

This article has been reprinted with permission from the September 10, 2005 edition of the Daily Local News

How to prepare your portfolio to deal with higher gas prices

VIEWPOINT

By **ERIC B. PARNELL**

You've already felt the impact of higher gas prices on your wallet during the summer vacation season. And now following Hurricane Katrina, we are looking at the potential for gas prices well above \$3.00 per gallon for the foreseeable future. While the tragic circumstances in the aftermath of the hurricane deserve our close attention and sympathies, it is also important to consider how you might be able to best prepare yourself for higher gas prices at the pump.

Why were gas prices so high even before the storm? It had a lot to do with crude oil prices. Refineries across the world use crude oil to produce gasoline along with many other petroleum products. While crude oil prices have historically averaged around \$22 per barrel, they have skyrocketed in recent years to over \$60 per barrel. What caused this major jump? A significant rise in global oil demand, particularly from China and India. Even before Hurricane Katrina, the available supply was unable to keep up with demand. And now with the hurricane damage to U.S. oil production in the Gulf of Mexico, supplies have been cut even further. Oil prices are now threatening \$70 per barrel as a result.

So who has been prepared for higher oil prices up to this point? Shareholders of energy and oil companies have been able to at least partially offset the cost so far. As an example, let's take a look at ExxonMobil, which we're using not as a recommendation to buy or sell but simply based on the fact that it is the world's largest publicly traded oil company. Since the latest oil price surge that began in late 2001, the shares of ExxonMobil have risen over 50%, which has easily led the broader market return of roughly 15% as measured by the S&P 500

Index over the same time period. And the stock has been up over 5% just this week when Hurricane Katrina first hit the Gulf of Mexico. In addition to the big oil companies, oil drilling firms as well as alternative fuel providers such as coal companies have also generally seen their stocks lead the market in recent years and have jumped even further after the tragic storm.

But just as we've learned from the recent hurricane, the past is no indication of what can happen in the future. So what should we expect from oil prices going forward? While short-term price shocks should be expected in the coming weeks after Hurricane Katrina, prices will likely settle down somewhat once production in the Gulf of Mexico comes back online. But oil prices are still likely rise to new peaks in the coming months and years. Why? Because demand is expected to continue to exceed supply even after U.S. production resumes in the Gulf. And places such as China and India are expected to demand even more oil in the future. In addition, new oil supplies will likely be more limited in the coming years, as much of the world's easily extracted oil reserves have now been used up.

With all of this being said, it is important to remember that oil prices are notoriously unpredictable. So although indications suggest that oil prices may continue to rise in the future, you should not be surprised if unexpected events cause this view to change dramatically. Given these uncertainties, investment professionals can help you navigate these possible risks in your portfolio.

In the coming days, higher gas prices will serve as a steady reminder to keep struggling Gulf Coast residents in our thoughts. And while you paying more at the pump, also keep in mind that you may be able offset these costs in your investment portfolio.

Eric B. Parnell, CFA is founder and director of Gerring Wealth Management LLC in West Chester. He can be reached at 610-280-3595 or www.gerringwm.com