

The New Era of Coal Investing

Special Report

Why Coal Prices Could Double this Year... and How To Profit from the Surge

Welcome to the Coal Bull Market.

Coal, whose surging price has outpaced crude oil and natural gas, could double this year.

When heavy rains and flooding cripple two million metric tons of thermal coal production at an Ensham mine in Queensland, Australia, coal prices go nuts. But when crippling China snowstorms, floods in Queensland, Australia, stronger Asia demand, slower Indonesian growth, power crisis in South Africa wreak havoc, will it be any shock if coal prices go through the roof?

All the while, coal demand continues to spike as global electricity use grows, and isn't expected to slow. Thermal coal prices in Newcastle, Australia, for example, soared 73% in 2007, beating the crude oil run. This year, coal futures have already jumped 42% to about \$80 a ton.

Supply pressures alone already forced Citigroup, for instance, to forecast \$100 thermal coal prices for 2008-2009, from the current price of \$55 / ton, while the price of coking coal could rocket to \$200 / ton from \$95. Other developments that may boost coal prices, include higher exchange rates, says Forbes. "Production costs have been rising 14% per year, and further cost inflation is expected, if at a slower rate."

Plus, consider this. According to MarketWatch.com, "China will sharply increase coal imports in the coming months to build its reserves. Coal demand from China, the world's largest coal consumer, will be very strong in February and March."

Better still for the coal stock bulls, the export market into Asia and Europe is extremely strong. Supply can't keep up with demand.

Investing in Coal Stocks: How to Profit from Soaring Coal Prices

Yes, there's a drawback to coal. Coal is dirty and toxic. As consumption rises, we'll see negative sentiment, the legal issues, you name it. But it won't slow down demand. It's like cigarettes. There's huge demand, and people know it's bad for their health. Yadda... Yadda... Yadda... But it hasn't slowed demand.

The coal stock Arch Coal (ACI), for one, has been in a strong uptrend after posting net income of \$81.3 million, or 56 cents per share from \$79.5 million, or 55 cents a year earlier, dwarfing analyst predictions for 47 cents. Revenue was up to \$644.4 million from \$618.4 million, bettering \$641 million forecasts.

And most of it's because of stronger coal prices.

But if you want broader exposure to coal, there's another coal investment... the Market Vectors Coal ETF (KOL), which provides exposure to a tight supply and demand market. That doesn't mean it's not volatile, though. The fund's big weighting is in the U.S. followed by China, and Indonesia with major holdings in China Coal Energy, CONSOL Energy, Bumi Resources, Peabody Energy, and China's Shenhua Energy.

Again, we expect to see volatility in the ETF. Be cautious if you buy.

With a real possibility that coal could be the new gold... black gold, take a look at the following coal stocks: KOL, ACI, and Teck Cominco (TCK), which now has a \$50 price target.

Breaking the Addiction

There are many different technologies currently being developed to break our oil addiction.

One such technology is a process of turning solid coal, just like the coal that powered the first steam engine, into synthetic liquid fuels.

Coal?

You bet.

Coal-to-Liquid (CTL) technology is able to convert the black rocky fuel into valuable, high-quality synthetic fuels. These fuels include clean, sulfur-free synthetic diesel and jet fuel.

The most common way to convert coal into liquid fuels is the Fischer-Tropsch process, named after two German scientists who developed the technique back in 1925.

To create the synthetic fuel, coal is mixed with oxygen and steam at high temperature. Pressure is then added to produce carbon monoxide and hydrogen.

The second step, called Fischer-Tropsch synthesis, uses a catalyst to transform the gas into liquid synthetic crude, which is further refined into diesel or jet fuel. Along the way, mercury, sulfur, ammonia and other compounds are extracted and can be sold on the commodities market.

Now, the diesel that produced using the Fischer-Tropsch process is a lot different than what you'd buy at a gas station today -- it's much better.

You see, the shelf life on normal diesel fuel is only about three to four months. But using the Fischer-Tropsch process, companies can produce a synthetic diesel with a shelf life of up to eight years!

This will make these synthetic fuels the number one choice for military use and strategic reserves.

This would also enable the military to finally scrap the half dozen other different fuels they're currently using with a single battlefield fuel without having to switch engines or other parts as it works "as is" in any diesel engine in use today.

And that has the government eager to get this technology rolling...

A Colossal Resource Base

The United States is the Saudi Arabia of coal.

Recent estimates show that the United States contains roughly 267 billion tons of the black rocky fuel. That's nearly 30% of the entire world's recoverable coal!

That means there's no need to import the resources needed. We already have a massive resource right in our backyard.

Oil prices are subject to geopolitical turmoil like the nuclear standoff between western nations and Iran that's going on right now. But not coal.

The biggest hurdle will be getting by the environmentalists. And it really won't be that big of a deal.

As far as coal being filthy...

Sure, it is if you're burning it and let the emissions fly into the atmosphere.

But the Fischer-Tropsch process that will be used by CTL manufacturers is different. The process actually traps the emissions and recycles them for use in other applications.

Now as you know, fossil fuel emission is a hot topic in Washington right now.

The Federal Clean Air Act, first passed as federal law passed in 1970, and last amended in 1990, is being taken more seriously than ever.

The basic elements of the act include national ambient air quality standards for major air pollutants, hazardous air pollutants standards, state attainment plans, motor vehicle emissions standards, stationary source emissions standards and permits, acid rain control measures, stratospheric ozone protection, and enforcement provisions.

CTL fuels are very clean burning and substantially reduce emissions when compared to other fuels.

They contain no sulfur, aromatic compounds or metals, and have a high octane number in comparison to standard diesel.

CTL fuels have more benefits all around when compared to conventional fuels.

The Future for CTL

Experiments with CTL fuels have found that they have the very same characteristics that will make an excellent feedstock for fuel cell technology.

CTL fuels contain high amounts of hydrogen, twice that of methanol. Hydrogen is the fuel necessary to generate power for a fuel cell.

CTL fuels, being devoid of sulfur, aromatics and metals, allow for little or no residue build up in the fuel cell process unlike other fuels being studied today.

Additionally, the fact that CTL fuels can be delivered through the existing infrastructure makes the use of CTL fuels for fuel cells practical and more economical than other fuels.

Synthetic fuels have been branded by top industry leaders and analysts as the technology that will turn the oil and gas industry on its head.

Ok -- this technology isn't a magic answer to our energy crisis.

But it's certainly is going to be a big step in the right direction. And that's why it's so important.

And there's no doubt that this technology is going to make a lot of money for a lot of smart investors just like you.

Even some of the biggest names on the investment stage, like Warren Buffett are positioning themselves for this breakout.

Buffet Bets on Coal

An energy company owned by investment mogul Warren Buffett recently bought 8,500 acres of coal-rich land in Johnson County, Wyoming. The intent is to establish power generation projects.

The land purchased by Iowa-based MidAmerican Energy Holdings Co. is located between Buffalo and the southern end of Lake DeSmet.

While MidAmerican didn't outright say that they plan to employ CTL technology, the company did say that they acquired the land "as part long-term plan to meet energy needs in the West."

CTL technology certainly won't solve all of our energy problems. It will, however, delay the impending catastrophe.

Once proven and mainstream, it will also open the doors to newer, better technologies.

Good investing,

Ian L. Cooper

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