2023

TOM'S TRADING ROOM

Energy and Oil Opportunity Report

Tom Gentile

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CONTENTS

WHY I WRITE THIS REPORT

I am first and foremost an Options Trader. Professionally speaking there isn't much more I love to do than trade options. But if I were to pick one other thing that is pretty close to that in terms of enjoyment and satisfaction it is teaching how to trade options.

That is what this report is all about.

I have many trading styles I like to employ when trading options. I like trading options on securities based on their price volatility and their options volatility. One style is contrarian-based where I look to trade the opposite of what the majority or herd is trading.

One style I am fond of is trading options on securities based on Seasonality Patterns.

Seasonality or seasonal patterns aren't necessarily holiday or tax seasons. To me, a season is a period of time where I can recognize how a stock or ETF behaves in a consistent manner. That time period can be a specific number of days, weeks, months, or even years.

I have been producing this report since 2015 and I'm providing it to you - my subscribers, students, or prospective subscribers - to help educate you about opportunities in the Energy Sector. The purpose of this report is to introduce you to a reliable pattern of price behavior that happens in Energy and Oil, (primarily Oil), over the time frame of mid-February to mid-July each year.

I call it the Seasonally Bullish Pattern in Energy and Oil.

I provide education on Oil and what is going on with it at the time, bullish or bearish. I then give some insight into the sector and how it works. Once you have some introduction to the oil sector, I'll then introduce prospective ways to take advantage of the price of energy and oil stocks or energy and oil ETFs by using options trading strategies one can consider based on this 5-month price pattern.

I plan to do the same with this year's report.

OIL PRODUCTION LEADERS

Whom would you say is the top oil-producing country in the world?

If I were to venture a guess of what most of you would say, it would be Saudi Arabia. I would even anticipate many of you would say the USA is in the top 3-5, but not number one.

Guess what? Even though we import oil from other countries, the USA is the world's top oil-producing country.

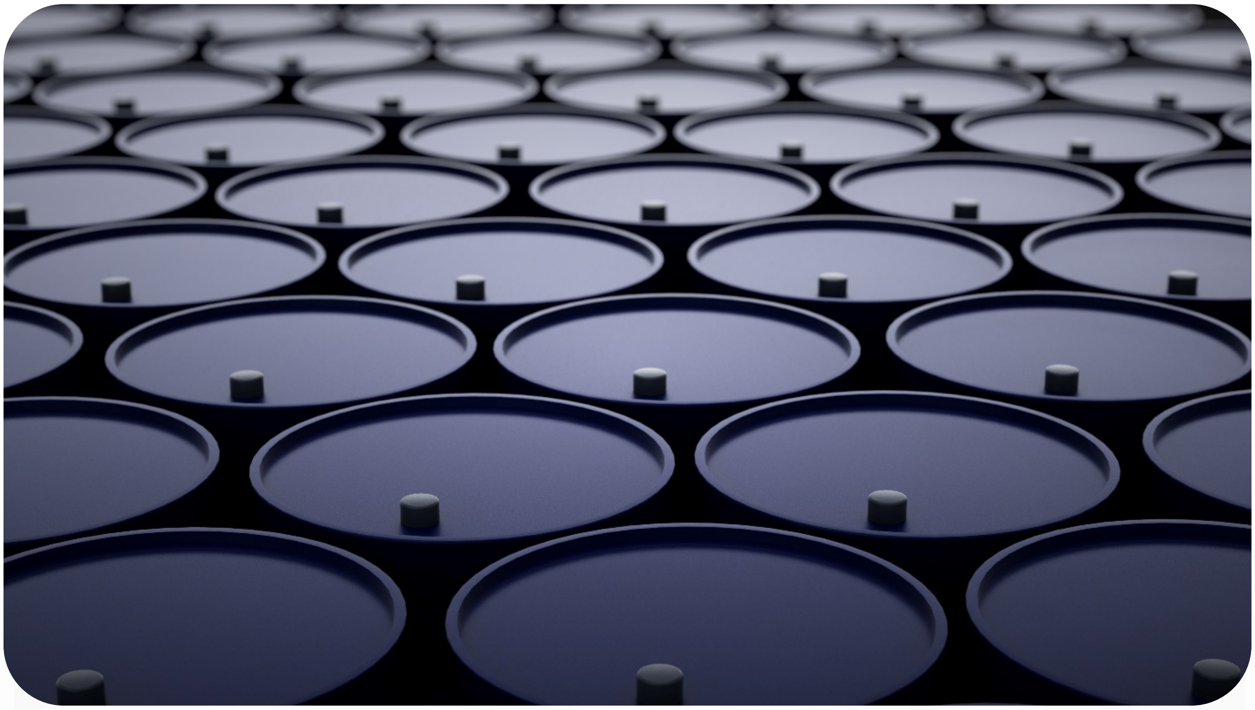
Oil production is measured in Barrels Per Day (BPD).

See the image below from www.worldpopulationreview.com

Top 10 Oil Producing Countries List

Country	Monthly Production	Reference Month
United States	11,567,000	12/2021
Russia	10,503,000	11/2021
Saudi Arabia	10,225,000	02/2022
Canada	4,656,000	11/2021
Iraq	4,260,000	02/2022
China	3,969,000	11/2021
United Arab Emirates	2,954,000	02/2022
Brazil	2,852,000	11/2021
Kuwait	2,610,000	02/2022
Iran	2,546,000	02/2022

MY REPRESENTATION OF OIL



There are many energy and oil stocks to choose from such as Exxon Mobil (NYSE: XOM), Chevron Corporation, (NYSE: CVX) or Coterra Energy Inc. (NASDAQ: CTRA) that I could use for my education on energy and oil. There are also a variety of energy and oil ETFs such as the Energy Select Sector SPDR Fund (XLE) or VanEck Oil Services ETF (OIH) to name a couple.

Instead of trying to find the needle in the haystack, meaning that one stock that may be best to focus on, I am going to focus on the haystack.

As an alternative to trying to find one or two stocks to represent what and why I focus my research on for energy and oil, I will highlight and use the **United States Oil Fund LP, ticker symbol USO**.

The US is the highest consumer and producer of oil, so it makes sense to me to use the United States Oil Fund for my research.

UNITED STATES OIL FUND (USO)

The United States Oil Fund (USO) is the ETF I use and analyze in my weekly newsletter, produced mostly on Wednesday evenings, on my options analysis website Tom's Option Tools, (www.tomsoptiontools.com).

USO seeks to provide investment results corresponding to the daily price movements of West Texas Intermediate (WTI) light, sweet crude oil.

It is deemed more suited for short-term investors who can regularly monitor their positions and who are bullish on the short-term futures contracts on WTI crude oil.

As Investopedia.com states, because the ETF's benchmark is the WTI crude oil futures contract, the fund may experience *Contango when rolling the futures contracts. That situation is deemed unfavorable for long-term investors, which is why the assessment is USO is better suited for short-term investing.

CONTANGO AND BACKWARDATION

*Contango is a situation where the futures price of a commodity is higher than the spot price.

This situation tends to cause losses for investors in commodity ETFs that use futures contracts. There is the possibility that losses due to contango can be avoided. How? By buying ETFs that hold actual commodities.

Futures prices are affected by the futures contract supply and demand at each available expiration.

Contango is a circumstance where investors are willing to pay more for a commodity in the future. Look up the term Cost of Carry for more education you will learn why the additional cost.

An approach to profiting from contango

When one sees futures prices being above the spot price this can be a signal of higher prices in the future. This is a more prevalent possibility when inflation is high, which it is and has been in the previous year.

Contango, "Forwardation" as it is also termed, is the opposite of Backwardation.

Backwardation is when the futures price is below the spot price for a particular asset. It can also be the result of current supply and demand factors. Backwardation could be a signal that investors are expecting asset prices to fall over time. Backwardation is fairly rare, but it seems to happen more often in commodities.

There are advantages and disadvantages of Contango and for further exploration and education on those please do as much research as you like.

OIL SECTOR BULLISHNESS

When I teach and speak live online to subscribers, students, and viewers of my YouTube channel (https://www.youtube.com/@TomGentileTrader) I usually start prepping everyone to know that come mid-February my team and I will start searching out opportunities in the oil and energy sector.

This part of this report will show you data and charts to clarify why.

USO started trading in April 2006.

The range of months this sector's bullishness occurs more so than any other consecutive 5-month period of time is mid-February to mid-July.

The first year of USO's existence had it available in April so we can't use that year when compiling stats for how USO performed since its inception. That gives us 16 years where we can provide statistics.

Remember, I am using USO as my representation for this seasonal bullish pattern.

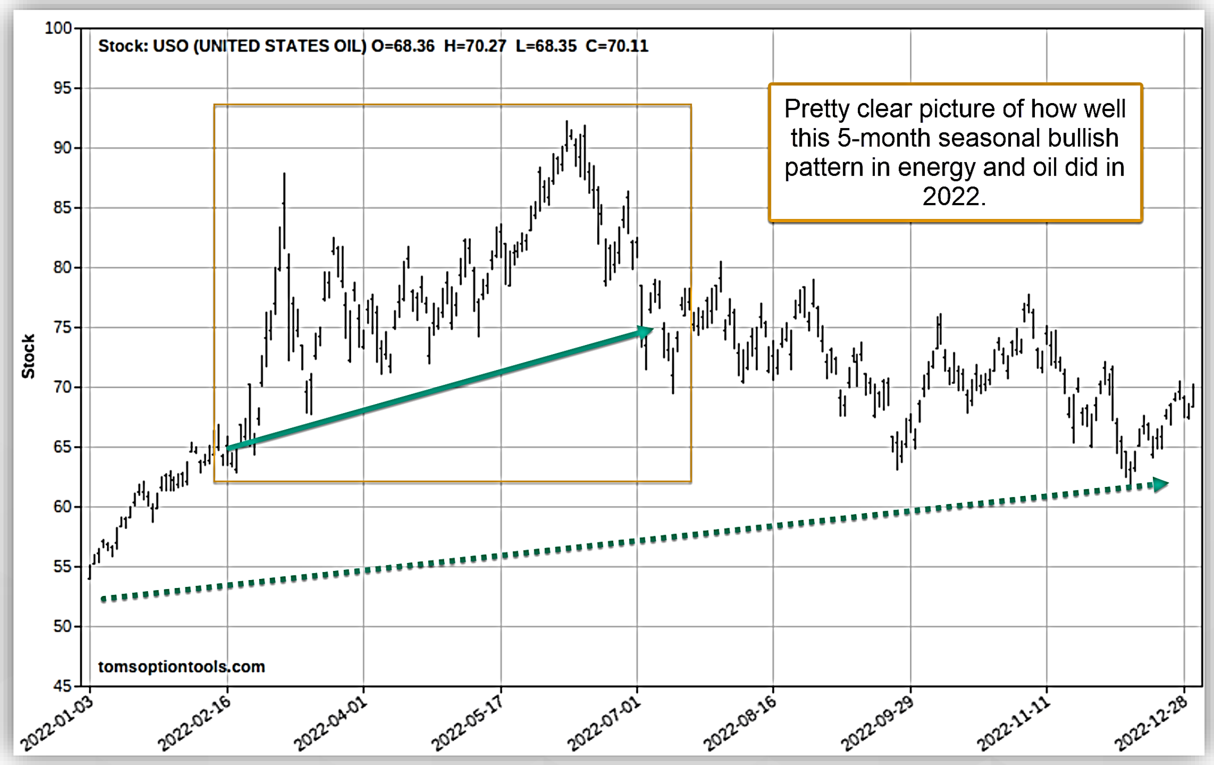
In 12 of the past 16 years that we can use that 5-month period of time, USO has traded higher. Meaning the closing price on the 16th of July (give or take a day or two) was higher than the opening price on the 14th of February (give or take a day or two) for all but 4 years since 2007.

That is a 75% success rate of trading higher over this period of time. This is an acceptable rate of success for me that has me gearing up for bullish option opportunities in energy and oil every year.

Even the first year USO started trading, the open price on April 17, 2006, to mid-July of that year USO traded higher.

Recognize that I said I gear up for and look for bullish option opportunities. One can invest in the USO or other energy and oil ETFs and even individual stocks if they like, but as I will write about later, I am an options trader and that is what I intend to trade.

USO CHART 2022



Energy and oil were one of if not the best-performing sectors in 2022. And it wasn't even close.

The markets suffered through a bearish year where the three major indexes traded lower over the year.

Even with the energy and oil sector trading higher for the year, West Texas Intermediate Crude was lower in 2022.

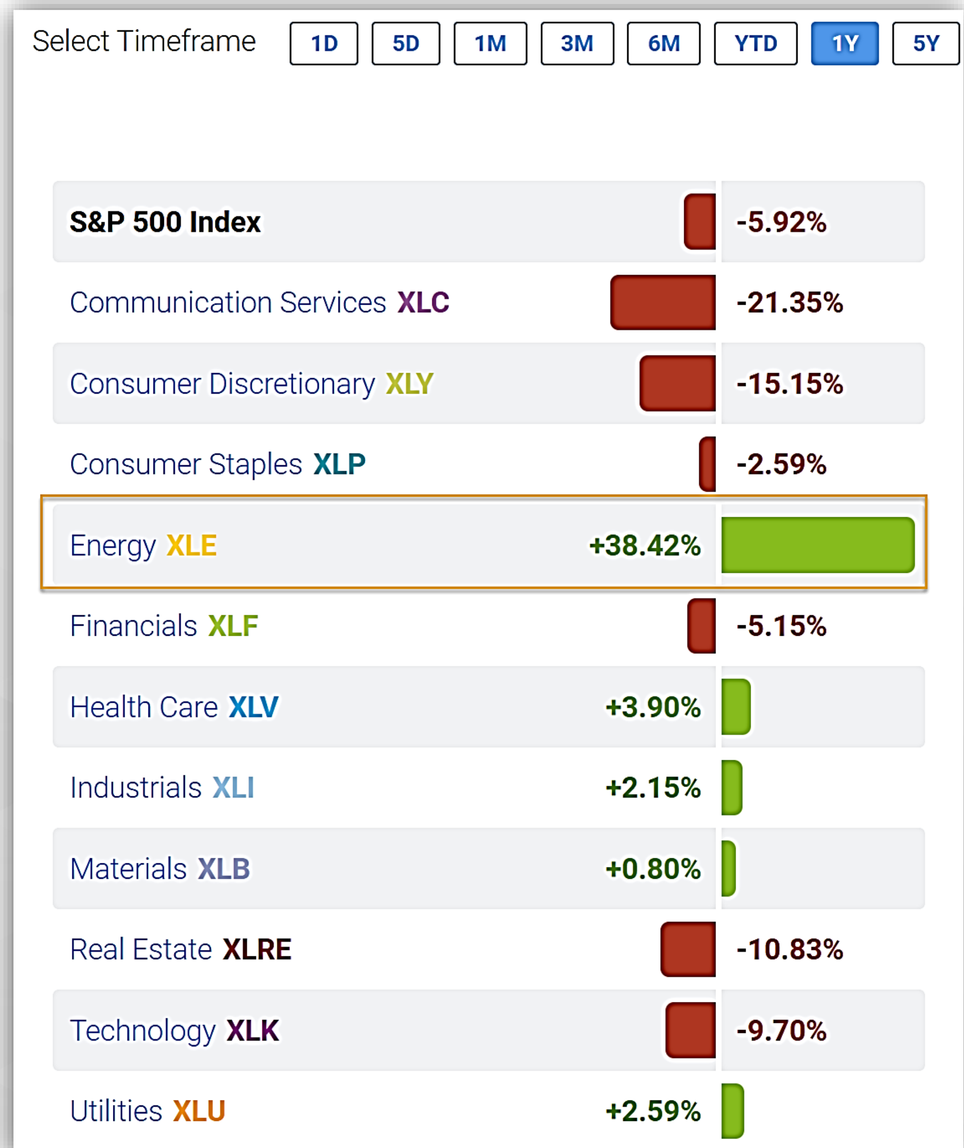
Despite that, USO still traded higher by 18+ in early December 2022.

In the chart above, I show the year of trade on an Open, High, Low, Close (OHLC) chart so everyone can see USO traded high over the year.

I also called out the 5-month period that is the Bullish Seasonal Energy pattern for energy and oil. You can clearly see USO REALLY performed well over that time period.

The key thing I want to point out, and it is on display in the image above, is that the pattern doesn't mean the lowest price for oil will be at the start of the pattern and the highest price in the pattern won't necessarily be the last day of the pattern.

It can bottom and peak in between those days. June of last year is where USO hit its highest pricing.



The above image is from www.sectorspdr.com and it shows the 11 Sector SPDR ETFs. You can see how well the XLE (Energy Select Sector SPDR Fund) outperformed every other Sector SPDR ETF.

OIL SUMMARY FOR 2022

2022 was the first bearish year in quite a number of years.

As you saw in the previous table of Sector SPDR ETFs only 5 of the 11 had gains and, per the image, 4 of the 5 had less than a 4% gain over a 1-year look back.

Oil was the only sector that did better with the XLE showing +38.43%. It wasn't without its challenges though.

- March and June saw both WTI and Brent up close to 60%; their highs for the year. Much, but not all of those gains have been taken away since. The bullish pattern may kick things back up though and this pullback and lower pricing could be attractive for investors.
- Russia's February invasion of Ukraine caused concerns about supply due to sanctions against Russian oil, but that didn't fully stop the flow of Russian oil and as you saw earlier in this report, they are the #2 global producer.

- Other countries picked up this bit of slack. It was reported in December by the International Energy Agency (IEA) oil supplies from other countries surged higher by 4.6 million barrels per day. That's higher than the 2.1 million barrel per day increase in demand.
- Growth in oil demand has been weighed down by lockdowns and slowing economic growth in China.
- Europe and other parts of the world have also slowed down their demand. All the while as emergency oil reserves in the U.S. and other IEA-member countries has further added supplies onto the market, which again put a damper on demands.
- Both gasoline and diesel prices hit record highs in 2022 for a short time and consumers experienced this at the pumps even though oil prices remained below their record levels seen in 2008.

The concern is the economy. A recession could cause oil prices to continue to decline in price. A soft landing or an avoidance of a full-scale recession could increase demand and we get higher prices.

That is what could happen over the year, but we know during the mid-February to mid-July time frame oil tends to trade higher and that is again what I am anticipating this year.

I AM AN OPTIONS TRADER

This Pattern is an observation of the price performance of stocks and ETFs in the oil and energy sector. One could certainly consider putting their money to work investing in oil and energy securities or ETFs over this seasonally bullish period of time for the sector if they or their brokers want.

Me? I like to use the power and leverage of options to try and capitalize on this pattern. The power of options IS their leverage. A trader can trade an option on a security at a much lower cost than that of the security or ETF itself. Then, should the security one is trading an option on moves in the manner anticipated, the percentage rate of return potential is much greater.

I have long-term investments, but my day-to-day preference is to trade options. I earn a substantial part of my livelihood doing so.

I may be able to earn more money investing in the security or ETF, but ROI – Return on Investment is more important to me. I have a chance at a better percentage return on my money trading options.

There is a risk with trading options because they come with an expiration date. They will expire at a specific future date. One has the capability and choice to close the trade for a profit or a loss prior to that future date if they choose. They could expire worthless. My personal options trade management discipline helps me avoid that from happening.

Example: If I use $10,000 to buy stock and I make $2,000, that is 2k in the pocket and the ROI is 20%. However, if I spend $2,000 to take an options position on that same stock and make $2,000 on that, my ROI is double or 100%.

Even if I only made $1,000 on the $2,000 used to take the option trade, the ROI comes in at 50%. Yes, the security may make more money, but my money has a better chance of outperforming and providing higher ROI with the options.

When I am searching out an opportunity, I am searching out stocks and ETFs that perform repeatable patterns as I talked about earlier. Instead of trading the security itself, I place option trades based on my anticipation of what that security may do and on how long I anticipate it taking to make that pending move.

**** Keep in mind, I cannot and do not make any recommendations. I am an educator, primarily an options trader. The trade ideas are what I call case studies and they may or may not be actual trades I am doing. I show you these purely for educational purposes. If you see an idea or like any of the trades talked about in this report, I encourage you to consult with your broker / financial professionals for the suitability of those trade ideas with them. ****

BULLISH OPTION STRATEGY EDUCATION

There are three bullish options strategies that can be employed on any number of oil stocks or an OIL ETF, like USO or XLE to name a couple.

Here is a base education on a Long Call, Call Debit Spread, or Call Butterfly. I will then highlight an example of a bullish option trade on either an ETF or stock.

*****Note that I am not a Registered Investment Advisor, (RIA). I cannot and will not offer this educational example as a recommendation to do the trade. If you wish to pursue this trade, consult with your broker as to the suitability for your account and your goals for the account.

Also, I do not front-run. I do not take a trade and then tell you to go do the trade. Like I said I would not tell you to do the trade in the first place for the reason I just stated in the prior paragraph, I do not recommend.

I teach options education and this option example is placed in this report for the sole reason of educating you on what that option strategy looks like.***

LONG CALL

A long call is where one 'Buys to Open' a call option. One should buy to open the long call for an amount of time out to expiration they feel is necessary for the underlying security to make a price move that will bring them profits.

The call option is the right, but not the obligation, to buy a stock or ETF at a specific price on or before an expiration date.

The ideal situation is for the underlying security to go higher so the option goes higher and one can 'Sell to Close' that option at a higher price than it was purchased for, resulting in a profit.

CALL DEBIT SPREAD

Call Debit Spread aka Bull Call Spread. A debit spread is created when one opens two option trades, a Buy to Open and a Sell to Open position on this ETF. This is explained as where the strike prices are different, but the expiration and number of contracts are the same.

The option trader buys to open a call option for one expiration at one strike price: the lower-priced option of the two.

The option trader then, on the same order ticket, sells to open the same number of calls at a different price, a higher strike price.

The sold call option is used to offset or hedge the cost of the long call or the one that was bought to open.

The resulting cost of the trade is what's known as the net debit, hence this spread trade is also known as a Call Debit Spread. The ideal situation for this type of trade is for the underlying security to be above the sold strike of the spread at expiration. This way the markets assign the sold to open strike option (meaning it wants to buy the stock at that strike price sold).

Your account should then exercise its right for the bought to open strike option.

The account should realize the profit as the difference in the two strikes less the initial cost to open the call spread.

This is called Exercise and Assignment and we would like it to automatically happen, but you should confirm with your brokerage how that process works to be safe.

CALL BUTTERFLY

The Butterfly Spread is an option trade with a higher probability of success than a long call option. The tradeoff for having a higher probability for success is you sacrifice some profitability.

This case study involves buying to open 1 option, selling to open 2 of a higher strike price, and then buying to open 1 contract of another / different but even higher strike price option.

The outside strike options are considered the wings of the butterfly and the middle strike, which is twice the number of contracts is considered the body of the butterfly.

This is all done as one trade, meaning it is done on one order ticket. It is considered one multiple-strike option trade.

The ideal situation is for the underlying security to be trading at or as close as possible to the price of the middle strike price, (body of the butterfly).

TRADE EXAMPLE

Here is a Case Study of a Call Debit Spread on USO. (This is NOT a recommendation as I am not a Registered Investment Advisor

July 21, 2023, $70/$75 Call Debit Spread for a limit of $2.25.

Stock:	USO Stock News
Name:	UNITED STATES OIL
Sector:	Commodity Contracts Brokers And Dealers
Dividend:	0 %
100 Day SV:	35.87%
Trade:	USO 23Jul21 70-75 Call

Quote Type	Entry Debit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta
Natural	$225.00	$-60.00	-26.7%	$275.00	$-225.00	10.46	0.101	$-0.24	$0.07
Mid Quote	$225.00	$-17.00	-7.6%	$275.00	$-225.00	10.93	-0.039	$-0.24	$-0.05
Optimistic	$225.00	$25.00	11.1%	$275.00	$-225.00	11.42	-0.175	$-0.22	$-0.17

Downside Breakeven	Upside Breakeven	Max Profit/Max Risk	Max Profit/Cost
72.25	72.25	122.22%	122.22%

Leg Date	Position	Num	Option Symbol	Expire	Type	Entry	Bid/ Ask	Leg Profit	IV %	Vol	OI	Days	Delta %	Gamma %	Vega %IV	Theta $/day
2023-01-27	Bought	1	USO230721C70	2023 Jul 21	70 Call	7.60	7.20 7.65	$-17.00	36.45	28	1269	175	57.25	2.24	18.9	-2.4
2023-01-27	Sold	1	USO230721C75	2023 Jul 21	75 Call	5.35	5.15 5.55	$0.00	36.27	2	1551	175	-46.31	-2.28	-19.1	2.3

Let's break this down and then I will show the Risk Graph. Also, note the price will likely be different at the time of your reading this since this report was produced at the end of January 2023.

The risk in any trade is the cost of the trade.

In this case, the cost on a 1 contract basis is $2.25. One would Buy to Open the USO July 21, 2023, $70 Call and on the same order ticket Sell to Open the USO July 21, 2023, $75 Call.

It does not matter what price either option is, bought to open or sold to open, for just so long as when both are executed they are done at the Net Debit or Limit price of $2.25 ($225 cost per contract).

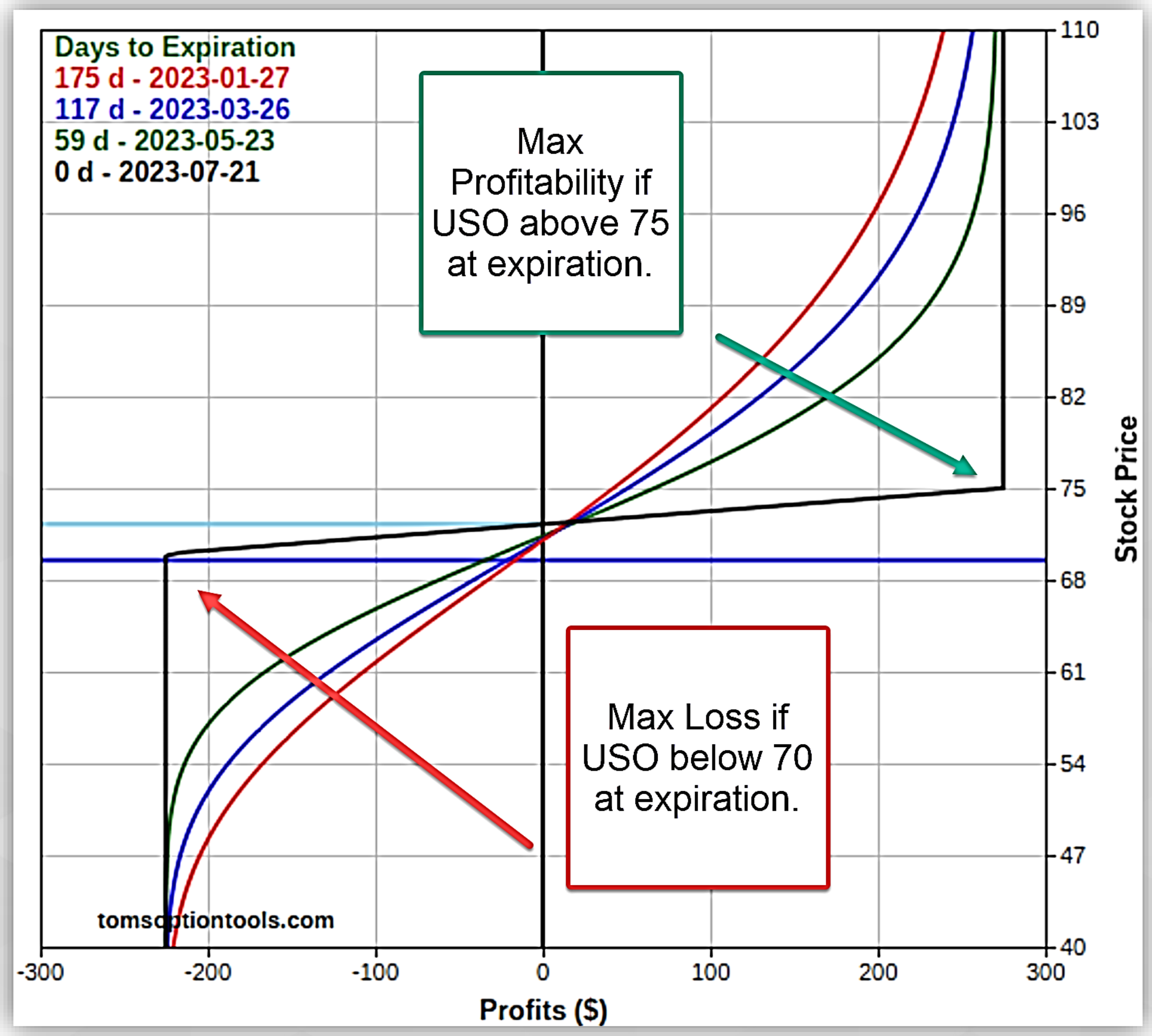
The ideal situation is for USO to be above $75 at expiration that way Exercise and Assignment happens and $5.00 or $500 is brought in.

That $500 will be offset by the fact it cost $2.25 or $225 to open the trade.

This leaves a profit of $275.

If one makes $275 on their purchase/risk of $225, this is a 122% Return on Investment (ROI) for the trade.

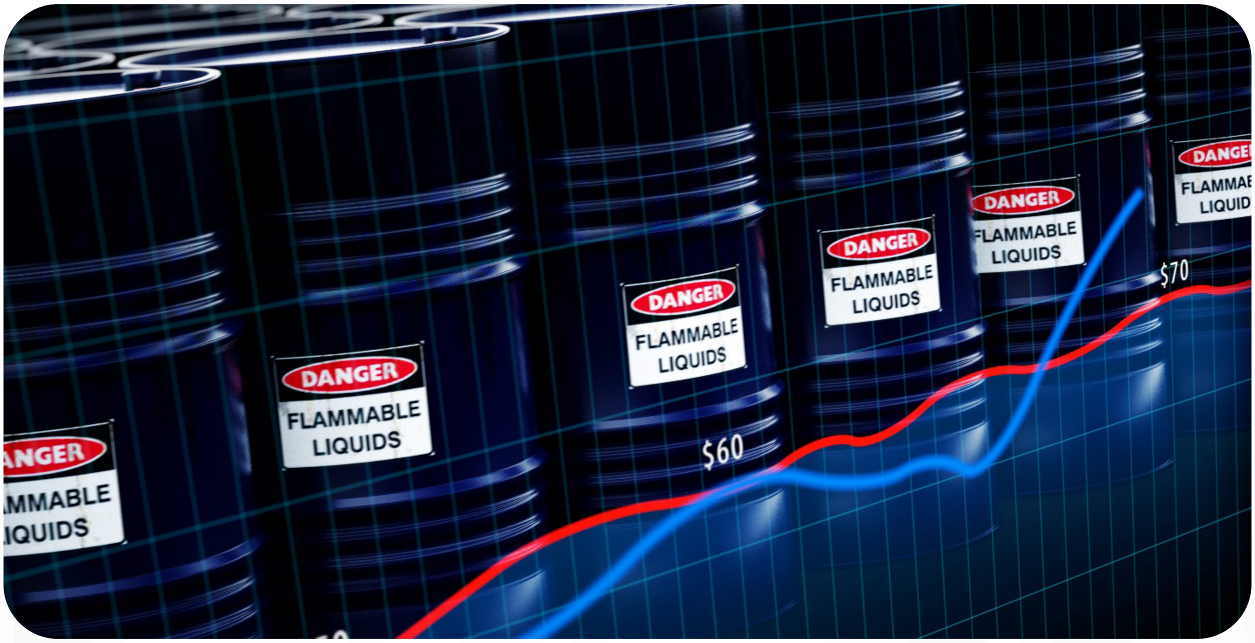
This Risk Graph image is a visual reference of the Option Data information provided in the data/option scenario box on the previous page.



One can take the tradeoff (close the trade) any time prior to expiration, but max profit or loss happens at expiration if USO is above 75 or below 70.

USO made a 15-point move last year during this time with USO closing at $69.50. At the time of this report, it only needs to move $5.51 or 5.51-points and be there at expiry for the possibility of max profit to be realized.

SUMMARY



This 2022 Energy and Opportunities Report is now yours. I suggest you either print it out or store it on your computer where you can go back to it.

You can take this to your financial team and start discussions on what options you want to entertain as a possible trade or if there is an investment idea you came up with from this education.

If nothing else, simply consider paper trading or tracking what oil does this year over this period.

I encourage you to do continued options analysis and research.

My online educational and analytical software site

www.TomsOptionTools.com is a great way to analyze different option strategies, strike prices, and/or strike price combinations and search capabilities, like finding an option with the lowest percentage move needed in the security for the option to double in value.

You can inquire about the subscription rates, services, and other products with my live support during all U.S. market hours at support@tomgentile.com.

I also have an App for access to a good amount of my tools data there.

App: Toms Option Tools

There are also a variety of options data lists that can be found on my app Tom's Option Tools. Use your device to search for and download the app and get free access to the Morning Reports section of the app.

The Morning Reports section of the app shows Daily Options lists. These lists show the ten options per list based on categories such as Highest Open Interest, Unusually High Call Option and Put Option, Expensive IV, etc.

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App name: Toms Option Tools

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