



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 6, 2010

Raise EOG Resources NPV to \$120 from \$92 a Share

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$m)</i>	3,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	42
<i>Price (\$/sh)</i>	98.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/2/10	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	250	<i>EV/Ebitda</i>	8.9
<i>Market Capitalization (\$mm)</i>	24,600	<i>PV/Ebitda</i>	10.6
<i>Debt (\$mm)</i>	3,500	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (\$mm)</i>	28,100	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.70
<i>Present Value (PV) (\$mm)</i>	33,500	<i>Present Value Proven Reserves(\$/boe)</i>	18.70
<i>Net Present Value (\$/share)</i>	120	<i>Present Value Proven Reserves(\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.74
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	36
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.62
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on EOG since 2006 see http://www.mcdep.com/3eog.htm			

Summary and Recommendation

Believing that a powerful stock market trend may be developing for independent natural gas and oil production companies in 2011-2012, we raise estimated Net Present Value (NPV) for buy-recommended **EOG Resources (EOG)** to \$120 a share from \$92. An impressive resource position in an oil prone zone of the Eagle Ford Shale of Texas helps justify a \$7 billion increase in NPV split \$5 billion in oil and \$2 billion in natural gas. An active trend in large companies acquiring or joint-venturing with smaller producers alerts us to hidden value in unproven acreage. We saw similar signs exactly 32 years ago when we completed an analysis that placed acquisition values at 100% of future revenue, not discounted cash flow, from proven reserves. That surprising finding caught the early stages of a renewed cycle of resource appreciation. Those signs occurred in a backdrop of relatively gloomy economic and political expectations, similar to today.

It Feels like the Carter Years are Back

In the spring of 1978, the second year of the U.S. Presidential Cycle, we were upset enough apparently to write, "...the U.S. oil outlook has deteriorated as the Carter Administration persists in holding U.S. crude oil wellhead price 7% below already low lawful levels. We remain hopeful that this incredulous posture is only a political ploy to be corrected in a few months." Instead price controls persisted and a punitive "windfall" tax was added. Today, emboldened by an unfortunate oil blowout catastrophe, the Obama Administration is magnifying the damage to the economy and to the people of Louisiana and Texas by curtailing offshore activity. At the same time the threat of punitive taxation persists for oil investors.



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As a result of negative government policy the restrictions in supply are in place. Less supply automatically means a higher price than would otherwise be the case.

Reduced domestic supply made the world more vulnerable when the Iranian Hostage Taking caused a curtailment of international supply in the final two years of President Carter. Ironically, the Iranian threat is here again. Extremist views expressed by President Ahmadinejad increasingly seem to be isolating the country. If Iran has no friends to protest, military intervention to destroy the country's program to develop a nuclear weapon may be more likely.

Hedge the Negative, Invest in the Positive with EOG

While independent producers are a hedge against a Jimmy Carter type outcome, we hope for a more prosperous and peaceful global economy. In that case, we need oil for economic prosperity and natural gas for a cleaner environment. EOG has an impressive record applying horizontal multi-frac technology to develop new supplies of both. Our new NPV shifts the balance more toward oil at 42%, up from 34% (see table below, Functional Cash Flow and Present Value). New oil in South Texas may add a third to current oil-equivalent production and reserves (see slides on page 3). Oil cash flow is growing in the quarters immediately ahead (see table on page 4, Next Twelve Months Operating and Financial Estimates).

Compared to large cap U.S. Independent Producers, EOG's McDep Ratio is near the median and debt is low. Cash flow multiple (EV/Ebitda) is higher at 8.5, but justified, we believe, on prospects (see Tables 1-3 on pages 5-7). The near-term trend appears down for oil price where the latest settlement of six-year futures at \$79 a barrel compares to the 40-week average of \$86 (see charts on page 8, Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). That suggests time to accumulate shares before an upward trend resumes.

Kurt H. Wulff, CFA

EOG Resources Inc.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,310	12.5	13.7	18,000	54%
Rest of World Natural Gas	220	6.0	6.8	1,500	4%
Oil	1,570	6.2	8.9	14,000	42%
	3,100	9.7	10.8	33,500	100%
Debt (US\$mm)					3,500
Net Present Value (US\$mm)					30,000
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					94



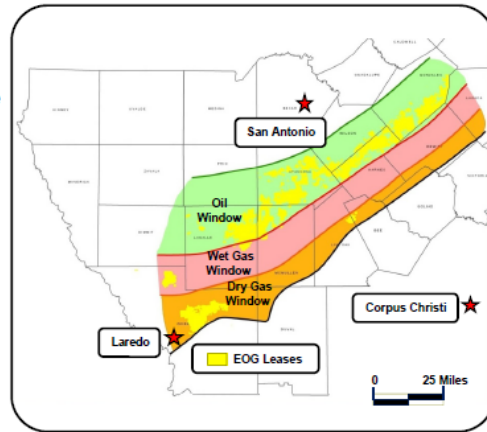
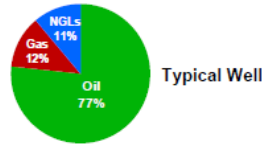
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EOG Resources South Texas Eagle Ford Oil

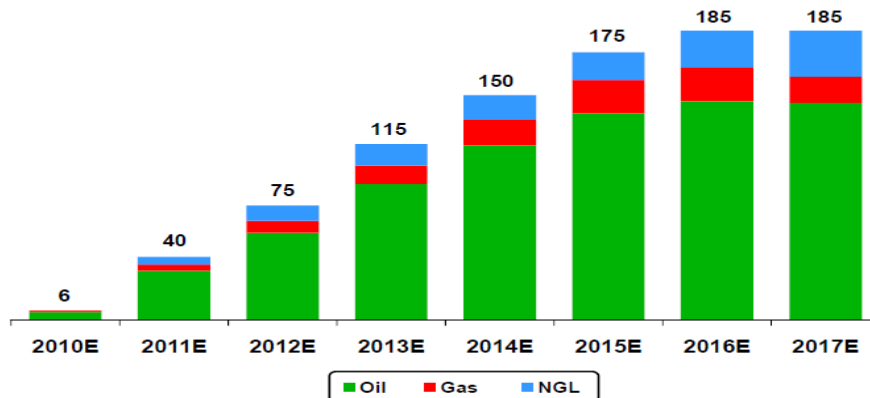
- Captured Reserves* 900 MMboe, NAR
 - Oil 690 MMbo
 - NGLs 100 MMBbl
 - Gas 661 Bcf
- Drilled ≈ 20 Hz Wells from SE to NW Extent of Acreage
- Strong Production Growth Through 2017+
 - Major Volume Impact Will Commence in 2011
 - Some Infrastructure Expansion Required
- Direct ATROR** 66% - 95%
- EOG Has Majority of Core Area

Window	Net Acres
Mature Oil	505,000
Wet Gas	26,000
Dry Gas	49,000
Total	580,000



* Potential, not proved reserves. Includes 6.4 MMboe booked at December 31, 2009.
 ** The calculation of our direct after-tax rate of return (ATROR) with respect to our capital expenditure program for a particular play is based on the estimated reserves ("net" to EOG's interest) for all wells in such play, the estimated present value of the future net cash flows from such reserves (for which we utilize certain assumptions regarding future commodity prices and operating costs) and our direct net costs incurred in drilling or acquiring (as the case may be) such wells. As such, our direct ATROR with respect to our capital expenditures for a particular play cannot be calculated from our consolidated financial statements. Based on the March 10, 2010 five-year strip of \$5.91 NYMEX Henry Hub and \$86.90 WTI, then \$5.50 and \$90.00 held flat thereafter.

EOG Resources South Texas Eagle Ford Production, NAR (Mboed)





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EOG Resources Inc.									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/11</i>
	<i>6/30/09</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>6/30/11</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,139	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043
Canada	225	211	211	211	211	211	211	211	211
Overseas	281	367	367	367	367	367	367	367	367
Total	1,645	1,621	1,653	1,686	1,720	1,671	1,621	1,653	1,671
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	72	88	97	107	118	103	118	118	115
Total gas & oil (bcf)	189	194	204	214	223	835	209	215	862
Total gas & oil (mmcf)	2,077	2,151	2,237	2,328	2,426	2,287	2,327	2,359	2,360
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	3.50	5.32	4.09	4.78	5.13	4.83	5.35	5.12	5.09
U.S.	3.37	5.24	3.76	4.39	4.72	4.53	4.92	4.71	4.68
Canada	3.40	5.22	3.75	4.38	4.72	4.51	4.92	4.71	4.68
Overseas	1.59	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
Total	3.07	4.64	3.43	3.83	3.99	3.97	4.40	4.15	4.09
Oil (\$/bbl)									
WTI Cushing	59.52	78.67	77.70	71.90	73.30	75.40	74.65	75.73	73.90
Worldwide	43.85	65.56	64.75	59.92	61.09	62.60	62.21	63.11	61.61
Total gas & oil (\$/mcf)	3.95	6.19	5.35	5.53	5.79	5.71	6.21	6.05	5.89
Revenue (\$mm)									
Natural Gas									
U.S.	349	492	357	422	453	1,723	462	447	1,783
Canada	70	99	72	85	92	348	93	90	360
Overseas	41	86	87	88	88	348	86	87	348
Total	460	677	516	594	632	2,419	641	624	2,492
Oil	287	522	573	590	661	2,346	659	676	2,585
Total	747	1,199	1,089	1,184	1,293	4,765	1,300	1,300	5,077
Expense (\$mm)	293	416	414	450	491	1,771	494	494	1,929
Ebitda (\$mm)	454	783	675	734	802	2,994	806	806	3,148
Exploration	115	144	144	144	144	576	140	140	568
Deprec., Deplet., & Amort.	376	432	432	432	432	1,728	432	432	1,728
Hedging and other	(340)	2	(100)	(61)	(42)	(201)	(100)	(100)	(303)
Ebit	304	205	199	219	268	891	334	334	1,155
Interest	25	25	25	25	25	100	25	25	100
Ebt	279	180	174	194	243	791	309	309	1,055
Income Tax	97	63	61	68	85	277	108	108	369
Net Income (\$mm)	181	117	113	126	158	514	201	201	685
Shares (millions)	248	254	254	250	250	252	250	250	250
Per Share (\$)	0.73	0.46	0.45	0.50	0.63	2.04	0.80	0.80	2.74
Ebitda Margin	61%	65%	62%	62%	62%	63%	62%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		2-Jul 2010	(mm)				
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	56.57	5,215	295,000	89.00	0.12	0.68
Marathon Oil Corporation	MRO	CB	30.83	711	21,920	53.00	0.23	0.68
Chevron Corporation	CVX	CB	67.31	2,004	135,000	110.00	0.11	0.66
ConocoPhillips	COP	CB	48.82	1,504	73,000	95.00	0.27	0.64
	<i>Total or Median</i>				525,000		0.18	0.67
Europe								
BG Group plc	BRGXF		15.50	3,400	52,700	22.00	0.11	0.74
Royal Dutch Shell plc	RDS-A	CB	50.01	3,066	153,000	79.00	0.21	0.71
Statoil ASA (33%)	STO	CB	19.32	1,050	20,300	35.00	0.21	0.65
Total S.A.	TOT	CB	45.50	2,243	102,000	90.00	0.14	0.57
BP plc	BP		29.35	3,167	93,000	75.00	0.20	0.51
	<i>Total or Median</i>				421,000		0.20	0.65
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		166.50	152	25,400	145.00	0.03	1.14
Woodside Petroleum Ltd.	WOPEY	CB	34.45	795	27,400	44.00	0.13	0.81
PetroChina Company Ltd (14%)	PTR	CB	109.53	256	28,100	150.00	0.15	0.77
Petrobras	PBR		34.12	4,387	149,700	58.00	0.20	0.67
Lukoil Oil Company	LUKOY	CB	50.45	847	42,700	135.00	0.05	0.40
Gazprom (50%)	OGZPY	CB	19.05	2,915	55,500	64.00	0.10	0.37
	<i>Total or Median</i>				329,000		0.11	0.72
U.S. Independent								
Southwestern Energy Company	SWN		37.75	349	13,200	35.00	0.09	1.07
Anadarko Petroleum Corp.	APC		38.07	496	18,900	44.00	0.40	0.92
EOG Resources	EOG	B	98.34	250	24,600	120.00	0.10	0.84
Occidental Petroleum Corp.	OXY	CB	76.37	814	62,100	95.00	0.06	0.82
Chesapeake Energy Corp.	CHK		20.51	647	13,300	31.00	0.40	0.80
Devon Energy Corporation	DVN	CB	60.71	448	27,200	98.00	0.03	0.63
	<i>Total or Median</i>				159,300		0.10	0.83
Canada								
EnCana Corporation	ECA	CB	30.56	749	22,900	42.00	0.22	0.79
Imperial Oil Limited (30%)	IMO	CB	36.60	256	9,400	48.00	0.08	0.78
Canadian Natural Resources	CNQ	CB	32.80	1,086	35,600	45.00	0.18	0.78
Cenovus Energy Inc.	CVE	CB	25.80	752	19,400	37.00	0.19	0.76
Canadian Oil Sands Trust	COSWF	CB	24.98	484	12,100	38.00	0.07	0.68
Suncor Energy	SU	CB	29.21	1,572	45,900	48.00	0.19	0.68
	<i>Total or Median</i>				145,000		0.18	0.77
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\$75 a barrel and natural gas, \$8 a million btu.								



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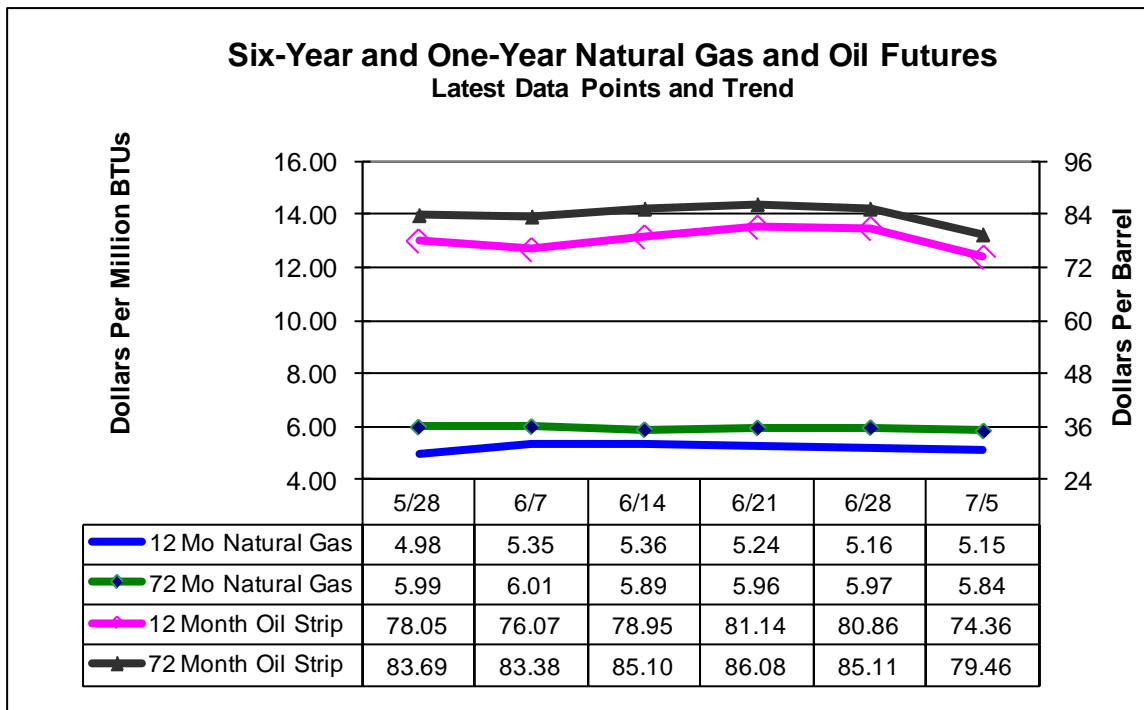
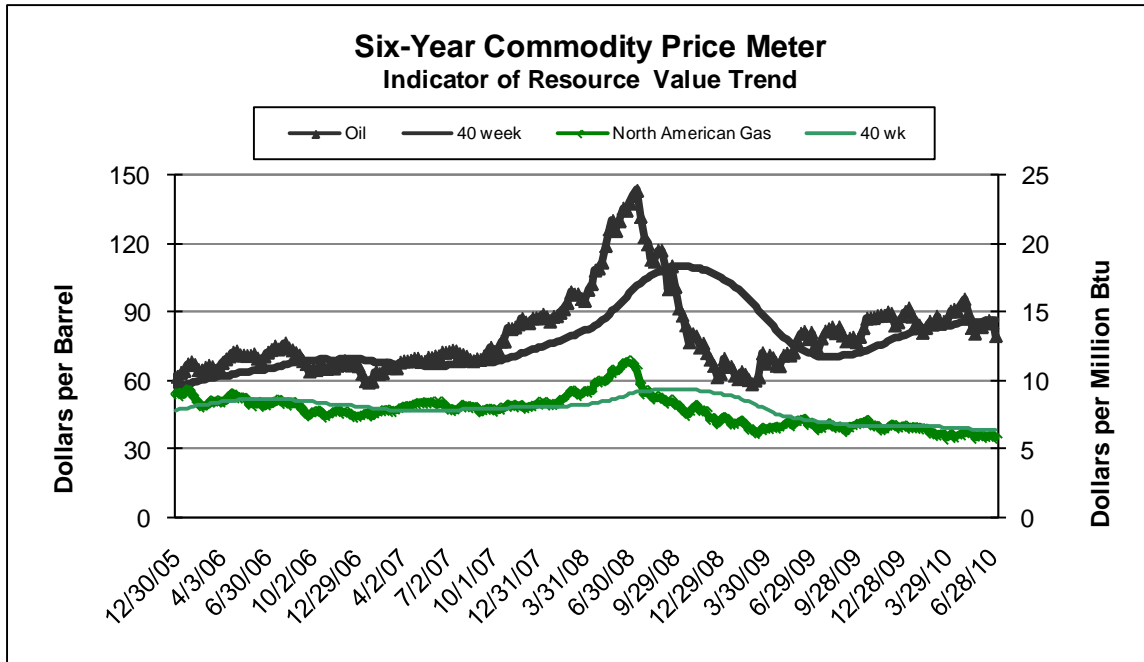
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Table 3								
McDep Large Cap Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		2-Jul 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	56.57	13.5	9.0	6.1	11	3.0
Marathon Oil Corporation	MRO	CB	30.83	9.1	7.9	5.4	12	2.4
ConocoPhillips	COP	CB	48.82	10.5	7.8	5.0	9	3.4
Chevron Corporation	CVX	CB	67.31	9.1	7.0	4.6	9	4.0
<i>Total or Median</i>				9.8	7.8	5.2	10	3.2
Europe								
BG Group plc	BRGXF		15.50	13.4	9.0	6.6	12	0.8
Royal Dutch Shell plc	RDS-A	CB	50.01	8.7	6.8	4.8	8	6.7
Total S.A.	TOT	CB	45.50	9.6	7.7	4.4	8	6.3
Statoil ASA (33%)	STO	CB	19.32	6.4	6.2	4.0	8	4.8
BP plc	BP		29.35	9.7	6.5	3.3	5	11.4
<i>Total or Median</i>				9.6	6.8	4.4	8	6.3
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	34.45	17.8	13.8	11.2	19	2.7
PetroChina Company Ltd (14%)	PTR	CB	109.53	13.8	8.5	6.6	15	3.7
Petrobras	PBR		34.12	9.1	9.5	6.4	10	3.9
CNOOC Limited (34%)	CEO		166.50	6.8	5.5	6.2	12	3.1
Gazprom (50%)	OGZPY	CB	19.05	30.2	9.9	3.6	5	0.2
Lukoil Oil Company	LUKOY	CB	50.45	15.7	8.4	3.4	6	3.3
<i>Total or Median</i>				14.7	9.0	6.3	11	3.2
U.S. Independent								
Southwestern Energy Company	SWN		37.75	6.5	8.6	9.2	18	-
EOG Resources	EOG	B	98.34	9.7	10.6	8.9	36	0.6
Chesapeake Energy Corp.	CHK		20.51	12.0	10.8	8.6	12	1.5
Occidental Petroleum Corp.	OXY	CB	76.37	10.5	8.0	6.5	15	1.4
Devon Energy Corporation	DVN	CB	60.71	10.0	8.2	5.2	12	1.1
Anadarko Petroleum Corp.	APC		38.07	8.4	5.5	5.1		0.9
<i>Total or Median</i>				9.8	8.4	7.6	15	1.0
Canada								
Imperial Oil Limited (30%)	IMO	CB	36.60	20.2	12.2	9.5	18	1.0
Canadian Natural Resources	CNQ	CB	32.80	20.2	12.2	9.4	35	0.9
Canadian Oil Sands Trust	COSWF	CB	24.98	31.0	13.8	9.4	16	7.5
EnCana Corporation	ECA	CB	30.56	17.0	10.6	8.3	24	2.6
Suncor Energy	SU	CB	29.21	25.3	12.0	8.2	20	1.3
Cenovus Energy Inc.	CVE	CB	25.80	19.5	10.7	8.1	17	2.9
<i>Total or Median</i>				20.2	12.1	8.8	19	2.0
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 June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
1-Jul	RRC	Range Resources	First in Marcellus (Income and Small Cap Weekly)
29-Jun	WOPEY, PTR, LUKOY, OGZPY, PBR, CNOOC		Value in Developing Country Growth (Meter Reader)
25-Jun	DNR	Denbury Resources	Small Cap Oil Growth (Income and Small Cap Weekly)
22-Jun	CVE	Cenovus Energy	Quintuple in Deep Oil Sands (Meter Reader)
18-Jun	BIREF, FRHLF, PWE, COSWF		Montney Buzz from Calgary (Income and Small Cap Weekly)
15-Jun	* XOM, COP, OXY, CVE, BP, APC		Onshore On, Offshore Off (Meter Reader)
11-Jun	* HGT, SJT, MTR, LGCY, LINE, ENP		Bright Outlook for Pure Play Oil and Gas (ISCW)
8-Jun	* OXY, DVN, EOG, SWN, CHK, APC		U.S. Independent Producers Unlocking Resources (MReader)
4-Jun	* DMLP, FRHLF, CRT, PBT, SBR		Top Line Cash - Pure Plays in Reawakening Oil and Gas (ISC)
3-Jun	* LUKOY	Lukoil Oil Company	Underrated Oil Performer
1-Jun	* ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada (Meter Reader)
28-May	* XEC, BIREF, WLL, BRY, RRC, HK, UPL		Shell Shale Gas Deal Boosts Independent Producers (ISCW)
25-May	* XOM, BP, TOT		Large Caps Go Contrarian (Meter Reader)
21-May	* COSWF, PWE, ERF, PGH, PEYUF		Canadian Income Trusts for Value and Distributions (ISCW)
20-May	* CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
18-May	* RDSA, STO, TOT		European Oil for Contrarians (Meter Reader)
13-May	* BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
11-May	* XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend (Meter Reader)
10-May	* XEC	Cimarex Energy Company	Raise NPV Again on More Production
5-May	* DVN	Devon Energy Corporation	Stock Repurchase Compelling
4-May	* BP	BP p.l.c.	Oil Spill and BP Stock Spill (Meter Reader)
30-Apr	* WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
Meter Reader			
29-Jun	WOPEY, PTR, LUKOY, OGZPY, PBR, CNOOC		Value in Developing Country Growth
22-Jun	CVE	Cenovus Energy	Quintuple in Deep Oil Sands
15-Jun	* XOM, COP, OXY, CVE, BP, APC		Onshore On, Offshore Off
8-Jun	* OXY, DVN, EOG, SWN, CHK, APC		U.S. Independent Producers Unlocking Resources
1-Jun	* ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada
25-May	* XOM, BP, TOT		Large Caps Go Contrarian
Income and Small Cap Weekly			
1-Jul	RRC	Range Resources	First in Marcellus
25-Jun	DNR	Denbury Resources	Small Cap Oil Growth
18-Jun	BIREF, FRHLF, PWE, COSWF		Montney Buzz from Calgary
11-Jun	* HGT, SJT, MTR, LGCY, LINE, ENP		Bright Outlook for Pure Play Oil and Gas
4-Jun	* DMLP, FRHLF, CRT, PBT, SBR		Top Line Cash Payers - Pure Plays in Reawakening Oil and Gas
28-May	* XEC, BIREF, WLL, BRY, RRC, HK and UPL		Shell Shale Gas Deal Boosts Independent Producers
21-May	* COSWF, PWE, ERF, PGH and PEYUF		Canadian Income Trusts for Value and Distributions
Industry Ideas			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
	* Archived on www.mcdep.com		



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