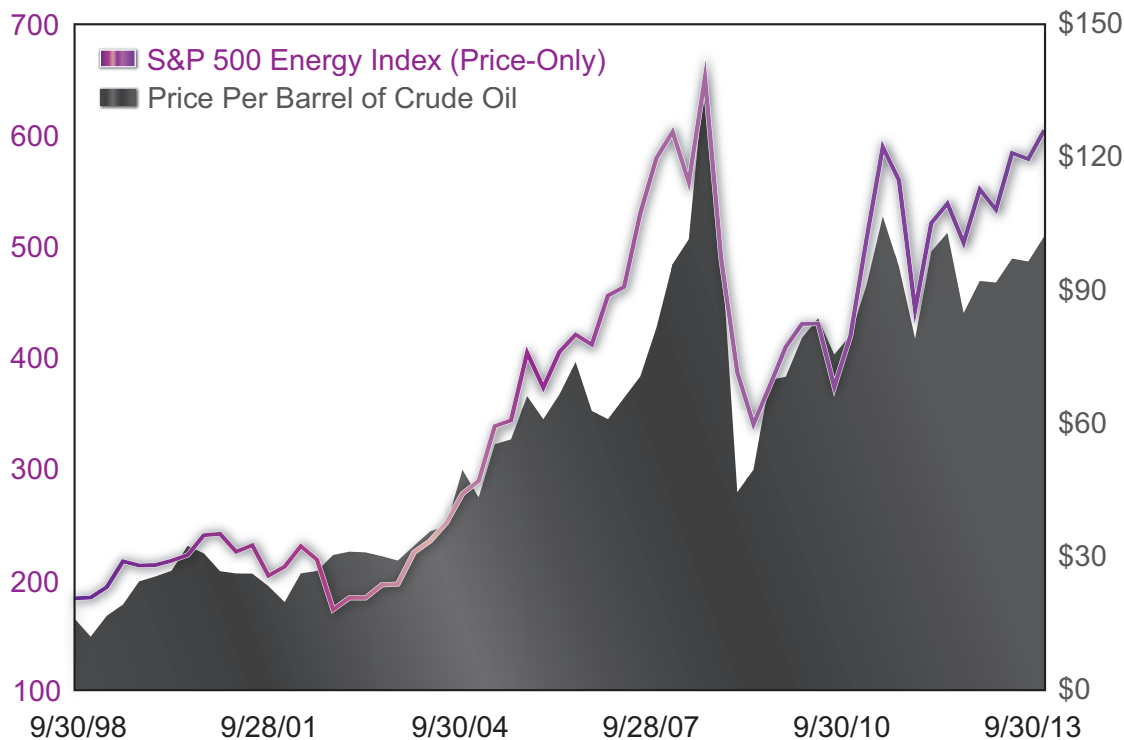


Oil Producers Are Focused On The Direction/Level Of Crude Oil Prices

S&P 500 Energy Index Performance
Relative to Price of Crude Oil



Sources: Bloomberg and Barclays.

View from the Observation Deck

1. Global exploration and production (E&P) spending is expected to rise 6% from \$682 billion in 2013 to a record \$723 billion in 2014, according to Barclays.
2. Barclays' research found that, aside from cash flow, the most important factor in determining the level of annual E&P spending is oil prices. It was the #1 factor for oil company E&P forecasting from 2012-2014.
3. Companies involved in E&P are apt to drill more when the price of oil is high enough to provide the necessary cash flow to fund it, according to Barclays.
4. While the data in the chart represents a 15-year period through September 2013, the key takeaway is the rise in the price of oil following the conclusion to the war in Iraq in Q1'03.
5. The price of oil did not rise in earnest until the markets factored in that the U.S. and coalition forces were intent on staying to implement regime change. That is when oil ascended above \$40 per barrel (new normal).
6. From 9/30/03-9/30/13, the price of a barrel of oil rose from \$29.20 to \$102.33, or an increase of 250.44%. The S&P 500 Energy Index posted a price-only gain of 209.15% (277.09% on a total return basis) during that period.
7. Investors wanting to know the outlook for energy stocks, in general, should begin with the outlook for the price of oil.
8. Today, the price of crude oil is around \$98 per barrel. Barclays currently estimates that it will average \$105 in 2014.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Energy Sector Index is capitalization-weighted and comprised of S&P 500 constituents representing the energy sector.