Monthly Energy Equity Review and Outlook

Short-Term "Buy" On Group Reduced To "Neutral"

Summary

We are reducing our short-term "Buy" rating on our group to "Neutral", but retaining our generally positive long-term ratings. Energy equities have just experienced another positive month, with the OIX in June up 3.5% and the OSX gaining 4.9%, versus a decline in the S&P 500 of 1.8%. Since we upgraded our group on March 20 anticipating a second quarter energy equity rally, the OIX has risen by 22.4% while the OSX has increased by 26.4%. Our action follows on the heels of our previous downgrade of ExxonMobil to "Neutral" at $86 per share on June 19.

To review our position on 2007, since the beginning of the year we had anticipated a trading rally in energy equities largely based on our anticipation that second quarter oil prices would average higher than the price trough that we forecast for the first quarter. This expectation was subsequently fine tuned to suggest that the rally would begin to develop before the end of March, leading our rating upgrades on March 20 of all of our companies to "Buy". We then expected that following the period of higher prices, crude prices were expected to subsequently ease, but not decline dramatically, below our estimated second quarter average in the second half of the year as OPEC responded to strengthening prices by meeting rising refiner requirements, particularly from Saudi Arabia.

Recently we have written that there is a chance that third quarter crude oil prices in particular may average somewhat above our forecast average, if the current rally in WTI continues. Last year the third quarter averaged $70.47 per barrel even without any major hurricane activity. In this context, the OIX and OSX continued to rise in the third quarter of 2006 along with crude oil prices, before subsequently peaking in early to mid August. Thus, there is a chance we will end up leaving some "short-term" money on the table if early third quarter crude oil prices average above our expectations. However, we believe that from a risk/reward standpoint, given the substantial move in the energy equities since March, the group may take a breather for a bit and could even retrace somewhat, and we would therefore not recommend committing new short-term capital to the group at this time.

**Select Energy Equity Performance,
June 2007
(Percentage Gain/Loss)**

Major International Oils

BP	+7.7
Chevron	+3.4
ConocoPhillips	+1.4
ENI	+2.4
ExxonMobil	+0.9
Royal Dutch	+9.3
Total	+7.3

Select Independent Producers

Anadarko	+4.7
Apache	+1.0
Chesapeake	-0.7
Noble Energy	-1.4
Pioneer	-5.6
Plains	-9.7
Pogo	-6.1

Select Service/Drilling Equities

Baker Hughes	+2.0
Diamond Offshore	+7.6
Ensco	+0.7
Global Santa Fe	+5.8
Halliburton	-4.0
Rowan	+3.8
Schlumberger	+9.1
Smith	+5.6
Tidewater	+7.4
Transocean	+7.9

Reviewing June performance once again in the context of hydrocarbon prices, the S&P 500 fell by 1.8%, and for the fourth month in row energy equities in general outperformed the broader market. The OIX index rose by 3.5%, while the OSX index gained by 4.9%. With regard to crude oil and gas prices, the equities responded well in the context of rising crude oil prices, with WTI rising by 10.4% in June, reducing the discount to Brent. The prompt NYMEX natural gas contract, however, declined by a full 14.6% last month.

W.H. Brown, III