



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

Monthly Energy Equity Review and Outlook

October 2, 2007

Summary

As we issue this report, WTI has found thus far found support at \$79.00 per barrel, while energy equities have fallen modestly from levels prevailing at the end of the third quarter. In our last report issued a month ago, we stated that our fundamental refinery balances called for further declines in crude stocks, which we correctly anticipated that the consensus would view as a tightening of the world crude oil balance, as opposed to normal seasonal refiner behavior. We recognized that funds may in turn decide to build up net length once again, firming prices in the process. Our numbers also suggested some improvement in natural gas prices from then-prevailing levels. As a result, we expected energy equities to recover further in sympathy, which in fact occurred.

We also recognized that economic uncertainty was likely to continue, however, with a cloudy picture for the remainder of the year. As we issue this report, such concerns remain important in investors' minds, despite the recent recovery in equity markets. In terms of the oil market, at this point we would retain our viewpoint that crude oil prices have begun to discount our forecast that crude oil stocks in the visible U.S. market will stabilize and begin a recovery in the fourth quarter. We also still anticipate the visible IEA will reduce their outlook for world oil demand.

On balance, although we maintain our long-term "Buys" on energy equities, at current prices we do not believe an upgrading to short term "Buy" is warranted at this time. If crude oil prices continue to decline and energy equities retrace in the fourth quarter, depending upon price levels we would be inclined to reinstate our short term "Buy" recommendations in advance of 2008.

Reviewing September performance within the context of oil and gas prices, the S&P 500 gained by 2.5%, while energy equity indices outperformed the broader market. The OIX index rose by 6.3% while the OSX index gained by 4.8%. With regard to crude oil and gas prices during September, WTI rose by 8.8% while the prompt NYMEX natural gas contract gained by a full 22.0%.

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

Major International Oils

BP	+1.8
Chevron	+5.5
ConocoPhillips	+5.1
ENI	+7.3
ExxonMobil	+6.1
Royal Dutch	+3.0
Total	+7.0

Select Independent Producers

Anadarko	+7.4
Apache	+13.4
Chesapeake	+7.4
Noble Energy	+11.7
Pioneer	+6.3
Plains	+12.1
Pogo	+4.4

Select Service/Drilling Equities

Baker Hughes	+5.9
Diamond Offshore	+4.7
Ensco	+1.6
GlobalSantaFe	+5.2
Halliburton	+9.7
Rowan	-4.3
Schlumberger	+4.9
Smith	+4.7
Tidewater	-5.8
Transocean	+4.7

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