

## Market Research

### *Is Crude Oil In A Bubble?*

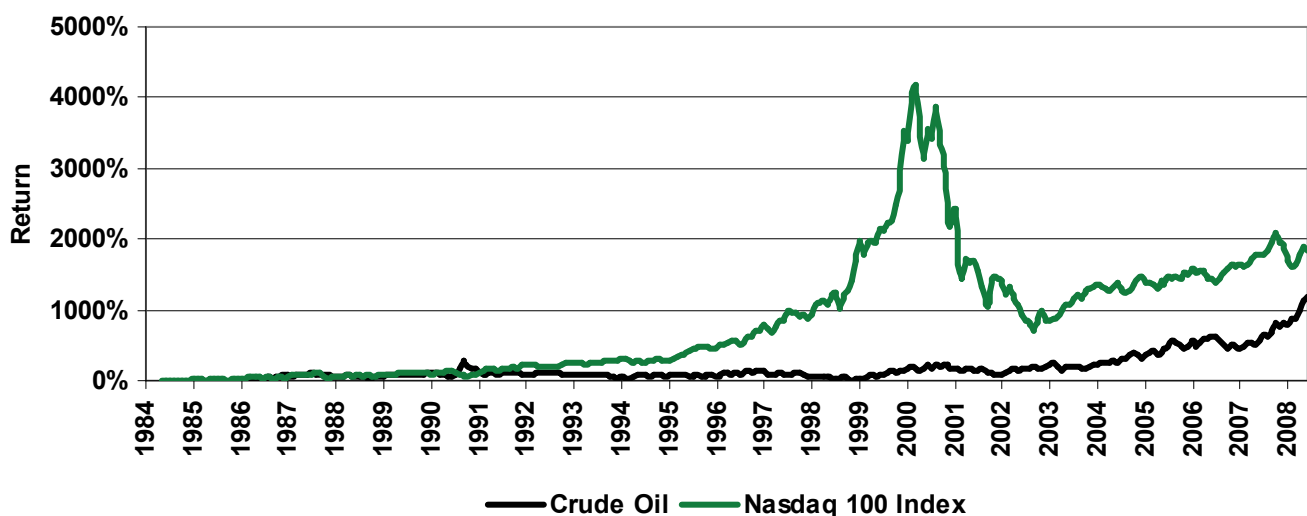
The term “Bubble” has become the most over/misused term in financial markets. Since the dot.com boom and bust of the 1990’s, the media seems all too ready to assign the “Bubble” classification to any significant asset appreciation. All asset classes experience boom and bust cycles, a natural requirement of a capital market, driven by the need to attract and deploy capital to a particular asset sector. The chart below identifies the returns associated with the Nasdaq 100 Index and the prompt month Nymex Crude Oil futures contract.

Crude oil prices are climbing in recognition of the need for serious and substantial investment to ensure adequate petroleum supplies for continued global economic growth. This investment includes exploration, deep water drilling equipment, pipelines, marine vessels, processing facilities, refineries, etc to support the mix of production quality and global distribution patterns. The price tag is staggering, estimates range from \$30-50 trillion dollars over the next 25 years.

Society generally believes that petroleum reserves are finite. However, society is struggling to embrace the inevitability that the intersection of economic supply and demand is shifting. This shift will not be without pain, especially to the impoverished of the world. The longer run benefit of higher crude oil prices will include the transition to improved efficiency, new and different technologies, and more environmentally friendly solutions.

Many theorize the world is approaching Peak Oil, the point of plateau, and eventual decline, in global petroleum liquids production. The acceleration of crude oil price may very well be the proverbial ‘canary in the coal mine’. We do not know if the world is at the point of Peak Oil, however, we do theorize the major producers of the world will change long run investment behavior if they believe Peak Oil has arrived. Specifically, reduced investment, and even divestiture, of infrastructure downstream of the production facility—marine vessels, refineries, petroleum product pipelines, product terminals, downstream marketing facilities, etc.—investments threatened by reduced volumes and/or alternative energy solutions.

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