

# Growth Stocks Weekly

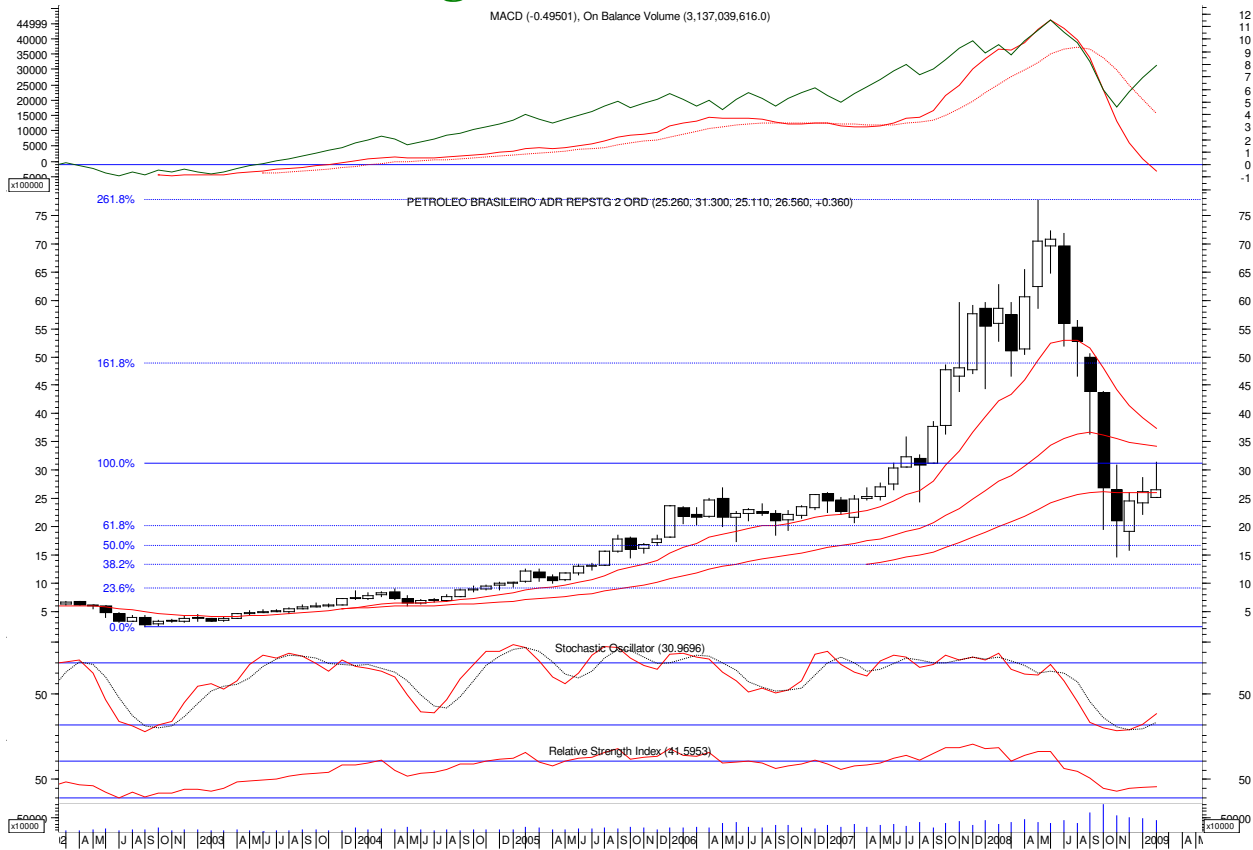
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**Performance:** 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

## Junior Gold and Natural Resource Sector Report

February 23, 2009

### Picking Over the Oil Sector II



Oil is an industrial good. We use it to power nearly everything that moves, having adapted to its liberal and relatively cheap supply over an extended period of time. During oil's recent run-up to \$147 a barrel, the world was growing at full steam with a global economic boom under way. The supply/demand balance for oil became very tight.

Demand for commodities is determined at the margins, where the most desperate buyer or most anxious seller sets the price. It didn't take much of a drop-off in demand before the world suddenly had excess oil on its hands. We were no longer burning up every last drop of the 86 million barrels being pumped out each day.

Crude has continued its free-fall, and traders who stored the stuff in tankers to wait for higher prices to return are taking losses even as most of the storage facilities are now filled up. The stuff just keeps on coming as desperate producers try to generate diminishing cash flow. Of course Peak oil is still in effect. When the global economy gets back on track, oil demand will relentlessly tick back up. For now, though, oil is cheap.

Recently multi-billionaire George Soros' hedge fund firm, Soros Fund Management LLC, made its holdings public. He has increased his stake in one company by roughly 16 million shares, or 74%. Over the last year he's more than tripled his stake in this company to 36.8 million shares, up from 11.4 million.

The object of Soros' buying is Brazil's state-controlled oil company, **Petrobras (NYSE: PBR)**. See the chart on the 1<sup>st</sup> page, and not resistance was recently met at the \$30 area, and that support is found at the \$20 area. It's likely to be wise longer-term investment for some key fundamental reasons:

1. **New discoveries.** Worldwide oil demand might be off. But it's temporary. And even if demand miraculously plateaus (don't count on it with gas below \$2 per gallon), the world would still "need to replace one Saudi Arabia per three years," according to Petrobras' CEO. No other company is making bigger discoveries than Petrobras. In fact, the company's recent finds could triple its reserves.

2. **Long-term focus.** With crude below \$40 per barrel, most oil companies are cutting back on exploration and development. But Petrobras plans to spend \$174 billion by 2013, which ensures they'll have plenty of products to sell when oil prices climb higher.

3. **Low cost.** Management estimates it can be profitable on new projects, even if crude oil stays around \$45 per barrel. Few - if any - other major oil producers can claim such a low hurdle rate. Basic economic principles govern here - the low cost provider of a commodity enjoys the most profits when prices rise. And share prices often go along for the ride, too.

4. **Deep-water expertise.** All the easy-to-find crude oil is gone. But Petrobras is an expert in deep-water exploration. That's a competitive advantage no other oil company can touch. And it should continue to help Petrobras add reserves at much lower costs than its peers.

5. **Valuation.** Emerging markets have taken it on the chin - twice as hard as the US - despite stronger underlying fundamentals. It's pointless to argue whether or not it was deserved. What matters is that many high-quality stocks got caught up in the downdraft and now trade at compelling levels. Petrobras is no exception, trading for less than 10 times earnings.

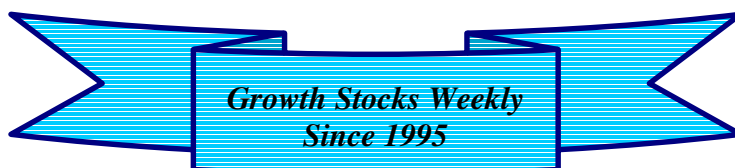
George Soros has built a sizeable investment and tremendous track record - last year his Quantum Endowment Fund returned 8%, compared to an 18% loss for the average hedge fund.

If you're interested in doing your own research along these lines, you should bookmark the following website and visit it daily. It's a link to the most recent SEC filings ...

<http://idea.sec.gov/cgi-bin/browse-idea?action=getcurrent>

The first thing you should scan for are **Form 4** filings that disclose insider trading. The next best thing to insiders backing up the truck is institutions doing so. Numerous studies confirm heavy institutional buying almost always leads to excess returns in future months. We can easily monitor institutional purchases (and sales) via **Form 13-F** filings.

The SEC requires all money managers with over \$100 million in assets to disclose their U.S.-traded stocks, options and convertible bonds each quarter. In other words, follow the "smart money" and you'll find opportunities off the beaten track.



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