

Russian Oil - *Time for Diversification*

Richard Nixon once said that depending on oil from Middle Eastern sources was, "...depending on the undependable." That has never been more true than today.

About 40% of the US oil imports come from the Middle East. China and Japan import 40% and 80% of their oil, respectively, from the same region. With tensions mounting in the Middle East, other major economies are also looking for more friendly sources of oil. The big question is, where will it all come from?



EGS President,
Bill Edwards

Russian Oil Opportunities

Since 1999, Russian crude oil output has increased by at least 20% with some companies increasing production by over 50%. By 2002, Russian crude oil production exceeded 7.6 million barrels per day. Much of this increase is available for hard currency export.

Russian oil companies are making sweeping changes in an effort to satisfy the demand and requirements from major importers. They are adopting Western-style financial controls, using generally accepted accounting principals and adding independent directors. Many of these directors are executives of major global energy companies. Recently, some of these companies have been listed on US and European stock exchanges.

Greater Productivity

Russian oil companies are showing improvements in productivity, but the trend is particularly clear in the case of the industry leaders, **Lukoil** and **Yukos**. By applying advanced oil field management techniques on a wide scale, these two companies have kept lifting costs below US\$2.00 per barrel, despite rising wages and an appreciating ruble. (Currently, it costs Exxon Mobile US\$3.22 and ChevronTexaco US\$4.45 to get a barrel of oil out of the ground.) The impact on Russian well flow-rates, both for old wells and new, has been dramatic.

Larger Russian oil companies have begun to apply new approaches focusing on financial efficiency in invest-

P Profiting From *Russian Oil Opportunities*

With the three-year anniversary of the US stock market high upon us, Wall Street has provided little comfort that major global markets will improve anytime soon. This, along with the looming threat of war hanging over our heads, has left most investors apathetic about their portfolios.



Global Trends Investments
President Tom Lydon

Many experts feel the landscape for investing has changed. We can't expect that conventional asset allocation will meet the needs of the average retiree. Identifying when to be in the market and when to be out will carry more weight in the coming years. Identifying strengths and weaknesses among industry groups will also be critical for future success. Finally, and perhaps most importantly, those investors who think *out-of-the-box* may be rewarded while those sticking to conventional investments only may continue to be disappointed.

Russian Oil Stocks

As Bill Edwards mentions, major Russian oil companies provide investment opportunities for those willing to be nimble with a small percentage of their portfolios. Yukos, Sibneft and Lukoil are all available on the over the counter markets here in the US in the form of American Depository Receipts (ADRs).

American Depository Receipts (ADRs)

An ADR is a dollar-denominated negotiable certificate that represents ownership of shares in a non-U.S. company. The structure of an ADR includes a ratio, which correlates the amount of underlying shares to the receipt. JP Morgan has an excellent web site (www.adr.com) designed to educate investors on ADRs.

ADRs can be bought through all major brokerage companies. Like regular stocks, ADRs have a bid and ask spread. Depending on the demand and volume of the stock, the spread can grow.

Although the prospects seem positive for Russian oil companies, it's important to always limit your downside

Russian Oil

Continued from page 1/Col 1

ments, accelerated field development, application of modern oil recovery techniques and broader use of independent service and drilling contractors. International expansion is a mid- and long-term strategy for Russian majors, with **Lukoil** being the most internationally diversified Russian oil company, and the first to have ventured abroad with foreign oil corporations.

BP recently purchased a 50% interest in **Sibneft**, the third largest Russian oil producer, for US\$7 billion. This deal is being seen, both in Russia and abroad, as a seal of approval on the country's progress since the financial crisis of 1998

The Future

Major Russian oil producers recently announced plans to build a pipeline and year round Arctic port to send oil to the US. The new Murmansk year around tanker port will be half the distance to the world's largest markets for crude in North America than is the Persian Gulf.

As Robert Malone, Chief Executive of BP for Global Shipping said last week, "Keep an eye on Russia. We can rely on Russia and it's time to diversify our imported oil sources!"

With the US government openly courting Russia as a place for oil investment plus the Chinese and Japanese desire to diversify their imported oil sources, this optimism seems justified.

Note: Sources for this article were: *Business Week*, the *Wall Street Journal*, the *Dow Jones NewsWire*, *The Economist* and *IBS*, Istanbul. IBS Research & Consultancy is an Istanbul-based market research firm that assists international companies to enter Turkey and the Central Asian Republics. IBS monitors energy supply and demand throughout Europe, Turkey and Central Asia (www.ibsresearch.com.)

William Edwards, President of **Edwards Global Services, Inc. (EGS)**, has 30 years of international experience. He has lived in 7 countries, worked on projects in 62 international countries and personally directed projects on-site in Alaska, Asia, Eastern Europe and the Near East.

Mr. Edwards worked in the oil and gas sector with Atlantic Richfield (ARCO) and Ashland Oil. He was involved in ARCO's oil and gas exploration in Alaska, California, the Gulf of Mexico, Iran and Indonesia. He directed Atlantic Richfield's first exploration program inside China and established the company's subsidiary in Turkey. Mr. Edwards was also a Senior International Development Advisor for Ashland Oil.

Edwards Global Services

19800 MacArthur Blvd. #300, Irvine CA 29612
949-224-3896 Phone 714-464-4604 Fax
bedwards@edwardsglobal.com

Change Your Approach

Continued from page 1/Col 2

risk. I'd recommend limiting your portfolio allocation to 3-5%. In addition, set specific stop loss limits to 15% from current levels.

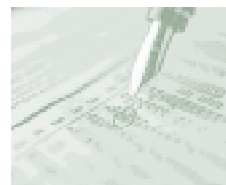
<u>Company</u>	<u>TickerAvg</u>	<u>Daily Volume</u>
Yukos	YUKOY	64,000
Sibneft	SBKYY	82,000
Lukoil	LUKOY	111,000

Eastern European Funds

Some mutual funds focus on Eastern Europe where Russian oil companies are their largest holdings. Mutual funds offer easy access with low minimum initial investments. They also offer diversification outside the oil industry. They can be volatile as well, so be sure to set your own exit strategy. Here are a few to consider:

- ✓ **US Global Investors Eastern European (EUROX)**
- ✓ **Pictet Eastern European (PTEEX)**
- ✓ **Vontobel Eastern European (VEEEX)**

It's apparent the world dynamics are changing. Here's a chance to incorporate the potential benefits of changes in one part of the world. As more opportunities become available, we'll notify those on our newsletter mailing list.



Tom Lydon is president of **Global Trends Investments**, an investment advisory firm specializing in the creation of customized portfolios for high networth individuals. Mr. Lydon has been involved in money management for 20 years. He began his career with Fidelity Investments Institutional Division, and most recently was president of Fabian Financial Services, Inc.

Mr. Lydon serves as vice chairman of The Make-A-Wish Foundation of Orange County. He is a member of the Advisory Board for Rydex Mutual Funds and a founding member of Charles Schwab's Institutional Advisory Board. He writes for *Bottom Line Personal* and is a contributor to major print, radio and television media.

Global Trends Investments

1300 Bristol St. N. Ste 208 Newport Beach, CA 92660
949-794-0070 Phone 949-794-0075 Fax
www.globaltrend.com tlydon@globaltrend.com