

## Thrive and Survive in Oil and Gas Investments

### Summary and Recommendation

In the face of an uncertain future, we like oil and gas investments for the combination of growth with inflation protection and deflation resistance. Portfolios with those characteristics can thrive in good times and survive in bad times. After a good 2000s for oil, the 2010s still look good if not as great for oil, better from here for natural gas, surprisingly better for U.S. refining, great for North American consumers of natural gas and positive for North American oil security. Solid European companies are likely to continue to make money in global markets. Producers in developing countries may share the stronger growth prospects of less mature, lower debt economies. Buy recommendations tap into all those trends to some degree while priced at low McDep Ratios ranging from 0.42 to 0.89 (see [Table 1](#) on page 2).

### McDep Ratios Illustrate Investment Growth Potential

Stocks priced at a McDep Ratio below 1.00 offer better than a 7% a year unlevered return above inflation by our estimates. Stocks priced at McDep Ratios above 1.00 offer less than a 7% a year unlevered return above inflation. The quantitative analysis concentrates on prospects related to proven reserves independent of quality of management. Qualitative considerations of unusual volume growth potential or unusual management quality need to be weighed in addition to McDep Ratio in deciding to invest.

The ability to withstand surprise deflation of economic conditions is greater for companies with lower ratios of Debt to Present Value (see [Table 2](#) on page 3). In addition, energy meets basic needs that consumers try to satisfy even if times are too difficult to buy a new house, car or appliance.

### Oil is a “Hard Asset”

Real assets like oil reserves, refineries and manufacturing facilities that companies own get priced higher and higher in monetary terms to offset inflation when there is a continuing need for those assets. During the 2000s, oil, measured by the average of future prices for the next six years, increased more than four-fold to the recent quote of \$92 a barrel (see chart [\(Oil Six-Year Futures Strip](#) on page 6). The price may soon cross above the 40-week average of \$92 to restart an uptrend (see chart [Six-Year Commodity Price Meter](#) on page 6). During the 2000s natural gas peaked and then continued to decline with the unexpected bounty of shale gas (see chart [Natural Gas Futures](#) on page 7). In a hopeful sign, one-year natural gas futures have been trading above the 40-week average for 11 weeks (see chart [Natural Gas One-Year Futures Strip](#) on page 7).

Kurt H. Wulff, CFA



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 11, 2012

<b>Table 1</b>									
<b>McDep Large Cap Energy Stocks</b>									
<b>Geographic Domicile and Business Segments</b>									
	Symbol/Rating B = Buy, CB (see below)	Price (US\$/sh) 10-Sep 2012	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				
					North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio
<b>U.S. and Europe Integrated</b>									
BG Group	BRGYY	20.38	1.24	86,000		24	42	34	0.98
Exxon Mobil Corporation	XOM B	89.48	1.17	486,000	7	20	56	16	0.84
Royal Dutch Shell plc	RDS-A B	70.98	1.26	281,000	3	22	56	19	0.74
Chevron Corporation	CVX B	113.96	1.12	251,000	3	11	76	10	0.70
Statoil ASA (33%)	STO B	25.69	1.49	40,200		34	66	-	0.68
BP plc	BP	42.04	1.64	222,000	4	8	63	25	0.62
Total S.A.	TOT B	51.37	1.37	160,000		22	64	14	0.59
<i>Total or Median</i>				<i>1,526,000</i>			<i>63</i>		<i>0.70</i>
<b>Brazil/Russia/Australia/China</b>									
Woodside Petroleum Ltd.	WOPEY	36.27	1.25	37,000		68	32	-	0.84
CNOOC Limited (36%)	CEO	183.40	1.01	30,000		9	91	-	0.74
PetroChina Company Ltd (14%)	PTR CB	119.67	1.39	42,700		15	77	9	0.65
Petrobras	PBR CB	21.74	1.54	218,000		5	81	14	0.59
Gazprom (50%)	OGZPY CB	10.27	1.28	75,000		11	13	76	0.43
Lukoil Oil Company	LUKOY B	60.41	1.06	50,000			71	29	0.42
<i>Total or Median</i>				<i>453,000</i>			<i>74</i>		<i>0.62</i>
<b>U.S. Independent</b>									
EOG Resources, Inc.	EOG B	112.40	1.19	36,200	32	4	64	-	0.88
Chesapeake Energy Corp.	CHK	19.57	2.41	35,400	56		44	-	0.86
Southwestern Energy Company	SWN	32.50	1.16	13,100	100			-	0.83
Anadarko Petroleum Corp.	APC	70.40	1.48	52,000	34		63	3	0.78
Occidental Petroleum Corp.	OXY CB	86.32	1.13	79,000	8	1	81	10	0.74
ConocoPhillips	COP B	56.18	1.56	108,000	13	13	74	-	0.69
Devon Energy Corporation	DVN CB	59.37	1.35	32,400	46		54	-	0.65
Marathon Oil Corporation	MRO CB	28.47	1.44	29,100	7	3	90	-	0.62
<i>Total or Median</i>				<i>385,000</i>			<i>64</i>		<i>0.76</i>
<b>Canada</b>									
Penn West Exploration	PWE	15.01	1.62	11,500	18		82	-	0.83
Imperial Oil Limited (30%)	IMO B	48.13	1.17	14,400	2		84	14	0.80
EnCana Energy Inc.	CVE B	34.71	1.28	33,700	11		73	16	0.77
EnCana Corporation	ECA B	22.59	1.51	25,000	86		14	-	0.70
Suncor Energy	SU B	33.26	1.28	66,100	2		80	18	0.58
Canadian Oil Sands Limited	COSWF B	21.96	1.22	13,000			100	-	0.54
<i>Total or Median</i>				<i>164,000</i>			<i>81</i>		<i>0.74</i>
<b>Composite</b>				<b>2,528,000</b>	<b>8</b>	<b>14</b>	<b>63</b>	<b>16</b>	<b>0.69</b>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.



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			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>		<i>10-Sep</i> <i>2012</i>	<i>(mm)</i>				
B = Buy, CB (see below)								
<b>U.S. and Europe Integrated</b>								
BG Group plc	BRGY		20.38	3,415	69,600	21.00	0.19	0.98
Exxon Mobil Corporation	XOM	B	89.48	4,657	417,000	110.00	0.12	0.84
Royal Dutch Shell plc	RDS-A	B	70.98	3,133	222,000	102.00	0.15	0.74
Chevron Corporation	CVX	B	113.96	1,968	224,000	170.00	0.07	0.70
Statoil ASA (33%)	STO	B	25.69	1,050	27,000	44.00	0.22	0.68
BP plc	BP		42.04	3,214	135,000	84.00	0.24	0.62
Total S.A.	TOT	B	51.37	2,264	116,000	100.00	0.16	0.59
<i>Total or Median</i>					<i>1,211,000</i>		<i>0.16</i>	<i>0.70</i>
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		36.27	808	29,300	45.00	0.17	0.84
CNOOC Limited (36%)	CEO		183.40	161	29,600	250.00	0.01	0.74
PetroChina Company Ltd (14%)	PTR	CB	119.67	256	30,700	210.00	0.18	0.65
Petrobras	PBR	CB	21.74	6,522	141,800	45.00	0.21	0.59
Gazprom (50%)	OGZPY	CB	10.27	5,735	58,900	28.00	0.09	0.43
Lukoil Oil Company	LUKOY	B	60.41	780	47,100	150.00	0.02	0.42
<i>Total or Median</i>					<i>337,000</i>		<i>0.13</i>	<i>0.62</i>
<b>U.S. Independent</b>								
EOG Resources, Inc.	EOG	B	112.40	270	30,400	130.00	0.14	0.88
Chesapeake Energy Corp.	CHK		19.57	751	14,700	27.00	0.50	0.86
Southwestern Energy Company	SWN		32.50	348	11,300	40.00	0.11	0.83
Anadarko Petroleum Corp.	APC		70.40	500	35,200	100.00	0.25	0.78
Occidental Petroleum Corp.	OXY	CB	86.32	811	70,000	120.00	0.08	0.74
ConocoPhillips	COP	B	56.18	1,230	69,000	96.00	0.25	0.69
Devon Energy Corporation	DVN	CB	59.37	405	24,000	102.00	0.17	0.65
Marathon Oil Corporation	MRO	CB	28.47	709	20,190	54.00	0.19	0.62
<i>Total or Median</i>					<i>274,800</i>		<i>0.18</i>	<i>0.76</i>
<b>Canada</b>								
Penn West Exploration	PWE		15.01	474	7,100	20.00	0.32	0.83
Imperial Oil Limited (30%)	IMO	B	48.13	256	12,300	62.00	0.12	0.80
Cenovus Energy Inc.	CVE	B	34.71	758	26,300	48.00	0.17	0.77
EnCana Corporation	ECA	B	22.59	736	16,600	37.00	0.24	0.70
Suncor Energy	SU	B	33.26	1,558	51,800	64.00	0.13	0.58
Canadian Oil Sands Limited	COSWF	B	21.96	485	10,700	45.00	0.10	0.54
<i>Total or Median</i>					<i>125,000</i>		<i>0.15</i>	<i>0.74</i>
CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.								



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**Table 3**

**McDep Large Cap Energy Stocks  
Value Multiples and Dividend Yield**

			<i>Price (US\$/sh)</i>	<i>Adjustd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>	<i>P/E</i>	<i>Dividend NTM</i>
	<i>Symbol/Rating</i>		<i>10-Sep 2012</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
	<i>B = Buy, CB (see below)</i>							
<b>U.S. and Europe Integrated</b>								
BG Group plc	BRGY		20.38	8.6	7.5	7.3	13	1.2
Exxon Mobil Corporation	XOM	B	89.48	13.1	7.7	6.5	11	2.5
Royal Dutch Shell plc	RDS-A	B	70.98	10.1	6.9	5.2	10	4.8
BP plc	BP		42.04	11.4	8.2	5.1	7	4.6
Chevron Corporation	CVX	B	113.96	9.2	7.1	4.9	10	3.2
Total S.A.	TOT	B	51.37	10.2	7.7	4.6	8	5.9
Statoil ASA (33%)	STO	B	25.69	6.3	6.2	4.2	8	4.2
	<i>Median</i>			<i>10.1</i>	<i>7.5</i>	<i>5.1</i>	<i>10</i>	<i>4.2</i>
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		36.27	12.7	8.7	7.3	11	3.6
Petrobras	PBR	CB	21.74	13.1	8.0	4.7	7	4.8
PetroChina Company Ltd (14%)	PTR	CB	119.67	13.0	6.8	4.4	8	4.2
CNOOC Limited (36%)	CEO		183.40	6.6	5.2	3.9	7	3.0
Lukoil Oil Company	LUKOY	B	60.41	16.5	6.0	2.5	5	3.9
Gazprom (50%)	OGZPY	CB	10.27	31.2	5.5	2.3	3	5.5
	<i>Median</i>			<i>13.0</i>	<i>6.4</i>	<i>4.1</i>	<i>7</i>	<i>4.1</i>
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		32.50	7.2	14.8	12.4	27	-
Chesapeake Energy Corp.	CHK		19.57	10.0	11.6	10.0	29	1.8
EOG Resources, Inc.	EOG	B	112.40	9.3	7.3	6.5	24	0.6
Anadarko Petroleum Corp.	APC		70.40	8.3	7.7	6.0	19	0.5
ConocoPhillips	COP	B	56.18	12.7	8.2	5.6	10	4.7
Occidental Petroleum Corp.	OXY	CB	86.32	10.0	7.5	5.6	11	2.5
Devon Energy Corporation	DVN	CB	59.37	9.7	8.3	5.4	16	1.3
Marathon Oil Corporation	MRO	CB	28.47	9.7	6.6	4.1	8	2.4
	<i>Median</i>			<i>9.7</i>	<i>7.9</i>	<i>5.8</i>	<i>18</i>	<i>1.6</i>
<b>Canada</b>								
EnCana Corporation	ECA	B	22.59	8.4	14.2	10.0		3.5
Imperial Oil Limited (30%)	IMO	B	48.13	19.3	10.8	8.7	11	1.0
Penn West Exploration	PWE		15.01	7.5	9.1	7.5	13	7.4
Cenovus Energy Inc.	CVE	B	34.71	12.8	8.7	6.7	16	2.6
Canadian Oil Sands Limited	COSWF	B	21.96	19.0	10.8	5.8	9	6.5
Suncor Energy	SU	B	33.26	17.1	9.3	5.4	14	1.6
	<i>Median</i>			<i>15.0</i>	<i>10.0</i>	<i>7.1</i>	<i>13</i>	<i>3.1</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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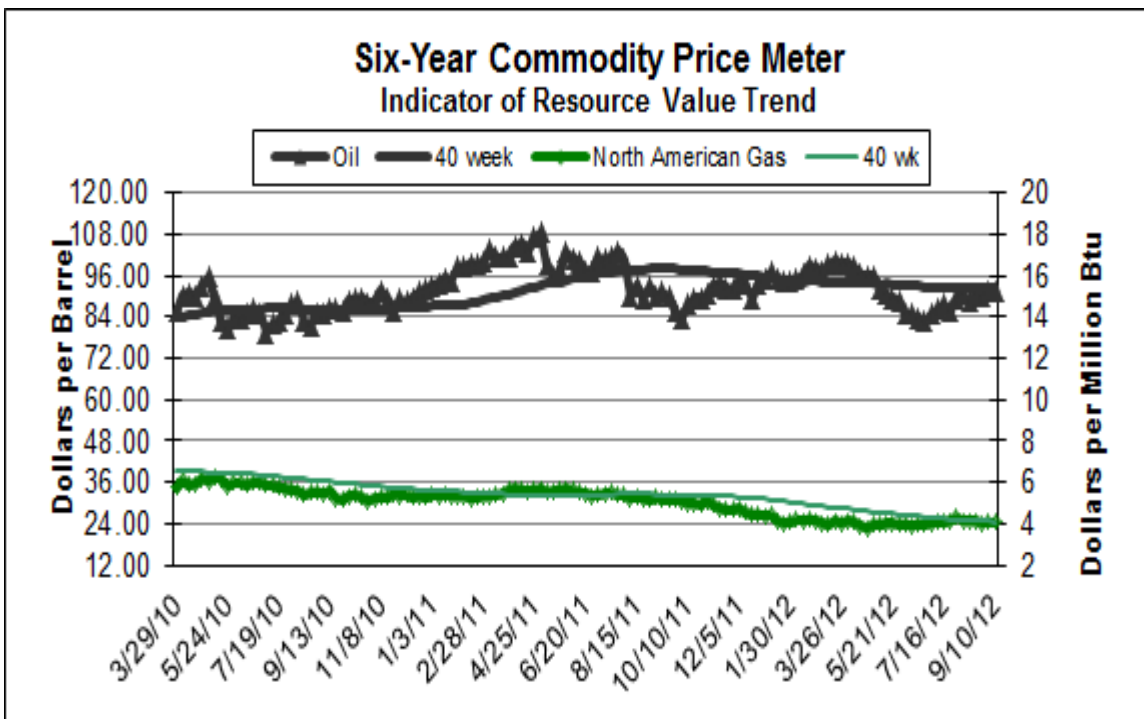
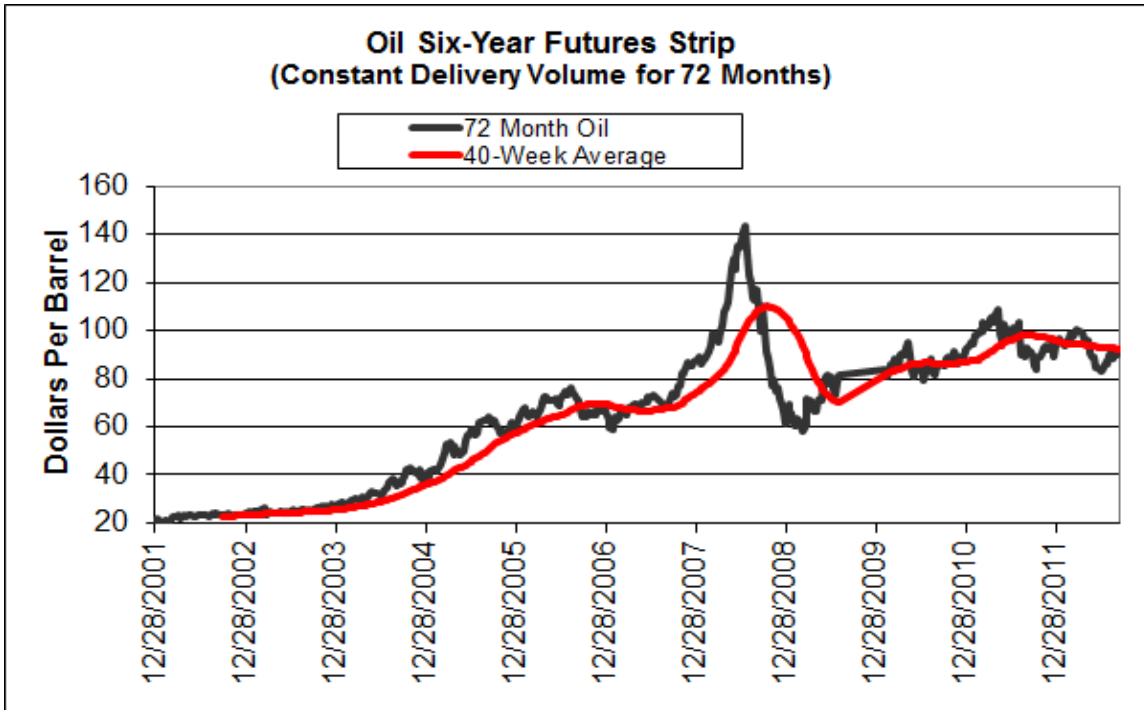
	Symbol	Rating	Price	Enterprise Value/				McDep
			(\$/sh)	10-Sep	52Wk	52Wk	50 Day	
			2012	High	Low	Avg.	Avg.	Ratio
<b>U.S. and Europe Integrated</b>								
Chevron Corporation	CVX	B	113.96	1.00	1.27	1.04	1.07	0.70
Exxon Mobil Corporation	XOM	B	89.48	1.00	1.26	1.03	1.05	0.84
Total S.A.	TOT	B	51.37	0.93	1.19	1.07	1.03	0.59
Royal Dutch Shell plc	RDS-A	B	70.98	0.96	1.17	1.02	1.02	0.74
Statoil ASA (33%)	STO	B	25.69	0.92	1.16	1.03	1.01	0.68
BP plc	BP		42.04	0.92	1.14	1.01	0.99	0.62
BG Group plc	BRGY		20.38	0.85	1.13	1.00	0.96	0.98
	<i>Median</i>			<i>0.93</i>	<i>1.17</i>	<i>1.03</i>	<i>1.02</i>	<i>0.70</i>
<b>Brazil/Russia/Australia/China</b>								
Lukoil Oil Company	LUKOY	B	60.41	0.92	1.28	1.05	1.05	0.42
Woodside Petroleum Ltd.	WOPEY		36.27	0.91	1.19	1.04	1.04	0.84
Gazprom (50%)	OGZPY	CB	10.27	0.80	1.15	1.06	0.96	0.43
Petrobras	PBR	CB	21.74	0.75	1.15	1.04	0.93	0.59
CNOOC Limited (36%)	CEO		183.40	0.79	1.29	0.93	0.92	0.74
PetroChina Company Ltd (14%)	PTR	CB	119.67	0.83	1.05	0.98	0.92	0.65
	<i>Median</i>			<i>0.81</i>	<i>1.17</i>	<i>1.04</i>	<i>0.95</i>	<i>0.62</i>
<b>U.S. Independent</b>								
EOG Resources, Inc.	EOG	B	112.40	0.95	1.52	1.09	1.07	0.88
Southwestern Energy Company	SWN		32.50	0.76	1.22	1.02	1.02	0.83
Marathon Oil Corporation	MRO	CB	28.47	0.85	1.30	1.05	1.00	0.62
Chesapeake Energy Corp.	CHK		19.57	0.79	1.15	1.01	0.98	0.86
Anadarko Petroleum Corp.	APC		70.40	0.85	1.16	1.01	0.97	0.78
Occidental Petroleum Corp.	OXY	CB	86.32	0.83	1.26	0.99	0.95	0.74
Devon Energy Corporation	DVN	CB	59.37	0.82	1.12	1.01	0.95	0.65
ConocoPhillips	COP	B	56.18					0.69
	<i>Median</i>			<i>0.83</i>	<i>1.22</i>	<i>1.01</i>	<i>0.98</i>	<i>0.76</i>
<b>Canada</b>								
EnCana Corporation	ECA	B	22.59	0.96	1.19	1.04	1.08	0.70
Imperial Oil Limited (30%)	IMO	B	48.13	0.98	1.40	1.08	1.07	0.80
Suncor Energy	SU	B	33.26	0.91	1.34	1.06	1.06	0.58
Canadian Oil Sands Limited	COSWF	B	22.00	0.89	1.22	1.06	1.03	0.54
Cenovus Energy Inc.	CVE	B	34.71	0.90	1.20	1.05	1.02	0.77
Penn West Exploration	PWE		15.01	0.77	1.13	1.05	0.92	0.83
	<i>Median</i>			<i>0.90</i>	<i>1.21</i>	<i>1.06</i>	<i>1.04</i>	<i>0.74</i>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.



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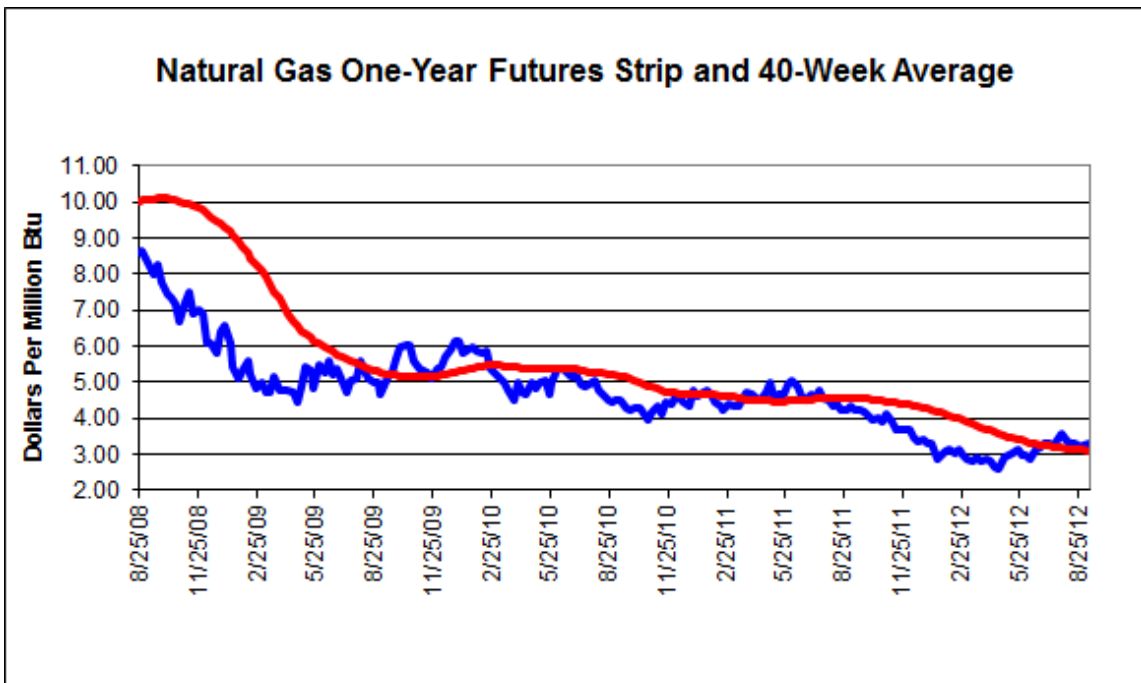
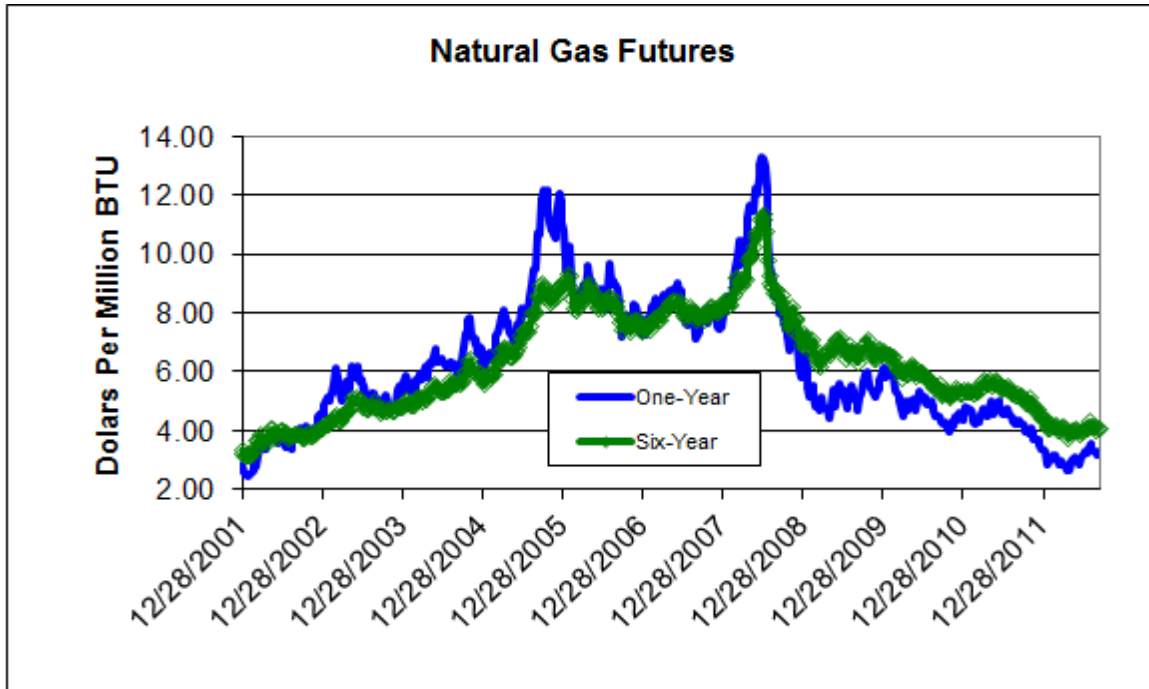






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Index of Recent Research			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
7-Sep	PEYUF	Peyto Exploration and Development	Canada Deep Basin Fracker (Income and Small Cap Weekly)
4-Sep	LUKOY	Lukoil	Proven Competitor, Uncommon Value (Meter Reader)
28-Aug	PTR	PetroChina	Pent-Up Profits (Meter Reader)
24-Aug	HGT	Hugoton Royalty Trust	Highest Return for the Next Year (Income and Small Cap Weekly)
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price (Meter Reader)
17-Aug	HK	Halcón Resources	Billion Barrel Resource Potential (Income and Small Cap Weekly)
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues (Meter Reader)
10-Aug	CLR	Continental Resources	Bakken Billions (ISCW)
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return (Meter Reader)
3-Aug	XEC	Cimarex Energy	West Texas Wolfcamp Shale Oil (ISCW)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
30-Jul	COSWF	Canadian Oil Sands Limited	Robust Volume Outlook
27-Jul	RRC	Range Resources	Oil-Enhanced Natural Gas Growth (ISCW)
24-Jul	CEO	CNOOC Ltd.	60% Premium in \$21 Billion Deal (Meter Reader)
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
17-Jul	XOM	Exxon Mobil	Low U.S. Energy Price Outperformer (Meter Reader)
10-Jul	MRO	Marathon Oil	Shale Growth, Dollar Hedge (Meter Reader)
3-Jul	OGZPY	Gazprom	Dividend Double Approved (Meter Reader)
26-Jun	STO	Statoil	Financially Strong Norse Explorers (Meter Reader)
19-Jun	CVE	Cenovus	Deep Oil Sands Growth at Lower Price (Meter Reader)
12-Jun	PBR	Petrobras	Deep Water Oil Growth, Lower NPV to \$45 (Meter Reader)
12-Jun	BRGY	BG Group	Lower NPV to \$21 (6/12/12 Meter Reader, page 2)
13-Jun	ERF	Enerplus Corporation	Dividend Reduced by Half
8-Jun	SJT	San Juan Basin Royalty Trust	Price Decline Action in SJT and Royalty Trusts (ISCW)
5-Jun	WOPEY	Woodside Petroleum Ltd.	Pluto LNG Delivering (Meter Reader)
25-May	HGT	Hugoton Royalty Trust	HGT Bargain (Income and Small Cap Weekly)
18-May	BIREF	Birchcliff Energy	Contrarian Buy at Lower NPV (Income and Small Cap Weekly)
15-May	EOG	EOG Resources	Raise NPV to \$130 a Share on Oil Volume (Meter Reader)
11-May	DMLP	Dorchester Minerals, L.P.	Rising Oil Production (Income and Small Cap Wkly)
8-May	ECA	Encana	Long-Term Natural Gas Appeal (Meter Reader)
4-May	WLL	Whiting Petroleum	Oil Price Discount Narrows (Income and Small Cap Weekly)
1-May	RDS	Royal Dutch Shell	LNG and GTL Profit Gains (Meter Reader)
17-Apr	COP	ConocoPhillips	Largest North American Independent Producer Debut (MR)
10-Apr	DVN	Devon Energy	Shale Oil Excitement at a Favorite Value Stock (Meter Reader)
For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.			
<b>Meter Reader</b>			
4-Sep	LUKOY	Lukoil	Proven Competitor, Uncommon Value
28-Aug	PTR	PetroChina	Pent-Up Profits
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Meter Reader</a> .			
<b>Income and Small Cap Weekly</b>			
7-Sep	PEYUF	Peyto Exploration and Development	Canada Deep Basin Fracker
31-Aug			Royalty Trust McDep Opportunities
24-Aug	HGT	Hugoton Royalty Trust	Highest Return for the Next Year
17-Aug	HK	Halcón Resources	Billion Barrel Resource Potential
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			

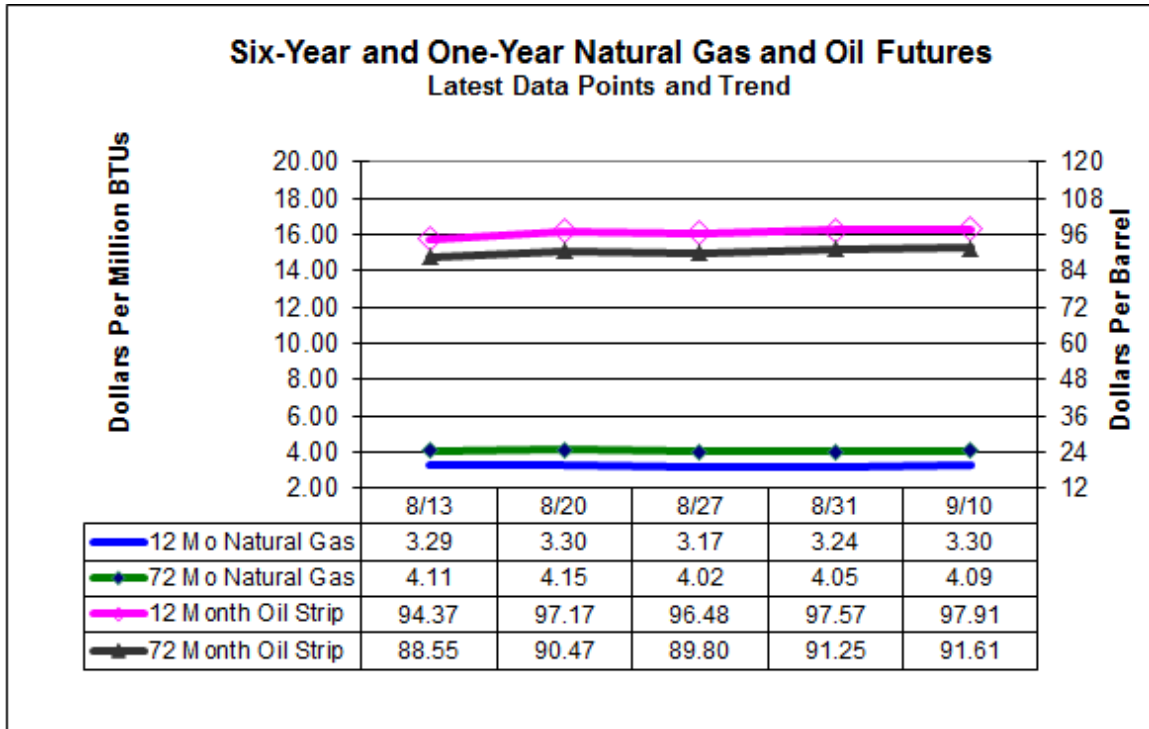




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A Weekly Analysis of Large Cap Oil and Gas Stocks

September 11, 2012



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