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# The Bull Case For Oil And The Stock Market

It's no secret that the stock market and the price of oil have been highly correlated over the past six months to a year. Equities tend to jump into correlation to any area of the economy where there may be a crisis. Oil was falling in "crisis mode" over recent quarters.

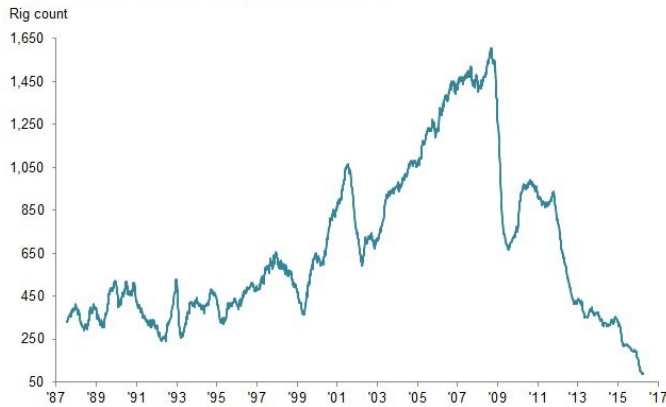
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Looking at the technical charts, oil has double bottomed. In Dec and Jan oil dropped to \$26/bbl. Each time it rebounded. The charts on oil do not appear to indicate that oil will revisit or drop below the \$26/bbl level.

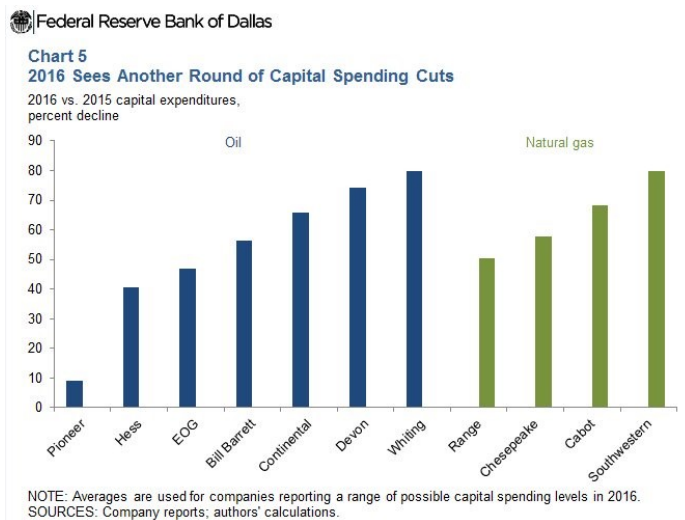
Looking at the fundamentals, there is no more telling story than the following charts.

Federal Reserve Bank of Dallas

Chart 4  
U.S. Natural Gas Rig Count Hits Historic Low



SOURCE: Baker Hughes.



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The chart above shows oil and gas companies are cutting their capital spending dramatically.

The Saudi's have won the war on oil. Their goal was to drag the price of oil and gas down so low as to cause oil and gas drillers to cap their wells. Clearly, according to the first chart above, it worked. The wells are capped.

Now, supply will be constrained and the price of oil and gas can begin to rise again.

The equity markets will anticipate relief when oil rises into the \$40/bbl range once again.

Your equity opportunity may not last much longer. Now is the chance to buy-in to oil and gas companies at dramatically reduced prices. Our recommendation is to not go crazy and over allocate money in your portfolio to an area that is still under great stress. Rather, begin to nibble on these stocks now. It would not be a surprise to see them pull back again as they continue the longer term trend of recovery. These are early days in the recovery and certainly not a time to bet the farm. There will still be oil and gas company bankruptcies, so be cautious.

Pioneer Natural Resources (PXD) and Concho Resources (CXO) are top quality companies along with Chevron (CVX) and Conoco (COP), while Devon (DVN) and Range Resources (RRC) are beaten down but on the come-back trail.

**Disclosures:** Warren Financial has long positions in some of the stocks mentioned in this article including PXD, CXO, CVX, COP, DVN, RRC, both for our clients and our own portfolios. We may be starting new long positions in some of these companies in the future. The fact that a company is mentioned is not a recommendation or offer to buy or sell that stock or bond. Investors should always seek advice from an advisor that knows their particular financial situation and not assume that general information such as the information in this article will always apply directly to their portfolio. [Investing](#) includes the risk of loss.

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