

How to profit from the ongoing boom in Natural Gas.

California is considering converting large numbers of automobiles and trucks from dependence on gasoline and diesel fuel, to running on natural gas. Natural gas is readily available in North America and thus would be one way for Californians to stop sending so many dollars to foreign countries including to some that are clearly unfriendly to the US.

Once a trend takes hold in California, it usually is soon adopted by the rest of the nation. Natural gas is already being used nationwide, to create electricity at power plants that have been or are being converted from coal to natgas.

Another use for natgas is in the process of converting tar sands bitumen into usable oil. It takes 1,000 cubic feet of natgas to produce one gallon of oil.

Natural gas appeals to environmentalists, because it burns very clean.

Natural gas is also quite inexpensive, when compared to oil. The historic ratio between oil and natgas is six to one, based on the pricing relationship over time. Obviously prices can and do move up and down, but historically the average ratio has been six to one.

With oil currently priced at \$120 a barrel, and natgas at \$8 per unit, either oil is overpriced, or natgas is a bargain. Natgas will have to rise to \$20 for the ratio to return to its average (unless you expect oil to drop down to \$48 a barrel).

The amount of natgas in storage (2567 billion cubic feet), is slightly below August 2007 and 2006, thus there is no current overhang in the marketplace.

Therefore it behooves us to make sure we have at least one natgas stock in our portfolio. There are a number of companies that are already benefiting from the uptrend in natgas, including: PVX, LINE, EOG, DVN, APA, APC, EP, NBL, XTO, SWN, WMB, ECA (ECA.TO), CNQ (CNQ.TO), COG, PETD HSE.TO, RRC and GLBL.

In addition there are a number of Canadian energy trusts that supply natgas as well as oil to the market, and pay a monthly dividend. Among them are: AAV (AVN.TO), BTE (BTE/UN.TO), ERF (ERF/UN.TO), PGH (PGF/UN.TO), PWE (PWT/UN.TO), and ENT (ENT/UN.TO). There are more, but these 6 trade in the US as well as in Canada.

Another way of benefiting from the trend towards natgas use in automobiles is to look at Clean Energy Fuels Corp (CLNE). This company provides natgas to vehicle fleets in the US and Canada, and it also designs and builds the fueling stations that provide natgas.

Note: In the event that Barrack Obama should become president, it will be prudent to be invested in Canadian energy companies, as he has indicated he intends to raise taxes on US energy companies, much as former president Carter showed his disdain for 'obscene profits'.



Featured is the 3 year natgas chart. Price is attempting to bottom at the 8.00 support level. The RSI and MACD are also ready to turn up from oversold conditions. The trend is bullish, with the 50DMA in positive alignment to the 200DMA. A close above 9.00 will confirm that the pull-back has ended.

Once natgas begins to rise in price again, virtually all of the companies mentioned earlier will benefit. One company that stands out is Canadian Natural Resources, CNQ or CNQ.TO. 44% of its revenue is derived from the sale of natgas, while its oil revenue will soon be bolstered by production from its Horizon plant in the Alberta Tar Sands. Oil is expected to flow from Horizon beginning in September. The company is making decent profits, and pays a regular dividend.



Featured is the 3 year chart for CNQ. Price has found support at \$70 and the RSI and MACD are turning up in oversold territory (green arrows). A close above \$80 will confirm that the pull-back from \$109 is over. The 50DMA is in positive alignment to the 200DMA, and the 200DMA is rising.

DISCLAIMER:

Please do your own due diligence. I am NOT responsible for your trading decisions.

Happy trading!

Peter Degraaf <::><

itiswell@cogeco.net