



by Philip J. Baratz, C.T.A., Angus Energy

## Too much information

We live in an information-is-king era. There is little doubt to the accuracy of that statement. However, how much information is too much? Also, just because the flow of information keeps coming, in droves, how much of it is fact versus conjecture? To me that is the major issue facing traders and suppliers, alike. We try to make business decisions based upon what we KNOW, when in all reality, most of what is needed to make those decisions properly are just a bunch of assumptions, and we don't really KNOW anything...

I know, "Thanks for the newsflash, Phil." In the past year, we have gone from a runaway economy, to an economy that is showing signs of stress and inflation. We have seen elections in Iraq, and we have seen protestations that we never should have gone there. We have seen early forecasts for a very warm winter (through the end of November), being replaced with "colder than normal" seasonal forecasts. Production stopped on a dime (several times) during the very active hurricane season, yet supplies of products all have surpluses compared to years past. As if the short-term predictions were not enough to make you pull out your hair, now comes a report that NEXT hurricane season—yes, it is months and months away—will "likely" be another active one.

Colorado State University forecasters are predicting nine hurricanes, five of them reaching "major" status, with winds exceeding 111 mph. This information, to those who are skeptical, might easily be dismissed as nothing more than speculation. The skeptics can easily be understood. However, when you consider that last year, around this time, several "experts" were making similar predictions about the 2005 hurricane season, you have to wonder if "they" know something that "we" don't. The claims that we are in a multi-year trend of active storm seasons is pretty hard to refute. It is one thing to be proud that your kids have started to pick up the Greek alphabet, but it is another to know that the knowledge was only learned because the English alphabet ran out of letters to name storms this year.

The number of storms that we will actually have, and the impact of inflation, terrorism, employment, etc., will all—eventually—factor into the cost of energy. The fears that high energy prices would cripple the U.S. economy have not come to fruition—yet. However, you cannot deny that, for many, paying those energy bills is taking money away from other expenses. That is, if it is affordable at all. So, maybe, the strong economy that we see, that is impervious to the impact of high energy costs, is just "keeping a stiff upper lip", and is getting ready to falter. If that were to happen, oddly enough, prices would have to fall—as the demand (or parts of it) would dry up. There are many, many reasons to anticipate a continuation of strong prices—those same factors that have made \$60/bbl. crude oil, \$14.00/dkt. natural gas, and \$2.50 (retail) heating oil seem "normal". There are also just as many reasons to say that prices have gotten so far ahead of

themselves—mostly on anticipated growth in demand—that once that growth fails to materialize, there will be A LOT of oil sitting around with no place to go. Should that happen, maybe \$30/bbl. crude oil is in our future. It is not as if predicting energy prices was ever easy, but it has, very clearly, gotten harder.

As simple a statement is to point out that the markets are hard to predict; the simplicity does get lost on many. It may just be my opinion (and I will state it as such), but if you think you can run your business, short-term or long-term, based upon successfully guessing where oil prices will go, I will guess that you won't be in business for all that long. Also, it is not only the unpredictability. If prices were moving up or down by a nickel or a dime every few months, I would actually be comfortable with the risk that some oil dealers take—by guessing incorrectly, or by choosing that the best thing to do is not to do anything. After all, in today's market environment—both on the wholesale side and the retail side—a 5-, 10- or even 20-cent move is no longer devastating. But, that, unfortunately, brings us to the bigger issue—even bigger than not knowing which direction prices will move. The volatility that we have seen—really for the past 5 years—does not show any signs of going away. In the past year, heating oil prices have moved more than \$1.00/gallon from low to high. Natural gas prices have more than doubled. We saw \$70/bbl. crude oil, \$3.00+ retail gasoline, etc. The swings, too, are here to stay.

Some dealers respond to the "new reality" of uncertain market direction, coupled with extreme swings (volatility), by burying their heads in the sand, and hoping that their customers don't notice the extreme swings in prices. They do. Others fear the swings so much that they have their customers lock into fixed prices under the guise that certainty is what people are after. There is, indeed, some logic there, but certainty comes at a price. Fixed prices are great when prices go from \$1.90/gallon to \$2.75/gallon. Unfortunately, depending upon when customers fixed their prices, when the sharp drop in price comes, everything is not as rosy. Lastly, more and more oil dealers offer capped prices to their customers. This type of offering allows for customers to know that their prices will not exceed a certain level, and allows the oil dealer to lower the delivery price should market circumstances allow (falling prices). Yes, it sounds great, but this, too, comes at a cost. Due to the uncertainty and volatility, the methods to put price caps in place are quite expensive. Are they worth it? Honestly, it depends upon many factors: customer base, competitive influences, allowable margin, weather volatility, etc.; but in most cases, the answer is yes.

Despite the doom and gloom heard at some association meetings, many oil dealers are having banner years. Volumes are strong and margins are stronger. Customers have certain expectations, and those are being met. Are credit lines tight? Sure. But a strong balance sheet and end-of-season P&L makes that nervousness quite worth it. What did these dealers do so that they can fall asleep with smiles on their faces? Just one thing: they planned. They didn't guess. They stayed away from speculating. They didn't make knee-jerk buying (or not buying) decisions. All they did was sit down last winter, write down a plan, and get with someone to make sure that the plan was executed.

The phrase, "paralysis by analysis" applies to many of us. It is especially apropos for oil dealers. Everyone wants to offer the best service, at the best price, while achieving the best margins. You might as well ask for the Jets to win this year's Super Bowl. Being realistic is tough, and there are many excuses to NOT plan. Hey, if you can't predict, why bother trying? We have just entered a new calendar year. Before we turn around, the snow will be melting, and the flowers will start blooming. Instead of focusing on what is wrong with the business that we are in, why not see what is right with the business, and see how you can be consistent with your profits. We are here to provide guidance, but you first need to see if you want, and are willing, to accept that guidance.

Happy New Year. □