INSIGHTS

Oil: Whoda thunk?

It was an odd day. No, really, the day was odd…like 1,3,5… We sat sweating in silence in our odd-numbered license plated cars—motors off, windows rolled down in a long queue waiting to, in unison, start our motors and ratchet forward one car length toward the man in a sweat-stained tank top undershirt holding a wad of cash. A *big* wad of cash.

No "fill 'er up" no windshield washing, no oil checking. Ten gallons, cash, no change, no talking. Los Angeles. A time the U.S. Government vowed to never be beholden to "foreign oil". The stars had just aligned for Honda and Toyota as their decades-perfected precision-built 30mpg cars rolled off freighters to anxious buyers looking for alternatives to their chrome-plated 10mpg block-long behemoths. Detroit never saw it coming.

Decades have now passed and the U.S. has achieved its goal of energy independence. Tar sands, shale oil and fracking have completely transformed the oil supply balance as our nation's rail system hauls endless tankers of oil 24/7 to costal refineries. And for the first time the basic tenets of economic supply and demand are manifesting themselves in the current pricing, which poses a real challenge facing *all* producers: extreme decrease in revenue, but an extreme bonus for end users. About a 50 percent (or more) decrease/increase on both ends. Is there a silver lining in all of this?

The petroleum industry has far-reaching tendrils into nearly everything we touch. Toothbrushes, computers, aircraft, clothing, appliances, even makeup. With the increase in supply comes a decrease in price. That decrease translates into a decrease in cost of goods for just about everything this planet uses. And what THAT means, is that corporate revenue will continue to *increase* as their cost of materials *decreases*. We are now seeing those corporate profit increases with each quarterly report; purely attributable to oil? Of course not, but it is now playing a much larger part in controlling product costs, which is helping to keep prices low for consumers of products other than fuel.

AH, BUT THERE'S COMPETITION

Wind generation across the world is a rapidly maturing industry with companies such as GE upping the ante with a radical tower design making it even easier, more cost effective and portable to install wind turbines now nearly anywhere; oil and gas power plant competition.

Companies such as Johnson Controls continue to produce lithium batteries for use in electric cars whose power may now be derived from solar and natural gas. Even lowly coal is seeing a revival as companies such as Donaldson produce scrubbing filters helping coal generating plants dramatically improve their environmental impact. But the slowly rising tide impacting the use of energy is the expansive use of social media.

INSIGHTS

YOU GOT IT, FACEBOOK AFFECTS AUTO USAGE…

…in a very direct and real way. We are instantly in touch with anyone anywhere. We Skype and Facetime. We blog, write reviews, research and share with family and friends…and strangers. And we buy; A LOT online. Amazon's Prime and Kindle are challenging not only the brick and mortar stores as we watch them one-by-one shutter their doors, but also the auto/energy industry as greater and greater numbers of shoppers swap their car for their laptop and one-click their way to easy return gratification. All without the personal creation of emissions; a prime motivator to everyone. The fundamental "rite of passage" of car ownership for the past 50 years is waning dramatically. Throngs of all ages are looking for walkable city communities, Uber and Zip have taken the transportation business model by storm. Downtowns are transforming. No *personal* car needed.

IS IT THE END OF OIL AS WE KNEW IT?

Far from it. We still buy 80MM cars annually. But, with the technological advances of fracking, oil sands cleaning, and new players such as Iran coming into the market, the "oversupply" looks like it will be with us for a while which will serve developing countries by suppressing their cost of energy for personal and manufacturing use, and continue to leave disposable income in the hands of shoppers which, of course, creates expanded employment for all.

WHERE THEN DO WE GO AS INVESTORS?

How do we take advantage of companies whose cost of goods are positively affected? Most portfolios are largely already there: Companies from McDonalds, Danaher, Medtronic, CSX Xylem, United Technologies, Emerson, Union Pacific, TJ Max, Costco, the list goes on, are enjoying the same windfall just as we are as their reduced cost of goods is affecting their bottom line. Additionally, lower U.S. energy costs enable us to attract manufacturing—yes, *manufacturing*—as significant "reshoring" of business to the U.S. is a direct byproduct of decreased U.S. energy costs (despite our higher labor costs).

Will oil prices return to "normal?" They will most likely return to a *New Normal*. We continue to hold oil in portfolios where we see a slow-but-steady increase in share price as confidence returns that the oil rug will not be pulled out from the energy market.

The positive to take away from the energy transformation is just that: It's transforming! Companies in this arena have pulled off truly miraculous technological and efficiency feats…and as I read about what's around the corner, I am delighted to see that competition is good. It creates innovation which in turn, can—yes, sometimes—create panic as the same old players are challenged to step up their game. And they have.

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