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WILD WORLD

By Trace Dixon

The US Hockey Team won Gold at the Winter Olympics, gas prices are rising at the pump, and based on Harry Styles and Bruno Mars' new albums theming, Disco is back. History doesn't repeat itself, it does, however, rhyme and right now today is rhyming with the 70's. In the same way we survived bell-bottom jeans and shag carpet, we will get through the recent turbulence in the market.

An important subject of discussion out of those is oil, in particular its supply and demand. As price per barrel climbs and swings back and forth, we must keep in mind that we are dealing with basic economic rules no matter what happens. Chiefly of which here the rule of Equilibrium: *a state where market forces like supply and demand are balanced*. If we believe this rule to be true, then the price of oil reflects the highest price people are willing to pay and the lowest price oil companies believe they can sell at given the amount of oil available.

Let's make that make sense: when oil prices go up (as they have lately), in our definition that means that one of three things has been changed.

1. People want to pay more for a barrel of oil, which is unlikely because I don't know about you, but I like buying things on sale rather than the other way around!
2. Oil companies across the world in unison want to make more money, and while this is true regard-

less of the market, they can only charge what people are willing to buy at, so I would say this isn't the reason the price at the pump has pinnacled.

3. The supply of oil or the future supply of oil has been changed or limited in some capacity, an idea which might be a thread we need to pull on here in this newsletter.

Following the trail of a change in supply, we naturally look at Iran and the ongoing war efforts. With that glance, we're close to our answer of why oil prices on the rise are but not on the source just yet. Iran is just 16th in world oil production, and it primarily goes to China. The US is reported to produce 13.68 million barrels of oil per day, or 16% of the worlds production supply per the US Energy Administration. Iran in comparison on produces 4.19 million barrels per day, or around 4.8% of the overall world supply based on a recent analysis from Reuters. So, if Iran produces less and sells only to China, how can they have such an impact on the price?

That leads us from a basic economic principle to a basic real estate principle: *location, Location, LOCATION!* Iran might not be directly responsible for the world's supply of oil, but they happen to have some oceanfront property overlooking the bottleneck that is the Strait of Hormuz. Roughly 20 million barrels of oil flow through the Strait

each day, or about 25% of the daily production. And when the rockets started firing at the beginning of the month, shipping insurers told vessels that they would not insure any damage caused by Iran while in the Strait. So, what can be done to clear up the wreck and get the world's oil flowing again, or at least increase the world's supply to help meet the unchanging demand?

First, it goes without saying that the best way to stabilize the oil market is to stabilize the Middle East. That, however, might just be a tougher act than predicting the market; so instead, we will discuss alternatives not based on military involvement and efforts. With that in mind, two things have happened as of late to help incentivize shipping through the Strait of Hormuz and increase the oil available to purchase on the market. President Trump has announced that the US Government is undertaking a \$20 billion reinsurance policy with the goal of reassuring ships passing through the chokepoint that any damage incurred will be paid for. To help cover needs from the other end of the supply chain, the US, alongside the other 31 nations of the International Energy Agency, have made plans to release a portion of each of their oil reserves into the market over the next four months in a hope to keep the market artificially stable.

These are promising first steps in order to bring down the cost of oil, but there are questions surrounding whether the US will increase production to fill the void left by Iran and anyone else encumbered by the war. US based oil companies have signaled that they are looking for more insight as to how long the operations will last, as they are hesitant to pump more oil only to have everything come back online and flood the market. These companies have also indicated that with the recent opening up of Venezuela's oil production lines to the US, they would like to begin tapping into those markets and bolster our production from those fields.

The issue for that hope is that Venezuela's production equipment is incredibly old, outdated, and unsafe, as well as that Venezuela's crude oil is high

in sulfur. That means all refining right now will have to be done in the US's facilities in Louisiana and Texas and will require additional refining to produce the product needed to send to your local Buc-ees, Circle K, or Shell Station, at least for the time being. A good friend of mine and one of my former professors, Dr. Ermanno Affuso, recently spoke to this issue in an interview with WALA Fox10, stating: *"One of the principles of economics is that a trade makes everybody better off. Venezuela would stand to benefit from the US's trade and business, while the US stands to gain from additional supply without having to search, drill, and harvest on our own."*

Additionally, US oil companies might stand to gain in the short term in another unique way. Oil prices have been relatively low the last few years. That means a better price at the pump and for the production of plastic, but that also means less money for those oil companies to expand production both here and in new markets like Venezuela. But an uptick in the price means extra money for those companies, added with the OBBBA tax bill allowing US businesses to permanently claim 100% depreciation on new assets this year rather than spread it out over time; and now those companies have a tax incentive to spend profits now rather than save for later. Economist Brian Westbury had this to say: *"Remember that although Americans will be paying more at the pump and elsewhere for energy, American energy producers will be earning more income and incentivized to expand production. On net, this should not push us into recession."*

All in all, supply is our culprit for why the price of oil is up, and with the stock market feeling very closely tied to the oil market as of late, that volatility will keep the market unstable. As the supply issues get ironed out through a variety of means, we expect the market to react favorably and even out as issues work out. And as these issues resolve and oil companies count their higher profits, we might see those be put back to work immediately in the market to help better shield supply chains stateside in case Iranian issues persist.

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