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Starboard Weekly Report Ending April 10, 2015

Chart of the Week

This week's chart from Stockcharts.com is on West Texas Intermediate Crude oil (WTIC). It is the major benchmark for oil prices in United States.

FUNDAMENTAL

Due to the enormous over supply conditions, both internationally and domestically, the price of oil has dropped in excess of 50 % over the past six months. Despite continued inventory buildup, due to aggressive production of crude, prices are now looking like they want to stabilize. Even if oil prices do level out, the effects to the US economy from this price plunge will continue to be felt over several quarters. Unemployment will be impacted, and not by sheer numbers, but more importantly by the influence that these higher paying jobs will have on overall wages. When so many of the jobs that are reported in the monthly government numbers are low end jobs, losing the high paying jobs negatively effects the wage pool available to grow the economy. A second macro-economic consequence is the effect that the oil price drop will have on energy company earnings. First quarter earnings are expected to be weak overall due to the slow economy. Then when you add the energy companies to the mix, we have a recipe for a very disappointing first quarter. Unsatisfactory earnings in a stock market priced for perfection is not favorable for higher stock values. Despite the current price decline, a lot of the risk in owning oil equities has been removed due to the 50% drop in the commodity. The world needs energy on a constant basis. And as demand catches up with the present day excessive supply, the price of hydrocarbons will then rise. I will be looking to add some energy issues to portfolios and preferably ones with decent dividends so that we are paid while we wait for oil to rise again.

TECHNICAL

Oil is obviously in a downtrend as measured by the 50 day average being well below the 200 day. However, it is showing some signs of bottoming as shown above on the two supporting graphs that depict positive short-term trends. The backup indicators showed a similar pattern in early February, only to reverse. While a stock, or as in this case a commodity, is trying to find a bottom it will often go through two or three bottoming trends. The question on this chart is will there be a third bottom. On Tuesday of this week, oil made a high for the year. Then on Wednesday, supply of inventory came out and the price dropped; but then stabilized on Thursday and Friday. That is an encouraging sign of further consolidation at $50. And with a break above the recent yearly high of $55, this would indicate that a bottom is in for oil.

ASIDE

John Paul Getty once said; "*Formula for success: rise early, work hard, strike oil*"
While we can't strike oil, we can buy oil stocks cheap and feel like we did!

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Please note: It is the client's responsibility to notify us of any changes that would influence their financial needs.