

Very pleased to say **Zach George of Front Four Capital** will be one of our speakers in Toronto. Zach is best known in the Canadian energy patch for actively and publicly working for shareholders after they have bought big positions. You may remember they became involved with Renegade Petroleum before Spartan bought it, and also with Legacy Oil and Gas

before it was sold and most recently Rock Energy.

Here's their official Investment Strategy:

FrontFour invests with a focus on event driven opportunities in North America. The principals make investment decisions based on a diligent, fundamentally driven, research intensive process in order to profit from opportunities where there are specific catalysts or events that can unlock value.

The strategy aims to identify the most attractive value across the capital structure and then employ specific trading strategies intended to maximize profits and generate superior risk adjusted returns over a cycle.

The strategy seeks to isolate and capture the "alpha" from specific events by hedging the portfolio from broader market beta and exogenous shocks through the disciplined use of a robust hedge/short book.

Trust me, Zach will be a very entertaining speaker.

I'm working on one more speaker--the man who has made me more money than anyone else on earth.

So get permission from THE BOSS to come (you know who I'm talking about...) on Saturday March 5 in Toronto.

Here's the link to sign up for Subscriber Investment Summit:

<http://torontosis2016.eventbrite.com/?aff=OGIB>

Energy companies confirmed to date include:

Crius Energy--KWH.UN-TSX

Painted Pony--PPY-TSX

Tamarack Valley--TVE-TSX

Marquee Energy--MQL-TSXv

Renaissance Oil--ROE-TSXv

-Keith