Hello Everyone,

"***The market takes the escalator up and the elevator down."*** Old Wall Street Adage

That was certainly true in precious metals over the past week. Still, every gold/silver high has gotten higher---- and every low has gotten higher as well. That's healthy action…even if it is occasionally gut-wrenching.

When markets only rise, that is euphoria. Think 1929, dot com, or flipping houses. Euphoria ends badly…though it sure is fun while it lasts. :>)

When euphoria hits the metals markets someday---and it will---we will be looking for the exits. It's always better to leave a great party before the cops arrive.

Today, however, we finally leave the precious metals series.

In an attempt to explain what is going on with respect to the real economy (down) and the markets (up), we will launch the ***"Covid and…"*** series.

Today's missive is about ***Covid and oil.*** I hope you find it interesting.

Signed, Your-How-Do-Phys-Ed-Teachers-Teach-PE-Online? Financial Advisor,

Greg

KKOB 08.14.2020 Covid and Oil

Bob: So, Greg, the Covid shutdowns really began in the US in March; so we are about five months into this now. So, you want to go through the markets sector-by-sector and see how Covid has affected things…starting with oil, right?

Greg: Right. Because oil is so important to New Mexico...and the nation. Anyway, when Covid slammed us in March, oil was still above $53/bbl. By the end of March, it had fallen to $32. That's a 40% drop in 30 days. That terrified the oil industry. But then the bottom really fell out. Three weeks later, oil went to negative $37 a barrel!

Bob: I remember that. We had never seen oil prices go negative. The world economy had shut down so suddenly ---and so dramatically--there was no place to store the excess oil. So, it was costing companies money just to park oil until there was some hope of recovery.

Greg: Exactly. But thankfully, the negative prices were short lived; and by May 1st, prices were back in the low 20's. Still, in two months, a 60% drop in prices was the end result. Since then, oil has recovered, and we're back above $40/barrel.

Thus, if you had been asleep from March 1st to August 14th you would have seen oil go from $53 to $40. That's not good, but I'm sure every oil executive on the planet would have preferred a gently falling price rather than the whipsaw action those guys had to endure.

Bob: I can't imagine how many late-night meetings there were as they tried to manage the crisis.

Greg: I can't either. And these are smart men and women. But no one had ever seen anything like this.

So, how did all this translate in real life?

Well, let's start with rig counts. In short, how many wells do we have pumping oil today vs. the start of Covid?

According to the energy services firm, Baker Hughes (whose data goes back to 1940!), ***the U.S. oil and gas rig count…fell to an all-time low of 247*** last week. We were at 942 rigs a year ago.

Bob, we are below 1940 rig count levels. In 1940, our population was 132 million. Today, it's nearly 330 million…and our rig count is lower than it was 80 years ago?!

Bob: So this is why there are budget problems in the oil belt states. Jobs and revenues are in free fall.

Greg: Exactly. But the problem goes deeper than Covid. In the last 3 ½ years, the overall market, (the S & P 500) is up about 60%. The energy index is down 43%. And, that 43% drop didn't all happen over the past 5 months. The overall market and the energy sector began diverging in early 2017.

The point is, even when rig counts were high, the profits never materialized.

And, Bob, you and I have gone over the reasons for this in detail over the past 3 years. Shale companies never made consistent profits---- regardless of the price of oil. And the big guys like Chevron and Exxon are using so much oil to get their oil, it isn't worth it.

Bob: I know. I'm finally understanding that it's not about price. It's similar to what happened in coal mining. The world did not run out of coal. It's just--- at some point-- it took so much coal to get the coal it couldn't be profitable.

Greg: Right. It took me a long time to grasp that concept, too. This is why you now have Chevron borrowing money to pay its dividend and British Petroleum announcing it is cutting its dividend in half.

So for your investors out there, if you have had an energy fund in your portfolio, you've been dragging an anchor for the nearly four years.

Bob: And, energy can't be alone. You and I have talked about how it is a very narrow band of stocks pulling the overall market higher.

Greg: Exactly. So, on Monday, let's look at the banking sector. And I'll let your listeners guess if that's an anchor (or a motor) in their portfolios.

Bob: I think I know. Until then, how do people reach you?

Greg: Just go to my website at zanettifinancial.com.