

Print Edition

ENERGY

Three raging bulls as oil barrels higher

Eric Sprott so believes in 'peak oil' theory that he's sinking some IPO proceeds into his energy fund

SHIRLEY WON

FUNDS REPORTER

May 21, 2008

Energy stock funds have been on a tear as the price of oil keeps soaring, and at least one fund manager is sinking more of his own cash into his portfolio because of his belief in the "peak oil" story.

Eric Sprott, portfolio manager and controlling shareholder of Sprott Asset Management Inc., invested some of the proceeds from the firm's recent initial public offering into his Sprott Energy Fund last Friday.

"I bought units in that fund, and not an insignificant amount," said Mr. Sprott, who estimates he now holds at least 10 per cent of the energy fund he manages.

"We have been believers for a number of years ... that we are in what we call the peak oil scenario, where the prices will rise essentially forever because the world needs more oil than it can possibly produce and, in fact, production will go lower," Mr. Sprott said in an interview yesterday.

The price of crude hit a record intraday high of \$129.60 (U.S.) a barrel in New York yesterday after billionaire hedge fund manager T. Boone Pickens said oil would reach \$150 a barrel this year. Oil then settled at a record close of \$129.07.

"We are not surprised by oil being at \$129 or natural gas being north of \$11 [per million British thermal units] and going higher," Mr. Sprott said. "The demand for alternative energy are all things that we would totally expect to be happening. ... Within two years, I can imagine [oil] going to \$200."

Canada has hit a peak in conventional oil production, while the U.S. did so in 1970, he said. "Russia looks like it peaked about four or five months ago."

Sprott Energy's biggest holding is Timminco Ltd., a producer of silicon for use in making solar cells. It also owns companies like Oilexco Inc., Pan Orient Energy Corp. and Corridor Resources Inc.

The fund also has a big investment in "what we call the Quebec shale-gas play," said Mr. Sprott, referring to potential unconventional natural gas reserves under the shale of the St. Lawrence lowlands.

Laura Lau, a portfolio manager at Sentry Select Capital Corp., also believes in the peak oil theory. "I do believe that production is diminishing, but I also believe that, with higher prices, there will be a supply response from non-conventional sources," like oil sands and gas shale, she said.

Ms. Lau, who co-manages the Sentry Select Canadian Energy Growth Fund, sees crude oil reaching \$200 a barrel, but "I would not say it would be sustainable."

People will change their habits and drive smaller vehicles, while developing countries like China, which subsidize oil prices for their consumers, may not continue to do so, she said.

Ms. Lau expects a pullback in the oil price within the next three months because there is "lot of speculation" in the commodity, but doesn't see it falling below \$90 a barrel.

While investors might be concerned about jumping into an energy fund given current high commodity prices, they should understand that those stocks are only pricing in oil at \$75 to \$85 a barrel, and natural gas at \$7.50 to \$8 per million BTUs, she said.

Some of her favourites energy plays include Oilexco because of its development and exploration prospects in the North Sea and because it "doesn't have a lot of hedges" on the price of crude oil like many of its peers. Pacific Rubiales Energy Corp., the "premier oil and gas company in Colombia," is also favourite, she added. "They have tripled production and tripled their margins in less than a year."

Meanwhile, Garey Aitken, a portfolio manager with Bissett Investment Management, said he is surprised by the swift rise in the oil price. "The big unknown is the speculative forces in the marketplace," he said.

But Mr. Aitken, who runs the Bissett Energy Fund, said he is more "more bullish on natural gas" prices than oil. "I think these high crude prices will drag along natural gas prices as we move through 2008," he said.

His fund, which focuses on smaller-company stocks, includes names like NuVista Energy Ltd., which has more exposure to natural gas than crude oil. He also likes Mullen Group Income Fund, whose operating company is involved not only in conventional trucking, but also transporting drilling rigs for the energy sector.

Mr. Aitken, however, said he is not a believer in the peak oil theory. While it is getting increasingly difficult for the energy industry globally to supply oil, increased demand will only "motivate the industry to bring on incremental, higher cost supply," he said.

"In four or five years, the industry will be supplying more and more crude oil than today," he predicted.

Energy funds have lots of pep

	Net Assets (\$million)	MER	Year-to-date return	Returns (as of April 30)				
				1-year	3- years	5- years	10- years	
Bissett Energy CC-A	\$5.8	2.5%	40.8%	-	-	-	-	-
Dynamic FocusPlus Energy Inc Trust	\$438.8	2.3%	31.0%	22.9%	16.3%	-	-	-
Sprott Energy	\$222.9	2.9%	30.8%	15.5%	22.7%	-	-	-
Sentry Select Canadian Energy Grwth	\$20.9	3.2%	30.3%	12.0%	12.2%	18.5%	13.1%	-
iShares CDN Energy Sector Index	\$543.3	0.6%	29.3%	20.9%	23.3%	28.4%	-	-
Sentry Select Cdn Energy Grwth Cl	\$4.5	3.3%	28.9%	11.0%	-	-	-	-
RBC Global Energy	\$568.8	2.1%	21.7%	16.2%	20.4%	27.4%	16.1%	-
Altamira Energy Fund	\$18.6	2.9%	21.4%	11.0%	22.1%	-	-	-
TD Energy	\$271.4	2.2%	21.4%	9.5%	19.2%	25.5%	13.2%	-
Claymore Oil Sands Sector ETF	\$21.1	0.6%	21.1%	24.7%	-	-	-	-
Qwest Energy Canadian Resource Cl	-	3.5%	20.9%	9.6%	-	-	-	-
Dynamic Global Energy Class	\$3.0	-	20.5%	-	-	-	-	-
CI Global Energy Corporate Class	\$193.2	2.3%	19.8%	16.1%	22.8%	31.0%	-	-
CIBC Energy	\$172.4	2.4%	17.5%	- 2.9%	14.1%	24.7%	14.4%	-

DOUGLAS COULL/THE GLOBE AND MAIL

SOURCE: GLOBEINVESTOR.COM