CIF Sector Recommendation Report (Fall 2012)

Sector: **Energy**  
Review Period: **Oct 4 – Oct 17**

### Section (A) Sector Performance Review

Copy/paste “Sector Review Spreadsheet” (the entire spreadsheet) here

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Current Price</th>
<th>Beg. Price</th>
<th>Stop-loss Price</th>
<th>Target Price</th>
<th>% Cap</th>
<th># Shares</th>
<th>Current Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>$1460.91</td>
<td>$1450.99</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Sector ETF</td>
<td>XLE</td>
<td>$74.94</td>
<td>$73.02</td>
<td></td>
<td>2.63%</td>
<td>2440</td>
<td>$182,853.60</td>
</tr>
</tbody>
</table>

Current Holdings

**Review sector performance relative to the broad market (SP500) and explain why; Include a two-week (for the two-week window reviewed) price chart of the SPDR sector ETF and SP500 (on the same chart)**
This decrease in the XLE sector and the S&P 500 can be attributed to Chevron’s announcement of low quarter three profits. This lowered Chevron’s shares by 4.2% and the XLE sector by 1.9%. With Chevron holding such a large portion of the XLE sector, a negative impact on Chevron can potentially negatively affect the sector. The increase after Chevron’s announcement may be attributed to other companies performing well during this time period such as Exxon Mobil. With Exxon Mobil having such a large holding in the XLE sector, the same can be said about Exxon Mobil as was said about Chevron. Exxon Mobil ended up trading at a new 52-week high at $93.54. Another company to contribute to the upward trend of the XLE sector is Occidental Petroleum whose shares increased by 1.8%. Occidental Petroleum is currently the fourth largest holder in the XLE sector.

Highlight noteworthy headline news from the sector (company-, industry-, or sector-level news)

Supply of crude increases: The Brent crude oil price, which is equivalent to the United States’ crude oil price, had fallen due to increases in supply of U.S. oil. The prices of the Brent and U.S. crude are determined by oil futures contracts with the Brent selling at a premium. The price of the futures is determined by how pure the crude oil is with the “sweeter” crude selling at a premium. The spread from the November contracts between the Brent and U.S. has decreased with the upcoming December contracts coming to light. The change was $24.28 to $20.63. Although the supply of crude has increased, other factors such as tension in the Middle East have prevented the price from decreasing drastically.

Natural gas is becoming an oil alternative: With the advances in natural gas production, specifically fracking (hydraulic fracturing), the supply of natural gas is increasing and making it another option to crude. This increase in supply of natural gas has decreased the price by 88% since 2005. However, the price of natural gas is starting to increase as the natural gas market balances out and demand for natural gas starts to increase. Also, with the approach of winter, natural gas prices are still expected to increase, at least for a little while.

Schlumberger Limited announces third quarter results: Schlumberger has the third largest holding in the XLE sector behind Exxon Mobil and Chevron. They provide drilling services. Revenue had increased from second quarter of $10.45 billion to $10.61 billion. International growth had been steady and made up for any offset from North American drilling. Even though Schlumberger has the third largest holding in the XLE sector it still is very small compared to Exxon Mobil and Chevron and I will discuss headlines regarding said companies later in this report.
Highlight the biggest (+) and the biggest (-) movers from the sector holdings during the review period. Are there notable reasons why the stocks had big moves (e.g., earnings surprises, etc)?

The CIF currently has no XLE sector holdings, but in the XLE sector the biggest (-) during this time period was Chevron who saw a drop in stock of 4.2%. This drop resulted from Chevron’s announcement that quarter three profits are going to be lower than quarter two. This decrease in profit is because of delays from hurricane Isaac and the recent fire to one of their refineries. As for the biggest (+) during this time period, Halliburton had an increase of 4.95%. Halliburton is a drilling company and this increase may be because of the increased drilling for natural gas and the steady increase in demand. Even though Halliburton had decreased earnings from last quarter, the quarter three expectations were very close to the actual expectations which resulted in a less severe drop of the stock.

http://www.dailyfinance.com/2012/10/19/halliburton-meets-diminished-expectations-for-3q/

Highlight the largest two holdings from the sector and note any headline news on the companies

The two companies with the largest holdings are currently Exxon Mobil Corp with 19.326% and Chevron Corp with 15.244%. As for news regarding Exxon Mobil, ExxonMobil Canada announced it will be acquiring Celtic Exploration Ltd. This acquisition will give Exxon Mobil about 650,000 net acres to drill for crude and natural gas. This acquisition is thought to strengthen Exxon’s North American market. As for news regarding Chevron Corp, Chevron had announced that its third quarter profits will be greatly lower compared to second quarter profits. This resulted in a 4.2% drop in shares and a decrease in the S&P 500. The poor quarter three profits are attributed to Hurricane Isaac and the fire at a Chevron Richmond refinery.

http://www.sectorspd.com/news/?do=newsStory&stype=db&newsID=10260708

Comment on short-term outlook of the sector (including noteworthy upcoming events)

In respect to the short-term outlook, The XLE sector will probably perform quite well. The energy sector tends to do well in times of high inflation and inflation is pretty high right now. This is because of gasoline and oil having a fairly inelastic demand and as the prices increase, people will still be willing to buy gas. This will hold true at least in the short-run. As for upcoming events, winter is approaching and people need fuel to stay warm. The EIA estimates crude oil to increase 0.7 million barrels per day from last year and to increase to 6.9 million barrels per day in 2013. Also, as stated above, the demand for natural gas is steadily increasing as the natural gas market continues to balance out. The supply of natural gas is also expected to increase as well.

http://beta.fool.com/acardenal/2012/03/14/protect-yourself-inflation-these-etfs/2862/
Section (B)  Sector Holding Updates

Currently no holdings in XLE sector

Company #1: Company Name and Ticker

Date Recommended: MM/DD/YYYY
Date Re-evaluated: MM/DD/YYYY

Company Update
Briefly update what happened to the company the last two weeks (up through your re-evaluation date). This should include noteworthy headline news on the stock (e.g., earnings announcement, management’s comments on company outlook and/or strategic changes, changes in analyst recommendations or estimate revisions, new product launch, management turnover, legal or regulatory issues, merger/acquisition announcement, restructure announcement, news from major competitors, etc.)

Relative Performance
Review relative performance of each sector holding, over the two-week review period, both relative to the SP500 and to the respective SPDR sector ETF. Relate your comments on relative performance to the updates discussed above

Price Charts
Insert a price chart of the stock for the most recent three months. You should include on the same chart (1) the SPDR sector ETF, (2) and the SP500 prices for the same period

Insert a price chart of the stock for the most recent one year. You should include on the same chart (1) the SPDR sector ETF, (2) and the SP500 prices for the same period

Valuations Analysis
Original Analysis
Copy/paste P/E (TTM), P/S (TTM), P/B (MRQ), P/CF (TTM) of the stock, the industry, and the sector from “ratio analysis” section of the original stock recommendation report (from CIF website, “reports” tab)

Re-evaluation Analysis
Copy/paste the requested valuation multiples from http://www.reuters.com/, “Financials” tab

Briefly discuss the changes
Historical Surprises

Original Analysis
Copy/paste “Historical Surprises” Table from the original stock recommendation report (from CIF website, “reports” tab)

Re-evaluation Analysis
Copy/Paste the “Historical Surprises” Table from http://www.reuters.com/, “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”)
Briefly discuss the changes

Consensus Estimates

Original Analysis
Copy/paste “Consensus Estimates Analysis” Table from the original stock recommendation report (from CIF website, “reports” tab)

Re-Evaluation Analysis
Copy/paste the “Consensus Estimates Analysis” Table from http://www.reuters.com/, “Analysts” tab (include both revenue and earnings)

Briefly discuss the changes

Estimate Revision Analysis

Original Analysis (MM/DD/YYYY)
Copy/paste “Estimates Revision Summary” Table from the original stock recommendation report (from CIF website, “reports” tab)

Re-Evaluation Analysis
Copy/paste the “Estimates Revisions Summary” Table from http://www.reuters.com/, “Analysts” tab (include both revenue and earnings)

Briefly discuss the changes

Analysts’ Recommendations

Original Analysis
Copy/paste “Analyst Recommendations and Revisions” Table from the original stock recommendation report (from CIF website, “reports” tab)
Section (C) Sector Recommendations

You will make recommendations on whether CIF should continue to own its sector holdings. Provide your views on the sector. Are you bullish, bearish or neutral on the sector, and why? Discuss whether you recommend CIF to (1) stay put with its current sector holdings, or (2) sell out of the sector, and why?

With the increase in the supply of crude oil and the decreasing demand for crude oil, I am bearish regarding the XLE sector. My reasoning is even with the increase in crude supply, due to uncertainty in the Middle East the price of crude oil will not decrease by that much, but it is lower than expected. There is also a surplus in natural gas as well. The ratio of natural gas to crude is usually 10:1 meaning ten units of natural gas is equivalent to one unit of crude. With the increase supply of natural gas, this ratio reached 55:1 in April and has dropped to 25:1 since then. According to analysts, this ratio is still too high. However, this does not constitute selling out of the sector anytime soon because the XLE sector is a safe sector to be in with high inflation due to the inelastic demand. Also, as stated earlier, the decrease in the price of oil will hit a floor because of the tension in the Middle East.

http://www.reuters.com/article/2012/10/16/markets-oil-idUSL3E8LG1KT20121016

Section (D) Sector Holding Recommendations

Currently no sector holdings

Based on your analysis, are there stocks CIF currently owns from your sector you would recommend to:

1. Sell and why?
2. Adjust “target price” and why? If you recommend an adjustment, you must suggest a new “target price”
3. Adjust “stop-loss price” and why? If you recommend an adjustment, you must suggest a new “stop-loss price”

Provide your recommendations in the following table

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>Date Recommended</th>
<th>Date Re-evaluated</th>
<th>Recommendation (Explain Why)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Sell Adjust “Target Price”</td>
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<td></td>
<td>Adjust “Stop-loss Price”</td>
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