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Scratch Oil For Now – Gold, Alternative Energies Will Outperform Near-Term

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Our over-saturated information world has immunized us to the most pressing problems we face as a species. The price of oil, for instance, is no longer interesting, even though it sets records weekly, simply because it has been doing so for the better part of a year, and so that news becomes uninteresting through sheer ubiquity.

The economic repercussions of this cost of oil, which, as feedstock for gasoline, heating oil, jet fuel, diesel, and many plastics, takes a long time to reach into your pocket and squeeze hard though. Would you believe me if I told you that the price you are now paying at the pump is in greater relation to $65 a barrel oil, not $135.

So if it was $65 oil that caused $3.50 a gallon gasoline, where does that put the price at the pump by the time $129 a barrel impacts retail gasoline?

That will depend on a number of factors. There are many market participants predicting near term corrective pricing in spot crude - some say we may see $80 again. But if you recall last summer, the same participants were predicting a return to prices as low as $40 a barrel - a scenario that, as we all are somewhat painfully aware, never materialized.

If a corrective price environment is imminent though, (and you would certainly think there would have to be *some* break in the momentum) then now might be a good time to exit your holdings in oil producers, and wait out the correction.

Personally, I believe that the escalating tensions between the U.S. and Venezuela is going to keep the pressure on oil and gas prices until at least mid-summer. Consumption in the China and India continues to be strong despite higher prices, and even in the economically hobbled U.S., if there's going to be any road trips taken by vacationing families, summer is the time its going to happen.

That being said, I think after July, the likelihood of corrective price movement increases, so I plan to reduce my exposure to that risk, and lock in profit towards the end of June. Which means there will be some free risk capital for fresh investing.

Which brings me back to the question of the impacts of high-priced gasoline.

Every dollar increase in the price of gasoline puts more tacit pressure on government to alleviate the financial pressure caused by such fuel prices. Obviously the best avenue for that pressure relief to occur would be an alternative fuel for transportation, and so the high oil prices equate to increased demand for alternative fuel and transportation options.

So this summer, I'm going to take some of that freed up risk capital, and put it into the alternative energy companies that I think are making the greatest strides towards commercializing an alternative to oil-derived energy.

Alternative energy technologies are making substantial yet mostly un-heralded progress. But in doing the research, some companies are clearly outperforming entire sectors in terms of growth in value.

The poster child of alternative fuel investments has got to be First Solar Corporation (NASDAQ:FSLR). Since its trading debut on November 16, 2006 at $24.74 a share, the company has pile on over $270 per share, and has been as high as $317. That's a whopping 1,181% return in 18 months!

First Solar manufactures photovoltaic [PV] modules with an advanced thin film semiconductor process that greatly reduces raw material and manufacturing costs compared to traditional

crystalline silicon PV modules.

No discussion of solar companies would be complete without a mention of Canada's Timminco, [TSX:TIM] who specializes in solar grade silicon for the rapidly growing solar photovoltaic energy industry. Using its proprietary technology, Timminco processes metallurgical grade silicon into low cost solar grade silicon for use in the manufacture of solar cells.

Bunge Corporation (NYSE:BG), one of the fastest growing agri-businesses, and one that is focused on capturing all points in the bio-fuel food chain, has also performed spectacularly, adding $90 a share over five years. This company has been around for over 200 years, but it's the bio-fuels business that has lit a fire under its heretofore sleepy share performance.

And Archer Daniels Midland (NYSE:ADM), the reigning king of the U.S. ethanol business has increased in value by a factor of 4 in the last five years.

But these companies are already well established within their respective industries, and of more acute interest is obviously companies for whom the pendulum of fortune and recognition has yet to swing favorably.

There are some very interesting, not yet public, opportunities I have been tracking which surely promise to become something of a barnburner should their efforts prove successful.

One of the most intriguing, and that I think has the absolutely greatest potential to turn the entire automotive industry on its ear is a little company based in Cedar Park, Texas, called EEStor. The company makes a battery alternative that is classed as an "ultra capacitor" that is essentially ten times more efficient than a lead-acid battery.

This could translate into an electric vehicle capable of traveling up to 500 miles on a five minute charge, compared with current battery technology which offers an average 50-100 range on an overnight charge.

Think about it. In countries where the source of electricity is zero -emissions and not derived from fossil fuels, this is as close to zero emissions driving as we could possibly get. Certainly the power to charge the vehicles will continue to come from hydrocarbon sources where they have traditionally, but we could theoretically prioritize those areas for conversion to wind and solar.

And there's a small Canadian company that owns the exclusive worldwide rights to the technology's use for automotive applications. This little company could become the Google (NYSE:GOOG) of zero emissions vehicles.

But this small electric car company isn't the only organization banking on the new technology.

Lockheed-Martin (NYSE:LMT), the world's largest defense contractor, has also signed on with EEStor for use of the technology in military applications. Kleiner Perkins Caufield & Byers, an investment firm who counts Google and Amazon (NASDAQ:AMZN) among their early-stage successes, has also invested heavily in the company.

So there are plenty of opportunities available in emerging alternative energy companies.

The other beneficiary of my gains from oil and gas company investing will be directed to gold miners, and here's why.

Gold has been in a corrective slump since spiking to $1023 on March 17, and watching the price on a day to day basis since then is enough to make you sea sick. Judging by the last few times gold set a new record after a prolonged corrective phase in the current bull market, the fact that its lurched towards $1,000 again a few times is strongly indicative of a bolder move upward past the previous record.

Philip Klapwijk of Gold Fields Mineral Services, an industry consultancy suggested at a conference in Shanghai yesterday that "Fresh inflationary pressures, compounded by negative real rates of interest, will only put "an already weak dollar under further pressure, while new gold mining output and central bank gold sales will remain flat."

Klapwijk believes a Gold Price of $1,100 per ounce is very possible later this year.

Warren Buffett, the legendary "value" investor, believes the United States is "already in a recession...deeper and longer than many think."

Though presently gold is slumping thanks to a temporary show of strength in the U.S. dollar, the increased bullishness in the press for a resumption to gold’s $2,000-ward march would appear imminent.

Next to owning physical bullion, or ETFs, the most efficient beneficiaries of a new record in gold prices will clearly be the major producers who are turning out the most ounces for the lowest cash cost.

Topping that list will be Barrick Gold Corp. (NYSE:ABX), Newmont Mining (NYSE:NEM), Goldcorp(NYSE:GG,).