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Three Ways to Profit From High Gasoline Prices

By Keith Fitz-Gerald Contributing Editor

Most investors assume that higher oil prices are bad for the markets.

I disagree.

Sure, as consumers, we're all feeling the pinch from spiraling oil-and-gasoline prices. And I don't like feeling mugged when I fill up anymore than you do. But from an investment standpoint, I actually think higher oil prices are great. And, as an investor, you should, too.

Here are three reasons why:

- First, high oil prices tend to produce excess profits that flow directly to Caracas, Riyadh and Moscow - economies that are neither big enough nor liquid enough to absorb all that cash. As a result, much of that money acts like a financial boomerang: Petro-bankers in London actually send it right back here to the U.S. market, where the capital gets invested in our blue-chip stocks, is funneled into our tech stocks, and is even used to buy some of our companies outright. Lately, with the greenback as weak as it's been, these purchases are being made at bargain-basement prices. And that makes this an even more-alluring market for those petrodollars. Put another way, when it comes to our financial markets, high oil prices are actually a stabilizing force, since they encourage the repeated "recycling" of global investment capital through our economy.
- Second, higher oil prices encourage innovation. Many people

dismiss this as just so much theoretical finance, but the truth is that there's very likely a genius tinkering in his garage somewhere right now with the next great breakthrough. And, when he finds it, chances are we'll all come running because we will have tremendous financial incentive to do so.

0. Third, sustained high oil prices will ultimately serve as a free-market consumption disincentive that no policy maker could ever hope to accomplish through legislation. People will buy cars that are smaller and that get better mileage. They'll seek out new technologies at record rates, and increasingly will dump less-efficient tech offerings.

In many ways, this is shaping up as a replay of the early 1970s when the fuel-and-energy crisis caught Detroit flat-footed and heralded the introduction of gas-sipping Japanese compacts. We're seeing the beginnings of this now … to borrow a marketing slogan from the 1970s: "Have you driven a Prius, lately?"

Even more pointedly, have you tried to *buy* a Prius lately? There's a waiting list several months long for the Toyota Motor Co. (TM) hybrid vehicle - even as Ford Motor Co. (F) tries to reinvent itself yet again and General Motors Corp. (GM) struggles with behemoth cars and trucks that have so long been its bailiwick.

However, in sharp contrast with the 1970s, we will probably not see a replay of an energy-induced recession. I can't speak for other reasons that we may hit the dreaded big "R" in the next few months, but if there is a downturn, when the smoke clears, energy probably won't have been the cause (barring a terrorist induced supply constriction).

For one thing, we've had serious gains in efficiency across the board, which means that we now use less energy per unit of Gross Domestic Product (GDP) - in real energy terms - than we did 40 years go.

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Lest we descend into a macroeconomic morass, let's shift gears and talk about how to profit from all this.

You could obviously choose to invest in traditional oil-related companies, but they're already trading at obscene levels, so I wouldn't bother chasing them. If you've already got'em, that's a different matter and I'd be reinvesting my dividends to build my wealth.

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I'd also grab a portion of the alternative energy industry, which is really an indirect beneficiary of high oil prices - and which remains comparatively undervalued even after a spectacular run this year.

Among my favorite investments in this arena are:

0. The PowerShares Wilderhill Clean Energy Portfolio (PBW) exchange traded fund (ETF), which is a compilation of some of the best alternative energy companies in development.

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With these choices, the profits in your portfolio will more than make up for the sting you feel in your wallet every time you pull up to the pumps.