



# FUTURES \$ OPTIONS

## “Waitin’ on a Sunny Day”

by Philip J. Baratz, C.T.A.\*

Being that this issue of *Oilheating* will coincide with the Atlantic Region Energy Expo (AREE) in Atlantic City, New Jersey, I thought it would be appropriate to make the title of the article a tribute to Bruce Springsteen, the Jersey Shore’s favorite son, and to try to make a point about what too many oil dealers do when trying to get their hedging-house in order.

Each year, about this time, as the heating season winds down, dealers start to look at hedging for the coming winter. Usually that thinking is accompanied, and skewed, by the events of the most recent winter, and thoughts of “how can I do this a little better”. The reality is that you just can’t out-smart the markets—no matter how hard you try. Each year is different, and if we have seen one thing in our 14 years of helping heating oil dealers maintain and expand their margins, it is that the year’s low price can come at ANY time (sometimes in June and sometimes in January), and that the HIGH prices can come at any time (sometimes in March and sometimes in September). Yet, many still wait for the Sunny Day. They can’t describe it—‘but they know it when they see it’, to paraphrase Justice Potter Stewart’s comment from 1964. The intangible, gut feeling used by all too many oil dealers to make their hedging purchases (whether they are wetbarrel contracts, wetbarrels into storage, futures contracts or options) might turn out to be correct, once in a while, but to base a major part of your business’s profits on successfully guessing each year is, at the least, a risky proposition.

Compounding the Sunny Day waitin’ is the fact that (at least at the beginning of March) prices are higher for the coming winter than they were a year ago at this time. We are seeing different price drivers than a year ago. Last year, we were ending Gulf War II, and it seemed as if the economy would stagger forward, and that Iraqi oil would be hitting the world markets imminently. Now, a year later, the economy seems to be in the midst of sustainable growth, demand for oil is up, and barely a drop of Iraqi oil is dependable, thanks to the ongoing uncertainty in that region. If you add those factors to the plummet that the U.S. Dollar has taken, you find that, oddly enough, prices were more certain in times of war that they are now. ‘Odd’ and ‘oil pricing’ often go hand in hand, and we are again viewing that reality.

So, we don’t know where prices will go, and we do know that they are very high (at least relative to where they were a year ago). But many still insist in waiting for the Sunny Day. What if that day doesn’t arrive until July? What about if not until September? What about if it doesn’t show up at all? Plenty of oil dealers spent all of last summer and fall waiting for the right time to buy—although many of them weren’t even sure exactly what that time (or price) would be. It’s

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EASY to put out a pricing program to your customers—whether the program is a cap, a fixed price, or a pre-buy, the challenge is met by just making the offer. The real challenge begins when you want to cover yourself to make sure that you can deliver upon your offer to your customers, AND make the profits that you need for your business.

So, when do you buy? Without a sound plan, many end up panic-buying when the market rallies. This knee-jerk reaction is usually right after the dealer says, “I knew that I should have bought last week/month/etc.” However, when prices are moving lower, there is an almost smug attitude of “see, it’s going my way. I’ll just wait a little longer...” But, if it declines more, the same comment is restated. In other words, you can end up buying only as the market increases, not as it decreases. Considering the goal is to “be in the game”, not to pick the bottom, this method of buying is a sure-fire loser.

What if you offer somewhat ratably over the spring and into the summer? In all likelihood you would not pick the bottom, but you wouldn’t end up with the top either. There are over 250 days each year that you can purchase oil—your chances of picking the top as THE DAY are less than one-half of one-percent. Picking the right time two years in a row—you are more likely to win the lottery!

Does it pay to take chances with your business like that? This question is especially important when you consider that your competition is in the same boat that you are in. While you are busy getting nervous about where he (the competitor) might set his price, he’s thinking the same thing about you. You should each focus on your own customers, not on the few customers who might leave to save a few cents per gallon. Those are the customers who are looking for an excuse to leave anyway, and not the ones that you want to spend too much time on.

If you are worried that prices are higher (for your program) than last year, just look at the corner gas station. Gasoline prices are poised to hit record-highs again this year, but somehow those same cars go to the same stations every week to fill up their tanks. You don’t see the gas station owners being blamed for high gasoline prices. If customers can pay \$2.00 for a gallon of gasoline, why must they pay last years’ price for this years’ heating oil?

Yes, prices are high, and they might be high for a long time to come. Your programs saved your customers lots of money, and (if you were properly protected) gave you some good margins this past winter. If prices drop, you would look to pass on (some of) that savings to your customers. If prices rise, you want your customers to know that you protected them, and kept them warm. It’s not that hard. Talk to us, or someone who can help you put a plan in place.

Make a plan. Execute the plan. Have a profitable year.

One final thought: The *Glory Days* may be gone, but you were *Born to Run* your business without feeling like you’re *Dancing in the Dark*. □

