



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

Monthly Energy Equity Review and Outlook

December 3, 2008

Summary

November was yet another month that most, if not all, of us wish to forget, unless one was able to be short commodities to help offset a long equity portfolio. Global financial turmoil continued, and despite periodic stock market rallies, the market as of yet has no “legs” to mount a sustainable rally. To briefly review the gory details, the S&P 500 was down by 7.5% for the month, with few equities left unscathed. Within this environment, the OIX fell by only 0.8%, while the OSX declined by 10.3%. ExxonMobil proved once again to be a shelter in the storm, rising by 8.1% in November, although down by 17.2% year to date. Chevron and Anadarko were also among those that gained during the month. With regard to hydrocarbons, the prompt NYMEX crude oil contract declined by 19.7% in November, with prompt natural falling by 4.0%.

Compounding crude oil’s decline was a weak equity market, with funds deciding that this correlation trade now made more sense than simply trading inversely to the dollar since from end October to end November the dollar/euro rate was relatively unchanged. More recently, OPEC’s decision to forgo any further cuts until possibly December 17 disappointed anyone searching for a bottom. In addition, the market was spooked by Saudi oil minister Naimi’s comment that he needs to see more contributions by other producers, confirmed a bit later by the latest survey of November OPEC production which implied only 66% or so compliance.

Overall, therefore, the environment remains defensive if not weak in terms of both hydrocarbon prices and energy equities. Our research has been fully confirmed in terms of the substantial contribution that non-commercials have made to oil price strength since 2004, and at the preset time our research is also suggesting that we should be in the mindset of preparing for a bottom. As we have indicated in our other reports, there is little sign that we are there quite yet, but we are looking for opportunities on the long side and not the short end of the “stick”.

In this regard, for the sake of good order and full disclosure we are modestly net short crude oil. At the same time, however, we are long select energy equities and are looking for opportunities to add more. Currently, we are long ExxonMobil, Valero, Anadarko, Petrobras, and Suncor.

**Select Energy Equity Performance,
November 2008
(Percentage Gain/Loss)**

Major International Oils		Select Independent Producers	
BP	-2.0	Anadarko	-16.3
Chevron	+5.9	Apache	-6.1
ConocoPhillips	+1.0	Chesapeake	-21.8
ENI	-4.5	Devon	-10.5
ExxonMobil	+8.1	Noble Energy	+0.9
Hess	-10.2	Pioneer	-27.8
Marathon	-10.0	Plains	-17.9
Royal Dutch	-4.2		
Total	-4.9		
Select Refining Equities		Select Service/Drilling Equities	
Frontier	-9.6	Baker Hughes	-0.3
Sun	+30.3	Diamond Offshore	-16.9
Tesoro	-5.0	Ensco	-14.7
Valero	-10.8	Halliburton	-11.1
		Rowan	-4.4
		Schlumberger	-1.8
		Smith	-15.2
		Tidewater	-9.5
		Transocean	-18.8

In terms of where we go from here, we have previously indicated that it is not a “done deal” that OPEC “cuts” further on December 17. Leading up to the meeting the oil market is likely to remain skeptical, probably continuing to trade in a range with a weaker bias. Energy stocks, along with the S&P 500, may therefore be unable to mount any sustainable rally, compounded by year-end tax selling.

Overall and looking out over the next several months, however, we believe the price bias is more upward than downward. As such, we would continue to pursue a strategy of using any further possible profits on commodity short positions to roll into long energy equity positions.

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.

**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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