



What's New?

Feddern Financial Consulting Group Newsletter

October 13, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 300,000+ weekly.**
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.**
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!**
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" **NO WAY!****

ANALYSIS OF THE ABOVE: No Real Hope YET! -10/13/2009

A "Dagger" in the Heart of Peak Oil?

BP claims that there may be 200 billion barrels of oil and oil equivalents under the region above the Arctic Circle. Norway is exploring the area of its northern coast in the belief that a large portion of these fields belong to it. The BP estimate could be confirmed within the next year or so, but the British company's number has been disputed by the US government which puts the total size of the field under the top of the world at no better than 90 billion barrels.

BP very recently said that its discovery in the Tiber Prospect in the Gulf of Mexico could have three billion barrels in reserves.

At the beginning of the month, Petroleo Brasileiro made a deep-water find in its Guara offshore field that could contain as many as two billion barrels.

The Brazilian company said last year that its newly discovered reserves in Tupi could yield as much as eight billion barrels.

Anadarko recently announced another large find in the Jubilee oil field off the shore of Ghana. Although it did not give out specific estimates, it hinted that the discovery could be one of the largest in recent decades.

It would be unwise to take each of these discoveries at the high end of the estimates of its potential and add them up. However it seems reasonable to assume that there may be, just in these few regions, well over 200 billion barrels of oil.

A number of analysts believe that oil exploration techniques, particularly in very deep water, have reached the limits beyond which science can do little to improve them. Most of the Gulf of Mexico, Tupi, Jubilee, and Arctic fields are several miles below the surface of the ocean and then several more miles below the ocean floor.

The public which is for obvious reasons concerned about the global supply of crude is increasingly confused by the news of the “significant” new discoveries. It is not at all clear as to whether the estimates about the sizes of these fields are accurate or if the ability of the oil companies to retrieve this crude is realistic. No one knows if these discoveries mean that the recoverable supply of crude worldwide is actually increasing by any really large amount at all.

Most people look at oil prices and believe that they swing on anticipated supply and demand. The financial media has made a great deal of noise about the role that speculation plays in rapid changes in the prices of crude futures.

Speculators do cause a portion of the movement, but, like all other major markets, trading over a period of years is almost certain to show the economic value of the underlying asset being traded.

Even when turning to global experts, it is nearly impossible for the public to get a clear view of oil demand. The International Energy Agency recently wrote that the near-term and mid-term outlook for global crude demand was uncertain. The IEA said in the same report that capital expenditures on upstream production was down 21% this year and that the world’s fields may be aging fast enough to cause a long-term drop in global supply.

The Energy Information Administration division of the US government recently predicted that the price of crude will rise to \$110 per barrel in 2015 because consumption will rise very rapidly with the recovery in the global economy.

The market for crude prices has become more complex as the amount of information about supply and demand multiplies. It is as good an example as any about how the proliferation of data causes an equally large increase in the level of confusion and uncertainty. The markets may be efficient, but it is hard to make a case that the information about crude makes any contribution to that efficiency.

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www.fedderngroup.com

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your “referrals.” It’s the main way we continue to build our business.

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