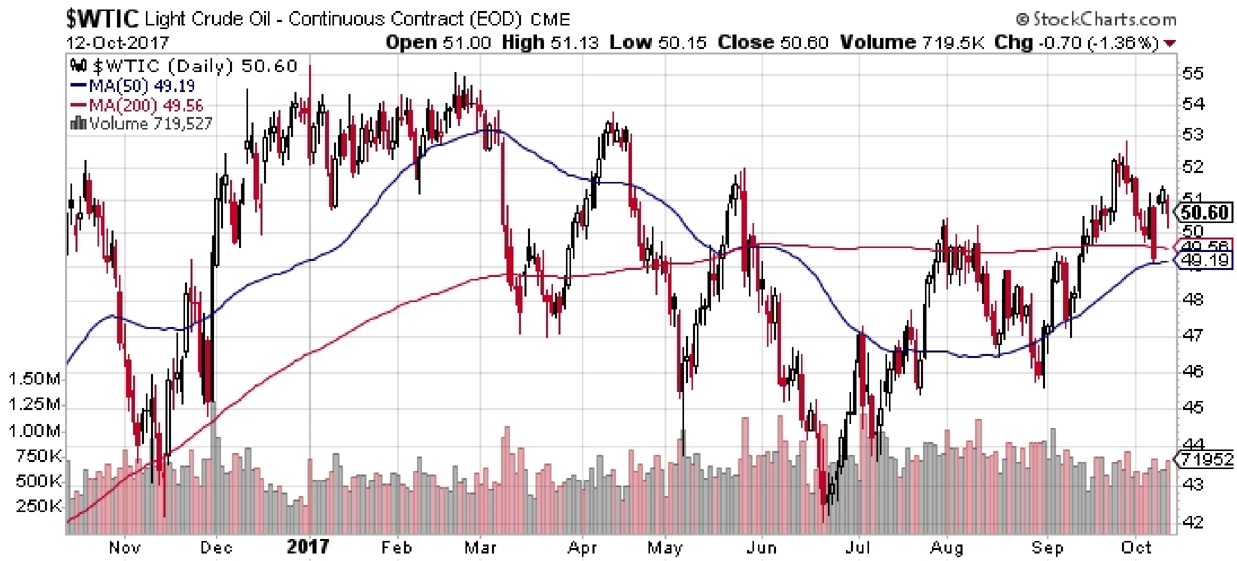
The Best Way to Trade the Oil Recovery Now

Oil prices have risen beautifully since bottoming out at $46/barrel in late August 2017.

Now trading at $51.60 for a gain of 12% in a month, we can thank falling inventory, higher demand growth, and a slowdown in shale supply for the run.



And, as long as OPEC remains committed to limiting output, we could see higher highs.

According to the U.S. Energy Information Administration (EIA), crude oil inventories are slipping, falling by six million barrels from the previous week, as reported in October 2017. Even the American Petroleum Institute (API) noted that inventories fell by 4.08 million barrels in early October, as well.

While there could be supply hiccups along the way and the potential for swings lower in oil prices, we are beginning to see signs of improvement, especially as OPEC announces it could extend cuts beyond the current expiration date of March 2018. "There is little doubt that leading producers have re-committed to do whatever it takes to underpin the market," noted the EIA, as quoted by Reuters.

Better yet, the EIA has noted that global oil demand will climb this year by the most since 2015, thanks to stronger consumption in Europe and the U.S. It increased its estimate by 100,000 barrels a day to 1.6 million, according to Bloomberg. "The re-balancing of oversupplied world markets is continuing, it said, with OPEC supplies falling for the first time in five months and inventories of refined fuels in developed nations subsiding toward average levels."

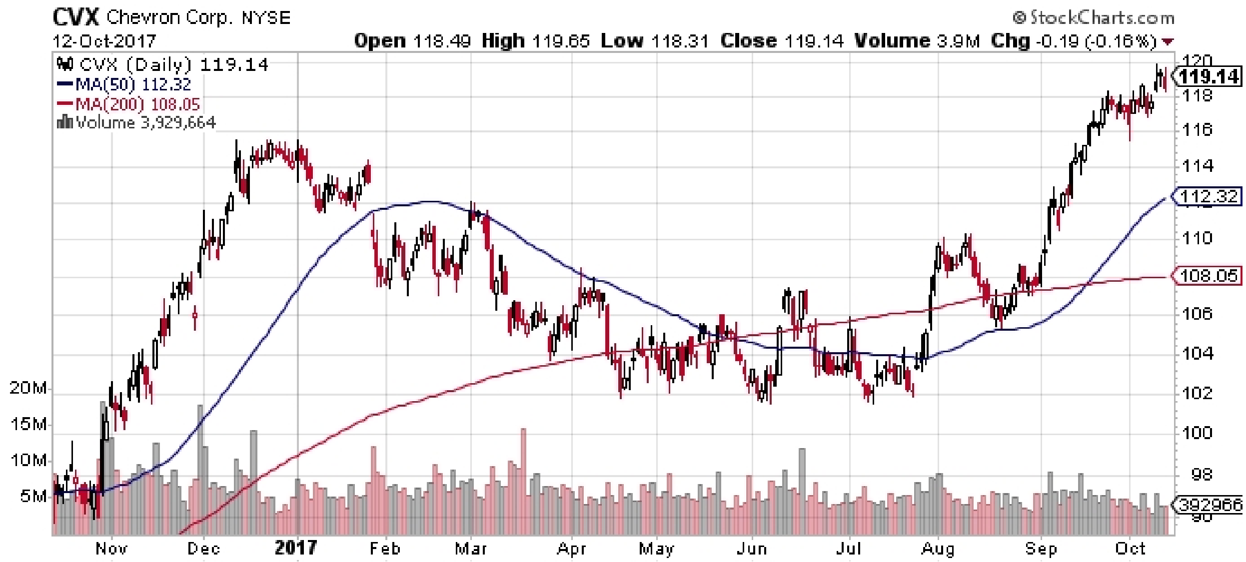
In addition, according to OPEC, world oil demand for 2017 is likely to increase by 1.5 million.

There are also sings of slowing shale supply.

While oil production in the U.S. has averaged about 9.16 million barrels a day so far, according to the EIA, the agency just recently cut its forecast for U.S. production. It now expects for the industry to end the year at 9.69 million barrels a day from 9.82 million.

It'll be interesting to see what happens next with oil and the opportunities it could produce.

Many traders are still buying Exxon Mobil (XOM) on the news, even after the stock ran from $76 to $82. In fact, not only are they buying the stock, but they're also buying the XOM December 15, 2017 82.50 calls. They're also buying shares of Chevron (CVX), as well, in addition to December 15, 2017 120 calls at market prices.



But to make any real money from those trades, we'd need to own quite a few shares.

For example, let's say I wanted to own 100 shares of CVX and XOM.

It'd cost me $20,200 altogether. Unfortunately, not many of us have that sitting around, as we get excited about the upside opportunity for oil.

Instead, I could gain exposure to the same opportunity by buying the Pro Shares Ultra Bloomberg Crude Oil ETF (UCO) at $17.12 a share, and do quite well on its run o $18.50. With this trade, I would have exposure to the oil market at less cost.

Or, I could buy the Power Shares DB Oil Fund (DBO) at $8.68, and potentially do well with a run higher, too. Plus, with this trade, I would have exposure to oil futures, as well at a much lower cost than that of XOM or CVX.

At the same time, it never hurts to hedge our bets.

For example, if I believe that oil prices are stretched, and ready to pull back again, I can buy an ETF that runs higher, as oil pulls back. For example, the Pro Shares Ultra Short Bloomberg Crude Oil (SCO) trade has a history of running higher each time crude prices drop. For example, when crude fell from $50 to $46 in August 2017, the SCO ran from $36 to $42.

We have to remember that oil is a fickle trade. We have to trade it safe.

These are just a few ideas that could pay out well regardless of oil direction.

Be well. And stay tuned for our in-depth strategy guide on our trading process.