

Long-Term Perspective

July 19, 2019

Model Oil Portfolio

We have created a portfolio of oil stocks with a focus on recovery and growth.

NOTE: *The Model Oil Portfolio has a longer-term perspective. As such, we will update it once a week, using Friday's closing prices. Also, it will be essentially a Buy-and-Hold portfolio, with minimal trading involved.*

The initial investment will be a total of \$300,000. To begin with, we chose and purchased just seven stocks, with each having an initial position of approximately \$10,000. As this Portfolio is created, the Energy sector looks particularly weak. The respective stock charts are not pretty. Cash comprises 77% at the outset.

COMMENT: *Well, as promised, we did add to our Portfolio holdings this week, buying early Friday morning a position in Crescent Point Energy. The stock ended up 2.3% on the day. About time I got some purchase timing right! The Portfolio lost 2.2% last week, but the price of crude oil fell 8.6%. Also for comparison, the S&P/TSX Energy Index went down 3.9%. The Energy sector is very volatile and prices can change quickly. 'Tis not for the faint at heart.*

NOTE: See Eric Nuttall's comment at the end of our report.

CURRENT PORTFOLIO

The current portfolio is presented below.

MODEL OIL PORTFOLIO

Share Price Information

As at: 19-Jul-19

Portfolio initiated: 3-Jun-19

<u>Company</u>	<u>Symbol</u>	<u>Purchase Price</u>	<u>Current Price</u>	<u>First Target</u>	<u>Second Target</u>	<u>First Sell (First 50%)</u>	<u>Second Sell (Second 50%)</u>
1 Baytex Energy Corp.	BTE	\$2.00	\$1.88	\$2.35	\$2.55	\$1.84	\$1.76
2 Canadian Natural Resources	CNQ	\$36.47	\$34.05	\$37.50	\$39.00	\$34.28	\$32.82
3 Cenovus Energy	CVE	\$11.19	\$12.41	\$12.50	\$13.30	\$10.52	\$10.07
4 Crescent Point Energy	CPG	\$3.98	\$4.07	\$4.30	\$4.70	\$3.66	\$3.50
5 Encana Corp.	ECA	\$6.80	\$5.93	\$7.80	\$8.60	\$6.39	\$6.12
6 Seven Generations Energy	VII	\$6.92	\$6.38	\$7.80	\$8.60	\$6.51	\$6.23
7 Tourmaline Oil Corp.	TOU	\$16.70	\$17.20	\$17.20	\$18.00	\$15.70	\$15.03
8 Vermilion Energy	VET	\$28.58	\$26.08	\$29.70	\$31.25	\$26.86	\$25.72
9 Whitecap Resources	WCP	\$4.49	\$4.20	\$5.10	\$5.50	\$4.22	\$4.04

NB: Sell Price for stocks under \$10 is -8% and -12%; between \$10 and \$50, it is -6% and -10%; over \$50, it is -4% and -8%.

NB: **Red** numbers denote the stock price is below the Sell Price; **Green** numbers denote the stock price exceeds the Price Target.

NB: The Analyst, either **directly** or **indirectly**, currently owns shares in **Cenovus Energy** and **Vermilion Energy**.

COMMENT: *There are now three stocks in positive territory. Encana is selling below both Sell prices. And four other stocks sit below the First Sell price, and are being closely monitored.*

The Portfolio's performance is shown on the next page.

PORTFOLIO PERFORMANCE

The following table shows how the Portfolio has performed since inception on June 3, 2019.

MODEL OIL PORTFOLIO		Portfolio Performance			As at: 19-Jul-19		Initation: 3-Jun-19	
<u>Company</u>	<u>Symbol</u>	<u>Number of Shares</u>	<u>Purchase Price</u>	<u>Current Price</u>	<u>Purchase Cost</u>	<u>Current Value</u>	<u>\$ Gain or (Loss)</u>	<u>% Gain or (Loss)</u>
1 Baytex Energy Corp.	BTE	9,986	\$2.00	\$1.88	\$20,000	\$18,774	-\$1,227	-6.1%
2 Canadian Natural Resources	CNQ	548	\$36.47	\$34.05	\$19,986	\$18,659	-\$1,327	-6.6%
3 Cenovus Energy	CVE	894	\$11.19	\$12.41	\$10,004	\$11,095	\$1,091	10.9%
4 Crescent Point Energy	CPG	2,513	\$3.98	\$4.07	\$10,002	\$10,228	\$226	2.3%
5 Encana Corp.	ECA	2,943	\$6.80	\$5.93	\$20,009	\$17,452	-\$2,557	-12.8%
6 Seven Generations Energy	VII	2,889	\$6.92	\$6.38	\$19,999	\$18,432	-\$1,567	-7.8%
7 Tourmaline Oil Corp.	TOU	1,200	\$16.70	\$17.20	\$20,040	\$20,640	\$600	3.0%
8 Vermilion Energy	VET	700	\$28.58	\$26.08	\$20,006	\$18,256	-\$1,750	-8.7%
9 Whitecap Resources	WCP	4,456	\$4.49	\$4.20	\$19,999	\$18,715	-\$1,284	-6.4%
Stock Totals					\$160,045	\$152,251	-\$7,794	-4.9%
					Stock Annualized Return:			-38.1%
Portfolio Percentages								
Stock Totals						\$152,251		52.1%
Cash					\$139,955	\$139,955		47.9%
Cumulative Dividend payments						\$0		0.0%
Net Trading Profits/(Losses)						\$0		0.0%
								100.0%
					Purchase Cost	Current Value	\$ Gain or (Loss)	% Gain or (Loss)
Portfolio Totals					\$300,000	\$292,206	-\$7,794	-2.6%
					Portfolio Annualized Return:			-20.3%

INDUSTRY COMPARISON

Next, the return on the portfolio is compared to various energy bench-marks:

	<u>Purchase Cost</u>	<u>Current Value</u>	<u>\$ Gain or (Loss)</u>	<u>% Gain or (Loss)</u>
Portfolio Totals	\$300,000	\$292,206	-\$7,794	-2.6%
	Portfolio Annualized Return:			-20.3%
S&P/TSX ENERGY INDEX (SPTTEN-ut)	143.37	\$136.72	-6.65	-4.6%
	S&P/TSX Energy Annualized Return:			-36.3%
	<u>Initial Value</u>	<u>Current Value</u>	<u>Change</u>	<u>% Change</u>
Crude Oil (SWTIC-sc)	\$53.73	\$55.76	\$2.03	3.8%
Canadian Crude Oil Index (CCX-bc)	\$8.16	\$9.60	\$1.44	17.6%
Crude Oil Bull 2X ETF (HOU-bc)	\$5.80	\$5.99	\$0.19	3.3%
Energy Index ETF (XEG-bc)	\$9.20	\$8.74	-\$0.46	-5.0%
Energy Bull 2X ETF (HEU-bc)	\$5.05	\$4.65	-\$0.40	-7.9%
U.S. Oil Fund ETF (USO-bc)	\$11.30	\$11.67	\$0.37	3.3%
S&P/TSX Composite Index	16,053.47	16,485.94	432.47	2.7%

DIVIDENDS and YIELDS

The table below indicates the annual dividend and corresponding annual income and yields. This table is updated monthly or when a stock is bought or sold.

MODEL OIL PORTFOLIO		Annual Income/Yield			As at: 19-Jul-19		Initiation: 3-Jun-19		
<u>Company</u>	<u>Symbol</u>	<u>Number of Shares</u>	<u>Purchase Price</u>	<u>Current Price</u>	<u>Annual Dividend</u>	<u>Annual Income</u>	<u>Purchase Yield</u>	<u>Current Yield</u>	<u>Pay-Out To Date</u>
1 Baytex Energy Corp.	BTE	9,986	\$2.00	\$1.88	\$0.00	\$0	0.0%	0.0%	\$0
2 Canadian Natural Resources	CNQ	548	\$36.47	\$34.05	\$1.50	\$822	4.1%	4.4%	\$206
3 Cenovus Energy	CVE	894	\$11.19	\$12.41	\$0.20	\$179	1.8%	1.6%	\$45
4 Crescent Point Energy	CPG	2,513	\$3.98	\$4.07	\$0.04	\$101	1.0%	1.0%	\$0
5 Encana Corp.	ECA	2,943	\$6.80	\$5.93	\$0.10	\$292	1.5%	1.7%	\$73
6 Seven Generations Energy	VII	2,889	\$6.92	\$6.38	\$0.00	\$0	0.0%	0.0%	\$0
7 Tourmaline Oil Corp.	TOU	1,200	\$16.70	\$17.20	\$0.40	\$480	2.4%	2.3%	\$120
8 Vermilion Energy	VET	700	\$28.58	\$26.08	\$2.76	\$1,932	9.7%	10.6%	\$161
9 Whitecap Resources	WCP	4,456	\$4.49	\$4.20	\$0.35	<u>\$1,551</u>	<u>7.8%</u>	<u>8.3%</u>	<u>\$129</u>
Portfolio Totals						\$5,356	1.8%	1.8%	\$733
Dividends, Companies Sold									\$0
Total Dividends Received									\$733

eResearch Corporation is pleased to provide the Market Commentary from noted energy analyst Eric Nuttall from Friday's BNN Bloomberg Market Call Newsletter.

To even the most casual market observer, it should be blatantly obvious that the energy sector is broken. Oil stocks no longer seem to correlate with the daily move in oil and have greatly lagged the 22 per cent year-to-date rally in the oil price. All too frequently this year, oil equities have posted meagre rallies of 0.2 per cent (or even fallen) on days when oil has rallied by 3 to 4 per cent, only to get hammered the next day by 6 to 8 per cent when crude has sold off on some macro headline (the U.S.-China trade stalemate, the Iranian truce, and weak demand growth among others).

The agonizing combination of limited upside participation with extreme downside capture has been soul-crushing. Valuations today are at their lowest level in history despite most companies having strong balance sheets. Due to depressed levels, these companies could fund share buybacks of over 15 per cent out of free cash flow. This will be the curative for the highest level of investor apathy ever. The time for action is now.

Eric Nuttall is a partner and senior portfolio manager at Ninepoint Partners. His focus is Energy stocks.

If you wish to listen to Eric Nuttall's 45-minute video on the energy sector, go to BNN Bloomberg Market Call for Eric's video [HERE](#)

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