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A Special Investment Report: With Crude Oil Prices Still At the Base of a Five-Year Climb, Turn Pain Into Profit

By Jason Simpkins

Just when you thought the global energy outlook couldn't get any worse …

Worldwide demand for crude oil will continue to outstrip supply for at least the next five years, meaning the high prices and tight supplies of today will remain a reality for the foreseeable future.

The soaring prices of crude oil and gasoline are just part of a broad-based worldwide boom in commodities that is being driven by the full-fledged economic emergence of China, India and some other key markets around the world. Other commodities – as disparate as uranium and fertilizer – have seen big price surges, too. But oil-and-gas prices have grabbed the public's attention because they affect consumers the most directly. And consumers are right now feeling squeezed.

So, in drawing upon another of those age-old bits of wisdom we're so fond of here at **Money Morning**: "If you can't beat 'em, join 'em." In other words, if this powerful global trend is going to persist – and it is – then you should ease the squeeze on your wallet by profiting along the way.

Let me explain …

Some Crude Estimates

The Paris-based International Energy Agency – advisor to 26 of the world's industrialized nations – said yesterday that the demand for oil would increase at an average annual rate of 2.2% from this year to 2012. It was only in February that the IEA projected that demand would increase at a 2.0% average annual rate from 2006 to 2011.

It's not just that the IEA had to revise its demand numbers upward by 10% or add another year to the length of time it expects the ongoing shortage to last. It's that the IEA had to make these revisions to a worldwide projection less than six months after it did so the first time that underscores the breadth and magnitude of this global oil boom – which is just one of the commodities that are experiencing worldwide bull markets of historic proportions.

Indeed, in another study earlier this year, IEA projected that demand for oil would increase 50% by 2030. The IEA's newest forecast, the "Medium-Term Oil Report," projects that global oil demand will soar from the current 86.1 million barrels per day to 95.8 million bpd in 2011 – representing an average annual increase of 2.2%, and aggregate growth of 11%.

The forecast is based on global economic growth that averages 4.5% annually, and counts on actual increases in global refining capacity falling short of consensus expectations. Skyrocketing oil prices have been a key worry for months. Crude oil is flirting with the all-time high of $78.65 a barrel – a milestone reached last August – and with momentum so strong, some analysts are looking for $80-a-barrel crude before the year is out.

And now it appears that the worst may be yet to come. In its report, the IEA said that "despite four years of high oil prices, [we see] increasing market tightness beyond 2010."

The factors influencing the price surge are all well known. While demand in America remains high, demand in developing nations such as China continues to grow at an exorbitant rate. Meanwhile, the effects of a seemingly routine amount of civil unrest in oil producing regions such as Iraq, Iran, and Nigeria remains constant, and the Organization of Petroleum Exporting Countries continues to play its games, refusing to increase production – despite numerous pleas from the IEA

Unfortunately, recent analysis suggests that, if nothing changes, crude oil prices could continue to escalate for at least five years.

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Let's take a look at some potential investment opportunities …

Oil Plays That Pay

0. **Big Oil Companies** … **with shareholder-friendly stock-buyback plans:** ….

0. **Big Oil companies …which use their core strengths to move into promising related businesses – such as biotechnology**.

0. ....

0. **Renewable Energy Funds … money is moving <u>this</u> market**. It's a small group, but its membership is growing as investors become more aware of the push to develop alternative fuels. Many of these funds have already experienced huge gains, so choose carefully, don't over-invest, and understand that you're investing for the long haul.

0. Alternative energy has been a buzzword since the 1970s, when

the “alternatives” were nuclear power (fission then and fusion in the future), hydroelectric, geothermal, solar and wind.

0. Advances in biotechnology are making renewable fuels a reality. And the growing energy demands of the emerging markets are making renewable fuels a necessity.

0. Renewable energy could provide up to half the nation’s current electricity demand and about 40% of its current fuel needs by 2025, according to a recent study conducted by the American Council on Renewable Energy (ACORE).

0. And, as readers of **Money Morning** know very well, liquidity is a key indicator, as well as a key market catalyst. Money has to be flowing into an investment to make it increase in value. And that’s finally happening with renewable energy.

Investors worldwide poured $71 billion of new capital into renewable energy projects in 2006, an increase of 43% from the year before, according to a report the United Nations issued last month. The U.N. forecast said investment would top $85 billion this year. Investments made through the public markets more than doubled to reach $10.3 billion in 2006, while venture-capital investments reached $7.1 billion, the U.N. report stated.

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Mutual funds include the New Alternatives Fund, while Exchange Traded Funds, or ETFs, include **the PowerShares WilderHill Clean Energy Fund** **(AMEX: PBW)** and the **PowerShares WilderHill Progressive Energy Portfolio (AMEX: PUW)**.

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