

## MARKET COMMENTARY

BY ALVERY A. BARTLETT JR.

October 25, 2005

---

We are constantly reviewing our stated market positions on oil and gas and have seen nothing to indicate a need to change our long established opinion: That commodities in general (oil, gas and gold in particular) had a cycle low in 1998 or 1999. We anticipate an 18 year cycle high on or around 2016. We do not assume that the world is running out of fossil fuel, just that supplies will remain marginally tight due to demand and the increased cost for recovery. If history is an accurate guide, there should be two major commodity cycle declines before reaching final highs. A new base for oil at \$44 - \$55 dollars per barrel and natural gas at \$8 per mcf would be a reasonable expectation. Crude oil, even with the sale from our strategic reserves, is trading in the range of \$62 dollars (August's high was \$70.85) and natural gas is trading in the \$14 range (October's high was \$14.75).

Our fundamental assumptions are: China and India will generally export deflation in wages, thereby forcing fiscal and monetary authorities to spend money fighting deflation; and China and India will generally export commodity inflation as their populations begin to consume with their new found wealth. We are assuming a long term decline in the dollar with occasional bear market rallies, in spite of some notoriety, will not last.

The only two drilling tax partnerships with reasonably priced inventory and substantial liability protection (that we are aware of) are XXX and YYY; therefore, they are the only two companies we are recommending to those who want to invest in oil and gas where the intangible drilling expenses provide tax write-offs against all forms of income (approximately 90 percent) to those who purchase as general partners. Both of these sponsoring firms are publicly traded companies that have been selling these types of programs for 30+ years. XXX has a corporate net worth of \$160 million (approximately \$550 million market capitalization) and YYY has a corporate net worth of \$115 million (approximately \$620 million market capitalization).

The YYY offering documents will be sent to us on November 12th. Based on what the company has told us and what we know today, this public offering will be quickly over-subscribed. If you intend on buying YYY, it is imperative that we fax a signed copy of the two page subscription document, a copy of your personal check or wire instructions the moment the offering opens on the morning of the 21st.

XXX has suspended sales of its drilling programs pending the completion of their financial statements. The company plans to resume sales as soon as the re-stated financial statements have been filed and a revised prospectus is available. XXX still anticipates they will complete the sale of their final 2005 program before the end of the year. However, given what I know, I would only assume a 50/50 chance that they will have this third and final offering for 2005 at all. Based on the information above, the emphasis may have to be on YYY with XXX used as back-up. Besides, YYY also provides good diversification for those who already own XXX.

Two or three years ago, I feared that higher gas prices, repeat business and word of mouth would place increasing demands on XXX/YYY and make it increasingly more difficult to .

assure ourselves a position in each of their partnerships. Unfortunately, we must now deal with the lack of availability of these products as best we can. Please call Shawn and/or me to discuss the situation within the next 10 days at the very latest. There will only be a short window of time to review each prospectus before the offering period begins and ends.

*This content is for informational purposes only. The interpretations and organization of these ideas are the confidential thoughts of Alvery A. Bartlett, Jr. and does not reflect the opinions of BFCFS. Please do not distribute or reprint without permission.*

*All securities are offered through Berthel Fisher & Company Financial Services, Inc. Member FINRA. Office of supervisory Jurisdiction: 701 Tama Street, Bldg., B., PO Box 609, Marion, LA 52302-0609 /phone 319-447-5700. The opinions expressed do not constitute an offer to buy or sell any securities nor do they represent the opinion of Berthel Fisher. The information herein was obtained from various sources; we do not guarantee its accuracy. Additional information is available and may be necessary for clarity. Past performance is not a guarantee of future results.*