



OUTLOOK

"Energy Stocks Reach Target Level"
9/22/2008

In our Outlook on 7/28/08, we stated that the XOJ Index would rally to 1350 or more within 2 months. The XOJ reached our target of 1350 just 2 days after our forecast by closing at 1367.10 on 7/30/08. Since 7/30/08, the XOJ has not been able to close above 1350. In August, it had penetrated 1350 several times on an intraday basis but could not mount a sustained rally above that level.



The last two months have been interesting for energy stocks. What is strikingly different this time around is that energy stocks reached grossly oversold levels beyond what we have normally seen in the past. We think big contributors to the sell-off in energy stocks were hedge funds who were heavily leveraged in commodities and short on financials. When the Fed placed restrictions on short-selling financials in mid-July, hedge funds were forced to sell their leveraged positions in commodities and cover their short positions in financials. This unwinding by hedge funds caused the dual action of pummeling commodity-related stocks and lifting financial stocks. The end result was the closing of some commodity hedge funds due to large losses in commodity positions. One of the more famous hedge funds to close its doors recently was the Ospraie hedge fund. The moral of the story is to manage your risk. At YieldSafe, we focus on managing risk by limiting our position size and not using leverage.

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