Modern Energy Monthly - Volume 2, June 2012

Special Report

Editor’s Note: Energy and Capital's more recent Modern Energy Report is now available.

In Baltimore, we don't get much of a transition from winter to summer. Spring tends to run its course in just a few days.

One day it's cold, a week later it's oppressively hot. That's just how it goes here in Charm City.

Fortunately, our home is well-shaded and our finished basement is quite cool. So when Mother Nature brings the heat, we fare pretty well without having to jack up the central air.

Of course, once it gets up in the high 90s, I flip the switch. And so does everyone else.

There's no doubt about it – a hot day on Baltimore keeps most folks indoors, and the electric company on high alert. It's on these days that the grid takes on a bit of stress.

Now Maryland is blessed with a variety of different energy sources: Natural gas, coal, wind, nuclear, hydro and even solar – a source of power generation that has been experiencing robust growth with the addition of new solar leasing programs that are popping up all over the state.

Yes, solar momentum is quite strong in the Free State. Although the solar industry did take a bit of a hit last month after the U.S. Department of Commerce decided to slap some pretty hefty tariffs on Chinese solar module producers.

The result of this protectionist policy will ultimately result in American job losses. You can read more about that in this month's piece: The Great Solar Tariff Boondoggle.

Also this month:

- Three Ways to Profit from the Death of Coal
- Donald Trump Laughed Out of Government Hearing
- The Great Energy Subsidy Scam
- The Truth About Energy Poverty
- Solar Blood is in The Streets
- A Profitable Solution to a Shale Boom Crisis

Let's get to it . . .

Three Ways to Profit from the Death of Coal

By: Jeff Siegel

Coal state politicians must be getting worried...

Unable to swim against the rising tide of dirt-cheap natural gas, the coal industry is losing ground in the domestic power generation game.

And let's face it; without old King Coal, guys like Representative David McKinley (R-WV) and Senator Joe Manchin (D-WV) will be hard-pressed to come up with the kind of scratch they need to win elections.

But is the coal industry really heading towards life support? I wouldn't be so sure.

Here in the United States, coal-fired power generation is getting about as much love as Rick Santorum at a gay pride rally.

In fact, in the first quarter of 2012, coal only made up 36 percent of U.S. electricity.

This is a far cry from the nearly 50% control the coal industry had as recently as 2008.

Also during this quarter we saw natural gas accounting for 28.7% of U.S. electricity — an 8% increase from Q1 2011.

There's no doubt about it; natural gas is well on its way to replacing coal as the dominant source of power generation in the U.S.
But that doesn't mean the coal industry will go the way of the typewriter...

The Most Bang for Your Buck

In the world of energy, I've seen pretty much every possible prediction scenario — from a world powered exclusively by solar and wind to claims that we have enough oil in the U.S. to end all imports for good.

These kinds of extreme predictions are nonsense.

They're about as reliable as Chinese drywall.

The fact is, here in the United States we are blessed with robust energy resources. Whether wind, coal, natural gas, solar, oil, or geothermal, we are so well-diversified there's absolutely no need to put all of our energy eggs in one basket.

And we don't.

That being said, the energy source that gives you the most bang for your buck will always take the lead.

This is why I predict that by 2020, natural gas will supply no less than 40 percent of our power generation.

Due primarily to increasing regulatory hurdles and cheaper natural gas, coal will supply about 20 percent, with nuclear maintaining around 20 percent and renewables picking up the rest.

Currently about 14 percent of total U.S. energy comes from renewables. Most of this is hydro, although wind and solar will experience the lion's share of growth over the next eight years.

While I do expect to see coal's contribution fall by more than 15 percent by 2020, I also expect to see massive growth in coal exports.

Export This!

As I wrote last year, almost 15 percent of all globally-traded coal ends up in China. That figure is expected to rise even further.

Meanwhile, the U.S. has little interest in expanding its coal-fired power generation, but we're also the world leader in coal reserves.

It doesn't take a rocket scientist to see where I'm going with this...

We already know that a half-billion-dollar marine terminal in Bellingham, Washington, will soon be the destination for at least nine coal-filled freight trains that'll run back and forth daily from Wyoming and Montana.

And while there is certainly plenty of opposition, I fully expect to see this thing go through.

Interestingly, the EPA announced last month it wants the Army Corps of Engineers to do a review of the impacts of exporting U.S. coal through Northwest ports.

My guess is that this is just a formality. The EPA already has enough critics for enforcing regulations on coal-fired power plants. It's not going to seek out more opposition by putting the kibosh on port development for exports.

I suspect the EPA prefers to support shipping our coal bounty overseas to the highest bidder instead of burning it here, anyway...

With six planned coal export projects already being planned in the Northwest, it looks like the coal industry is simply adapting to a new domestic energy economy. It will be just fine.

Although I'd be more interested in picking up some rail plays on dips to take advantage of this opportunity: companies like CSX Corp. (NYSE: CSX), Norfolk Southern Corp (NYSE: NSC), and Union Pacific (NYSE: UNP).

And on the power generation front, I'm all over natural gas— particularly the picks-and-shovels companies that are facilitating the rise in natural gas power generation.

Donald Trump Laughed Out of Government Hearing

By: Jeff Siegel

Last month, real estate mogul and reality television star Donald Trump threw a temper tantrum in front of Scotland's parliament.

Worried that a planned offshore wind development would spoil the view at his new billion-dollar golf resort, Trump told Scotland's lawmakers if Scotland pursues its policy of these monstrous turbines, the country will go broke.

He went on to say, "They are ugly, they are noisy, and they are dangerous. If Scotland does this, Scotland will be in serious trouble and will lose tourism to places like Ireland, and they are laughing at us."

Trump was later asked to provide evidence of his claims, to which he responded: "I am the evidence, I am a world class expert in tourism."

The result of this rant was the public gallery erupting into laughter.

Despite the fact that Scotland's tourism agency claimed 83% of UK visitors will not be turned off by wind turbines, Trump insisted Scotland was making a mistake by choosing its own energy security over a golf course.

Fortunately, the good folks in Scotland don't seem to be willing to bow to the Donald's ego.

And quite frankly, I'd expect more from Trump. He's an exceptionally smart guy and I would think he'd know better than to expect folks over there to bend over for him, much in the way so many folks do here. (This isn't a negative criticism, by the way — just a truthful observation.)
Of course, Scotland has much more at stake than the U.S. when it comes to its energy goals...

Although the United States is steadily diversifying its energy portfolio — integrating more natural gas, solar, and wind into the mix — Scotland's plan is 100% renewable electricity by 2020.

In order for that to happen, it must increase its renewable power generation from 10 Twh today to 50Twh in just eight years.

In 2011, about 35% of Scotland's electricity came from renewables...

To add another 65% inside of eight years is an aggressive goal.

From 2010 to 2011, installed renewable capacity grew by 9.5% and renewable electricity generation increased by 44.5%. These are very impressive numbers, but Scotland will not reach its goal if it doesn't stay aggressive.

Now, while Donald Trump does have plenty of juice, I don't think he has enough to sidetrack an entire nation's energy security. He'd be better off asserting his influence here in the U.S., where special interests have a much better track record at dictating policy.

Who Loves Cheap Gas?

Last week legendary oil man T. Boone Pickens told a reporter that President Obama has offered no real energy plan, and that special interests were continuing to block real energy reform.

Pickens went on to point out Koch Industries as the main culprit, saying:

> The biggest deterrent to an energy plan in America is Koch Industries. They do not want an energy plan for America because they have the cheapest natural gas prices they've ever had, and they're in the fertilizer business and they're in the chemical business. So their margins are huge.

> And they do not want you to have an energy plan, because if you had a plan, then natural gas prices would come up.

To be perfectly honest, even without a real energy plan, natural gas prices will eventually head north again...

Especially as we continue to transition both our outdated coal-fired power plants with natural gas and many of our truck and bus fleets to run on natural gas.

And of course, don't ignore exports...

It doesn't take a rocket scientist to understand that when natural gas futures are running around $2 per million BTUs, but going for $12 per million BTUs in Europe and $18 in a few Asian markets, few are hesitating to ship it off to the highest bidder.

Don't get me wrong; I'm not saying Pickens is inaccurate. The truth is the Koch Brothers do have a lot at stake here.

Of course they don't want to see natural gas prices rise...

But even with all their money and influence, they can only slow — not stop — the eventual increase in natural gas prices.

Profits Versus Propaganda

Be it the Koch Brothers, Donald Trump, or any other heavy hitter, nobody has a perfect track record of getting his way all the time.

And it's often when the insanely wealthy start acting, well, insane, that you should tune out their ramblings — or at least take them with a grain of salt.

Donald Trump insists offshore wind turbines are ugly, noisy, and dangerous.

Meanwhile, offshore wind capacity doubled last year, and the EU is seeking to build out even more...

The North Sea is actually turning into a sort of offshore wind energy hub with companies like Scottish Power, Statoil (NYSE: STO), Siemens (NYSE: SI), and Gamesa (PINK SHEETS: GCTAF) leading the charge under the Norstec initiative.

And as I mentioned a couple of weeks ago, a recent Pike research report has indicated offshore wind power production is expected to reach $104 billion in revenues by 2017. This is a 53% annual growth rate based on 2011 numbers.

Now, I can't say with absolute certainty that Trump won't be able to influence offshore wind development in Scotland, no matter how ridiculous his rhetoric becomes...

What I can say with absolute certainty is that as an investor, it's best to focus on real data — and not the temper tantrums of a few privileged individuals who aren't used to being told 'no'.

That data suggests Europe will continue to develop its offshore wind resources and the U.S. will continue to develop its domestic oil and gas resources.

So pick your poison. And focus on the profits, not the propaganda.

The Great Energy Subsidy Scam

By: Ryan Alexander

Last year, the top six U.S. oil companies made $148.7 billion in profits. That works out to about $407 million a day, $17 million an hour, or $283,000 per minute. At that pace, in roughly the amount of time it will take to read this commentary, just these six oil companies will have earned about $3 million in profits. Not revenues, profits.

Good for them. Profits are a good thing. They are a sign of success, and successful companies are part of a growing economy. But the flip side of this equation is the billions of
dollars worth of subsidies going to these same companies every year — at a time when our national debt is so large it is becoming a drag on our economy. Credit rating agencies already downgraded the quality of American debt, which will eventually make it more expensive for the government to borrow money, which further increases our debt.

We at Taxpayers for Common Sense have long called for the sunset of all energy subsidies, particularly those for fossil fuel extraction. They are going to companies that don't need them, and they create future liabilities for taxpayers that usually go unnoticed. Besides the myriad subsidies that giant oil and gas companies enjoy, which cost taxpayers billions a year, there are the costs of cleaning up spills and other disasters that usually get picked up by the feds. Same goes for the coal companies, some of which abandon their mines for taxpayers to clean up.

That's why I joined Sen. Bernie Sanders (I-VT) and Rep. Keith Ellison (D-MN) in announcing the introduction of their bill to end special tax breaks and subsidies for oil, gas, and coal companies. This is the most comprehensive approach to ending these handouts, but it's just the latest proposal that targets energy subsidies.

President Barack Obama's proposed 2013 budget would eliminate just eight oil and gas subsidies, which would save the American taxpayer more than $38.6 billion over the next decade. Rep. Mike Pompeo (R-KS) introduced the “Energy Freedom and Economic Prosperity Act” to cut tax credits for oil drilling, nuclear power, solar panels, and wind turbines. Sens. Jim DeMint (R-SC) and Mike Lee (R-UT) introduced a companion bill in the Senate. Though it only cut two unnecessary subsidies to oil and gas companies, it does suggest a bipartisan interest in finally getting rid of these wasteful energy subsidies. I support all these bills.

But don't be fooled into thinking Congress has turned over a new leaf. My organization recently joined a diverse group of advocates denouncing the New Alternative Transportation to Give Americans Solutions or NAT GAS Act, which was looking to hitch a ride on the transportation bill. It would create new subsidies for natural gas from manufacturing and infrastructure to consumer tax credits that would carry a roughly $5 billion price tag. This would undo the progress made last year in finally cutting the ethanol subsidies.

So it's worth repeating: We need to cut energy subsidies! We can't afford them, and we don't need them anyway. Congress should start with the billions in subsidies going to the oil and gas industry every year. They are obsolete, ineffective, and a huge waste of valuable public resources at a time when we are rummaging through the couch cushions to find loose change to pay for our ballooning deficits and debt.

**Ryan Alexander is president of Taxpayers for Common Sense, a nonpartisan federal budget watchdog.**

Distributed via otherwords.org.

The Truth About Energy Poverty

By: Jeff Siegel

One of the reasons I got into the clean energy game was because it allowed me to pursue two of my passions: creating wealth and facilitating positive change.

Throughout my travels over the years, visiting wind farms, touring solar labs and attending closed-door fund raising meetings, I’ve met hundreds of very smart capitalists who also share my enthusiasm about having the opportunity to create a new way of life, and a new generation of wealth.

Sure, there are detractors and those who simply don't get it. But the bottom line is that there's a new way of doing things for the next round of global business leaders. I'm happy to be a part of this sea change, and I'm also happy to share with you others who are leading the way in this new, global energy economy.

One person in particular is the founder of Suzlon Energy, Tulsi Tanti. I don't know Mr. Tanti personally, but his take on clean energy is one that I share. And in a recent article, Tanti discusses how wind power can end energy poverty. Check it out...

One of the perks of my job is the opportunity to interact with, and influence, the future generation. I recently enjoyed such an opportunity at The Energy and Resources Institute’s (TERI) University, where I addressed a gathering of students on the occasion of Earth Day. Also in the audience were leading academics, Noble Laureate Dr RK Pachauri – Chancellor of TERI University and Chairperson of Intergovernmental Panel on Climate Change and Mark Kenber, CEO of The Climate Group. I spoke to the students about energy poverty – the greatest challenge facing India today – and the opportunity for us to work towards a sustainable energy economy. Through renewable and green technologies, we can address our energy needs along with arresting harmful emissions.

UN Secretary – General Ban Ki-moon noted at the launch of the Sustainable Energy for All initiative: “Our planet is heating. We need to turn down this global thermostat”. While addressing temperature rise, we are also faced with a growing population and a growing need for energy. Lack of access to energy perpetuates all forms of poverty including malnutrition, hunger, lack of access to clean water, and several other social problems. Approximately 400 million people in India live without access to electricity and 600 million people depend on traditional biomass for cooking. These numbers account for about a quarter of people in energy poverty worldwide. Energy is essential for the delivery and provision of basic needs such as food, clean water, shelter, health and educational services.

My journey into the world of renewable energy was driven by the need to find a solution to intermittent and expensive energy for my family business. Through Suzlon, I am now able to offer a solution to the world’s energy needs, in an economically viable fashion. The International Energy Agency report in preparation for the United Nations Year of Sustainable Energy for All (2012), has estimated the cost of ending energy poverty to be $48 billion a year – about one per cent of the yearly global energy investment. The report estimated that expanding electricity by the correct means to about 1.5 billion people would add less than one per cent to the world’s emissions. This spread could be driven by the private sector, with proper incentives from governments.

In my book Let's Save the Planet, I’ve discussed simple measures to end energy poverty by 2020. On the assumption that 50 GW is the installed capacity by 2020, wind could by itself generate as much as 650 TWh in the next 10 years. Wind power will secure India approximately $23 billion by reducing the dependency on imported coal and fossil fuels. Including renewable energy in the mix will have a threefold effect:
1. **Make affordable energy accessible to all**: Wind is actually not an expensive technology. Improved technology and installation of larger MW machines have brought down the costs of generating a kilowatt-hour of energy from wind.

2. **Reduce carbon emissions**: A single 1.5 MW turbine can produce over 4,491 MWh of electricity per year and reduce CO2 emissions by over 3,000 tons — equivalent to planting 85,514 trees. Wind installations in India have resulted in reducing CO2 emissions cumulatively by 91 million tons.

3. **Create employment opportunities leading to growth**: Every megawatt of new wind capacity creates 15 jobs on a direct and indirect basis. In total, 219,000 job-years have been created due to the wind industry thus far. By 2020, the wind industry is expected to create more than one million jobs.

My message to the university students was that with the right policies, investment and public-private partnership models, we can bring energy poverty to an end by 2020. The tools are already with us — we are blessed with enough wind, sun and tides to meet our needs and that of the future generations. Now we must all unite — government, industry and citizens — in making sustainable energy an immediate and urgent priority. I was very heartened by the enthusiastic response from my audience and I look forward to many more such conversations with the nation’s future.

**Tulsi Tanti** is the Chairman and founder of Suzlon Energy, one of the world’s leading wind energy companies. An avid technocrat, he has been a pioneer of renewable energy in India. Having been named the 'Champion of the Environment' by the United Nations, Tulsi Tanti is a passionate propagator of sustainable development and eradicating energy poverty. You can read the original version of this article [here](#).  

### Solar Blood is in the Streets

**By: Nick Hodge**

I've had lots of requests lately to shed some light on the solar industry.

And it isn't hard to see why...

![Market Vectors Solar Energy ETF](chart)

That's a one-year chart of the Dow Jones versus the Market Vectors Solar Energy ETF (NYSE: KWT), which holds well-known names like First Solar (NASDAQ: FSLR), Suntech (NYSE: STP), and SunPower (NASDAQ: SPWR).

As you can see, the solar ETF has lost almost 80% of its value.

Let's see if we can figure out why, draw some historical comparisons, and find a way to make some money from this still nascent market.

### Economies of Scale

Put on your freshman econ hat for a second while I give you a textbook definition:

*In economics, economies of scale refers to the cost advantages that an enterprise obtains due to expansion. There are factors that cause a producer’s average cost per unit to fall as the scale of output is increased.*

Just think about the computer industry, to which I like to compare the solar industry.

In 1946 the first ever general purpose computer weighed 27 tons and cost over $5 million to build.

No company was getting rich selling those. Economies of scale had to be created, whereby the cost of production decreases as more units are produced and more customers are attracted.

I think today is the 1946 of the solar industry.

Dismissing it now would be just as foolish as dismissing the computer industry back then.

### Solar Cliff's Notes

The main argument against solar is that it's expensive. That's true — but so was the first computer.

The important thing to notice is that it's getting cheaper.

And at this stage in the game, that's actually detrimental.

When solar stormed on the scene in 2004 and 2005, it was touted as a panacea to rising oil prices and *An Inconvenient Truth*.

Actually, it's neither.

It's just one part of the energy industry. That said, it's susceptible to the same booms and busts as any other industry.

Back then the main ingredient was polysilicon. And it was expensive... exorbitantly expensive.
It sold for about $100/kilogram in 2006, but more than quadrupled to $400/kilogram by 2008.

Two things happened as a result:

1. Countries introduced subsidies to help consumers afford solar panels; and

2. Companies looked for other ways to make solar panels with less or no polysilicon.

The first gave us the feed-in tariff programs in Europe that led to widespread solar adoption in Germany, Spain, and a few others. But as the Great Recession ensued, governments began taking a knife to those subsidies.

The second spawned the development of other solar technologies, like cadmium telluride and copper indium gallium selenide (CIGS). Those are the technologies used by First Solar (NASDAQ: FSLR) and Solyndra, respectively.

As it turned out, the monumental spike in polysilicon prices leading up to 2008 was a red herring.

Between then and now, prices have plummeted from $400/kilogram all the way down to $23/kilogram last week.

You've already seen the impact that's had on the market. Cheap silicon is killing competitive technologies.

Solyndra went bankrupt. So did Energy Conversion Devices. First Solar (NASDAQ: FSLR) has lost 90% of its value since last summer.

Makers of traditional crystalline solar panels have only fared moderately better...

When European nations started cutting subsidies, demand all but collapsed and took German and Chinese solar companies with it.

Q-Cells and SolarWorld were once the most dominant players in the industry. Now they're struggling to survive.

Chinese firms had it so bad, they were selling panels to the United States below market price, which led us to declare a 31% tariff on Chinese-imported panels last week.

The solar blood is in the streets.

Economics Again

Subsidy cuts and margin squeezes are part of an industry’s maturation.

Those two hurdles, plus the current oversupply of polysilicon, will ebb.

Current lackluster demand and stiff competition from decade-low natural gas prices are forcing innovation and cost reduction.

There will also be consolidation.

This is all part of an industry's natural growth cycle.

The point here is that the industry is out of favor because prices are falling rapidly. That's what's supposed to happen.

And as prices fall, customers will once again be attracted. You know, all that supply and demand stuff.

In fact, it's already happening...

Solar attracted more than half of all clean energy investments last year, fetching $128 billion — up 44% from 2010. Installations were up 54% to 29.7 GW.

Once that hits the balance sheets, strong solar companies will start to rise once again. I'm looking at JA Solar (NASDAQ: JASO) on the module side and MEMC (NYSE: WFR) on the silicon side.

Apple (NASDAQ: AAPL) shares fell from $26 to $8 in 2000... That's where solar is now.

A Profitable Solution to the Shale Boom Water Crisis

By: Keith Kohl

Last month I found myself an unwilling participant in a heated argument between opposing sides of the hydraulic fracturing debate, a story that's been played out on the media stage for years — and especially since 2008.

The opponents: a protestor, his placard touting the latest anti-fracking slogan, and an employee of a company drilling in the U.S. oil patch.

The last place I wanted to be that morning was standing between the two. There was certainly no shortage of animosity as they stared each other down.

I, for one, understand both sides of this fight...

Two Sides of the Fracking Coin

On the one hand, it's impossible to ignore the benefits that come as a result of developing our tight oil and gas resources.

Pennsylvania made about $3.5 billion in revenue from the Marcellus during 2011. Drillers produced more than a trillion cubic feet of natural gas from the formation.

Just south in West Virginia, production came out to about $1.2 billion — and 350 billion cubic feet.

North Dakota virtually sidestepped the entire recession: Unemployment in the state is a paltry 3.3%. And that's not all they're enjoying as a result of their drilling success...
Truth is this good news for the U.S. oil and gas industry couldn't have come at a better time.

But it would be naive to think this shale boom has come without a cost.

Rumblings over the hidden cost of the shale boom started last year in our largest oil-producing state, Texas.

We told you last week that more rigs are drilling into the Eagle Ford formation than the entire state of North Dakota...

One of the biggest problems revolves around the amount of water used to fracture the rock formation. Between three and seven million gallons of water are needed for each well.

When water supplies become scarce (which happened in Texas last summer after a particularly long dry spell), it becomes cause for concern.

In 2010, Texas drillers used more than 13.5 billion gallons of water to hydraulically fracture their wells.

What will happen when that number doubles to 27 billion gallons in 2020?

Seems this problem would make a waterless fracturing technology immensely valuable...

Find the Solution, Find the Profits

Between the United States and Canada, some 2,400 oil and gas rigs are running. And practically all of these new wells need to be fractured...

Hydraulic fracturing is seen as the necessary evil to our domestic oil and gas boom. Without it, we could completely wipe any new oil off the books.

Over the last four years, the U.S. has successfully added more than 700,000 bbls/d to production totals. Fully one-third of that increase comes right out of the Bakken.

This, my friends, is where the opportunity is opening up for us...

If you’re not interested in investing in the problem, you can easily make a fortune with the solution.

Imagine what would happen if we were able to remove water from the fracturing equation completely: no more water shortage concerns, no more ‘fracking fluid’ chemicals that have been vilified by the public media, and no more wastewater ponds.

The very possibility might be enough to make protesters slugging it out over hydraulic fracturing shake hands and call it a day...

For the last few months, I’ve been telling you why technological breakthroughs in drilling and completion techniques will be more profitable than ever before.

I’ve found a company with a cutting-edge fracturing technology that’s taking the sector by storm.

The first time I crossed paths with this small company wasn’t even on U.S. soil...

They were too busy perfecting their technology in Canada.

The fact that they’ve set up shop in the lower 48 states could signal the end of the fracturing debate altogether.

Then again, it wouldn’t be much of an opportunity if the rest of the investment herd knew about it...

But this new player is still flying under Wall Street’s radar.

And I’m spilling the beans on this one at Energy and Capital. So stay tuned!

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