4 Reasons Investment and Natural Gas Strategies Work the Same Way

Have you ever compared the Standard & Poor's 500 ("S&P 500") Index and the New York Mercantile Exchange ("NYMEX") side-by-side? If you're like most people, no, why would you? But when you graph the activity of most markets over time, you'll see a jagged, up-and-down line that will most likely look different the next time you see it.

You'll see that the way we describe natural gas supply is the same. We talk about daily volumes, the day's high and low and historical trends. Natural gas and stock markets are very similar, but for some reason they are rarely treated that way.

In this article, we will focus on four reasons you might think about managing your natural gas supply like your stocks:

1. **They both accept the fact that the markets are always changing**. The S&P 500 is an index commonly used as a benchmark for the U.S. stock market, and it changes by the day. Investment experts monitor and try to forecast activity, but no one can predict for sure. In the world of natural gas, the NYMEX is the widely accepted natural gas benchmark price. It's determined by the futures price at the Henry Hub in Louisiana. Like the stock market, this is something that experts tirelessly monitor and analyze.

   Many players and external factors have an impact on volatility. There are variables at each point in the delivery system of the natural gas market: production, transportation (interstate), distribution (intrastate) and consumption. Most of these costs are realized in the basis component of your energy costs. Basis can be thought of as the "other" gas costs. It directly relates to regional supply and demand factors that make gas either more or less expensive than the gas trading at the Henry Hub. In simplest terms, your basis costs are calculated as the NYMEX price subtracted from your specific delivery point price in Illinois.

   When buying natural gas, you're monitoring the fluctuations at Henry Hub (NYMEX). You're also seeing fluxes as gas is delivered to you (storage, local production, etc.). Each of these factors can make it very hard to decide when and how to buy. Similarly, investment portfolio management is impacted by a company's stock performance, international economics and more. Again, both graphs are moving all the time and no one can predict where they're going.

2. **They both know not to eat the whole pie at once**. Since we can't predict market activity, there are other ways you can gain some stability. In natural gas and stock markets, buying all on one day is like putting all of your eggs into one basket. This is where investment diversification strategies, such as a 401k or Target Date Fund help. On a Target Date Fund, you can gain access to a number of different asset managers and classes without having to worry about when, and how much to buy.

   When an investment company develops strategies for people, it often advocates for the concept of **dollar-cost averaging**. This concept is now quickly being adopted by many businesses that purchase natural gas. You can diversify your NYMEX cost, basis or both to achieve the budget certainty you're looking for. Think about it as instead of buying a collection of stocks, you're buying a collection of dates. Buy once on January 1st, buy once on February 1st and so on.

3. **They both customize plans based on risk tolerance.** When you started working, you likely had a 401K portfolio with a higher proportion of equity than securities or real estate. At the start of your career, you can take higher risks because you have time to build back up from any potential market dips. As you near retirement, you level out to a more conservative portfolio and take fewer risks. While this formulaic progression over time doesn't quite equate to how the natural gas market works, you do have the flexibility to control the level of market exposure you wish to assume.

   Energy decision makers typically try to get the lowest price possible for their energy supply. However, through an investor's eye, that strategy is like buying for all of your retirement on one day. Stop shopping for a low price and, instead, build an investment strategy for your supply. You're not going to get the lowest price – you're going to get an average, more consistent price.

   With this strategy, you think long-term and can gain more value. If you diversify for less than a year, it's possible you might gain some benefits of market lows. On the other end, with a three to five-year strategy, you have more time – or think "stocks" – to dollar-cost average. This can help you better achieve your desired results of steadier, more predictable natural gas costs as opposed to what you might be gambling to achieve by purchasing all on one day.

4. **They both allow for "I'll do it myself" or "you do it for me" options**. Most retirement investors jump for the "you do it for me" strategy. You may work with your employer or an external investment agent because you don't have the time or expertise to do it while maintaining a career, family life and other priorities. When do you have time to ask whether it's really the right time to be buying stocks? Instead, a diversified strategy allows for a smooth progression to invest over time without life's interruptions to achieve the retirement goal.

   For many businesses, managers are juggling much more than just energy supply. **By letting your supplier help you manage your energy strategy, you can focus on other priorities and business decisions.**

   That being said, in both investment and natural gas markets, there are some people that want to manage their strategy themselves. For that, there are tools and intel available to help you make more confident decisions.

So what does this mean for your business? The strategy you use for investments can also work for your natural gas supply strategy. **What are you doing to minimize your risks? Do you know what your degree of risk tolerance is? Do you have the time to manage it yourself, or could you use the help of some experts?** However you might answer these questions, a strategic diversification plan can be built to meet these needs. To return to our comparison, despite age, career path or financial situation, thousands of people trust this same strategy – relying on a diversified retirement investment plan for the long-term. As a member of the Illinois Hotel and Lodging Association, you have access to a trusted, IHLA-preferred energy supplier, Constellation, to develop this same strategy for your business.

Search for today's NYMEX and S&P 500 Index. Put them side-by-side and you'll see a jagged, unpredictable line for both – but if you look at your latest 401k investment report next to your natural gas contract, the methods your using to manage that jaggedness might not be so similar. Interested in finding out how an investment strategy might work for your natural gas supply? Contact Constellation about how we can help you develop an energy strategy.