Altman Investment Management

Industry Research Insights: Energy

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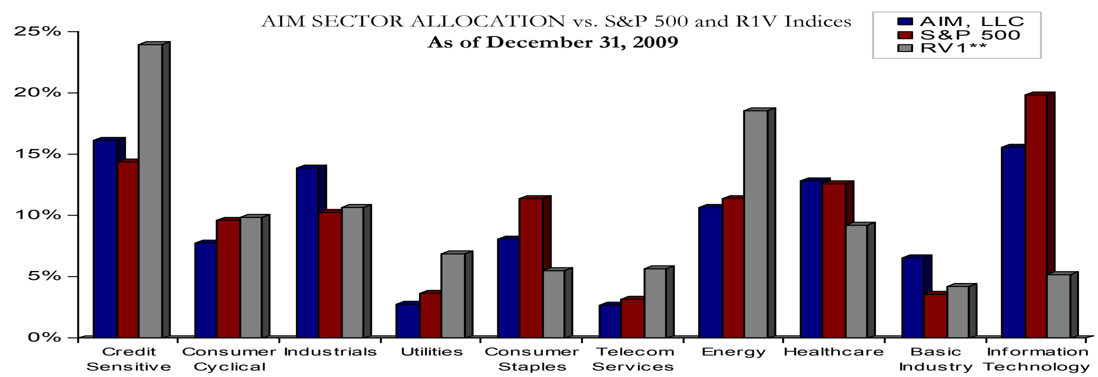
“CLOSE UP” - THE ENERGY SECTOR

EXHIBIT I
GICS Sector Allocation

Altman Investment Management

Core Value Equity Portfolio



	Credit Sensitive	Consumer Cyclical	Industrials	Utilities	Consumer Staples	Telecom Services	Energy	Healthcare	Basic Industry	Information Technology
AIM,LLC	16.2%	7.8%	13.9%	2.8%	8.1%	2.7%	10.7%	12.9%	6.6%	15.6%
S&P 500	14.4%	9.6%	10.3%	3.7%	11.4%	3.2%	11.4%	12.6%	3.6%	19.9%
R1V **	24.0%	9.9%	10.7%	6.9%	5.5%	5.7%	18.6%	9.2%	4.2%	5.2%

Source: Bloomberg as of 12/31/09 consolidated into the GICS sectors. Numbers rounded to the nearest hundredth.
Note: Numbers reflect portfolio allocation, not returns.
* Percentages do not total 100% due to rounding, and equity sector weights take into consideration the composite’s cash allocation.
** Russell 1000 Value Index

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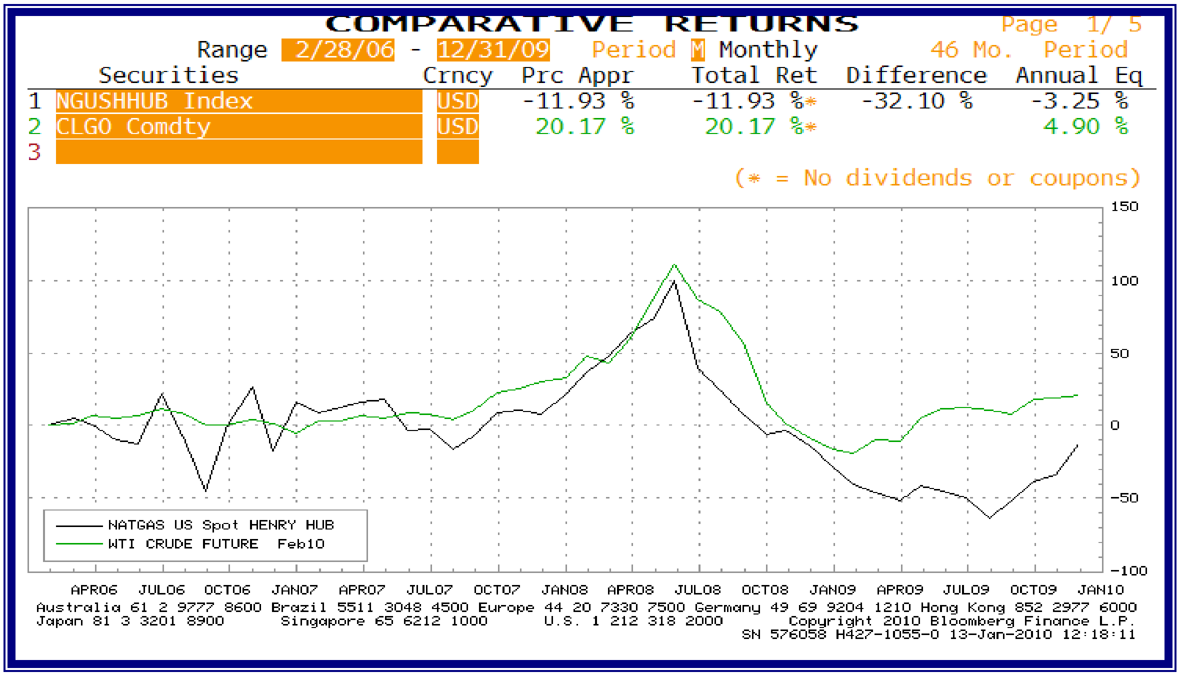
Source: Altman Investment Management Research, Thomson Financial and Bloomberg.

Spotlight on Energy

We are highlighting the U.S. natural gas industry as an area with growth opportunities due to bottoming gas prices, a revival in demand, and tightening supply demand imbalances.

The recent acquisition announcement by Exxon (acquiring XTO), and the joint venture between Total SA and Chesapeake Energy, suggest a shift in strategy by the majors to gain U.S. onshore gas acreage to broaden their proved reserves base. In the case of Exxon acquiring XTO, Exxon’s exposure to natural gas will grow to 53% of its total reserves, up from 49% pre-acquisition. This activity underscores our viewpoint that an opportunity has materialized in natural gas and is apparent in the gap between oil and gas commodity performance. (Exhibit I)

EXHIBIT II
Henry Hub Spot Price (NGUSHHUB)
vs WTI crude Future (CLGO)



Source: Bloomberg

Natural gas prices reached a one year high of $7.51 this past week on January 7th, which is still down 44% from its last peak in July 2008. (Exhibit II) The EIA raised its natural gas price forecast for the Henry Hub spot price to average $5.36 and $6.12 for 2010 and 2011 respectively, as compared to an average of $4.06 for 2009.

EXHIBIT III
Henry Hub Natural Gas Spot Price:
(NGUSHHUB) 5.5600Y as of 1/12/2010

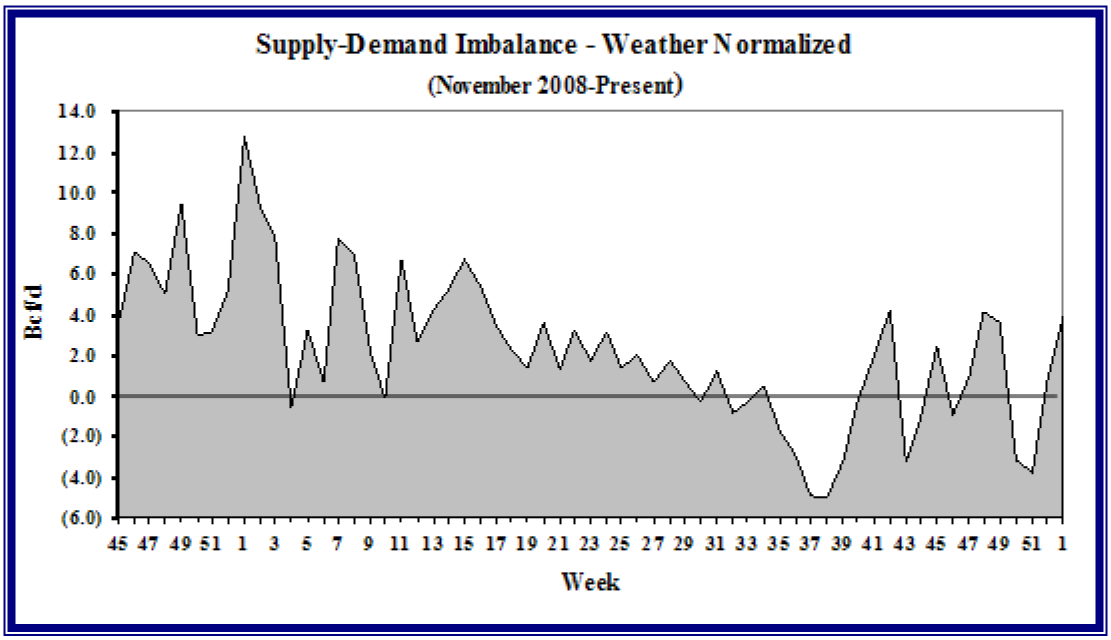
Source: Bloomberg

Although we expect to see larger draws in the coming weeks due to lower temperatures throughout the inventory draw season (Nov –March), it is important to note that storage of natural gas is 11% higher than its five year average. The EIA expects the storage levels to finish the first quarter of 2010 up 16% from its five year average. It is these high storage levels that will keep gas prices from surprising on the upside over the next year.

Poor economic conditions took its toll on the industrial, residential and commercial gas sectors. As the economy begins to strengthen, growth in these sectors should offset any declines in gas fired electric power as a result of higher gas prices. On lower prices and a recovering U.S. economy, we expect consumption to grow modestly in 2010 after falling an estimated -1.5% in 2009, according to the EIA.

This past year saw a downward trend in natural gas supply-demand imbalances. (Exhibit III) The more prominent downward trend occurred in May through July as consumption outpaced dry production. A tightening in the supply-demand imbalance supports higher gas prices.

EXHIBIT IV



Source: EIA and Howard Weil

In response to slower economic growth and falling gas prices, rig counts in use peaked in September 2008. Lower rig rates have a lagging effect on production volumes that will be realized in 2010. Additionally, the new wells drilled that accounted for increased productivity in 2009 (current estimates are 3.7% for 2009), will begin producing much less than their initial production levels. These two factors contribute to the EIA's forecasted 3% decline in production levels for 2010. We believe lower production levels are already priced into these stocks and consequently present limited downside risks.

The recent strength in the U.S. dollar bolstered by the expected increase in the discount rate should not necessarily translate into lower crude oil prices. Ned Davis Research points out that since 1983, the U.S. dollar has rallied +7.0% or more sixteen times, and in nine of those cases crude oil moved higher. In December 1998, crude oil began the secular bull market, overlapping an ongoing secular bear in the U.S. dollar. Since then, the dollar has rallied five times by more than 7.0%. In four of these cases, crude actually rallied with the U.S. dollar. *

* "Why Crude Energy Stocks Will Survive a Dollar Rally" NDR, February 2010.

"LOOKING AHEAD"- ENERGY PORTFOLIO STRATEGY

The price of crude oil has stagnated a bit, but has not broken key short-term support levels. The past several weeks we believe were tough for commodities in general due to questions about Chinese tightening. Our view, though, is that the global bull market remains intact. Demand for petroleum products has recovered, however, inventories remain at record highs. Additionally, inventories are likely understated as tankers, which are not counted in the inventory numbers, are increasingly being used as storage vehicles. As long as futures curves remain in contango* and there is money to be made, this trend will likely continue as evidenced by rising tanker rates. As we have pointed out in the past, though, surplus inventories do not necessarily translate into lower energy prices. Based on subdued sentiment, and positive momentum, crude oil has the ability to go higher. Energy commodity trend models are all now pointing positively. We expect the U.S. dollar to fade in Q1 with a possible rally in Q2. The Energy sector should benefit from the continuation of the global bull market in 2010. We have now started to focus on companies most leveraged to rising energy prices such as Equipment and Services, Coal and Consumable Fuels, and Exploration and Production. Even after getting roughed up these past several weeks, the relative strength seen in all three industries remains good with the intermediate-term technical trends still positive.

*Contango is when the futures price is above the future spot price. Consequently, the price will decline to the spot price before the delivery date. The converse, backwardation, is when the contract approaches expiration, the futures contract will trade at the higher price compared to the price of the contract when it traded further away from expiration. This is said to occur when the effective convenience yield (current price)is higher than the prevailing risk free rate.