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Invest in Energy Now

Oil is over as a result of excess production and the opening of Iran will further flood the market so unconventional oil will become too expense to produce. Now is the time to be a vulture in the oil patch as overleveraged companies go bust. These are two of the prevailing narratives in the market right now. Not only are they largely contradictory, they are both false.

Oil is far from over, unconventional energy is here to stay and now is actually an excellent time to invest in all sorts of energy plays, but don't expect fire sales any time soon. The problem with following market intelligence is that the squawk is largely about the virtual reality of short-term public market trading, so the actual reality of real world things is often missed. Here are a few observations from the real world worth considering. Feel free to factor these into a short-term strategy, but also consider their long-term significance.

Oil is not over. Far from it, despite promising commercial advances in distributed renewable power and storage, no credible analysis could lead to the conclusion that oil is anything nearly like over. Moving down the carbon energy menu, gas consumption will certainly rise as an alternative to coal. We may now be seeing the beginning of the end of coal, but probably not anything near the end of that beginning.

There has certainly been a recent imbalance in supply and demand that has led to a price adjustment but that is not likely to persist much beyond the end of the year. It's already abating. Don't take my word for it. This is as reported by the International Energy Agency as well as every other credible thought leadership resource. The rebalance is due to falling rig count resulting from the lower prices as well as the beginning of a market-based response to the reduction in petroleum prices, as well as some resilience in the global economy.

For a moment, there was a clever analysis being tweeted around that total global storage capacity was about to run out, leading to a worldwide production shutdown. Hmm. That didn't happen, but the chatter drove prices down again for a few weeks after the recover had already begun. Careful what you read in the news.

Even if you don't want to rely upon experts, just look at the behavior of the industry. Saudi Arabia is using the slow-down to fund additional exploration and production at reduced drilling costs, as are many unconventional players in North Dakota, the very place where the price drop is supposed to be putting folks out of business.

Major consumers, notably China, are moving to amass greater access to production, and several savvy players looking to control storage capacity as an investment play. These are not responses to a long-term, persistent glut. Even the most pessimistic experts concede that a price rebound to the $60 to $70 range is the most likely scenario, probably by the end of 2015.

It is no coincidence that this figure is generally understood to be the fully loaded cost of unconventional US production, since the market depended upon at least some of that production to fulfill the global demand, pre-production boom of 2013/2014. So a rebalance to a level that supports some but not all of that supply is most likely. Indeed, unconventional is showing remarkable resilience, even in the face of the current price dynamic, so don't count out that sector.

As for Iran, that capacity will add a bit to the global supply, but some of that oil has already been floating around to places that will take it, and in some cases in spite of the sanctions. If and when the sanctions are lifted, it will have an incremental, not transformational impact on global prices. Again, think about long-term impacts, not inter-day commodity market numbers —unless you happen to be, in fact, an inter-day commodity trader, then, by all means, fret away.

But don't start thinking that it's a clever time to become a vulture investor. Banks learned during the global financial crisis to be patient in the face of market events not the fault of their borrowers. As long as their debtors are acting as good caretakers of the collateral assets, why go through an expensive ownership succession proceeding? Most lenders will waive covenants and wait for a price recovery.

But now is the time to invest in energy assets of all sorts. Vulture investing aside, asset prices are certainly lower now than they were and likely will be again in the near future, so now would be a smart time to deploy capital into conventional and unconventional energy. And don't forget about renewables.

Many investors abandoned renewable energy as the oil price fell. This may have been logical in Mexico where power is heavily fueled by diesel, but not in the United States where solar and wind compete with coal and increasingly gas. There is great potential in this sector as well due to the increasingly competitive cost of distributed production versus the big utilities–which are in the process of a reinvention, also creating an investment opportunity.

In short, energy is an asset to invest in now.