

Investor Newsletter



THINGS TO WATCH FOR:

OIL

Six OPEC members have agreed to cut production by 1 million barrels a day. Saudi Arabia had quietly cut oil output by around 200,00 barrels before this decision. Whether these cuts are from their quota or actual production remains unclear. Overstocking of supplies has brought the price down from its highs, not supply/demand imbalances.

COMMODITIES

Consolidation in the commodities markets is evident. After such run-ups, the CRB index may need time to digest its gains. We see support at the 285 level for the index.

CHINA

Progress and growth is still the formula. China is making oil deals around the globe. This may still lead to upward forces on commodities.

INTEREST RATES

The Fed seems to be in a wait and see mode with interest rates. Higher rates attract capital.

Looking for Value.

What to expect and where to invest

Noise, noise, and more noise. That seems to be the theme of the market over the last nine months or so. Whether it's news of oil trading higher or lower, gold, interest rates, inflation, hedge funds, housing, or world issues, the market and those participating in investing have had a lot to mull over and decipher.

One theme that appears worth paying attention to is the privatization of public companies by Hedge Funds and other institutions. These investors have an extremely easy access to capital. They appear to be paying top dollar for assets. Deals that are being announced are coming at such premiums that would only produce 9% returns on average to the buyers. Just a few years back these same investors would not have considered deals unless they were seeing a 20% plus return on an average investment. An example: Recently a leading gaming company received an offer well above the market. That same day its bonds dropped and its credit ratings were cut to "junk" status. What is going on? It appears that some of these investors are taking companies private, loading it with debt, paying themselves a hefty dividend, and then, in some cases, bringing the company public again within a couple of years. This could produce a skewed relationship with equities in the same arena.

In other news, U.S. oil inventories have reached multi-year highs. This news has been the focus of oil's sharp decline lately. This begs the question: Why is stockpiling happening if oil is so plentiful? Oil futures for delivery out into win-

ter are trading at premiums to the current contract price. This could promote stockpiling in and of itself. Owners could essentially buy low, and sell high.

Interest rates on the short end of the yield curve have fallen by 50 bps. over the last few months. The Federal Reserve is still worried that inflation is too high. Rates may stay stable until inflation is where the Fed feels comfortable. The European Central Bank recently raised rates. The global theme here appears to be "attraction of capital". Those that pay the highest interest rates seem to be benefiting from higher equity prices.

As of this writing, the Dow Jones Industrial Averages have broken out to an all-time high. We would be cautious. Cash-Flow growth rates of the Dow have declined by over 5% since the beginning of the year. Over the last three years, cash-flow growth has been nil. The Dow could produce more gains, but at current levels the Dow seems fairly valued over the long term. This leaves investors with little choice but to focus on a disciplined investment strategy.

On the following page we have presented two charts. The first chart represents world oil supply, currently at 85.2 million barrels a day. The second chart is of world oil demand, currently at 84.1 million barrels a day. We point this out because supply/demand is still relatively tight. The International Energy Agency (IEA) is forecasting 2007 demand to be at 86.2 million barrels a day. At current production levels the world would see a supply/demand imbalance.

11+ YEAR CHART OF OIL SUPPLY

SUPPLY IS RELATIVELY TIGHT

World oil supplies would need to increase to 87.3 mbd to have the same relative price association that they now have.



11+ YEAR CHART OF OIL DEMAND

WORLD OIL CONSUMPTION IS EXPECTED TO RISE BY 1.7%

Consumption, though not as brisk, is still rising.



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
 6393-766-0 12-Sep-06 12:05:57



Recent activity:

In the last quarter we made several additions to our focus list. [Deutsche Telekom](#), and [New York Times](#) (both discussed below) replaced [Archer-Daniels-Midland](#) and [Foundation Coal](#). Archer-Daniels-Midland has benefited from high commodity prices. Ethanol prices have moved from \$1.50 to over \$4.00 within a year. Prices on ethanol appeared to be softening, thus we felt it prudent to sell. Foundation Coal reached its intrinsic value. Recent earnings reports indicated that the company could see slower growth.

Stocks we like:

[Comcast \(CMCSK\)](#): \$37 Is the largest cable company in the United States. Comcast provides the triple play (television, internet, and telephone service). Revenues in the second quarter increased 11%. We believe Comcast could produce over \$5 billion in Free Cash Flow within 3-5 years. With growth rates of 10%, Comcast appears to be growth stock trading at value levels.

[Deutsche Telekom \(DT\)](#): \$16 Is Europe's largest telecommunications company and the third largest in the world by way of revenues. DT produces over \$77 billion in revenues. Their data unit has over 14 million subscribers, wireless unit has over 23 million, and the German Government holds over 35% of the common stock. DT expects revenues to grow at 3.5% moving forward. With over \$10 billion in Free Cash Flow, Deutsche Telekom seems to be trading at a discount to its intrinsic value.

[New York Times \(NYT\)](#): \$22 Owns and operates the famous *New York Times* newspaper along with the *Boston Globe* and 15 other daily newspapers. NYT recently announced plans to sell their nine television stations in their Broadcast Media Group. The funds received from this sale could be put to better use. NYT currently has a dividend yield of over 3%.

[Qwest \(Q\)](#): \$8 Qwest's board announced a \$2 billion stock buy-back program. At current market prices, the buy-back would represent 12% of outstanding shares. This move, if completed, would theoretically add \$3-5 to Qwest's intrinsic value. Qwest has now recorded two back to back quarters of profits. It appears that their turnaround plan is taking root.

MARKET NUMBERS

Dow:	11,850
S&P:	1,350
Nasdaq:	2,290
Fed Funds:	5.25%
3-Month T-Bill:	4.91%
2-Yr. Note:	4.59%
10-Yr. Note:	4.56%
10-Yr. TIPS:	2.27%
U.S. GDP:	2.60%
CRB:	297.11
Oil:	\$59.41

Contributors

John R. Dismuke

Subscription

Shaw Group, LLC

Investor Newsletter
7410 South Creek Rd.
Suit 102
Sandy, Utah 84093

801.572.7839

SELECTION LIST

INVESTING FOR GROWTH:

Stock/Symbol	Recommended	Recent Price	Gain/Loss	Target Price	Buy Limit
BHP Billiton/BHP	11.99	38.52	221.27%	55	30
Comcast/CMCSK	30.80	37.64	22.21%	55	33
Deutsche Telekom/DT	14.99	16	6.74%	22	18
ExxonMobil/XOM	38	66.53	75.08%	77	63
iShares for Japan/EWJ	9.80	13.55	38.27%	16	11.50
iShares for Netherlands/EWN	18	25.06	39.22	25	18
New York Times/NYT	22.50	22.90	1.78%	32	24
Occidental Petroleum/OXY	14	44.66	219.00%	68	47
Pogo Prod./PPP	39	44.18	13.28%	90	45
Qwest/Q	3.94	8.19	107.87%	15	6
Sempra Energy/SRE	25	51.62	106.48%	66	47
Service Master/SVM	13.04	10.91	-16.33%	17	13

INVESTING FOR INCOME:

Preferred Stock/Symbol	Recommended	Recent Price	Yield	Credit Quality
Hess/HES pfd.	50	99.11	3.03%	BB+
HRPT Properties/HRP	9.99	11.54	7.28%	BBB
PIMCO Muni Income Fd II/PML	14.34	15.22	5.52%	AA-
PIMCO Muni Income Fd III/PMX	13.95	15.42	5.45%	A+
Pimco Floating Rate Fd/PFN	17.80	18.68	9.15%	B+