



Monetary Diversification

Summary and Recommendation

Amidst market volatility, we like the outlook for median 12% a year distributions from oil and gas income stocks. Unfortunately, with the deteriorating value of money, it takes a high distribution rate to keep real returns competitive. The decline of the dollar relative to other currencies is only part of the monetary influence on oil and gas price. The values of other currencies are declining as well. Nor do energy policies inspire confidence in future real currency value. It seems that practically every country has implemented some form of supply restriction with high tax on oil and gas producers and/or some form of demand stimulus by subsidizing prices to consumers. Politically-driven investment in alternate fuels often compounds the economic inefficiency. Such policies not only create fundamental pressure to increase price, but also in many cases appear to be paid for with freshly created money with no real value behind it. Buy recommendations and close supplements that remain reasonably priced in our framework help diversify the risk that counterproductive energy policy measures will further cheapen money as a store of value.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	26-Jun 2008	Shares (mm)					
U.S. Royalty Trusts								
Permian Basin RT	PBT	25.03	46.6		1,170	23.00	-	1.09
Sabine Royalty Trust	SBR	65.24	14.6		950	60.00	-	1.09
Cross Timbers Royalty Trust	CRT	56.43	6.0		340	57.00	-	0.99
San Juan Basin Royalty Trust	SJT	B 45.75	46.6		2,130	48.00	-	0.95
Mesa RoyaltyTrust	MTR	79.97	1.9		150	93.00	-	0.86
Hugoton RoyaltyTrust	HGT	B 35.90	40.0		1,440	42.00	-	0.85
<i>Total or Median</i>					6,200			0.97
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B 50.18	479.0		24,040	57.00	0.04	0.89
Penn West Energy Trust	PWE	B 33.63	376.8		12,670	40.00	0.25	0.88
Pengrowth Energy Trust	PGH	20.05	247.0		4,950	24.00	0.25	0.88
Enerplus Resources Fund	ERF	46.46	153.0		7,110	63.00	0.14	0.77
<i>Total or Median</i>					48,800		0.19	0.88
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S 56.30	189.1		10,650	17.00	0.57	2.00
Encore Energy Partners, L.P. (32%)	ENP	27.24	10.2		280	26.00	0.18	1.04
Dorchester Minerals, L.P.	DMLP	33.07	28.2		930	33.00	-	1.00
Linn Energy, LLC	LINE	24.39	114.0		2,780	35.00	0.38	0.81
<i>Total or Median</i>					14,600		0.28	1.02
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$14 a million btu for natural gas.								

Oil and Gas Income Stocks

A Weekly Analysis

June 27, 2008



Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/		Divd or Distrib
	Symbol/		26-Jun	Prod	Ebitda	Ebitda	P/E	NTM
		Rating	2008	NTM	NTM	NTM	NTM	(%)
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		65.24	9.1	7.5	8.2	8.2	12.2
Cross Timbers Royalty Trust	CRT		56.43	13.9	8.1	8.1	8.5	11.8
San Juan Basin Royalty Trust	SJT	B	45.75	10.4	7.9	7.5	9.2	10.8
Permian Basin RT	PBT		25.03	8.4	6.7	7.2	7.6	13.1
Mesa RoyaltyTrust	MTR		79.97	21.1	8.2	7.0	8.0	12.4
Hugoton RoyaltyTrust	HGT	B	35.90	13.2	7.5	6.4	9.2	10.9
	<i>Median</i>			11.8	7.7	7.4	8.3	12.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	50.18	22.0	7.9	7.0	7.8	12.6
Pengrowth Energy Trust	PGH		20.05	8.9	5.6	4.9		13.2
Enerplus Resources Fund	ERF		46.46	9.6	5.9	4.5	7.1	10.6
Penn West Energy Trust	PWE	B	33.63	7.2	4.9	4.3	9.1	13.3
	<i>Median</i>			9.2	5.7	4.7	7.8	12.9
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.30	8.0	7.4	14.8	21.8	6.5
Dorchester Minerals, L.P.	DMLP		33.07	8.5	8.0	8.0	10.1	12.4
Linn Energy, LLC	LINE		24.39	17.4	8.8	7.2		10.3
Encore Energy Partners, L.P.	ENP		27.24	12.4	6.1	6.4		8.5
	<i>Median</i>			10.4	7.7	7.6	16.0	9.4
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
				Natural Gas/	Dist/			Dist.
	Symbol	Revenue Royalty (%)	Ebitda (%)	Dist/ Ebitda	Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Yield (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	99	0.82	0.82	231	4.96	10.8
Hugoton RoyaltyTrust	HGT	-	89	0.70	0.70	156	3.91	10.9
Cross Timbers Royalty Trust	CRT	84	72	0.95	0.95	40	6.65	11.8
Sabine Royalty Trust	SBR	100	58	1.00	1.00	116	7.96	12.2
Mesa RoyaltyTrust	MTR	-	68	0.88	0.88	19	9.96	12.4
Permian Basin RT	PBT	32	36	0.95	0.95	153	3.28	13.1
	<i>Total or Median</i>		70	0.91	0.91	700		12.0
Canadian Income Trusts (US\$)								
Enerplus Resources Fund	ERF	-	49	0.39	0.46	753	4.92	10.6
Canadian Oil Sands Trust	COSWF	-	(8)	0.84	0.87	3,019	6.30	12.6
Pengrowth Energy Trust	PGH	-	38	0.46	0.61	651	2.64	13.2
Penn West Energy Trust	PWE	-	35	0.41	0.55	1,691	4.49	13.3
	<i>Total or Median</i>		37	0.44	0.58	6,100		12.9
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.69	1.60	696	3.68	6.5
Encore Energy Partners, L.P.	ENP	-	18	0.44	0.54	23	2.30	8.5
Linn Energy, LLC	LINE	-	58	0.40	0.64	287	2.52	10.3
Dorchester Minerals, L.P.	DMLP	64	74	1.00	1.00	116	4.12	12.4
	<i>Total or Median</i>		38	0.57	0.82	1,100		9.4
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.