If someone (friend, family member, stranger, etc.) asked for your advice on whether or not they should be investing in Oil & Gas, what would you tell them?

Like me, you would probably have to give this question quite a bit of thought. What are current crude prices and how do I expect them to change, what global macroeconomic or political changes could I possibly predict, and even what unforeseen calamities may happen in the future that affect commodity prices. There is a myriad of different combinations of events that could transpire that would affect Oil & Gas investments in any number of ways. For the average investor, understanding the nuances of investing in oil and gas is difficult without having a thorough understanding and experience in the industry itself.

As much as I try to be an optimist in life, when it comes to offering my opinion or advice on the merits of investing in this industry I must be realistic.

The easiest way to evaluate the overall investment performance of the Oil & Gas industry is by looking at sector-specific Exchange Traded Funds (ETFs.) While there are many people out there that claim to be better at picking stocks or timing the market than the rest of us, I think ETFs provide a good look at the performance of the industry as a whole.

Just to be clear, we are going to be looking at the performance of ETFs that invest in a portfolio of oil company stocks. This is different than ETFs that track the price of oil as a commodity. For this discussion we will be looking at the largest 4 ETFs as determined by Assets Under Management (AUM.) The table below lists these 4 funds, their AUM, and their top holdings.

First Chart showing performance of Oil Sector ETFs

The chart above could be misleading. Keep in mind the Y-axis is “Total Return,” which is defined as the following:

Total return includes interest, capital gains, dividends, and distributions realized over a given period of time. In other words, the total return on an investment or a portfolio includes both income and [appreciation](https://www.investopedia.com/terms/a/appreciation.asp).

Source: <https://www.investopedia.com/articles/investing/121015/yield-vs-total-return-how-they-differ-and-how-use-them.asp>

The reason I’ve chosen to plot total return is that we are evaluating the suitability of Oil & Gas equity investments over a long time-period.

We can see from the chart above that since inception, our ETFs have not fared very well. But just how bad an investment choice would they have been? To find out, let’s take our best performing ETF in the Oil & Gas Sector, PXE, and plot it with some of the top ETFs in other sectors our investor-friend could have chosen.

Second Table showing PXE vs other funds

So, what does this mean?

If that random stranger inquiring about where to put his $10,000 had invested in the best performing Oil & Gas sector ETF 10 years ago, it would be worth just $7,000 now. Conversely, if he would’ve invested in ANY other sector he would have made money. Checkout the table below showing potential final value after 10 years.

Now, when someone walks up to you and asks for your honest opinion on whether they should put a portion of their hard-earned money into the Oil & Gas sector, what do you tell them?

The opinions expressed in the Blog are for general informational purposes only and are **not** intended to provide specific **advice** or recommendations for any individual or on any specific security or **investment** product. It is only intended to provide education about the **financial** industry.