1/31/23: Online Chat Transcript

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Roger Conrad
1:53
Greetings everyone and welcome to our Capitalist Times live webchat for January 2023. As always, there is no audio. Please type in your questions and Elliott and I will get to all of them as soon as we can comprehensively and concisely. We will be sending you a link of the complete transcript of the Q&A after we conclude, which will be when all questions in the queue have been answered, as well as all those we received prior to the chat.

Thanks again for participating. Let's start with some the pre-chat questions:

Q. Hi Roger: I've been parking cash in VMFXX. It's great but can you recommend an ETF that serves this purpose? I'd prefer to be able to exit the Money Market and buy some stocks without waiting until the next day. Regards—**Kerry T.**

A. Hi Kerry. I don't have any money market ETFs to recommend to you at this time. There are some Ultra Short Duration ETFs, including an Invesco Fund traded as "GSY." But I'm not sure there are really any advantages to using this as a place to park cash versus a conventional open-end money market fund. Mainly, you'd be paying a commission for buying and selling. Also, all ETFs also have fees, and they're by and large higher than those charged by open-end funds.

If your priority is having funds available for intraday trading, my best suggestion would be just to stick with whatever sweep account your brokerage has. The yield difference shouldn't be meaningful and there would be none of these itinerant issues. I would also say that if you've investing in a money fund to follow my advice in our long-term publications, the conditions of pulling money in and out of a money market fund shouldn't make too much difference—if any at all.

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Q. Roger, Elliott. I would like your opinions of the US LNG export market to Europe once the Russia/ Ukraine conflict resolves? **Cheniere Energy** (NYSE: LNG), **Cheniere Energy Partners** (NYSE: LNG) **Chevron Corp** (NYSE: CVX), **Shell Plc** (NYSE: SHEL), **Sempra Energy** (NYSE: SRE), **ExxonMobil** (NYSE: XOM) and **Total Energies** (NYSE: TTE) all have substantial LNG operations & shipping to Europe. What companies have most likely long-term growth with and without Ukraine conflict? Keep up the good work, chats, and insights. --**Jim D.**

A. Hi Jim. Good question. The key here is the business of building and operating LNG export facilities is fundamentally long-term. Mainly, it takes several years even in a best case to site, permit, finance and build new capacity, especially when it's in an entirely new location or so-called "Greenfield" LNG. Then there's the needed midstream infrastructure to support it, which must be able to connect areas of prolific reserves—like the Permian Basin of west Texas but also the Marcellus in Appalachia—to the coasts where it can be made ready for shipment.

Given these lead times and the expense involved, no one builds new capacity unless it's long-term contracted in advance.

Existing LNG facilities in the US are seeing great traffic that conceivably could be less someday if Russian gas re-enters the European market. But the existing capacity at these facilities is also now heavily contracted—so the owners will continue to get paid. And whatever new capacity is under construction now is similarly already secured by long-term contracts.

Bottom line: No one has any idea when or even if Russian natural gas will flow to Europe again as it once did. But the existing US LNG export facilities and the ones being planned and built now will all be secured by contracts for decades to come.

Q. Gentlemen. First of all, thank you for these live chats. They are a great opportunity for us subscribers, and I'm sure they take a lot of effort on your parts. Now on to my question: I own **Cogent Communications Holdings** (NSDQ: CCOI) and noticed it has been moved from a buy to a hold. I haven't been able to find a reason for the rating change on the website. Can you please elaborate? Thanks! —**Bob D**

A. Hi Bob. The main reason is the recent pop in the stock to a level where the yield isn't really that attractive. But I'm also wary of the company's dividend policy in a year where recession is a real possibility. The primary business here is hooking up buildings to fiber broadband. Demand has been robust to date. But this is also a business where competition is heating up, especially from the US Big Three—T-Mobile US, AT&T and Verizon. And they have much bigger balance sheets and wider reach to do the job than Cogent does. It's essentially the same problem every other company in the communications business has. And the potential for margin pressure makes it very difficult for companies paying dividends that aren't Verizon or AT&T.

Connecting office buildings also has question marks, given we're really yet to see a post-Covid lockdown work balance emerge. This is a challenge noted by Cogent's CEO in recent earnings calls. And though the company has dealt well so far, there's no assurance it will be able to

indefinitely if we do see a shakeout in the office property market—which in any case is likely to weaken further in a recession. Finally, the company has a lot of floating rate debt, the cost of which is much higher than it was a year ago. **Bottom line: I see a lot more risk relative to reward with Cogent now than I have in recent months**. Hope this answers your question.

Q. Roger. I need your current view of the never-ending nuclear snags in Georgia. I read accounts in the Atlanta Journal Constitution that talk about how basic the missing pipe components are to a nuclear operation. And the fact that they were missing makes me question the integrity of the construction capabilities of the two delayed over budget plants much delayed under construction. What are the risks of yet again more delays and cost overruns to the stock? Thanks—**Gary J.**

A. Hi Gary. This incident in and of itself doesn't appear to be such a big deal--basically the current prognosis is a one-month delay in startup at a cost of $15 mil or a penny a share to 2023 earnings. The risk is obviously that this takes significantly longer to repair than the now estimated one month and/or that more problems are discovered in testing that lead to further delays and more costs.

Southern has agreed to absorb all of these costs as part of its deal with its partners as well as Georgia regulators. On the other hand, the company should be able to learn from what's happened with Unit 3 to prevent a repeat in the process on Unit 4--so it may be they can balance off these costs when it comes to the entire project. And this incident was announced more than two weeks ago, so the lack of additional news on the situations can be interpreted as good news.

As shareholders, the Vogtle startup is critical and it's why I haven't raised the buy target on the stock from 70 to date--and above 65 up until very recently. There are going to be a lot of questions asked during the earnings call on Feb 16--and possibly we'll hear some news beforehand.

To be clear, I don't think we can rule out further delays and higher costs for the project before the plant starts up--management has said as much recently in fact. And this project still has many critics--including a lot of people who believe nuclear is not a viable long-term power source. It’s a safe bet they’re going to continue to point out the flaws in the press, most probably long after startup as well.

But this is also far from the biggest disruption/cost increase we've seen on this project. And so far, at least, it appears Vogtle is still going to be in operation this year. So, no change so far in my advice, which is buy up to 70 for those without positions.

Q. Hello Roger, are there any good investment opportunities in the fusion space even though they might be risky? Is there an ETF that specializes in clean energy innovation? Thanks! --**Robert N**.

A. Hi Robert. Unfortunately, so far as investments are concerned, fusion is still far more hype

than substance, as it has been for decades. There are penny stocks advertising supposed "breakthroughs" that periodically make the rounds—but none that we would recommend to anyone to buy at this time.

So far as growth in nuclear power, the most exciting thing going on now in my opinion is **NuScale Power Corp's** (NYSE: SMR) development of small scale reactors. The company's design is the first SMR to be certified by the US Department of Energy, with a final rule slated to enter the Federal Register on February 21. And there are incentives in the Inflation Reduction Act for investment as well. This stock too has seen its share of hype. And I don't expect real earnings anytime soon. But it does look like we're going to see some orders here in the US—earlier this month they signed a contract for front-end engineering and design in Romania.

The best play on currently operating nuclear power plants is **Constellation Energy** (NYSE: CEG), which spun off from Exelon Corp early last year. My view is they're very well placed for rising cash flow and dividends the next several years at least. The stock, however, is somewhat expensive after roughly doubling from its post-spinoff price.

Q. Elliott, Roger: Mining companies have done well recently, and talk of China reopening seems positive for them. Can you share your thoughts on **BHP Group** (ASX: BHP, NYSE: BHP), **Vale SA** (Brazil: VALE3, NYSE: VALE) and **Freeport McMoRan Inc** (NYSE: FCX)? Thanks—**Dennis H.**

A. We're very favorable long-term on big mining stocks. Of those three, Vale is the cheapest now because of concerns about Brazilian politics—since its operations are heavily concentrated there. We believe worries about the new government are overblown. But BHP and Freeport are more geographically diversified, which limits their overall political risks.

Near-term, we're a little less bullish, since prices of these stocks will follow commodity prices—which are likely to drop from here in the event of a recession this year. Our view is China's opening is bullish. But it will likely take some months for growth in demand there to accelerate enough to offset weakness elsewhere.

We recently produced an extensive report on metals for our Capitalist Times service. If you're interested, please contact Sherry at 1-877-302-0749 between 9-5 ET, Monday through Friday or email service@capitalisttimes.com.

Q. Hi Roger. I see that green energy darling **NextEra Energy** (NYSE: NEE) has taken a hit apparently due to misses in revenue and earnings. Perhaps you can send out an analysis as to what went wrong after the dust settles like what you wrote regarding **Kinder Morgan Inc** (NYSE: KMI) in the last Energy and Income Advisor. As always, I find your insights informative and helpful. Kind regards--**Jim C.**

A. Hi Jim. NextEra actually did not miss on anything in Q4 or the full year 2022. They actually extended their guidance for 6 to 8 percent earnings and 12 to 15 percent dividend growth by

another year, through 2026. And they increased their 4-year renewable energy installation target by 15 percent over their projection from last year, indicating robust demand at both the regulated Florida utility and the nationally leading solar and onshore wind generation franchise.

Instead, as I highlighted in the update I sent out yesterday, the stock is under pressure for political reasons—mainly, the company is under investigation by the Federal Election Commission for alleged violation of state and federal campaign laws. The total amount of alleged contributions in question is less than $1.3 million. So, the risk here is not from what fine the company may face but that its very strong relationship with Florida regulators may be threatened.

I think that's unlikely, given NextEra's strong storm response, low rates and the popularity of its solar deployment. But this is a pretty good indication of the high bar of expectation high valuation companies like NEE are facing in this environment.
I still rate the stock a buy at 80 or lower for long-term, conservative investors.

Q. Roger's picks are more profitable than a utility-based mutual fund. My 401k with Fidelity only allows me to invest in mutual funds. Do you know of any funds that come close to, or feature a good selection of Roger's recommendations? —**Mark P**.

A. Hi Mark and thanks for the compliment. The "funds-only" restriction of many 401Ks—often just the funds offered by the sponsor—is a pretty good illustration of how big Wall Street firms so heavily influence the rules of investing as laid down by the federal government. One way around these restrictions is to convert your 401K into a SEP IRA in which you can buy your own stocks—though that may not be possible given how the big firms run that side of the game as well.
If you're stuck investing in Fidelity funds, you're going to be buying pre-packaged baskets of stocks and possibly bonds—so it will be hard to duplicate anything we're doing here. They do still have an energy fund (FSENX), which at last count was heavily weighted toward major oil stocks. And **Fidelity Select Utilities** (FSUTX) owns large utilities, with nine of its ten largest positions also Conrad's Utility Investor portfolio stocks.

I still believe very strongly that investors who buy their own stocks are going to outperform the averages and ETFs the next several years. But these funds would be somewhat tracking our energy-related holdings, if they're available to your 401-K that is.

Q. Hi Roger. In the latest CUI+Plus you mention two money market funds are closed. I recently found out that Schwab has a proprietary money market mutual fund for investor class SWVXX. It's no load and pays monthly around the 15th. It was 4.6% when I bought and recently 4.1%. To get cash I have to sell whatever amount and and wait until the next morning to get the cash. I read that it can have a $0.00 balance. Really appreciate your thoughtful advice. —**Sandra W**.

A. Thanks Sandra. We have received quite a few questions about alternatives to the **Vanguard Federal Money Market Fund** (VMFXX). Thanks for passing on this suggestion. VMFXX

yields 4.1% at last count, SWVXX 4.3% and slightly better. But either is a good alternative in my view.

Q. Hi Roger. I won't be able to attend the chat coming up on 1/31, but I have a question: TD Ameritrade (now Schwab) where I have my accounts will not allow a purchase of Vanguard money market funds. Do you have a Schwab MM fund similar to VMFXX that you like? And would you put all of your cash ($500K +) into just one MM fund? Thank you again for all you do! —**Tom**

A. Thanks for the question, Tom. I would check out SWVXX as recommended by Sandra in the previous question. As for investing all your cash into one money market fund, I don't think we're at the point here where money market defaults are a real concern—and we're not likely to be for the foreseeable future. In any case, the US government made it clear it would defend the $1 NAV of money funds during the last financial crisis in 2008. And it seems likely it would in a future crisis, given how devastating not doing so would be.

jeff B
2:04
Roger, what is your take on UTG. It's now paying 7.7%. I am more interested in safe income that capital appreciation at my age.

Roger Conrad
2:04
Hi Jeff. I really prefer buying individual stocks. But I think if you're going to buy a utility stock fund, closed end funds **Reaves Utility Income Fund** (NYSE: UTG) and **Blackrock Utilities Infrastructure & Power** (NYSE: BUI) are your best bets. CEFs are essentially a black box--you don't know what's inside other than the snapshot offered in official documents, which by the time they're published are well out of date. And dividends are at the discretion of managers--they're only rarely covered fully by dividends and other income. But both of these have a solid track record, appear to own strong stocks and trade around net asset value--and dividends have historically been reliable.

jeff B
2:09
I have a position in TDS preferred's. I am currently underwater. I know you have a sell on the common. Would you have the same opinion on the preferred's?

Roger Conrad

2:09
Hi Jeff. The preferred stocks are underwater primarily because of rising interest rates. Because they're essentially perpetuities without maturing dates, this type of preferred stock tends to act like a long-term bond--so interest rate swings have a much larger impact than they would on a short-term bond for example. The other issue is credit. TDS announces Q4 earnings and guidance in mid-February and will almost certainly show the same pressures on cash flow from elevated CAPEX, floating rate debt cost and very likely declining revenue. My view is that raises risk of a common dividend cut. I don't think there's meaningful default risk at this time, which means preferred stocks should still get paid. And if rising rates moderate, pressure on preferreds share price should moderate as well. But I do think there are better places to have your money.

Jeffrey H.
2:15
Dear Roger/Elliot, my question is perhaps a bit from left field but I think this is the venue to ask it in. What are your thoughts about the investment possibilities in emerging markets? I took a position in ILF (Latiin America/South America) at the beginning of the year and it's done rather well -- do you see further potential in that area of the world?

I am also interested in knowing your thoughts about investing in emerging market debt through a suitable bond fund. Howard Marks has written some encouraging things about emerging market debt recently and his opinions are not to be sneezed at. Nor are your own. So, I am curious about your thoughts. Many thanks.

Roger Conrad
2:15
Hi Jeffrey. We currently hold a couple of emerging market utilities in Conrad's Utility Investor--**America Movil** (NYSE: AMX) and **CLP Holdings** (OTC: CLPHY), which is a China play. Our view is a resurgent China will help both stocks. And its notable that the Hong Kong dollar is pegged to the USD, while the Mexican Peso was one of the few currencies to show strength against the USD in 2022. AMX has done particularly well so far this year, and offers a lower risk play on Brazil. We also hold **AES Corp** (NYSE: AES), which has a large investment in Brazil and other developing countries. Bottom line is at this point we prefer individual companies with clear long-term advantages to big baskets of stocks or bonds. But we are increasingly positive on selected countries and will likely have more recommendations for you later this year.

Jack A
2:18
Hi Elliot:

Natural gas has fallen very low.... What are thoughts about purchasing UNG or BOIL as an investment and waiting for a pop? The price for both of these have been considerably higher in the past....

Thanks

Elliott Gue

2:18

Thanks for the question. We put out a [flash alert] regarding natgas a couple of weeks ago and generally we have a constructive view on gas at current levels. Simply put, the main driver of the 70% plunge since last August is a warmer-than-average winter here in the US (and in Europe). However, there's always the possibility og a late season cold snap that changes the picture over the next few weeks. Further, in just a couple of months, the market's attention will turn to summer heat and the potential for strong gas-generated electricity demand, particularly in the western US this summer. Finally, the inevitable result of low prices ($3/MMBtu or so) is a decline in US production growth that helps tighten the supply picture. The timing of this is, however, uncertain and buying UNG (or even more so BOIL) and waiting can be costly because of the way these ETFs roll their gas futures exposure. So, generally, we believe longer-term investors should focus on owning high quality gas producers (like CHK).

In my options trading service, I have a trade on UNG that utilizes calendar call spreads -- in this way we can take advantage of the volatility in UNG to help set up a low-cost bullish position on gas. However, I am wary of simply buying UNG/BOIL as a long term, investment -- in my opinion, I prefer to trade these ETFs only when there is a near-term bullish catalyst for gas. Right now, there's no obvious catalyst -- it's more a question of the view that gas is too cheap for the long-haul and should recover at some point.

Ben F.

2:22

Good afternoon, Elliott and Roger -

National Fuel (NFG). It appears cheap and has a record of paying dividends for 52 years and raising them for 51 years. Low payout ratio as well.

Good time to buy more?

Roger Conrad

2:22

Hi Ben. National Fuel Gas has been a Conrad's Utility Investor recommendation for the past couple years. We were able to recommend taking partial profits on it last year when natural gas prices were peaking. Now it's looking a lot more interesting with natural gas prices dropping. NFG shares would likely drop further in a recession. The main reason I'd be comfortable holding

is it's the last of the true integrated gas companies, combining very stable regulated utilities and pipelines with more cyclical gathering/processing and production. That ensures modest dividend growth. And as we're still in the early stages of this energy price cycle, we look for this stock to eventually take out the previous cycle's high of near $80 the next few years. NFG is a buy at 65 or less--though I never recommend really loading up on a single stock, no matter how attractive it looks.

Don C.
2:32
Roger/Elliott---I was a bit surprised by Chevron's announcing a $75 billion dollar share buyback over the next several years. Do you think that this was wise given politicians complaining about buybacks so much these days? Also, do you think that it is better to do buybacks rather than pay down long term debt? Many thanks for these chats and your measured advice over the years.

With gratitude

Roger Conrad
2:32
Hi Don. Thanks for joining us today. Addressing Chevron's debt first, it had a total of roughly $21.8 bil at the end of 2022. That compares to $17.9 bil of cash on its books and projected free cash flow after dividends (following the increase) of $20 bil for 2023. Stock buybacks of $75 bil the next few years--or nearly one fourth of market capitalization--will obviously consume a lot of cash. But they are at management's discretion and the company has indicated they'll be implemented over several years. **Bottom line: Debt has been reduced sharply over the past year and is no longer really a factor for Chevron**.

As for the politics, hot rhetoric aside, odds of a windfall profits tax in the US are not zero but are still extremely low with a pro-fossil fuels development House. And they're historically ineffective, so I doubt the Biden administration really wants them anyway. I think CVX is pricey here--but the buyback won't hurt it in my view.

Fred W.
2:33
Hi Roger and Elliot,,
A few weeks ago I had read where the Biden Admin was letting Venezuela send a tanker full of oil to the United States, and, that they may be preparing to purchase more dirty crude from the awful Venezuelan regime.

If true, what is your take on the probability of this happening and would the volume eventually have much of an impact on the price of crude oil here in the United States?

Also, would it have an impact on such pipeline stocks such as EPD, ET, KMI and or oil majors such as XOM, COP, ETC, ETC?

Thanks for the wonderful service you provide.

Elliott Gue
2:33
The US hasn't imported any oil from Venezuela since 2019. It is true that the Administration has allowed Chevron to reactivate some of its assets there and import some of that oil into the US. There are some complex restrictions on that including that Chevron can't help Venezuela produce from new fields, the idea is generally to allow CVX to recoup some of the investments it has made in production capacity there over the years. At any rate, I don't think that imports from Venezuela will be significant in terms of volume or have a significant impact on the price of oil or refined products in the US. Let me put it into context: Venezuela's total oil output is less than 700,000 bbl/day and total US demand is more like 20 million bbl/day. As recently as late 2017, Venezuela produced over 2 million bbl/day but consistent mismanagement of resources and the lack of investment haver pretty much obliterated their production capacity. To make matters worse, the US is really one of the only countries that has the capacity to refine significant quantities of heavy Venezuelan crude. The only US company that might benefit a bit would be Chevron, but it's not really significant and the volumes would also be meaningless to the pipeline operators in my view.

Rick P.
2:40
Roger, any significant update on CEQP?

It seems like it is basically flat for January and missed the rally that other stocks have experienced this month.

Thank you

Roger Conrad
2:40
Hi Rick. Midstream stocks are typically last to the party in an energy upcycle--and despite big gains the past couple years that's proving the case this year. Eventually they do shine, as robust pricing increases output and throughput. Until then, the important thing will be the dividend, and management's ability to deliver an increase in April. Crestwood will announce Q4 earnings and update guidance on Feb 21. And I expect to see solid dividend coverage, despite management's warning earlier this month that Q4 results will be affected by weather and will push 2022 results "slightly below prior guidance." The earnings warning is probably the reason for

underperformance. But keep in mind CEQP is still up for the year--and the solid dividend of nearly 10% is a pretty good headstart for returns this year.

buddy
2:44
Elliott, As the energy market matures and spreads out, especially the services industry (offshore and deep water), you never have any new ideas or recommendations. You stick with the same old safe names month after month that you recommended when the energy market started to turn up a year and half ago. Why? I am sure your subscribers would like some new opportunities that likely have more upside potential, me included. Thanks for your reply.

Elliott Gue
2:44
As the cycle matures, we will likely add to the list of names we like. And, as you know from the past few issues, we believe services are one of the top areas to focus on. However, we haven't seen a great reason to move out the risk curve to date as the bigger, safer names have generally offered superior returns. After all, consider that since the end of 2020, shares in SLB are up 170% and XOM are up 209% -- the Philadelphia oil services Index is up 118% since the end of 2020 and the S&P 500 Energy Index is up about 160%. Similarly, our favorite names a year ago in our January 2022 issue included SLB, XOM and VLO which are up 92.2%, 96.2% and 92.3% versus 69.3% for the S&P 500 Energy Index and 79.9% for the Philly Oil Services index.

Wayne H.
2:45
There is some discussion on the news media that the current development of solar and wind energy is reducing oil and gas development investment to the point that we may be at peak oil and gas demand. Is this realistic?

Roger Conrad
2:45
Hi Wayne. First, rapid development of wind and solar is likely to continue--with solar likely to benefit this year from the massive increase in Chinese polysilicon production capacity. But as we've pointed out, global demand for oil and gas is still rising--and is projected to do so for years to come, as the developing world increases energy intensity.

In any case, reduced investment in oil and gas--relative to previous cycles--is probably the single biggest reason why this price cycle is shaping up to be one of the most robust ever. Simply, systematic underinvestment as we've seen the past few years depresses supply relative to long-

term demand--whether we're talking about pipelines or oil/gas wells. That means higher prices--and profits/share prices for energy stocks.

Monroe J
2:52
What is your opinion of SWN as a long-term play on natural gas?

Elliott Gue
2:52
I like SWN's portfolio repositioning in the Haynesville and Marcellus Shales and I think that if you use a long-term US gas price assumption of about $4/MMBtu, which is our assumption, then SWN can generate significant free cash flow. Last i checked, they do have a significant hedge book this year with close to two-thirds of their 2023 production hedged at $3/MMBtu or less, so this could reduce their near-term leverage to a recovery in gas prices. Also, they're viewed (correctly) as a riskier proposition because of their significant debt load; however, as an aggressive play on healthy long-term gas prices (again around $4/MMBtu) SWN is worth a look. Right now, in the model portfolio we've focused on the highest quality names (CHK, EOG being 2 with gas exposure) due, in part, to concerns about near-term volatility in energy stocks.

Gerald L.
2:54
A couple questions for Roger today:

1) What are your thoughts on ARLP? Big dividend boost and solid results in the face of coal headwinds.

2) You've previously stated that when a company routinely reduces guidance and sees sequential declines in revenue, that is often a red flag for future performance. Doesn't Verizon seem to be falling into that category now considering the last several earnings releases?

Thanks

Roger Conrad
2:54
Hi Gerald. Basically, Alliance Resource Partners is making up for lost US demand by exporting heavily into a market greatly strengthened for coal by Russia's invasion of Ukraine. And higher demand and prices in recent months have enabled it to pay a much larger distribution this year--which actually should hold this year with 94% of expected 2023 coal sales volumes committed and priced by contract. If you're going to invest in coal, ARLP would be my favorite with its

practice of sharing the wealth through dividends. But recognize that growing reliance on exports also means cash flow and dividend will be increasingly cyclical--as demonstrated by the omission of the dividend in 2020. And any number of factors can worsen the situation post-2023, from a recession to peace in Europe.

As for Verizon, as I noted in the update this week, Q4 results and guidance do demonstrate stability--they are still adding customers and revenue, while showing signs of monetizing 5G. And lower CAPEX is raising free cash flow.

Kerry T
3:03
Hi Roger and Elliott:

Thanks for holding these chats. I always learn a lot by reading the transcripts.

1. Are any of the ETFs in this article suitable as a replacement for VMFXX?

https://money.usnews.com/investing/slideshows/best-money-market-etfs-t...

2. I just bought some **Vermillion Energy** (VET) at $15 this morning. Do you still like VET? They are rated buy<25 in your Canada and Australia portfolio. Your buy levels are in US Dollars, not Canadian, correct? VET got up to $70 back in 2014. Do you expect VET to get back to that level as the energy cycle matures? Hard to resist such a bargain.

regards

Roger Conrad
3:03
Hi Kerry. Well, the yields are lower than for comparable money funds, including both the Vanguard and the Schwab fund highlighted above in previous questions. The fees seem to be higher. Plus, you'll pay commissions to buy and sell, just as you would with any ETF. As for the idea you can sell and then use the proceeds to buy something else the same day, keep in mind that trades have to clear once an order is placed--and that may not happen as fast as you'd like depending on when a trade is executed. In any case, it's hard to see any advantage.

As for Vermilion, I think they're on the right track, demonstrated by the rising dividend (up 10% in Q1). The share price is going to be affected by oil and gas prices. And I think that will be a major plus as the cycle unfolds--no guarantee of a return to $70 but its possible certainly. Buy prices are in USD. I rate it a buy up to 25, though a recession could take it lower this year.

Mike C.

3:08
Happy new year to all at CT, including Sherry!

The two-part EIAs, with deeper dives into macro forces, are really useful for understanding this overall moment and the 'why' of what's going on. Thank you!

A few questions:

First, natural gas… with the recent flash alert on natgas prices, and an options play in progress, are you contemplating a pure trade in UNG, as we plumb the depths of the natgas cycle?
And, what's your current thinking for the bottom and the top of the natgas price range in 2023?
While oil and gas prices have corrected (as you note in the just-out EIA), I keep reading about how the US is below the five-year storage average for oil, and the SPR remains at historic emptiness. It seems like the commodities markets are pricing in a slowdown or recession already, while the stock market has moved on. What do you think catalyzes a move to the upside in oil?

And related, does this bring another moment to take profits in names like XOM, if that occurs before a recession?

As always, many thanks

Elliott Gue
3:08
Thanks for the question and the kind words about the macro issue just released. We would definitely contemplate a long trade in natural gas for our ***CT Trader*** trading service. Generally, though, before we enter a trade like that, we want to see some sort of near-term catalyst for a change of trend. While we definitely think gas prices are near the low-end of their range, apart from a potential cold snap I don't know what's going to cause gas prices to surge near-term -- it's quite possible they'll trade flat for a while and then jump in the spring when the market refocuses on summer cooling demand. With options, we can make money in a flat market by selling premium but just buying UNG and losing a bit when the ETF rolls exposure to the next set of futures means timing is critical.

I would say that, even in a recession, I don't see serious downside for either oil or gas from current levels. Spikes to the $60's/bbl for oil are possible in a deep recession, but I do think OPEC would react by slashing output. Gas near $3/MMBtu is unsustainable longer term because production would begin to fall from key basins like the Haynesville. Energy stocks are a different story -- even in a flat commodity price environment, energy stocks can get hit if the broader market is weak. Our concern remains that while the stock market has priced in the rise in rates to a great extent, it hasn't fully priced in deteriorating corporate earnings amid the (likely) coming recession. That's why we recommended raising cash via taking profits on some of our recommendations back in November and I'd say that we'd consider doing more of that should energy stocks rise further in the context of continuing weakness in the economic picture.

Clint W.
3:14
Roger/Elliot:
Please help me better understand the bull case for Plains. There are quite a few analysts bullish on Plains. However, I keep reading articles that make me concerned there is more risk this time that Plains will be unable to realize premium pricing like previous oil cycles. Here are a couple of examples:

> M. Boyd: *The big surprise from Kinder Morgan during the Q4 2022 conference call was their view that a new Permian pipeline was not needed until late 2026 or early 2027...[W]hat was new was their view on overall United States production growth being on the lower end of expectations.*
> Morningstar: *We now do not think Plains has a moat. ... The biggest problem is that Permian takeaway pipeline capacity is closer to 8.5 million barrels per day compared with about 6 million barrels per day of current production. The overbuild is because several new pipes entered service in 2019 and 2020 just as COVID-19 destroyed demand.*

Now, with public oil and gas firms committed to shareholder returns... (cont.)

Roger Conrad
3:14
Hi Clint. I think their 5 cents per share per quarter dividend increase is a pretty good sign Plains has gotten its house in order the past couple years by cutting costs and debt and refocusing on stronger operations. The shift in credit rating outlook to "positive" from Fitch--also announced this month--also demonstrates progress made cutting debt. And progress appears set to continue this year, with Plains expected to generate $1 bil plus in free cash flow after all CAPEX and dividends paid. Q4 earnings and updated guidance are set for Feb 4. This is the most volumes-sensitive midstream we hold in the EIA portfolio--and our concern about a recession is why we pared back the number of shares we hold in December. But the dividend looks very safe. And I also notice there's heavy short interest against PAA that's in danger of getting squeezed--which makes me a little bit distrustful of bearish views, especially with insiders buying and 16 of 22 analysts rating PAA buy as tracked by Bloomberg Intelligence.

Clint W.
3:19
not growth at all costs, the oversupply issues become more of a long-term problem.

A little context to the pros/cons on Plains would be appreciated. Thanks for the very excellent service you provide.

Roger Conrad
3:19
The biggest pro would be that Plains--like the other large, dominant North American midstreams--has adapted its business model to a tepid volumes environment. The history of past cycles is that volumes do eventually increase/recover, and Plains has the capacity to accommodate without significantly ramping up CAPEX. Also, I would argue that systematic underinvestment is also systematically increasing the value of existing pipelines/energy transport infrastructure. That's amply demonstrated by the Biden Administration's shelving of efforts to shut down DAPL, Line 5, STL etc--as we noted in the first part of this month's EIA issue.

Again, we have to look at the numbers Plains reports next month along with guidance. But the dividend increase certainly isn't a bad sign.

buddy
3:27
Elliott, Over a year ago I asked you about FTI. The price was under 6 (now it is nearly 14). I asked you about it again at least two times and you had the same reply..too early for deep water and sub sea. FTI is signing several large contracts with companies like XOM and Petrobras. Blackrock just increased their large position in the company. Is it finally time to buy this stock? I also have the same question about NOV, which you have said was too early to buy for the last 18 months.
Elliott Gue
3:27
As I mentioned a little while ago in the chat, we will likely add to our list of recommendations over time as this cycle matures. And I/we like FTI in particular longer term. However, we haven't really given up anything by focusing on the bigger, lower volatility names this cycle. Our top services recommendation has been consistently SLB, which has been an outstanding performer over the cycle and more recently. Just consider that since the cycle low in mid-2020 SLB is up 223% compared to 168% for the SP Energy Index, 169.5% for FTI and 100.4% for NOV. Since the recent low on 09/26/2022 SLB is up 68.3% compared to 70.2% for FTI and 65% for NOV. Our view has been that, while we like names like FTI fundamentally, why run out the risk curve to buy smaller names right ahead of a potential recession and pullback from the group while the steady hands like SLB and XOM are providing such outstanding short, intermediate and long-term returns? My guess would be that as we near the mid-point of the cycle...

...similar to what happened in the last super-cycle names like SLB and XOM will be fully priced and we'll have to reach for some of the higher beta names to generate index-beating returns. But, that hasn't been the case to date.

Arthur
3:29
Gentlemen did you ever have a chance to investigate Diversified Energy Company PLC OTCQX International: DECPF https://ir.div.energy/us-press-releases/detail/145/diversified-energy-...

Roger Conrad
3:29
Hi Arthur. The dividend is certainly attractive on its face. But this is a very small company (market cap $1.2 bil, sales $1.6 bil) that's operationally based in Alabama but with a stock that seems to do most of its trading in London (London: DEC). it is pretty much universally liked by European energy analysts who track it. And they appear to be increasing production systematically with acquisitions--such as those in Oklahoma announced in October 2022. There is also the possibility of a US listing this year, which would greatly ease purchases for most investors in the US. Aside from the OTC listing, the main drawbacks here are cash expenses per barrel--which were up 31% in 2022 from a year ago, indicating acquisitions are not to date boosting economics of scale. Also, revenue is likely to drop this year despite output increases, as oil and gas prices drop--which may mean the dividend increase is short lived. Bottom line--interesting stock to watch but going into a likely recession we like what we have more.

Jerry
3:36
Any new developments on AQN as they did cut their dividend as you suspected. Did they mention anything on selling their

Roger Conrad
3:36
Hi Jerry. There's nothing really new to report with Algonquin since they announced their strategic plan a couple weeks ago--the main goal of which is to reduce debt by saving cash with the roughly 40% dividend cut and $1 bil targeted asset sales. Ratings were shortly after affirmed at BBB by S&P (negative outlook) and Fitch (stable outlook). But the key now is execution on the plan, including the forecast April close of the Kentucky Power acquisition from American Electric Power. Management has now affirmed it will hold its Q4 earnings and guidance call on March 17 before the open. That timing suggests it expects to have something to say about Kentucky Power and/or a major asset sale--with the 42.49% ownership stake in **Atlantica Yield** (NSDQ: AY) a good candidate. This is a watch and wait situation now--though the Jan 12

declaration of the 96.875 cents/sh dividend on the AQNU preferred we hold is paying us to do so.

John r.
3:36
Please update your comments regarding the timing, length, and depth of the upcoming recession vs your comments of 6 months ago.

Elliott Gue
3:36
Generally, my view hasn't changed a great deal. I think the timing of the recession is a bit later that I expected back in the middle of last year -- maybe Q2/Q3 start now vs. Q1/Q2 2023 -- because consumer spending held up a bit better than I'd expected for a little longer than I'd expected. If anything, my indicators suggest a deeper downturn than I'd have guessed in the middle of last year, but it's not a significant change. Every economic cycle is a little bit different; however, what's most unusual about this one is the timing of it. So, normally, the stock market doesn't peak more than 12 months before the start of a recession -- this time, the market peaked in January 2022 but I doubt we'll be in recession before Q2, so the peak of the bull market was "early" relative to historic norms. My best guess as to why is that stocks have priced in the rise in rates to date but have not priced in the likely decline in corporate earnings once the recession starts. So, my guess remains that this bear market in the S&P 500 will be unusually long even if the recession is of average length and duration. Further, I still see significant new lows ahead for the broader market.

buddy
3:46
Elliott, EPD just raised the payout again (great news) yet the stock price sold off. Of all the MLPs I own (7), this one acts the worst by far, yet you and Roger claim it is the best in the class. Can you comment on why this high quality MLP is so hated. Thanks.

Roger Conrad
3:46
Hi Buddy. I wouldn't call Enterprise Products Partners "hated" exactly--for example, it did return 18.6% in 2022, when the S&P 500 was lower by -18%. And the total return for this year so far is 7.7%, which beats the S&P's 5.6% as well as the producer-laden S&P Energy Index' 2.7% and even the Alerian Midstream Index' 6.1%. It's also recommended buy by 21 of the analysts tracked by Bloomberg Intelligence versus 3 holds and no sells. We've seen a lot of insider buying recently as well--and short interest at 1.48% of float is pretty low relative to other midstreams,

for example Plains, which as I mentioned above has 7.49% short interest.

Enterprise shares are, however, right now about 39% below their high of the previous energy cycle ($41.38) in Sept 2014, while their never-cut dividend is 36% higher than it was then. That may seem like a head scratcher until you take into account midstream always lags the cycle. In this case, you have a dividend of nearly 8% growing 5% plus yearly as incentive for patience.

Jerry
3:48
AY stake

Roger Conrad
3:48
Hi Jerry. Continuing your question--Algonquin has not mentioned specifically that a sale of Atlantica is in the works. but we have seen some speculation of that affecting Atlantica's share price this month. I'm comfortable AY either way, though I think a sale around the current price would be a huge plus to AQN and potentially set up a full buyout of the yieldco at a premium price.

Gene H.
3:52
If you were going to buy SO, would you buy now? after Unit 3 comes online or wait for unit 4?

Roger Conrad
3:52
Hi Gene. My advice on Southern is for those without positions to buy at 70 or less. As I noted in yesterday's CUI update, it's clear the stock is trading at less than 70 pretty much entirely because of concerns the startup of Vogtle unit 3 will be delayed past the current projection of April--and that the one month estimated expense of $15 mil will increase. But I consider the lack of news since the delay announcement on Jan 11 to be good news. Q4 earnings and guidance update is Feb 16--and we should find out a lot more then.

Alex M
3:54
Hi Gentlemen. May I please get your opinion on ARLP after the recent earnings release and dividend boost? Thanks.

Roger Conrad

3:54

Hi Alex. I answered that question at length a bit earlier in the chat. Short answer is ARLP is capitalizing well on higher coal prices outside the US, which are offsetting the loss of stable contracts with US utilities as coal plants close here. That means cash flow and dividends should be considered volatile--though they appear to have contracts to lock in prices this year.

JT

3:58

Hi, Roger. I have a tax-free Schwab money market fund SWWXX, When I make a withdraw the funds are immediately available. My question is, do you still like KREF?

Roger Conrad

3:58

Hi JT. I think KKR Real Estate Finance Trust is well placed to be a rare exception in the financial REIT sector to avoid a dividend cut this year. That's primarily because it's an arm of private capital firm KKR, which has deep pockets and expertise in the markets it operates in. As I noted in the latest REIT Sheet, I'll be especially interested to see if management's projection of rising profits from increased short term interest rates pans out. And if it does, now relatively tight dividend coverage should improve greatly. That will be Feb 7. Until then, however, I consider KREF a solid holding for more aggressive REIT investors.

Elliott Gue

4:02

Q. Gentlemen, I read an article in the Wall Street Journal today about new Gulf of Mexico drilling being done by **Transocean** (RIG) that suggests the possible start of a trend that could enhance the future prospects for drillers. When seeking your current position on drillers, I could only find one-line summaries on HP, PTEN and NBR -- all of which you rate a "Hold." How about RIG, RES, HP or OIL? Are any of these possible "Buys?" Do you have any macro-level thoughts about drillers in general? Thanks for your advice on this question, along with your continuing guidance.

A. Contract driller can be divided into two main "camps," the land-based drillers like NBR, PTEN and HP and the offshore names that would include names like RIG or NE.
Offshore rig utilization collapsed during the energy bear market as drilling activity collapsed and there was an oversupply of rigs. Lately, it's been tightening and day rates – the daily fee paid to drillers to lease their rigs – have been on the rise, particularly for capable deepwater rigs. GOM is part of that but there's a lot more, including drilling operations underway in places like Guyana.

My biggest concern with RIG has been their leverage/debt, which is impeding their ability to generate free cash flow as rig utilization picks up. I have been looking at NE closely in the past few months as they recently closed an acquisition that doubled their size and I think that could be a boon to their free cash flow and potential to initiate a dividend.

Guest
4:02
Could you go over some of the shareholder friendly (and mostly smaller) oil stocks with the variable dividends?

Roger Conrad
4:02
We have done that in the past in Energy and Income Advisor, though I would say as a rule the larger companies that pay a portion of variable dividends like EOG and Pioneer have been as shareholder friendly as anyone could expect. By way of a smaller producer paying variable dividends, we've recommended **Black Stone Minerals LP** (NYSE: BSM) in Energy and Income Advisor as an aggressive play on our High Yield Energy List. Not surprisingly, they've been increasing their payout robustly recently in line with higher natural gas prices. I think we can probably expect a lower payout at some point this year, given the drop in gas, which is why I've held the highest recommended entry point at 14. We would also expect other variable rates to drop temporarily before the next upleg of the cycle.

Elliott Gue
4:03
Our main reason for not wading into names like RIG/NE is we felt that we had good offshore leverage from a name like SLB with less risk, particularly ahead of a potential pullback in the energy patch as a whole.

Onshore rig demand is driven primarily by shale drilling activity (though some of them also have int'l exposure). Frankly, we've been a little worried about a slowdown in US shale drilling

activity driven by a combination of producers' desire to maintain positive free cash flow alongside labor and equipment shortages.

Generally, HP is probably best of breed in this group given its cleaner balance sheet and high-quality fleet.

Alex M
4:11
Major moves over the last few days in SJIJ, the baby bonds for utility SJI. Is this because of an upcoming delisting of the bonds so all of the funds have to sell because they can't hold pink sheet securities or something? Thanks.

Roger Conrad
4:11
The latest news for South Jersey Industries is New Jersey regulators have at last approved the takeover of the company and the deal will close on February 1. The 8.75% mandatory convertible preferred will pay off at that time. that time, SJI common will cease trading, and management has also said it will "voluntarily" delist its 5.625% junior subordinated notes due 2079 from the NYSE.

The company's new owner privately held Infrastructure Investments Fund will still have to pay interest on South Jersey's bonds and preferred stocks. But anything that's delisted will be much more difficult to trade and even to get a price on. And it's likely some institutions have to sell. I'm also fearful that some brokerages will simply start accounting for them as worthless--which will entail investors having to fight. We should be able to get an OTC quote for readers through Bloomberg. But the easy way here is to sell and move on as many are doing apparently.

Jim
4:14
Could you go over some of the shareholder-friendly (mostly smaller) oil producers with the variable dividends you may favor?

Roger Conrad
4:14
Hi Jim. I believe I just answered your question in the chat. Like I said, we like several companies paying variable rate dividends as the cycle moves higher. It's likely many payouts will go lower in the near term due to the recent backing off of oil and gas prices. But you can expect us to

continue recommending the best to you in Energy and Income Advisor--along with the best entry points.

Michael C
4:21
Hi guys, thanks for the chats, they are great! My question is PSX (Phillips 66), I noticed it is down 6+% today. Is this a good place to pick up some shares?

Roger Conrad
4:21
Hi Michael. The price of PSX came off sharply today following the company's release of Q4 earnings and updated guidance. I think that's basically a matter of investor expectations getting ahead of themselves for the company, as results were pretty robust for its most important operations in refining. And adding $5 bil in stock buybacks is not chump change at more than 10% of market capitalization. Neither is $4.5-$5 bil in projected free cash flow for 2023 after dividends paid, which is enough to pay off all debt due between now and the end of 2027. We're definitely taking a look at it, though Valero is our favorite in the refining space.

Guest
4:24
Gentlemen: 2 Questions about (i) conservative v. aggressive recommended companies and (ii) diversification. I have a lump sum of money to invest. I need income (not growth), have invested in your recommended "best in class" companies and hence have found the MLP sector very attractive for the last 10 years. Thank you again for your sage advice and astute analyses these many years. i subscribe to ALL of your newsletters!!!! I am contemplating dividing the money equally among the following 14 companies: ET, MPLX, EPD, MMP, ENB, PBA and TRP in the midstream sector; NEP and BEP in the renewables sector; MO in the consumables sector; VZ in telecommunications sector; BXP in the REIT sector, BHP in the minerals sector; and CHK in the oil/gas sector. 1. Which of these companies do you consider conservative? Aggressive? 2. Do you consider this to be diversified?

Roger Conrad
4:24
Thanks for your question. We definitely like all of these energy companies as long-term holdings, as our services indicate. And while you may want to consider a financial stock or a big pharma, this is a pretty diversified list, as well as a concentrated one in sectors that should outperform the next few years. By way of a breakdown, I would consider BXP, BHP, CHK and ET as more aggressive and the rest conservative.

Alex M
4:33
Hi Roger. As a San Diego resident, Sempra Energy is our local utility. They are attracting lots of news scrutiny due to dramatic increases in rates (gas bills for many in our neighborhood jumped over $100 even though usage barely moved). We already pay some of the highest rates in the country for electricity, and they just passed on another major increase in nat gas prices. I have to wonder if the regulators will start to crack down on their allowed returns in the near future... like what happened to PNW. Any thoughts on this front? Thanks.

Roger Conrad
4:33
Hi Alex. As in every state, the commodity price of energy is passed directly through to electricity and natural gas bills paid by consumers and businesses--with no earnings impact on utilities like Sempra Energy. And in California, there's an added degree of separation--as revenue for Sempra, PG&E, Edison International and others is "decoupled" from demand. They get paid a return on investment in their wires and pipes--that's the sole source of their earnings.

It's possible regulators could try to reduce the hit to consumers by cutting utilities' allowed returns. But the saved grid fees wouldn't amount to much relative to the commodity price pass throughs. And it would demonstrably hurt investment in grid upgrades, renewables adoption, EV stations etc that regulators believe will save consumers money in the long run--as well as leave systems more exposed to wildfire.

That doesn't mean California wouldn't make that move anyway. But Sempra's LNG and Texas operations would shield its earnings in a worst case.

Guest
4:36
Hi Roger: Sorry to ask a dumb question - but is TRP a midstream company or an E+P company like CVX and XOM?

Roger Conrad
4:36
No dumb questions. TC Energy is the second largest midstream energy company in North America, with extensive oil and especially natural gas pipelines. It also owns and operates the largest nuclear power plant in North America, Bruce Power in Ontario. **I like it at USD50 or lower.**

Guest
4:38
Roger: Are ENB and PBA conservative midstream companies? Are they similar to MMP, EPD and MPLX in size and "best in class" status? Am wondering if I should diversify my holdings beyond ET, EPD, MMP and MPLX. Thanks.

Roger Conrad
4:38
Yes, I would consider them conservative midstream companies. Pembina is the 3rd largest midstream in Canada and has proven its conservatism and ability to weather cycles over the years. Enbridge is the largest midstream in North America--also a player in renewable energy. I think both are best in class midstreams as are EPD and MPLX. The key differences are neither is an MLP and both are priced in and pay dividends in Canadian dollars--which means ups and downs in the Canadian dollar will affect your returns.

Charles
4:44
Recently I have read that there is a lot of opposition from environmental groups and efforts to delay or cancel offshore wind projects. I have held dominion stock for several years and am concerned about this resistance and what effect it might have on dominion stock.

Roger Conrad
4:44
Hi Charles. I don't think environmental groups are a major factor affecting offshore wind development at this time. For one thing, the Biden Administration has gone all in to streamline the regulatory process, with the target of advancing 16 arrays to the construction stage by 2025.

What is happening--as I noted in an Income Insights last week for CUI readers (call Sherry at 877-302-0749)--is rising costs due to inflation, rising interest rates, supply chain strains and lately by competition for skilled labor/capital/materials from offshore wind projects elsewhere in the world. That's particularly true in Europe where the industry is far more developed and where governments are straining to quickly wean themselves off natural gas.

Dominion announces earnings and guidance on Feb 8 and the cost of offshore wind will be front and center--along with the strategic review. I think there's real potential for a beat of low expectations on both, which is why I've stuck with the company.

Charles

4:47
Recently I have had concerns about my D stock in regards to the rising concerns and opposition from environmental groups to offshore wind projects with some pushing for a pause or outright cancellation of these projects. Should I be concerned?

Roger Conrad

4:47
Hi Charles. Again, the challenge here isn't environmental groups--in fact, all of the important ones are pushing for more offshore wind to replace gas, coal and nuclear. The concern is costs. Dominion said it would lock in 90% plus of Coastal Virginia Offshore Wind costs by Q1--we'll see how well they did on Feb 8.

John P
4:51
Roger and Elliot, thank you for giving us good credible advice backed by data and historical records. I have two questions, the first is what does the data tell you about the timing of the recession? and when would be the best time to add to some of Rogers real estate picks? Thanks John

Roger Conrad

4:51
Hi John. One recurring takeaway from Q4 results and guidance is there is evidence of a slowdown in more cyclical businesses--and management is planning for it, which means best in class companies should be able to weather it. And looking ahead for REITs, it's more about how well those preparations match up to what actually happens. My view is rather than try to time when a recession kicks in, watch the prices of individual stocks. And if you can get them at a good level, start investing incrementally--one third of your intended investment now, one third in six weeks or so and another third sometime in Q2. That's basically the advice I've been giving in the REIT Sheet, which those interested can get a look at by calling Sherry at 877-302-0749.

Gary
4:53
what would be your top 5 holdings for 2023 if that is all you could select?

Roger Conrad
4:53
We highlight specific stocks in all of our services--and which you choose is really a matter of objectives, what you already own and how much risk you're willing to take in a market we think will go lower.

Elliott Gue
4:56
Question: I couldn't find any mention of how a subscriber would have done by following your EIA portfolios for year 2022. I made the attached spreadsheet myself to figure it out. I'm not sure I've got it exactly right but it looks like the average gain of all the stocks in the Actively Managed portfolio was +25% and +15% if following the share allocation. This is really great compared to the S&P 500 (-19%) but much less than XLE (+58%).

Can you provide a table that shows EIA performance over its lifetime?

You've mentioned that you believe the coming years should be great for energy investors: far better than holding the S&P 500. I've looked at 10 year charts for the stocks on the Actively Managed Portfolio and I can see that some of them would have to go up a lot to get to the highs in 2014. Some have already approached or exceeded their 2014 highs. Is it the stocks that still have a ways to go that will give us those outstanding gains or do you think already expensive companies like PXD, OXY, VLO, XOM, and EOG will go way beyond what they were in 2014?

Answer:
We'll likely publish the full-year 2022 EIA returns in February and I'll make a note to include the longer-term returns from the service there (or in a future "appendix" to an issue) as well for reference. I don't have the final numbers in front of me, but the preliminary numbers I have are higher than those you referenced, mainly for two reasons:

Moves we made through the year (adding or subtracting shares) and, more importantly, the effect of dividends.

For example, since recommendation on March 31, 2022 Chesapeake Energy was up 8.5% in price terms through the end of 2022 but up 17.6% if you include dividends received, which is in line with the S&P 500 Energy Index 18% return over a similar holding period.

Pioneer Natural, which we held through the year, was up 25% or so in price terms, but up 39.8% inclusive of dividends paid.

Because energy is such a high-income industry group these days, those dividends can really change the picture.

Also, our Actively Managed Portfolio is a combination of energy stocks ranging from producers/upstream, oil services and equipment, midstream companies (pipelines/MLPs), refiners/downstream. So, since the model portfolio covers the waterfront of energy sectors, it's not directly comparable to any particular energy index.

We tend to benchmark specific recos against their associated energy sub-sector indices.
For example, the S&P 500 Energy Index (and XLE) is mainly two stocks (Exxon and Chevron have a more than 40% index weight); it was up close to 65% last year on a dividends reinvested basis. XOM, SLB, and OXY were among the 5 top-performers in the index last year and are all in the model portfolio.

guest
4:57
Elliott: Your seeing significant new lows ahead for the broader market makes me wonder if we should not just sell into strength and wait on the sidelines-particularly if our stocks pay no more dividends than CD's. Thoughts

Roger Conrad
4:57
If you're looking for a unified portfolio approach--actively managed, cash component, specified numbers of shares to buy--we do have a couple of offerings you might be interested in, depending on what you want. CW/CT Growth is Elliott's total return portfolio. CUI+Plus/CT Income is the income focused portfolio I manage. We think our strategies give us the ability to produce positive returns this year no matter what the market and economy do. And the income portfolio yield does top CDs. You can get a look at both by calling Sherry at 877-302-0749.

Elliott Gue
4:58
The SPDR Oil & Gas Exploration and Production ETF (XOP) is a second widely followed energy index that includes the big upstream names like XOM but is equal-weighted, so it holds a larger share of the smaller and mid-sized producers. It was up more like 40% last year; two of our top picks in this area were EOG and PXD, the first up about 56% on a dividends reinvested basis and the second up slightly less than XOP at 39.8%.
The oil services index (Philadelphia Oil Services Index) was up 61.1% last year – out top pick (SLB) was up 80%+, though one of our other picks here lagged (BKR, +26%).

Then, you have the MLPs, which don't tend to generate the level of capital gains of the upstream names but generate most returns via income. The Alerian Index was up about 30% last year – we benchmark a num,ber of our recommendations against that index as well.

As far as future returns, I would say that energy markets have changed significantly since the peak of the last cycle in 2013-14.

So, some market leaders from the last cycle – deepwater drillers and proppant sand miners among them will probably never regain their 2013-14 trading levels. Indeed, some of the leaders from that era don't even exist today.

Others, like SLB for example, are still a long way off their peak. However, we believe they've adapted their business and evolved to the extent that they can ultimately regain or exceed their 2014 highs.

Then, there are names like VLO and XOM which have already regained their erstwhile peaks in price terms. However, these companies have also increased their profits significantly – even though the trading price is higher, they're actually not as fully valued as they were in 2014.

Let me give you an example. In 2014, XOM generated $12.2 billion in free cash flow and had an enterprise value of $422.6 billion (market cap + net debt) as of year-end. This year, XOM should generate $40+ billion in FCF (that's conservative) and has an enterprise value of just under $500 billion.

So, it's producing a ton more cash than it was in 2014, but the total value of the company is actually not much higher than it was in 2014. Indeed, while XOM shares are up a lot in percentage terms over the past year, you could say the stock is still very cheap.

BKNC
5:02

Hi Roger and Eliot,

I just got on the chat, so hopefully this is not a questions which had already been asked.

As always, thank you for your insights over the years. Recently some of your recommendations have been going lower and are in the territory where I was looking at adding to my positions. Some are at or close to dream buy prices. Could you give us your present opinion on Dominion Energy, Brookfield Renewable, Kinder Morgan and NextEra Energy? Would you recommend one over another? Do any of them have things to be concerned about?

Roger Conrad

5:02

I like them all. Dividends are generous, safe and going higher this year, backed by steady asset expansion. I will have extensive analysis of Q4 earnings and guidance in the February issue of CUI, which posts Feb 8. Of the list, Dominion carries the most uncertainty now, as it's in the middle of a strategic review that's likely to include asset sales and is dealing with rising costs of offshore wind deployment in Virginia. As I noted earlier in the chat, NextEra Energy shares are under pressure due to what I believe are overblown fears of a negative shift in Florida regulation but is otherwise extremely healthy. Brookfield faces some skepticism about some acquisitions in progress I expect it to answer with Q4 results next month. But these are all solid companies and good buys at current prices, though I never recommend really loading up on any one stock even at a Dream Buy price.

AARON

5:03

Roger, is it safe yet to "get back in the water" with the Vanguard Tax Free Intermediate Bond fund?

Roger Conrad

5:03

Hi Aaron. I still prefer the money market fund--it yields about 1.5 percentage points more and is not at risk to further interest rate increases.

jeff B

5:06

Roger, you state that in an up cycle MLP's are the last to run up. I own EPD and MMP. I would like to add a one more. I was thinking MPLX and ET. Which one would you choose, or would it be both?

Roger Conrad
5:06
I think either or both would be a fine addition. I picked Energy Transfer as my number one choice for 2023 earlier this year and it's already up about 12%, though still below my highest recommended entry point of 15.

Incidentally, the quarterly dividend is now back at the pre-pandemic rate of 30.5 cents per share, just as management promised more than a year ago. That's an impressive testament to this company's turnaround, which I expect Q4 results to reflect on Feb 15.

Victor
5:10
Your buy under price for ET is $15. In general midstreams don’t get so much attention by option traders However the open interest on the $15 call options out on Jan/24 is more than 100,000. I’m not sure what to make out of this. Are your expecting this one to move much higher?

Roger Conrad
5:10
In a word yes. As I noted answering the previous question, the dividend is now back at the pre-pandemic rate and the share price is still about 10% below. I think that's a pretty good near-term target and we may see it next month following guidance. But longer-term, I think we'll see a return to the June 2015 all-time high of $35 and change--and possibly a lot more by the time the cycle downshifts. The dividend is 25% higher now than it was then, and the company is much stronger and dominant in its space. It’s just going to take patience for investors to ride it there, because again midstream is usually the last sector to participate in energy up cycles.

5:14
Jim T I am currently considering some changes;(1) lightening up on FANG and ERF and buying CHK, VET and TRP. Additionally, what are your thoughts on the future of Canadian Energy stocks with the new pipeline capacity to the Pacific and China opening up? Thanks for your advice.

Roger Conrad
5:14
The new pipeline capacity--when it arrives--has to be bullish for Canadian producers, which have been constrained since the Keystone pipeline to the US was stalled. TC Energy is a midstream company, while Chesapeake and Vermilion are producers. TC will benefit from new pipelines as an owner of infrastructure. And Vermilion will as a producer, though the bulk of its business is now in Europe. As indicated in this chat, we're bullish on all three.

Guest
5:16
Thanks for the chat.
Roger Conrad
5:16
Thank you for joining us today.

Guest
5:17
Elliott, further to your reply above, I own SLB and have for 18 months, same goes for BHI and HAL, although you told me not to buy HAL. What wrong with owning FTI and NOV at the same time?? We both knew deep water and sub sea would heat up. You refuse to realize that much of the appreciation in stocks like FTI and NOV occurs during the anticipation phase. By the time the anticipation becomes reality, it is too late. Things are coming together for NOV now, as we knew they would, and the stock has more than doubled in value.
Elliott Gue
5:17
There's nothing wrong with owning a stock like FTI or NOV alongside the other recos. However, the purpose of the Actively managed model portfolio is to offer our top recommendations across various energy sub-sectors (upstream, big oils, refiners, MLPs/midstream, services, etc.). So, generally we look to recommend a few names from each group that (we believe) offer the best upside potential and the best risk/reward potential. I have no problem with FTI/NOV and, as I've mentioned in the past, FTI is a name we've considered adding. However, in the model portfolio we have to narrow down our exposure to just a few of our top names with leverage to the best

growth trends in each sector -- in this case, we've generated superior returns with those recommendations. In some cases, we explicitly state we prefer one name to another -- for example, SLB to HAL because we believe int'l offers better upside (SLB has performed better than HAL).

Elliott Gue
5:17
Of course, we do recognize that markets discount the future not the present. Ever since this cycle bottomed in 2020, while the consensus on Wall Street was peddling vacuous group-think about the end of oil, the sustainability of XOM's dividends, and lower for longer prices, we've been doing just that. We certainly wouldn't have recommended a name like PXD or EOG in early December 2020 based on their near-term prospects. We've been trying to look ahead to what's actually likely to happen with oil/gas prices and the names that are best placed to benefit. No, we haven't added every one of the best stocks to the portfolio but the ones we have added, on the whole, have outperformed and by a sizable margin.

Fred W.
5:19
Hi Guys,
One more quick question.
Since you both foresee a relatively strong oil market over the next few years, how would you suggest I allocate the bulk of my portfolio (percentage wise), between the different portions of the oil market, ie, Pipelines, Oil majors, Natural gas, Refiners, etc?

Thanks again for the great service and advice that you both provide.

Roger Conrad
5:19
Hi Fred. Thank you for those kind words.

It's probably time for us to revisit the cycle again--and how it works regarding returns on various subsectors. But the best way to answer your questions now is to suggest you take a look at our Energy and Income model portfolio, which not only has recommended stocks but also advises how much of each to own. We also have a cash component to the portfolio now, which reflects our view that prices could soften a bit in the near term--if our forecast for a recession and resumption of the stock market slide comes to pass.

jeff B

5:22
Do you have an opinion on Coterra?

Roger Conrad
5:22
It's currently rated a buy at 22 or lower--tracked in our Exploration & Production coverage universe, which you can access on the EIA website. The stock pays a variable dividend that's been all over the map recently, mostly to the positive but could go lower this year due to the drop in gas prices.

Victor
5:30
Elliott, you have indicated that you expect that we'll enter into a recession this year. Whirpool provided positive guidance on their earnings call. I was expecting the opposite. It seems that consumers are still spending money. When you look at the COMPQX, it's making higher highs, in contrast to what we saw only a few months ago. Similar situation with the SP-500. Are you still thinking that we'll enter a recession and that we'll see the SP-500 below 3500? Your thoughts. Thank you.

Elliott Gue
5:30
Yes, I still expect a recession. Earlier on in this chat, I mentioned an unusual quirk in this cycle, whcih is that the market peaked more than a year before we got a recession (That's not happened like this the 1940s). I think the reason is that over the past year, the market has been grappling with the rise in interest rates but hasn't yet really priced in the likely earnings hit; historically, the earnings recession is what powers the second leg of the bear market and a drive to new lows. I must confess, I haven't really looked through WHR's call yet; however, most of the stocks that have beaten so far this quarter are basically beating a low bar of expectations after months of steady downward revisions to estimates.

Elliott Gue
5:30
One more point I'd like to mention is that we are seeing something of a stealth bull market underway, the mirror image of 2021. Basically, many NYSE stocks bottomed back in October

and the average stock is up significantly since time -- since the 10/12/2022 closing low, the S&P 500 is up 14.5% but the S&P Equal Weight is up 17.1%. While this is an encouraging sign broadly, it doesn't mean the market has bottomed -- breadth improved through most of the 2000-02 bear market even though the averages continued to fall, weighed down by heavily-weighted large cap components. In this case, the stocks that are performing well are more cyclical and the laggards are tech -- I suspect this reflects the fact the market is still focused on interest rates (hurts tech) and has yet to grapple with a likely recession.

Roger Conrad
5:33
Q. Roger: Hope all is well with you. Two questions for the upcoming chat: Do you think the weather-related damage to the **PG&E** (NYSE: PCG) system is sufficient to delay the onset of a dividend-whenever that might have been planned? Do you have advice on positioning one's portfolio to best weather the possibility of a government shutdown and the associated potential damage to the markets? --**James C.**

A. Hi James. The key issue here so far as weather for PG&E has been wildfires. And mid-month, the company reached a $24 mil settlement over claims from the Dixie Fire, which despite the state of California finding fault is not a big hit and should cap the total damages within the amounts covered by wildfire insurance. It's never great to be at fault or to have to pay out damages, which in this case amount to around $1.15 bil. But compared to the previous decade's damages, this is solid progress and a good sign that grid investment has been put to good use. And I don't believe anything coming out of recent weather is significant enough to derail recovery plans, including eventually resumption of the dividend.

As for how to weather the possibility of a government shutdown, such an event would almost certainly be very negative for growth. The last time this happened, we saw payments to government contractors interrupted, for example. Treasurys ironically strengthened, because the assumption was Washington would not permanently default and that bonds would be safer than stocks in a resulting recession.

My view is the government will find a way to avoid default. But the best way to prepare for such an utterly idiotic and preventable outcome as an investor would be to do what we're doing now—prepare for a further market decline and potential recession by hardening your portfolio and raising a little cash.

guest
5:36
Regard the oil super cycle: We know oil is a component in so many products we use and depend on so a certain level of demand will be there regardless of the EV situation. This continuous demand for oil certainly played a part in driving up prices and inflation. This brought J Powell onto the scene with higher interest rates to lower demand for products and lower employment

which, if successful, will further lower demand for products and oil. When Powell pivots it seem employment, oil and misc product demand will rise until Powell comes back on the scene. Simply a circle of demand and demand destruction. How does a super cycle work into this scenario without some event such as war or OPEC activity?

Elliott Gue

5:36

Generally, commodity cycles are driven by both supply and demand but supercycles tend to be dominated by supply. The reason for that is that demand can change quickly and doo to the normal economic/business cycle. It can change on a proverbial dime while supply can't -- it takes years to bring significant new production onstream. The Fed can't control supply, only (kind of) demand. So, much like the 70's-early 80s, prices can come down temporarily when the economy softens but they tend to surge right back once the economy recovers. The only real "cure" for a supercycle is a significant expansion in supply -- in the late 70's early 80's it was Mexico, Alaska, the North Sea, etc. That's what truly killed oil price inflation more so than Paul Volcker. This supply cycle will see setbacks, but it won't end until there's a wave of investment that improves the supply picture.

Victor

5:42

Elliott, how do you feel about HAL at these levels? What is the outlook on this one. How much more upside do you see? Also what's your opinion on CTRA and RRC?

Elliott Gue

5:42

I think HAL is OK, but I prefer SLB. The reason is that the biggest growth in services spending is coming from places like the Middle East and Latin America, where SLB has a superior market position. Both CTRA and RRC are primarily natgas plays -- I think both are OK longer term but we still prefer CHK and, in particular, it's exposure to the Haynesville Shale near key Gulf Coast demand centers.

Roger Conrad

5:45

Q. To begin, thank you for ongoing guidance & extra effort, including these live chats. How do you feel about the timing for investing in fixed income (such as a layered Bond portfolio or Preferred Stocks)? I would greatly appreciate your thoughts on this.--**Harvey F.**

A. Hi Harvey. It's our pleasure. Thank you for your questions. Basically, I don't see a lot in fixed income that's attractive right now. Most of the short-term bonds I highlighted in the December issue of Conrad's Utility Investor, for example, have rallied to levels where yields to maturity are 1-2 percentage points lower than where I recommended them. I would suggest looking at the list and seeing what your broker can locate.

Victor
5:45
Hello guys and thank you for this service. Elliott, what is your outlook on oil prices when you consider that China comes back online and the SPR releases are ended? Inventories are down as is production and daily demand for crude oil worldwide is expected to increase in the next 3 years.

Elliott Gue
5:45
Thanks for the question. Both and end to SPR releases and China demand are positives as is the fact I see OPEC willing and able to provide price support around $70/bbl through further production cuts if needed. However, the weakening economic cycle is a headwind -- we still see oil prices averaging in the $80/bbl area this year. I'd say the risks are skewed to the upside (higher oil prices), particularly in the first half of 2023.

Roger Conrad
5:46

One more note to Harvey-- At this point, I think we're best off with money market instruments—which yield as much or more than bonds of similar risk and aren't at risk to persistent inflation and a Federal Reserve determined to corral it. We're also better off with money funds in a recession, since much shorter maturities mean they don't carry the same credit risk as bonds.

The day will come again when bonds are attractive both for yield and risk. But neither is the case

at this time and the best course is to keep our powder dry.

Dudley
5:53
D has a product called Dominion Energy Reliability. Kind of like a money market. Currently pays 4.5%. No withdrawal restrictions. Please provide your thoughts. Thanks

Roger Conrad
5:53
Hi Dudley. I haven't looked at that one. As I've said, I think Dominion Energy's ongoing strategic review will involve asset sales that should allow the company to significantly reduce debt without too much of an impact on earnings and ability to grow dividends. And I continue to like the common stock long-term, so I'm comfortable with the credit risk of DERI--which oddly enough looks like a relatively low-cost way for Dominion to raise capital. Generally speaking, though, I would prefer a money market fund with a greater variety of security issuers.

Roger Conrad
5:55
Well, that appears to be all we have in the queue today, as well as from what we received prior to the chat. Once again thanks to everyone who participated today. As always, you've given us a lot of food for thought. If for some reason you feel your question was not fully answered, please drop us a line at service@capitalisttimes.com and we will get back to you as soon as we can.

5:57
We will be sending out a link to the complete Q&A to all of our Capitalist Times members, and it will also be posted to our various websites.

Tommy L
5:57
Thank you for today's web chat. Always great insight!

Roger Conrad
5:57
Thank you, Tommy.

Roger Conrad
5:57
Have a great evening everyone!