How the High Price of Gas Can Pump Up Your Portfolio

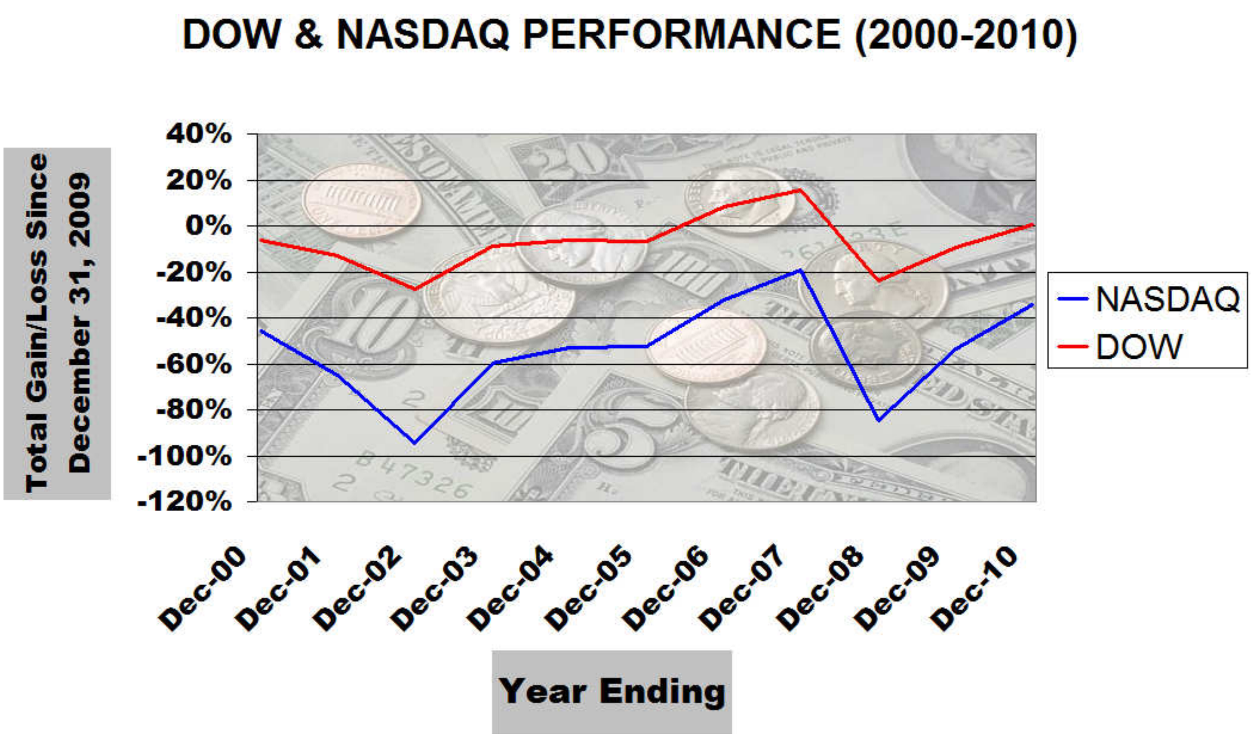
By Derek Simon

There is a widespread belief among investors that the only way to profit on Wall St. is to be a contrarian — ying when others yang, zig when others zag. Yet, sometimes, the more obvious investments make a lot of sense (and possibly a few dollars as well).

Take, for example, oil companies when the price of gas is skyrocketing, as many experts expect it to this summer (or possibly even earlier, thanks to the ongoing turmoil in places like Libya and Egypt). Of course, the logical thought is that higher gas prices equals higher oil prices, equals big profits for Big Oil. And, while this is not always the case — most major oil companies are fairly well diversified and benefit from both upstream and downstream activities — history shows that surging prices at the pump typically *do* lead to equity gains for many Big Oil stocks.

Destroying the Dow

Now, these gains may not look particularly sexy at first glance, but when viewed in context of the market's overall performance… well, let's just label it the "last call" effect — suddenly, the numbers start looking a whole lot better. Consider that from the last day of trading in 1999 until the final market session in 2010, the Dow Jones advanced a meager 0.7 percent, while the NASDAQ plummeted 34.8 percent.



Yet, take a look at how various Big Oil stocks did over this same period:

Company	12/31/99 to 12/31/2010	Annual Stock Appreciation
British Petroleum (NYSE: BP)	13.19%	1.20%
ConocoPhillips (NYSE: COP)	294.51%	26.77%
Chevron Corporation (NYSE: CVX)	203.42%	18.49%
Total S.A. (NYSE: TOT)	136.85%	12.44%
Exxon Mobil Corporation (NYSE: XOM)	131.80%	11.98%
Average	155.95%	14.18%

Date	New York Harbor Conventional Gasoline Regular Spot Price FOB (Dollars per Gallon)
Dec 30, 1999	$0.65
Dec 31, 2010	$2.46
Increase	276.0%
Dec 31, 1990	$0.70
Dec 30, 1994	$0.52
Decrease	-26.7%

When the price of gas is factored in, using the New York Harbor Conventional Gasoline Regular Spot Price FOB as a standard, the data takes on even more significance, as one discovers that the cost of filling up has increased by nearly 280 percent since the start of the New Millennium. This is meaningful because when that increase has been less robust or when the cost of gas has, in fact, decreased, the equity gains among Big Oil companies have likewise been subdued.

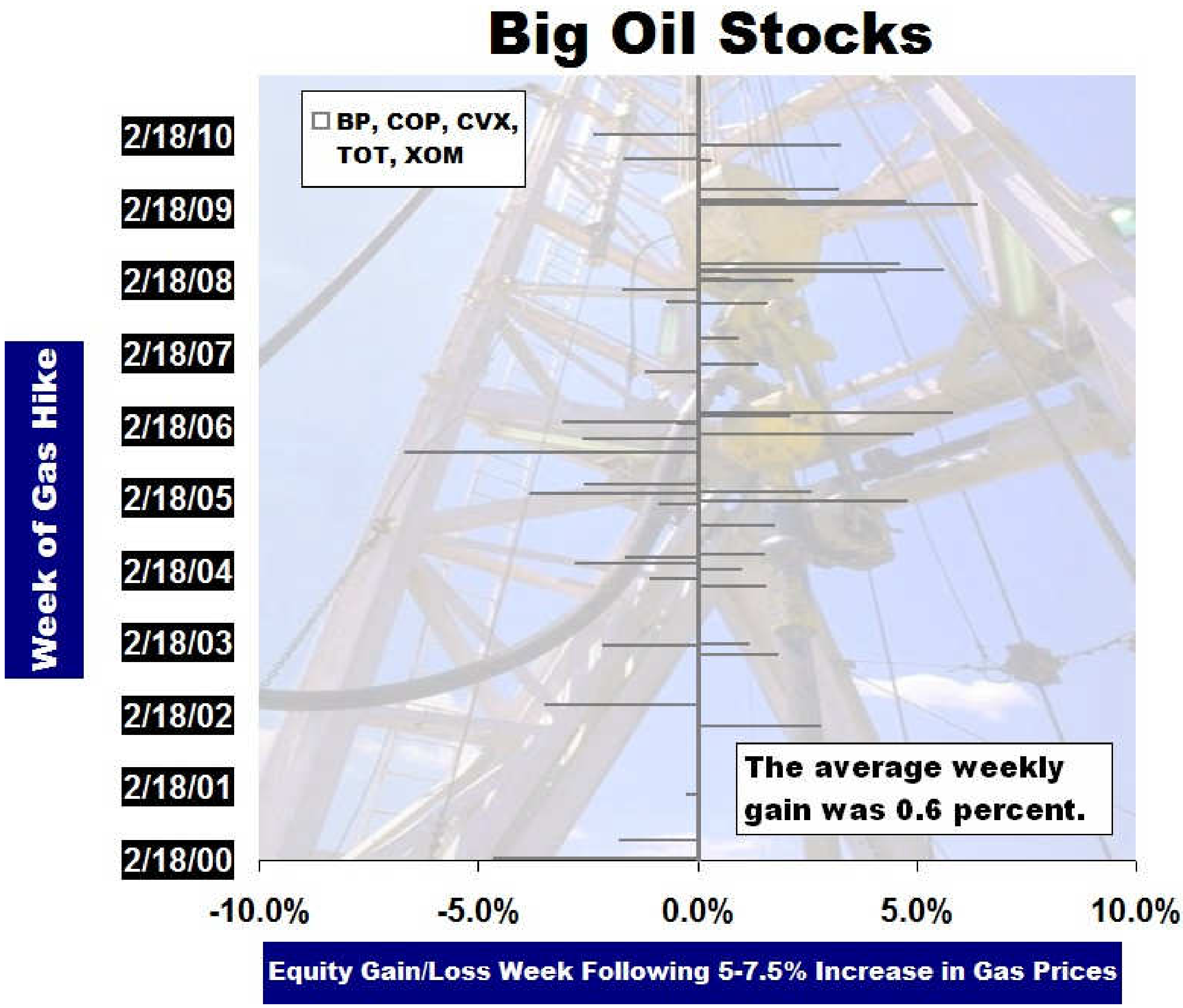
From Dec. 31, 1990 to Dec. 30, 1994, the price of gasoline fell by 26.7 percent (oh, the good ol' days). During that same time period, the Big Oil stocks listed above averaged a 9.8 percent annual equity increase — considerably less than the 14.2 percent yearly gain they've averaged over the past decade.

Company	12/31/90 to 12/30/1994	Annual Stock Appreciation
British Petroleum (NYSE: BP)	25.65%	6.41%
ConocoPhillips (NYSE: COP)	47.11%	11.78%
Chevron Corporation (NYSE: CVX)	46.41%	11.60%
Total S.A. (NYSE: TOT)	*26.75%	8.92%
Exxon Mobil Corporation (NYSE: XOM)	41.23%	10.31%
Average	40.10%	9.80%

**Since Dec. 31, 1991.*

Profits at the Pump

So, why is all of this meaningful? Because it shows that there is a correlation between the price one sees at the pump and the price of Big Oil stocks on Wall St. What's more, clever investors can exploit this relationship on both a short- and long-term basis. The following chart tracks the performance of the aforementioned Big Oil issues — British Petroleum, Conoco-Phillips, Chevron, Total and Exxon Mobil — the week following a 5-7.5 percent hike in gas prices at New York Harbor (over the past 10 years). The data is illuminating:



NOTE: A 5-7.5 percent increase in gas prices was chosen instead of a set percentage or different range of percentages because I wanted an increase that was both noticeable and meaningful to consumers without being too drastic and, thus, immediately digested and accounted for by Wall St. However, that range is certainly open to revision.

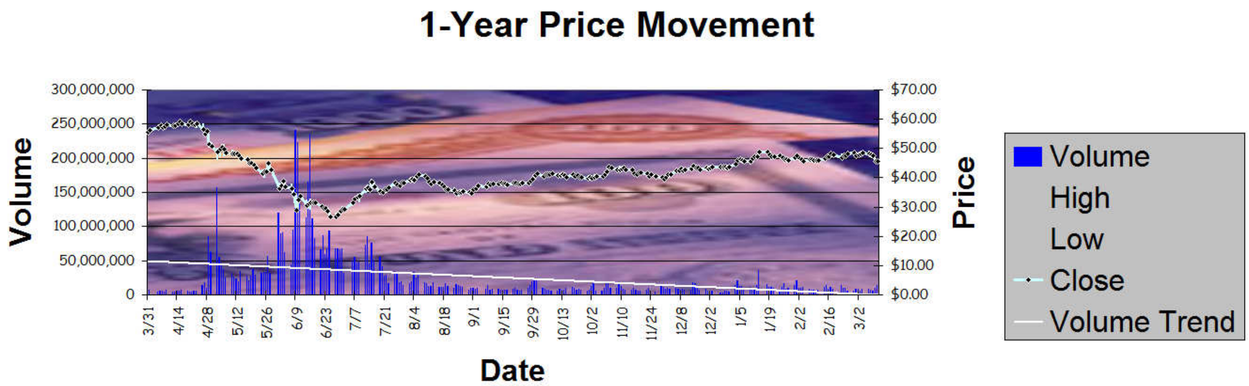
Not only was the average weekly gain an impressive 0.6 percent, equating to an annual growth rate of 30.9 percent, but all of the Big Oil stocks examined performed well, as illustrated below:

- Total S.A. (+0.70%)
- British Petroleum (+0.69%)
- Conoco-Phillips (+0.55%)
- Chevron Corporation (+0.53%)
- Exxon Mobil Corporation (+0.50%)

And, keep in mind, these gains occurred during a market downturn, making them that much more impressive. Ironically, the two companies that have the least amount of U.S. exposure posted the most positive results. British Petroleum, which trades on the New York Stock Exchange (NYSE) but is based in — you guessed it — Britain (specifically, London) generated just 33.6 percent of its sales revenue from American consumers in 2009. Meanwhile, Total, which is headquartered in Courbevoie, France, sold just 4.4 percent of its petroleum products to U.S. buyers in '09.

Final Word

Although I wouldn't argue with someone investing in any of the Big Oil companies profiled herein, if I were forced to pick just one to follow over the next month or so, I would choose British Petroleum. True, historically, the company has been a massive underachiever on Wall St., however, it's equally true (as demonstrated above) that BP traditionally responds well to rising gas prices. Plus, if you believe in the law of averages, it would appear that British Petroleum is due for a negative-PR reprieve after a nightmarish 2010.



Personally, I would try to buy the stock at around $45-$46 per share and set a stop at $43. If BP breaks $50, I think it could be off to the races. More conservative and/or patient investors might want to wait until gas prices at New York Harbor show a weekly increase of 5-7.5 percent and go from there.

Whatever one chooses to do, remember that it often pays to watch the pump… even when it’s painful.