

Investing in natural gas can be tricky

By Rob Rikoon | For The New Mexican

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Energy is one product that never goes out of style. With the world's population increasing and consumers in developing nations gaining in wealth, it's hard to imagine how fuel prices can go down. Strangely, that's just what's happened to the price of natural gas, one of America's most abundant resources and a key to our independence from Middle East oil.

Natural gas is one of the cleanest-burning fossil fuels around, and it can be used not only to produce electricity but also to power motor vehicles. Part of the reason for the fall in prices over the last several years is the increased availability due to new drilling techniques, some of which are considered environmentally dangerous. Efforts to get companies to disclose the materials and methods of injection and disposal are under way and this will hopefully lessen the potential negative side effects of gas production.

There are different aspects to the natural-gas industry, including pipelines, distribution, retail, exploration, liquefaction and shipping. Some of these operators pay very high dividends, which make them an attractive investment alternative to bonds and traditional industrial stocks. Energy companies, in particular natural-gas stocks, listen to a different drummer in that they go up and down somewhat independently of the rest of the market.

Investors have the choice of using individual companies, groups of companies that trade as "master limited partnerships," mutual funds or different kinds of indexes known as "exchange traded" funds (ETF) or notes (ETN). Take care when using these relatively new investment vehicles as they can swing wildly in price depending on market sentiment and the fickleness of private computerized trading firms.

Being in an exchange-traded funds does not mean that you own the actual natural gas itself because, in reality, ETFs and ETNs are derivative contracts issued by a financial institution, similar to the mortgage-backed notes that blew up in 2008-2009.

More and more, we see instances where ETF and ETN trading is under investigation by the regulatory authorities. ETFs and ETNs that are supposed to track the price of natural gas recently rode themselves way up and way down independent of the price of the actual commodity, so you may want to find another way to participate in this or other sectors of the real economy.

People often ask me about investing in alternative energy as a complement or substitute for natural gas. The Wilderhill index for renewable clean energy, symbol PBW, was down 48 percent during the last year, down 32 percent over the last three years, and down 70 percent over the last five years. This ETF owns most of the solar, water, wind and battery companies that are publicly traded. Why don't alternative-energy companies make money for themselves and for investors?

For the most part, renewable-energy firms are small and face crushing competition from Chinese state

-supported companies. In addition, they need a lot of money to gear up, market and produce for the mass market, and it is difficult for them to attract investors without government tax-credit program support. While some entrepreneurs may have creative and exciting clean solutions based on renewable energy, only super large entities like GE, Siemens, electric utilities, major oil and car manufacturing companies have the clout to bring clean energy to the market.

Natural gas is a great local source of energy but it takes a huge investment in infrastructure to get it out of the ground and move it to consumers. A large proportion of this clean-burning resource lays beneath public lands in the Western U.S.

State and local governments hope to use the proceeds from leasing land for gas exploration, along with ongoing royalties from gas production, to help out their citizens. Much of the benefit of the oil resources that graced our continent up until the 20th century ended up in private accounts. Given the gaping holes in our national accounts, shrinking availability of social services, and educational budget woes, perhaps we can do things differently this time around.

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