

Date: October 28, 2012

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CIF Sector Recommendation Report (Fall 2012)

Sector: Energy

Review Period: October 10th to October 24th

Section (A) Sector Performance Review

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

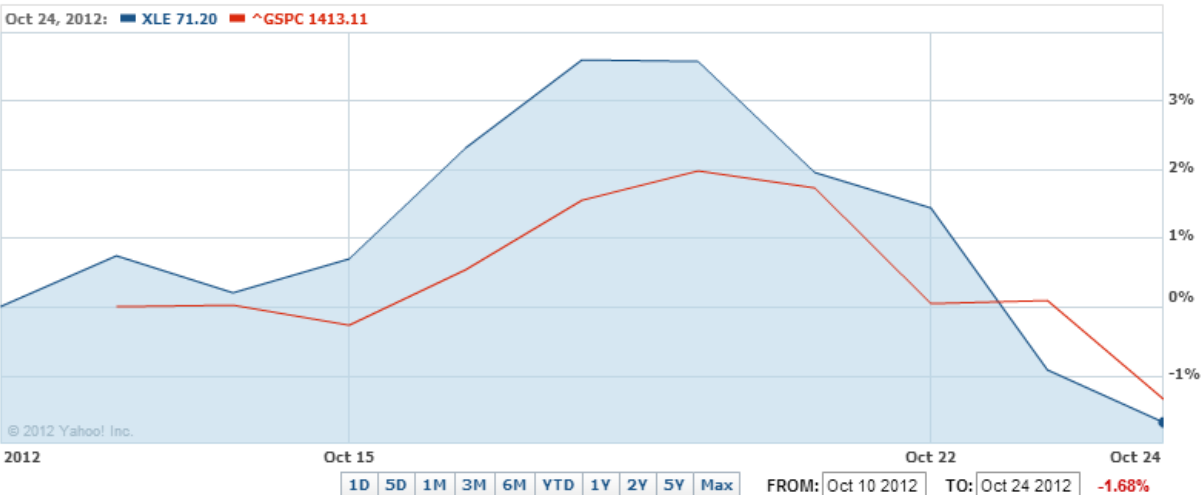
ENE									
	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector's S&P 500
S&P 500	^GSPC	1441.48	1408.75			2.32%			
Sector ETF	XLE	\$71.20	\$73.80			-3.52%	2440	\$173,728.00	-5.85%
Current Holdings									

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)

The XLE energy ETF outperformed the S&P 500 for the majority of the two week review period. Hurricane Isaac and a fire at one of Chevron’s refineries in California caused disruptions in production for major integrated oil companies in the U.S. This short-term decrease in supply and declining global crude prices has caused waning returns that can be seen starting around October 17th and begin to underperform the benchmark by October 23rd.

71.96 ↑ 0.09(0.13%) Oct 26, 4:00PM EDT | After Hours : **71.96** 0.00 (0.00%) Oct 26, 5:55PM EDT

Enter name(s) or symbol(s) [GET CHART](#) [COMPARE](#) [EVENTS](#) [TECHNICAL INDICATORS](#) [CHART SETTINGS](#) [RESET](#)



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

For the industry as a whole, a recent power ranking was done by Platts, evaluating the top 250 best energy companies. Major integrated oil giants like Exxon and BP remained were listed in the top 10, but what is more notable from the article is their mention of the growing presence of Asian petroleum companies in China and India. As Bristol Voss mentions in his article: “of the 50 Fastest Growing Companies list, Asia-Pacific companies accounted for 30 of the 50 companies listed, based on a three-year compound growth rate.”¹

Domestically, The U.S. is beginning to produce crude at levels that are starting to match Saudi Arabia’s output. Mike Jones cites that the U.S. Department of Energy estimates production to be near 11.4 million barrels a day next year.² This would be a 7% increase in production over this current year, and speculation that domestic production will exceed all other countries by 2020.² Businessweek also states that “The boom in oil and gas production helped America meet 83 percent of its energy needs in the first six months of 2012, Energy Department data show. If the trend continues, it will be the highest level of self-sufficiency since 1991.”³

¹<http://www.minyanville.com/sectors/energy/articles/Royal-Dutch-Shell-Global-Energy-Top/10/23/2012/id/45273>

²http://www.tulsaworld.com/opinion/article.aspx?subjectid=213&articleid=20121028_213_G1_CUTLIN678245&allcom=1

³<http://www.businessweek.com/news/2012-10-25/shale-gas-boosts-exxon-ethylene-over-mitsubishi-energy-markets>

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)?

One of the biggest gainers in the energy sector is Cabot Oil. They reported earnings on October 25, having an EPS of .21 cents beat earnings estimates by 8 cents a share.¹ Natural gas production increased 33% in one year, another positive indicator to investors about the company. The NASDAQ article also mentions revenue falling short by \$296.87 million though.¹ Two of the biggest losers in energy were Valero and Tesoro, having shares decline 1.4% and 2.1%, respectively.²

¹[http://community.nasdaq.com/News/2012-10/sector-update-energy\(8\).aspx?storyid=184934#.UI34WcXA-KI](http://community.nasdaq.com/News/2012-10/sector-update-energy(8).aspx?storyid=184934#.UI34WcXA-KI)

²http://articles.marketwatch.com/2012-10-23/markets/34666833_1_suncor-energy-oil-majors-energy-stocks

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

Exxon Mobil and Chevron are the two largest holdings in the SPDR ETF.

Chevron missed their earnings mark when their announcement came out on October 10th. They blamed that shortfall on declining global oil prices and Hurricane Isaac disrupting production at a refinery in Mississippi.¹ Chevron has also acquired Lithuanian oil and gas exploration company, LL Investicijos, with the intent to heavily expand their shale oil production capabilities.² It is also notable that Chevron has donated over \$14.8 million to republican candidates in the upcoming 2012 elections.^{3,4}

Exxon has also been expanding their shale oil production domestically. It is pushing the price of natural gas down because the supply of natural gas in North America is increasing. The U.S. Army Corps of Engineers issued a permit to Exxon Mobil to start building a facility in northern Alaska for oil extraction.⁵ Exxon also plans to quit operating a large oil field in Northern Iraq, causing political strains for the U.S. and Iraq regarding making Exxon be forced to stay and continue operations.⁷ The Q3 earnings reports for XOM is expected to come out on November 1st.

¹<http://www.chicagotribune.com/business/sns-ap-us-wall-street-20121010,0,4101222.story>

²http://www.nytimes.com/2012/10/26/business/energy-environment/chevron-intent-on-european-shale-gas-buys-lithuanian-stake.html?ref=business&_r=1&

³<http://blog.seattlepi.com/seattlepolitics/2012/10/28/2-5-million-from-chevron-usa-to-republicans/>

⁴<http://www.washingtonpost.com/blogs/election-2012/wp/2012/10/26/chevron-donates-2-5-million-to-gop-super-pac/>

⁵ <http://www.reuters.com/article/2012/10/26/exxonmobil-pointthomson-idUSL1E8LQF1Z20121026>

⁶ <http://www.dailyfinance.com/2012/10/28/coming-soon-exxon-mobil-earnings/>

⁷ <http://www.reuters.com/article/2012/10/22/usa-iraq-oil-idUSL1E8LMJPV20121022>

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

With Chevron's earnings report falling short of the analyst's expectations and a decreasing price in global crude prices, the near-term outlook for the energy sector can be very volatile. Two events will have the most impact on whether the sector generates positive or negative returns. The first is Exxon's earnings report that should be coming out at the end of this week. Even though they are expected to detract in earnings and revenue, if they can positively surprise the market on how little they shrunk, a favorable outcome can be signaled to the market. The second is how the U.S. presidential election turns out next week. The energy sector has been donating to mostly republican candidates, so a Romney victory will be seen as a positive outlook for the oil industry. These two events will need to unfold in order to have a better idea of how performance in energy will be over the next few months.

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?

I believe the CIF should hold its current amount of XLE shares. The ETF is one of the stronger energy funds out there being managed. If there are companies recommended with excellent credentials to invest in, we will allocate our holdings accordingly using the sale of XLE shares. I am bearish on the energy market based on the notion that the U.S. is beginning to domestically produce at a more competitive level in the global market. This is especially pointed out by the large increase in natural gas production from shale oil production and fracking. After XOM's Q3 earnings report and the November election, a better understanding of the near-future will solidify or question my bearish opinion on the market.