

Investor Newsletter



THINGS TO WATCH FOR:

OIL

Supply and Demand balances in the oil market are very tight. The IEA recently estimated world oil consumption will reach 87.5 million barrels per day in 2008. Comparing this to current production of 87 million barrels per day, the world could face supply/demand imbalances.

COMMODITIES

The CRB index has experienced huge gains over the last 6 years. One must put that into perspective. The CRB index has recently broken its high going back 27 years. Many commodities have experienced moderate inflation-adjusted price gains. Long-term targets can be seen in the mid 500's for the index.

WORLD MARKETS

The IFM recently announced that predicted losses from credit market assets in the U.S. could total over \$900 billion. This would equate to 7% of GDP. Japanese losses in the '90's were over \$700 billion and caused a decade-plus recession.

Credit markets in turmoil.

What to expect and where to invest

Late last summer a major brokerage firm had two hedge funds implode. This was the beginning of what has become the tightest credit market in recent memory. Many money managers and institutions seeking high returns in a low returning environment opted to stretch themselves thin. Some have reportedly leveraged themselves over 40-to-1. Such leverage is, in one simple word: Insane. This over-zealous behavior has come home to roost. For all intents and purposes, investors must realize we are in a low-return environment domestically. Quality, selectivity, and preservation of capital are paramount considerations today.

The Federal Reserve has been lowering interest rates and adding liquidity to the markets. The Fed realizes that a return of stability in the financial markets is key, and must be prompt in its actions to encourage an orderly financial economy. Sizable reduction in the Fed Funds Rate and injecting liquidity into the banking system are some recent examples of their actions. This in turn causes other events.

Growing the monetary base of an economy causes inflation. Domestically we are seeing more and more dollars chasing fewer and fewer hard assets (commodities). Thus commodities overall have out-performed the equity markets.

Many major corporations are seeing this pressure in the capital markets and have realized the importance of keeping their own houses in financial order. Thus, we are seeing a movement from the short-term funding of corporations to

their structuring their debt obligations via rolling out to longer dated maturities. Borrowing short and lending long never made long-term sense.

Aside from all of this "noise" there does appear to be opportunity. Shaw Group employs a value approach using a Discount Cash-Flow (DCF) analysis. This can be done on virtually any investment whether it is an index, stock, or a bond. The table below gives an overview of some global indexes, their growth rates, and expected returns. Opportunities appear to be found within the Consumer Staples, Energy, and Commodity industries. Foreign markets, specifically those in the Euro zone, offer substantially more risk vs. reward return compared with domestic markets and our Asian counterparts.

| Index | Growth Rate | Expected Return |
|----------|-------------|-----------------|
| S&P 500 | 3% | 8% |
| TRANS | 3% | 12% |
| XOI | 3% | 15% |
| CAC 40 | 2% | 18% |
| DAX | 2% | 15% |
| FTSE | 3% | 8% |
| HSI | 5% | 4% |
| NKY | 3% | 3% |
| Shanghai | 10% | 3% |

47 YEAR CHART OF THE CRB INDEX

CRB INDEX HAS BROKEN A 27 YEAR CONSOLIDATION PATTERN

Having experienced tremendous gains over the last 6 years, the CRB Index has only returned to the bottom of what appears to be its historic trend line dating back to the early '70's.



ECONOMIC GLOBAL OVERVIEW

MOST DEVELOPED COUNTRIES APPEAR TO BE GROWING AT 2-3%

| | Annual GDP (Bil US\$) | GDP YoY% | | Surplus/Def % GDP | | CPI YoY% | | Jobless Rate |
|----------------------------|--------------------------|-------------|-------|----------------------|-------|-------------|-------|-----------------|
| 1) Americas | | | | | | | | |
| 5) United States | 13201.82 | 2.50% | 12/07 | -1.30% | 12/07 | 4.00% | 02/08 | 4.8% 02/08 |
| 6) Canada | 1251.46 | 2.00% | 12/07 | 1.20% | 12/06 | 1.80% | 02/08 | 5.8% 02/08 |
| 7) Brazil | 1067.96 | 6.20% | 12/07 | 2.02% | 01/08 | 4.61% | 02/08 | 8.7% 02/08 |
| 8) Mexico | 839.18 | 3.80% | 12/07 | -1.17% | 12/00 | 3.72% | 02/08 | 3.8% 02/08 |
| 9) Argentina | 214.06 | 9.10% | 12/07 | -.46% | 12/04 | 8.40% | 02/08 | 7.5% 12/07 |
| 2) Europe/Africa/ME | | | | | | | | |
| 10) Eurozone | 10526.48 | 2.20% | 12/07 | -2.00% | 12/05 | 3.30% | 02/08 | 7.1% 01/08 |
| 11) Germany | 2906.68 | 1.80% | 12/07 | -2.28% | 12/05 | 3.10% | 03/08 | 8.0% 02/08 |
| 12) United Kingdom | 2345.01 | 2.80% | 12/07 | -2.94% | 12/05 | 2.50% | 02/08 | 5.2% 01/08 |
| 13) France | 2230.72 | 2.10% | 01/08 | -2.82% | 12/05 | 2.80% | 02/08 | 7.8% 12/07 |
| 14) Italy | 1844.75 | 1.90% | 09/07 | -3.53% | 12/05 | 2.90% | 02/08 | 6.0% 12/07 |
| 3) Asia/Pacific | | | | | | | | |
| 15) Japan | 4340.13 | 2.00% | 12/07 | -1.20% | 12/90 | 1.00% | 02/08 | 3.9% 02/08 |
| 16) China | 2668.07 | 11.20% | 12/07 | -2.12% | 12/04 | 8.70% | 02/08 | 4.0% 09/07 |
| 17) India | 906.27 | 8.40% | 12/07 | -3.57% | 12/04 | 5.51% | 01/08 | 7.3% 12/00 |
| 18) S. Korea | 888.02 | 5.70% | 12/07 | n.a. | | 3.58% | 02/08 | 3.0% 02/08 |
| 19) Australia | 768.18 | 3.90% | 12/07 | 1.15% | 12/05 | 3.00% | 12/07 | 4.0% 02/08 |
| 20) Taiwan | 355.46 | 6.39% | 12/07 | n.a. | | 3.89% | 02/08 | 3.9% 02/08 |
| 4) World | | | | | | | | |

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In summary, restriction of capital appears to be the underlying theme in the capital markets today. Over the last few years equity markets in general received a boost from acquisitions and stock buy-backs funded by lax risk assessment and cheap debt. Consumers were also doing their part by tapping implied equity lines from real estate to fund spending habits. This has stopped. Until we see a general theme of attraction of capital, many outlets of traditional investment ideas do not currently merit wise allocation of capital. A global disciplined investment strategy focusing on preservation of capital, income and select global diversified value-oriented equities is essential in current times.

Recent activity

We made several changes to our focus list. **Sanofi-Aventis** (discussed below) was added. We sold our clients holdings in **Bristol-Myers Squibb**, **iShares of MSCI Japan (EWJ)** and **iShares of MSCI Netherlands (EWN)**. **Bristol-Myers Squibb (BMY)** reached a level we felt comfortable with in taking profits. Our clients' holdings in **EWJ** and **EWN** benefited from rising global markets, and with the assumption of slower growth we felt it prudent to harvest gains, redeploy money, and raise cash levels in accounts.

Stocks we like

Comcast (CMCSK): \$18 Provides triple play (television, Internet, and telephone service). Comcast reported over \$8.4 billion in Cash-Flow and over \$2.3 billion in Free Cash-Flow for 2007. Management has declared a \$.25 annual

dividend and is currently buying back stock. Management has indicated that the company can grow revenues in the 8-10% range for 2008. Although this appears possible, we value Comcast using a more conservative 5% growth model. We like the value that is currently represented in this equity and see an Intrinsic Value at higher levels.

Sanofi-Aventis (SNY): \$37 Based in France, is the worlds third largest pharmaceutical company. SNY focuses on the oncology, diabetes, and vaccine markets and has over 100 products in different stages of development. This is the largest of any of its peers. We feel that investors have not given Sanofi-Aventis credit for progress it has made on its balance and income statements. SNY has paid off almost 2/3 of its debt that it took on while purchasing Aventis in 2004. This is a huge accomplishment. A majority of Sanofi-Aventis's income is derived in non-U.S. dollars. This results in SNY making an equivalent of more than \$11.5 billion in Cash-Flow. Assuming 5% growth, we derive an Intrinsic Value at much higher levels.

Sempra Energy (SRE): \$52 Recently Sempra initiated a \$1 billion share repurchase program. Proceeds from their buy-back will be funded from funds received via a commodities joint venture with Royal Bank of Scotland. Sempra also announced plans to increase its dividend by 9% to an annual level of \$1.40. It appears that Sempra is operating effectively and prudently. Growth in all aspects of its energy business (LNG terminals, pipelines, transmission, and generation) will be a driving factor of value.

MARKET NUMBERS

| | |
|-----------------|----------|
| Dow: | 12,262 |
| S&P: | 1,322 |
| Nasdaq: | 2,279 |
| Fed Funds: | 2.25% |
| 3-Month T-Bill: | 1.29% |
| 2-Yr. Note: | 1.70% |
| 10-Yr. Note: | 3.51% |
| 10-Yr. TIPS: | 1.20% |
| U.S. GDP: | 2.2% |
| CRB: | 385.63 |
| Oil: | \$101.58 |

Contributors

John R. Dismuke

Subscription

Shaw Group, LLC

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

801.572.7839

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