

BlackRock's Rice Says Oil Shares May Double as Crude Climbs

By Charles Stein



June 5 (Bloomberg) -- **Daniel Rice**, whose **BlackRock Energy & Resources Fund** rose more than any U.S. equity mutual fund in the past decade, said oil-company stocks may double within three years as crude prices climb toward \$90 a barrel.

The global recession didn't fundamentally change the demand for energy or affect long-term supply constraints, Rice said in a June 2 interview at his Boston office. Coal stocks may triple, he said.

Rice's \$808 million fund gained an average of 20 percent a year in the 10 years ended May 31, according to data compiled by research company **Morningstar Inc.** That topped his closest rival, Icon Energy Fund, by 1.55 percentage points.

"It's all about getting the commodity price right," Rice said. "That's what will make us look smart or dumb."

Stocks that Rice expects to take off include **Clayton Williams Energy Inc.**, a Midland, Texas-based oil and gas producer, and coal companies **Arch Coal Inc.** and **Consol Energy Inc.**

The fund holds small and midsize companies with an average market capitalization of \$2.29 billion, according to Chicago-based Morningstar. Those stocks are more sensitive than larger companies to changes in commodity prices, giving investors "more bang for your buck," Rice said.

Eight of the top 10 performing funds in the past 10 years are focused on natural resources, Morningstar data show.

Rice's investors need to be prepared for big gains and losses, said **Michael Herbst**, a fund analyst at Morningstar. In 1998, the fund fell 48 percent, including reinvested dividends, while it returned more than 50 percent in 2000, 2003 and 2005.

'Wild and Woolly'

The fund increased 38 percent this year through June 3 after losing 53 percent in 2008 as the recession caused commodity prices to tumble.

"This is one of the most volatile funds in a wild-and-woolly category," Herbst wrote in a review of the fund on [Morningstar's Web site](#).

Rice, 57, started managing his fund in 1990 for State Street Research & Management Co., a Boston investment firm acquired by New York's [BlackRock Inc.](#) in 2005. He's the longest-serving manager of a natural-resources mutual fund, according to Morningstar. A 1973 graduate of Bates College in Lewiston, Maine, with a degree in biology, he manages about \$2 billion in mutual funds, institutional accounts and hedge funds.

Rice forecasts energy prices two to three years ahead and considers the implications for stocks.

Crude Forecast

Oil prices may climb to \$90 a barrel, from \$66.81 yesterday on the New York Mercantile Exchange, if the world economy grows at an annual pace of 2 percent to 3 percent, he said. At that level stocks including [Clayton Williams Energy](#) would double in two to three years, he said. The company, which makes up 1.8 percent of the fund's assets, fell 75 percent in the past year.

Goldman Sachs Group Inc. raised its forecast yesterday for oil to \$85 a barrel for the end of 2009 and \$95 for the end of 2010. Rice said prices greater than \$90 a barrel aren't sustainable because they "eventually will act as a brake on the world economy, causing growth to drop back."

Rice's two largest holdings are Houston-based natural-gas producers [Southwestern Energy Co.](#) and [PetroHawk Energy Corp.](#) They account for more than 13 percent of the fund's assets.

Both companies have access to low-cost U.S. shale deposits. Because their gas supply is cheaper, they can earn higher rates of return than competitors, Rice said.

"For us to own natural gas there have to be good stories," he said.

Coal Outlook

Investors assume coal prices will be roughly \$55 a ton, \$20 below his own forecast, Rice said. Coal for delivery by barge on the Big Sandy River, a benchmark for Central Appalachian supplies, is \$47.50 a ton, Bloomberg data show.

[Frank Husic](#), managing partner of San Francisco-based Husic Capital Management, which oversees \$500 million in client assets, sold his coal stocks last year, saying the recession took away "the bullish case" for the fuel. In addition, President [Barack Obama](#) wants Congress to pass climate-change legislation that could raise the price of burning coal to generate electricity.

"Obama is not a fan of carbon," Husic said in an interview.

Rice called Congressional proposals on climate change “toothless” and said they won’t raise coal prices enough to force customers to switch to other fuels.

“You have to cut through the noise,” he said.

The three largest U.S. coal producers -- **Peabody Energy Corp.**, Arch and Consol -- made up 12 percent of his fund’s assets as of March 31, according to data compiled by Bloomberg.

All three companies lost more than 60 percent in 2008. Peabody, based in St. Louis, rebounded with a 55 percent gain this year through yesterday. Arch, also in St. Louis, rose 15 percent, and Consol, of Canonsburg, Pennsylvania, jumped 45 percent.

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