



RFC FINANCIAL PLANNERS

Organize. Simplify. Plan.



MICHAEL D. RAUTIOLA, CFP®



ADAM J. FINCH, CFP®

CERTIFIED FINANCIAL PLANNER™ Professionals

Planning Points

Our RFC quarterly newsletter

August 2008

OUR THOUGHTS:

WHY ARE OIL & GAS PRICES SO HIGH?

When will they come down? What's keeping them up?

What is going on? Before 2002, oil prices usually hovered around \$20 a barrel. By early 2006, they were above \$60 a barrel.¹ They were at \$62 a barrel in May 2007.² At this point in time, not much over a year later, oil prices are nearly double from last May. In October 2004, a gallon of regular unleaded gas averaged just under \$2.00.³ Now it costs about twice that, even with the recent relief we've seen with the drop in prices.

Is this just a supply-and-demand story? Has demand for oil and gas doubled in the last four years? Have worldwide supplies shrunk notably over the same period? It's a bit more complex than that. Let's look at some of the factors analysts cite for the soaring prices.

The commodities market. We've seen a historic bull market in commodities recently, with oil, soybean, wheat, gold and silver prices at record inflation-adjusted highs. It isn't cooling down just yet. All the speculators investing in the commodities market have helped to drive prices higher.

The weak dollar. What fueled the commodities bull market? Many economists point to the dollar, which has declined about 35% in value against other benchmark currencies since February 2002.⁴ When the dollar weakens, investors tend to buy commodities like oil futures as a hedge against inflation. Also, when the dollar loses value against other currencies like the euro and the pound, it makes oil cheaper for overseas investors.

The Federal Reserve has signaled that it is through cutting interest rates for the near future, and many people think that this will boost the dollar's value against other major currencies (The dollar tends to slide when the Fed cuts the key interest rate). So that may encourage a drop in oil prices, and in retail gas prices.

Sustained demand. If somebody told you to cut back on your driving, would you do it? Could you? Many Americans can't. We complain about higher and higher gasoline prices, but we ultimately sigh and put up with them. In addition to ongoing American consumer demand for gasoline, industries worldwide demand crude oil. As the economies of China, India and other new major-league economic players have developed, their needs for oil and gas have correspondingly increased, raising demand a bit.

What may make prices fall? Some analysts believe a recovering dollar will be the big factor. Others point to reduced worldwide demand for oil as an effect of record prices. OPEC has revised its demand forecasts downward recently.⁵

(Continued On Back...)

Industrial needs aside, the American driver might be a major factor here. Change is occurring; SUV and truck sales are hugely declining; people are adjusting their driving habits, and driving less. The U.S. is a prime market for oil exporters, and if consumer demand for gasoline lessens, oil prices seemingly have to fall. So consumer sacrifice might send a message to Big Oil.

Citations. 1 businessweek.com/magazine/content/06_06/b3970078.htm
2 foxbusiness.com/story/markets/economy/oil-rises-time-high-near--barrel/
3 eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html
4 ftalphaville.ft.com/blog/2007/11/07/8713/the-dollars-slide-13-down-and-falling-faster/
5 bloomberg.com/apps/news?pid=newsarchive&sid=ay3B20MjKdro

DID YOU KNOW?

LESS GAS – US drivers put 255 billion miles on their light trucks and cars in May 08. However, that total was down 9.7 million miles from the total miles driven in May 07 (source-Department of Transportation).

RUN FASTER, JUMP HIGHER – This past Friday (8-08-08) at 8:08 pm, kicked off the 08 Summer Olympic Games in Beijing, China. The number 8 is considered lucky in China since the pronunciation of the number in Mandarin and Cantonese sounds similar to the word used for wealth. The games have competitions in twenty-eight different locations, including five new Olympic events, and will last for seventeen days through Sunday, August 24, 2008. Beijing is 12 hours ahead of the US Eastern time zone (source-Beijing2008 website).

COAL OVER OIL...FOR NOW – Approximately 80% of the current power produced in China is generated from coal (source-FinancialTimes).

RFC NEWS:

Just a reminder that we've changed office locations. Our new address is 529 S. Ashley St, Ann Arbor, MI 48103. Besides our physical address, all of our other contact information will remain the same.

RFC EVENTS:

We are presently planning our second client education event of the year. In May we held our last education event at Mountain Jack's Steakhouse in Troy. We will be hosting a similar evening in the Ann Arbor area in late October / early November and will focus on the investment markets of the past, present, and future. Invitations will be mailed approximately one month prior to the date.

Our business continues to be successful because of great clients like you. If you know anyone else who is looking to simplify and organize their financial lives, please let us know. With their permission, we would be happy to contact them and introduce ourselves.

RFC Financial Planners

Toll Free: 800.203.9117

Local: 734.272.4224

Fax: 734.272.4223

529 S. Ashley St.

Ann Arbor, MI 48103

www.rfcfinancialplanners.com

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