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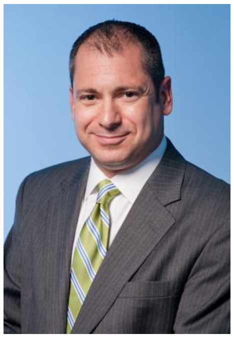

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February 24th, 2011
For immediate distribution

The key question: Will the rise in the price of oil take down economy?

No. The economy, in my opinion, has escape velocity. Unlike the spike in energy prices we saw during summer '08; employment and productivity, the financial services industry, and a massive amount of corporate debt and residential mortgage refinancing, and cash rich balance sheets…**things are improving this time**. Last time, we were right in front of the blow up of Lehman Brothers, Merrill Lynch, Wachovia, and AIG. Last time we also saw rapidly rising layoffs and cut backs in consumer and commercial credit lines.

If we, as a singled out economy, were paying $100.00 + oil while the rest of the world pays $80.00 oil, then yes, we would be at a competitive disadvantage that couldn't be overcome. But in the last few years, companies like International Paper (Bloomberg Radio) and UPS (www.UPS.com) have taken steps to maximize fuel efficiency. Consumers have done the same. Fortunately, our supply of energy is much more diversified than that of Europe, thereby putting the US at an advantage over much of the developed world. Italy, Spain, France, Ireland and Portugal are major importers of Libya's high quality oil (The Christian Science Monitor). The US has so much oil today that we have little extra space to store it. Better still; **the US energy refining industry is much better at refining "sour" crude oil than the rest of the world**. The excess crude from Saudi Arabia has a high sulfur content, which makes refining it more costly. (http://www.eia.gov/ - US Energy Information Administration)

Ultimately, the key factor for energy prices is simply the balance of supply and demand. Even without Libya, Egypt, and Algeria (another N. African country which many consider the next domino in the region to fall), global oil output would still meet global demand.

But what about Saudi Arabia? This is why oil prices have spiked; on fears that the Saudi kingdom could be the next to fall, thereby removing as much as 14% of global oil supplies (http://www.suite101.com/content/saudi-arabian-exports-imports-a57264#). But we all know this already. It is tough to write about this without getting into a long dissertation about the history of the Middle East and especially about Iran, but what gives this author confidence is the powerful persuasion of huge profits. With oil this high, it makes virtually every player in the oil patch a winner. In addition to Iran's and Saudi Arabia's desire to increase supply to the max in order to capture sky high profits, Russia, Brazil, Indonesia, Mexico, Venezuela, and Canada are likely to increase production while prices are high. Bottom line on Saudi Arabia: the monarchy has too much money at stake to let a rebellion get in the way. The kingdom can launch public works projects, schools, and most importantly, create jobs to reign in potential protestors.

The Federal Reserve is much less likely to tighten monetary policy in the face of $3.50+ per gallon for regular unleaded. Higher gasoline prices at the pump acts as a tax on the American economy. This is enough to slow the pace of GDP and keep the FED at bay. This would potentially benefit investors as consumers cut back discretionary spending and thereby naturally slow the economy down. **Bottom line on the FED: it would not be a palatable decision to anyone there to raise interest rates while the consumer is pulling back on discretionary spending.**

The US economy has enough going for it that higher energy prices will most likely slow the pace of the expansion, but not push it into a recession. While no one wants to pay more for gasoline, investors could benefit by sticking to large and energy efficient domestic large caps. **Since good news on the economy is what moves the FED to tighten monetary policy, which brings down stocks, investors potentially stand to benefit from the turmoil in N. Africa and the Mideast. Yes, this opinion runs counter to popular forecasts, but being a contrarian has paid for too long to follow the herd.**

In sum, oil prices that are in the range of what we've seen in the past lose their "shock" quality and are factored into the range of "normal" or expectations. Didn't we all get used to $3.00.00 per gallon for gasoline? While there is a price that ultimately can cause consumers and businesses to curtail discretionary spending to the point of tipping the US economy into recession, it would need to be a price well outside of what we've seen in the past; a $4.00+ per gallon regular unleaded isn't high enough.

On a side note:

The term "OIL SHOCK" came about in 1972, when a barrel of oil rose from about $3.60 to $41.00 (non inflation adjusted) in about two years; a nearly %1,200 increase (www.InflationData.com). This occurred during the Yom Kippur war (1973) when Syria and Egypt launched a surprise attack on Israel. **The Arab nations decided to use the "Oil" weapon** by cutting back production and launching an oil embargo. This was a response to the Nixon Administration's covert move to arm Israel. With US oil consumption outstripping domestic sources and growing at 5% per year, the price of oil was on its way higher regardless. **An oil shock of similar magnitude today would put a barrel of oil at $1,200.00 within 24 months.**

Thanks for reading this. I would welcome your comments whether or not you agree with me.

Please forward this to someone you know who may be interested in it.