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3 Oil Stocks to Trade in This Impossible Market

By DANIEL DICKER Follow | DEC 10, 2015 | 11:43 AM EST | 4

Stock quotes in this article: EOG, HES, XEC, CSCO

You cannot go long oil, here. But I also think it's impossible to be short. What that leaves us with, as we're trying to trade and invest in the energy space, is more than a bit of a conundrum.

The OPEC meeting's outcome was no surprise to anyone -- all the ink being spilled on the "end of the Cartel," or other such nonsense, is just that.

The Saudis have had a plan. They're out to destroy non-OPEC production and regain control of the global marketplace. They've been following that plan for the last year, and received little in the way of help from other OPEC members, or destruction in production elsewhere -- so far.

So they ratchet up the pressure. What, $45 a barrel isn't low enough to force 20 large-cap U.S. and Canadian exploration and production companies into major restructuring? How does $35 strike you, then? Are some of your ready to cry "Uncle," yet?

That's what's been going on with oil stocks in the last week, since the meeting's outcome last Friday.

Oil company shareholders are realizing this "ain't no game," and that prices are going to stay low for as long as it takes to shake out some of the weakies.

To use the parlance of the day, "Stuff" just got real.

A great parallel I got this week was from my friend, Paul Siluch, at Raymond James in Canada -- where they dealing with their own serious stresses in the oil patch.

He draws a comparison from the tech bubble in 2000, and charts the movement of **Cisco Systems** (CSCO) -- one of the survivors of that crash -- to **EOG Resources** (EOG) -- one of the likely survivors of this oil bust, which I own and have recommended.

Cisco, as the Tech Bubble burst, holds strong comparisons to EOG, now.

One of the major similarities likely to play out in the oil patch is with corporate bankruptcies. During that disaster in Tech more than a decade ago, a lot of very big names finally disappeared (remember **Nortel** and **WorldCom**?) before the sector began to recover.

Two more takeaways also emerge: Oil prices and oil stocks are in for another year of depressed action (which I think is about right) and a significant short-covering rally will happen in the meantime, before ultimate lows are reached (which, considering the overwhelming number of shorts in oil futures is, I think, also quite likely).

Both of these takeaways tell us a bit more about how to approach our energy investments, today.

First, investing in oil stocks, even the best ones, should come with a very long time horizon in mind. Siluch thinks, as I do, that valuations don't go down much from here, provided you're holding one of the survivors.

Also, many energy companies that we thought of as staples in the patch won't be around in the same form at this time next year. I don't need to tell you what those names are, as the market may be telling us already -- if they're down more than 70% from their 2014 highs, you're likely looking at a goner.

It also allows for a trade, or two, or three, in the meantime: That short covering rally is likely to be a doozy.

For all these reasons, I will be recommending certain oil stocks at very specific prices. I'm again looking to buy EOG at $72, **Hess** (HES) at $50 and **Cimarex Energy** (XEC) near $100. Some of these shares will be traded around, some will be held with a long-term goal in mind. Your situation will dictate what you do.

But the most important things is continuing to stay away from doomed names, as I have advised countless times. Nothing good will come from either trading, or investing, in those.

Buckle in. It's going to be a very long haul.

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At the time of publication, Dicker was long EOG, although positions may change at any time.

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