

## >: How to Lock In Today's Low Gas Prices

Tuesday, January 13, 2009 / Chris Rowe

Happy Tuesday!

As I see the price of crude oil dropping again, I'm also watching the prices as I pass every gas station, and do you know what goes on in my head?

Since I'm a financial markets junkie, the only thing I can think about is the fact that crude oil prices will be back up in the triple digits again, causing gas prices to skyrocket again, and I wonder if everyone else knows it.

How quickly we forget ...

The next thing I think about is how to save the world (or at least *Tycoon Report* readers)!

Remember how you felt as you filled up your gas tank in June, 2008 when gas was about \$4.00/gallon? Do you remember grinding your teeth, wondering how it came to be that your annual energy bill had practically doubled?

I'll tell you exactly how to avoid this kind of pain and frustration in the future, and how to lock in today's price of gas!

I'll tell you how it happened before and how it's going to happen again. A weak dollar, under-drilling (thus lack of supply) and heavy global demand as emerging countries' governments (and citizens) bought up every drop they could find!

What about the investors/traders? The two technical forces that pushed oil prices (thus your gas prices) to record levels were:

1. The declining value of the U.S. dollar.

Because crude is priced in dollars, when the U.S. dollar is declining, it adds serious upward pressure to the price of crude oil. This selling pressure on the U.S. dollar came largely from hedge funds selling it short. ("Selling short" the U.S. dollar is when the fund borrows the dollar, then sells the dollar first, hoping it declines in value, at which point the fund repurchases the dollar, profiting from the difference in price). Short-selling pressure pushed the dollar lower, which largely contributed to the huge upward pressure in crude prices.

2. Funds also purchased lots of futures contracts on crude oil for various reasons, like the decline in the U.S. dollar and in anticipation of more demand for energy. That caused additional upward pressure on crude, so we got a double whammy!

The reason the price of oil increased is the same reason it declined 75% from its high (and the same reason it will increase once again!). Why?

The media will give the easy answer: Slowing global demand and anticipation of slowing global demand.

But that's just what I called it, "the easy answer" (and only a small part of it). That easy answer assumes markets are rational, and it almost ignores the power of financial markets completely. That's like simply saying the price spiked to \$150.00 entirely because of demand.

The fact is that oil was up so big for "technical" reasons. Technical analysis doesn't only involve charts. Watch, I'll show you what I mean ...

We said you paid about \$4.00 for gas in June, 2008 largely because hedge funds were selling-short the dollar (pressuring it lower, thus pressuring crude higher, thus pressuring you to pay \$4.00 for gas). We said hedge funds were also buying up crude oil so we got a double whammy!

But what has happened over the last 6 months is that hedge funds are no longer able to borrow massive amounts of money from banks in order to take the huge positions they wanted to. In fact, they had to meet newer, tighter capital requirements, so they immediately had to reverse their largest positions (bullish positions on energy and bearish positions on the U.S. dollar had to be reversed).

To top it all off, hedge funds just closed their worst year on record (since 1980) and as investors began to withdraw tens or hundreds of billions of dollars from the hedge fund sector, hedge funds sold, and are selling their crude oil futures (adding downward pressure to gas prices) and more importantly, they had to exit their short positions in the U.S. dollar! The latter caused the U.S. dollar to advance for technical reasons, because when funds exit their short positions, they have to buy the positions back causing (a "short-squeeze") upward pressure on the dollar (thus, downward pressure on crude and therefore gas).

Add to that the fact that funds that originally owned other currencies (outside the U.S.), as a hedge against the decline in the dollar, had to sell positions in those foreign currencies, which added even more upward pressure to the U.S. dollar, and, in turn, added to downward pressure on energy.

Round and round we go!

to exit their bearish dollar positions causing the dollar to advance, but the down trend will likely resume. That means crude is down on the short-covering of the dollar, but will gain strength again. With all the money being printed by Uncle Sam, the dollar's value will continue to decline and inflation will show its ugly face, causing commodities - including the price of gas - to rip higher again.

Hedge funds had exited their long crude positions causing it to decline. But eventually, that selling pressure will subside. Smarter funds even took bearish positions on crude and bullish positions on the dollar, adding more downside pressure to energy. They made a healthy profit, but now they, too, have to exit those positions, which would cause crude to advance.

If you for some odd reason don't believe in my technical analysis voodoo, you can just consider the fact that oil reserves are dropping 7% a year, which will cause a serious supply problem as it did earlier this decade. Don't believe the hype! We are still running out of oil, and with power in Washington having shifted dramatically toward the Democrats, more attention will be paid to the environment, making it harder for oil companies to do business.

What to do?

I thought you'd never ask!

Do you know how much you spend in gas each year? Ever wish you could buy enough gas to last you several years at today's price? Well you can!

The following isn't a trading idea. My trading ideas are reserved for members of my trading service, *The Trend Rider*. I'll tell you how to lock in today's price of gas without having to learn anything about futures trading!

To hedge against an increase in the price of gas you can buy an ETF called The US gasoline fund ETF (Symbol: UGA). It closed at \$20.76. If your gas bills go up, it's okay because so will your position in UGA. Below you can see that when gas was up over \$4.00/gallon, UGA was up near \$65.00/share. The price of gas has been more than cut in half and so UGA has lost over two thirds of its value, so keep in mind the ETF has been more volatile than gas prices. That's a good thing if you are right and bad if you are wrong. The quick and easy fix is to buy slightly less than you think you should. But personally, I

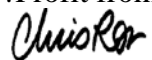


Of course you can use this as an investment. And I certainly don't want you to be disappointed if it trades flat or down for a while after you buy it. We aren't really speculating on the price of gas here even though I do think it will eventually double from here, whether it be in 1 year or 4 years.

But if you feel comfortable locking in the price of gas today, then you should feel comfortable stocking up on some UGA.

See ya next Tuesday!

?Profit from the Trend?

A handwritten signature in black ink that reads "Chris Rowe". The signature is written in a cursive, slightly slanted style.

Chris Rowe

Chief Investment Officer

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