Starboard Weekly Report Ending February 12, 2016 Charts of the Week

Both charts come from StockCharts.com and they relate to OIL. The top chart is Devon Energy Co. Common Stock (DNV) and the bottom chart is the Energy SPDR ETF (XLE)

TECHNICAL

A favorite question from clients is: "how will you know when to start buying again?" That answer is summed up in today's two charts. There are two key elements of technical analysis; price and volume. Oil is beginning to show favorable foundations for both. The price of oil may not have bottomed; however, the individual companies might have. Stocks usually discount the future and the near term for oil securities is constructively bullish. Many shares of oil companies are down 70 to 80% from this time last year and that is what I call "*blood in the streets*" level. Please note the last three declines in both DVN and XLE. There is a discipline in charting stating that three attempts to bottom with a reversal to the 200 day moving average is the end of a declining price trend. In the case of DVN, the 200 day average is up at 44.88 whereas it currently sells at 21.58. That is a little over a 100% move. I doubt it will shoot up to that level, but the positive price and volume numbers suggest that it is going to attempt to return to higher levels. The XLE is trading at a gap that suggests it could challenge its 200 day average price at 66.78 from the current 58.02. As this is an index, it is indicative of the direction of several oil stocks and it will carry each member (such as DVN) with it. In client accounts, I will be purchasing DVN, as well as Oil Income opportunities such as the Master Limited Partnerships (MLP's) and Oil Royalty Trust. The dividend yields on several MLP's and Trusts now exceed 10%.

FUNDAMENTAL

The oil sell off is a function of Saudi Arabia flooding the World with oil in an attempt to negatively impact fracking development in the United States as well Canadian Oil Sands. It is working because so many drillers borrowed on the strength of $100 per barrel oil. At the current price of $26, many drillers will likely go bankrupt. Oil Sands production is not feasible below $30 per barrel. The Saudi's are also concerned with the alternative energy activity and its impact on world oil prices. Many of the economic slowdowns of Emerging Markets have also taken its toll on the price of oil. When the Dollar does start its decline, then the Emerging Markets will begin to pick up. This may well drive the per barrel price higher; not back to $100, but up to the $50 to $60 range.

ASIDE

"You have to work with the auto industry, the oil companies; you have to work to develop renewable fuel, whether it's solar or different kinds of fuel or whatever." Ted Danson

Everybody is getting into the renewables act, including bartender Ted Danson from the old TV show "Cheers". Renewables are a game changer and it will impact the energy sector. However, in my view, today's prices have already accounted for that risk.

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