THE BUZZ

Oil's (28 'n and so are stocks : That's silly

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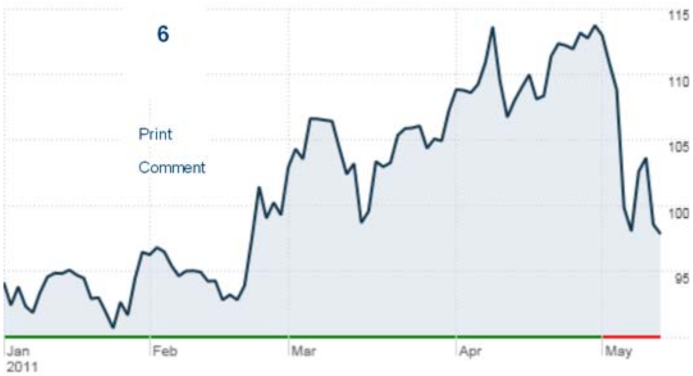
By Paul R. La Monica @LaMonicaBuzz May 12, 2011: 5:31 PM ET

Oil's wide ride



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NEW YORK (CNNMoney) -- Oil prices have taken a hit in the past few days, and so have stocks.

The market did bounce back a bit **Thursday afternoon** as oil prices edged from their lows, but apparently investors are still worried about what lower crude will mean for profits in the energy sector. The big five oil companies -- whose **CEOs testified in front of Congress** Thursday about energy prices and tax breaks -- have been notable losers lately .

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That makes sense. The **party may be over** for the likes of Exxon Mobil (**XOM**, **Fortune 500**), Chevron (**CVX**, **Fortune 500**), Royal Dutch Shell (**RDSA**), BP (**BP**) and ConocoPhillips (**COP**, **Fortune 500**).

Still, why has the entire market fallen just because oil prices are down? And why did it recover from its losses when oil rebounded?

Well, there is also chatter that the **sharp pullback in commodities** could be a sign that the global economy -- particularly emerging markets -- are slowing down.

But that is such a short-sighted, anti-consumer point of view. It's no wonder why so many average Americans think there is a disconnect between Wall Street and Main Street.

Let me explain it to traders with a Foghorn Leghorn-ian rebuke.

"No no no! You've got it all wrong!. Lookit here son. Boy, I say, boy, lower oil prices are good for consumers and the economy. Good, I tell ya!"

People are anxious about **gas being this close to $4 a gallon.**. That could lead to lower amounts of spending on other goods. That's not an encouraging sign for retailers or any company that makes consumer products.

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So the fact th ces may finally be heading back toward normal levels -- assuming tha es eventually follow suit -- is undeniably a good thing for consumers. And that's good for the economy and the broader market.

"Higher oil prices are a sign of contraction, not inflation. If commodity prices are coming down, that's bullish for consumers and stocks, not bearish," said Max Bublitz, c egist with SCM Advisors, a money manager based in San Francisc 6 by asset manager Virtus Investment Partners (**VRTS**).

Keep trac Print and other commodities

Even big busi Comment hat aren't in the energy sector of course) should be rejoicing.

Fuel costs have the potential to eat into the profits of many firms. Airlines, truckers and other transportation companies obviously get hurt by higher oil prices.

But so do leisure companies like cruise line operators Royal Caribbean (**RCL**) and Carnival (**CCL**), automakers GM (**GM**, **Fortune 500**) and Ford (**F**, **Fortune 500**) and big purchasers of plastic like Coke (**KO**, **Fortune 500**) and Pepsi (**PEP**, **Fortune 500**).

"Historically, oil prices are inversely correlated with stock prices because oil is such a big input cost for companies," said Kate Warne, market strategist with Edward Jones in St. Louis. "At some stage, we should begin to see lower oil prices as a catalyst for stocks to go up."

Keep in mind that even though oil has "plunged" in the past week, prices are still uncomfortably high. It wasn't that long ago that prices were consistently in the $80 to $90 a barrel range.

The only thing that's really changed in the past few months to justify the huge spike in oil is that there are more fears about supply due to the "Arab Spring" revolts in the petroleum-rich nations of the Middle East and North Africa.

It seems odd to suggest that demand for oil in China, India, Brazil and other developing nations is falling off a cliff just because oil has pulled back to below $100.

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Unless crude actually plummets below the $80 to $90 range it was in before events in Egypt, Tunisia and Libya became fodder for daily headlines, all that appears to be going on now is a reversion back to where prices arguably should be absent any speculative froth.

Warne said some investors may also be making the mistake of reading too much into what is happening in the markets on a short-term basis. Commodities plunge in one-week? Must be the beginning of a double-dip recession!

"There is often an overreaction to information. There is this tendency where each new piece of data is viewed as having much bigger implications than it should," she said.

Bublitz agreed that people may be overanalyzing the volatility in oil and other commodities. There may not be a real rhyme or reason behind the big swings because it could simply be due to program trading. Or to quote Pink Floyd: Welcome to the Machine.

"I don't want to sound all 'grassy knoll' here but I think a lot of what's going on with the commodity markets is about algorithmic trading and computer systems seeking momentum," Bublitz said, "To a certain degree, that's been feeding things on the way up and the way down."

So if oil price 28 lling, resist the urge to declare that it's the start of a new bear ma tocks.

Instead, you'd be better off breathing a sigh of relief because it just might mean gas prices won't hit a new record high after all.

The opinions expressed in this commentary are solely those of Paul R. La Monica. Othe 6 ne Warner, the parent of CNNMoney, and Abbott Laboratories, ca does not own positions in any individual stocks. ■

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Jacob Schønberg, 05/17/2011 05:32 AM

Oil prices are a result of demand and OPEC policy . Maybe for a while prices can come a little lower and that is a help especially for businesses that use a lot of it. But in the longer run oil will stay expensive, and be even more expensive in the future. Because demand is rising so fast. Eventually all the oil will be used. Now we just wait for a new... show more

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Hmm, If high gas prices are caused by corporate greed, are falling gas prices caused by corporate generosity?

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andy browning, 05/12/2011 10:49 PM

oil companies avg a lower profit margin than apple by far..why isn't congress barking at them?

celticwitch, 05/12/2011 08:32 PM

awwwww I feel really bad for those oil barons and stock junkies.

What on earth will they do if they actually have to stand up and move around to make a living?

28

1 d this.

Guest, 05/12/2011 05:37 PM

I agree - stockbrokers and traders are idiots -

6

1 d this.

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