



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 21, 2010

Canadian Income Trusts for Value and Distributions

Summary and Recommendation

Among five stocks in our Canadian Income Trust group, we rate **Canadian Oil Sands Trust (COSWF)** Contrarian Buy. “Contrarian” acknowledges that current stock price is in a downtrend defined by price below the 200-day average. “Buy” signifies the appeal in production of high quality synthetic crude oil, long life resources, lowest McDep Ratio of 0.67 and cash distributions currently at the rate of 7.6% a year (see Tables 1-3). The remaining four stocks are also attractively priced at McDep Ratios of 0.73-0.87 and distribution yields of 9.2-11.0%. Believing that Canadian proven reserves can be conservative, we include reported probable reserves in our determination of adjusted reserve life used in estimating Net Present Value (NPV) for those stocks. In addition, **Penn West Energy Trust (PWE)** justified our raising NPV to US\$23 a unit from \$19 as a result of the May 13th announcement that China Investment Corporation would invest C\$817 million in a partnership to develop PWE’s Peace River oil sands resources. The good news may be helping PWE units to trace an uptrend with current price above the 200-day average. Natural gas producer **Peyto Energy Trust (PEYUF)** also trades in a unit price uptrend. Measured by futures prices for the next six years, natural gas may turn up before winter, but oil has turned down amid the week’s market turmoil.

Upsides in Resource Value

A longer life usually means a higher value. We see reserves to production ratios (Adjusted R/P) ranging from about 7 to 31 for the five trusts (see tables on pages 2-4, Functional Cash Flow and Present Value). At the same time unlevered cash flow multiples (PV/Ebitda) range from 7 to 13. Natural gas multiples are higher than oil multiples because we expect future natural gas price to be higher relative to oil price than it is today. PV/Ebitda increases steadily with reserve life up to about 15. Present value increases further at a declining rate for reserve life beyond 15 as we can see for the long life natural gas reserves in Peyto and oil reserves in COSWF.

Value is created in longer life resources when there is a credible intention to develop those properties. COSWF’s resources will be developed by the Syncrude oil sands mine and upgrader that is already in place. PWE’s Peace River resource became more valuable in its stock when an investor committed the funds for development.

(Continued on next page)



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Volume Up for Long Life Trusts

Natural gas volume has turned up at Peyto (see chart on page 4, [Oil and Gas Volume](#)). The trust is spending aggressively on horizontal multistage fracturing in Canada's Deep Basin. Volume is also increasing at COSWF after reduction for maintenance operations in the first quarter 2010.

Gentle volume decline is normal for shorter life production. Yet ERF, PGH and PWE are each pursuing a version of new technology to tap unconventional resources. Surprises are possible. Otherwise volume trends tend to moderate at higher commodity price and accelerate at lower commodity price.

Distributions Trending to Sustainable Level with Corporate Taxation

Strongly encouraged by the change in Canadian tax laws, each of the five trusts expects to convert to corporate form around year end. The main implication is that distribution capacity may be reduced by perhaps 10-20% for new taxes. The irony is that few corporations pay cash taxes. Each of the trusts is accumulating 'tax pools' that allow deferral of cash taxes, sometimes indefinitely. Distributions have already been reduced toward a sustainable corporate level (see chart on page 8, [Quarterly Distributions](#)). None of the current payments exceed our measure of Equity Ebitda except for Peyto (see Table 3). Peyto has the extra covered with hedges for now. PWE management may likely want to allocate more cash flow to drilling programs and may make lower distributions next year. In all cases distributions depend on oil and gas price among other factors.

Kurt H. Wulff, CFA

| Canadian Oil Sands Trust | | | | | |
|----------------------------------------|-------------------|-----------------|---------------|-----------------|--------|
| 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> | |
| Oil | 1,520 | 31.4 | 13.0 | 19,690 | 100% |
| Debt (US\$mm) | | | | | 1,300 |
| Net Present Value (US\$mm) | | | | | 18,390 |
| Shares (mm) | | | | | 484 |
| Net Present Value (US\$/sh) | | | | | 38 |



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| Penn West Energy Trust | | | | | |
|-----------------------------------------------------------------------------------------------|-------------------|-----------------|---------------|-----------------|-------|
| 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 | 340 | 7.5 | 8.8 | 3,000 | 23% |
| Oil | 1,090 | 11.6 | 9.3 | 10,100 | 77% |
| | 1,430 | 9.9 | 9.2 | 13,100 | 100% |
| Debt (US\$mm) | | | | | 3,200 |
| Net Present Value (US\$mm) | | | | | 9,900 |
| Shares (mm) | | | | | 428 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 23 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 24 |
| Oil PV includes \$1.5 billion for Peace River Joint Venture with China Investment Corporation | | | | | |

| Enerplus Resources Fund | | | | | |
|-----------------------------------------------------------------------------|-------------------|-----------------|---------------|-----------------|-------|
| 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 | 260 | 8.2 | 10.0 | 2,600 | 42% |
| Oil | 430 | 11.8 | 8.3 | 3,570 | 58% |
| | 690 | 9.7 | 8.9 | 6,170 | 100% |
| Debt (US\$mm) | | | | | 870 |
| Net Present Value (US\$mm) | | | | | 5,300 |
| Shares (mm) | | | | | 178 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 30 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 29 |

| Pengrowth Energy Trust | | | | | |
|-------------------------------------------------------------------------------------------|-------------------|-----------------|---------------|-----------------|-------|
| 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 | 160 | 8.7 | 10.9 | 1,750 | 39% |
| Oil | 400 | 10.8 | 6.8 | 2,720 | 61% |
| | 560 | 9.7 | 8.0 | 4,470 | 100% |
| Debt (US\$mm) | | | | | 1,270 |
| Net Present Value (US\$mm) | | | | | 3,200 |
| Shares (mm) | | | | | 290 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 11 |
| Net Present Value - Approximation by Cash Flow Multiple Depending on Reserve Life (\$/un) | | | | | 12 |

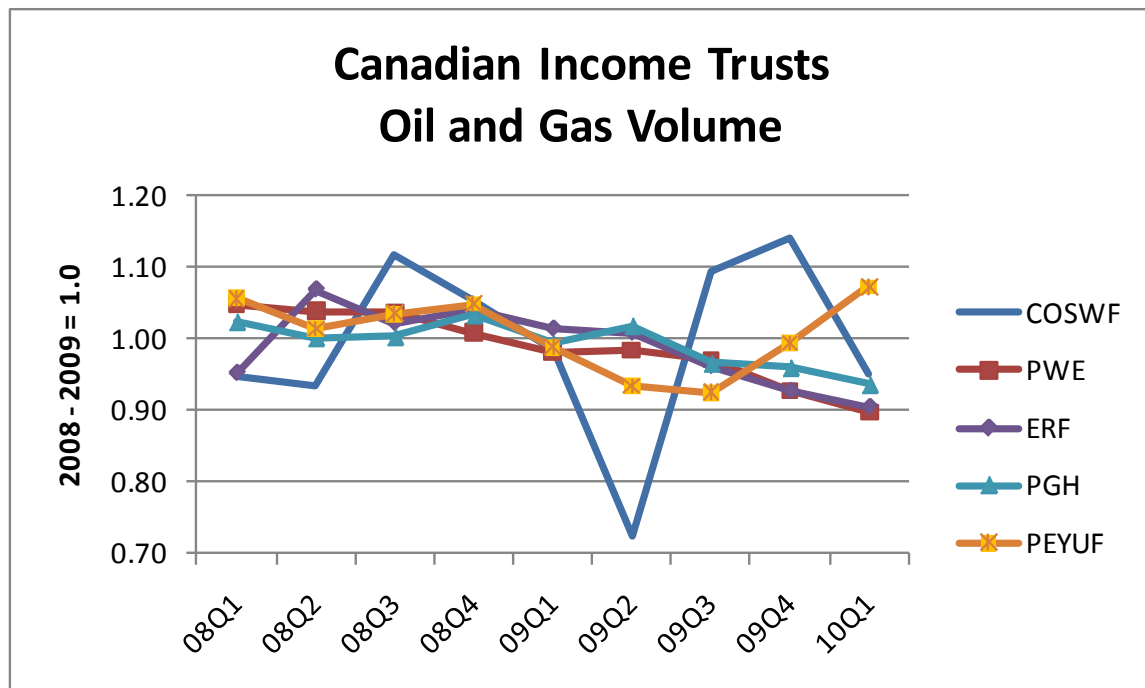


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| Peyto Energy Trust | | | | | |
|-------------------------------------------------|-------------------|-----------------|---------------|-----------------|-------|
| Functional Cash Flow and Present Value | | | | | |
| | <i>NTM Ebitda</i> | <i>Adjusted</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 | 130 | 23.3 | 13.1 | 1,700 | 77% |
| Oil | 56 | 22.4 | 9.3 | 520 | 23% |
| | 186 | 23.1 | 11.9 | 2,220 | 100% |
| Debt (US\$mm) | | | | | 410 |
| Net Present Value (US\$mm) | | | | | 1,810 |
| Shares (mm) | | | | | 121 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 15 |





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Table 1

McDep Income and Small Cap Energy Portfolio Debt, Business Segments and Income Yield

| | Symbol/Rating | Price (US\$/sh) | EV/ Market | Enterprise Value (\$mm) | Present Value by Segment (%) | | Dist. NTM (\$/un) | Dist. Yield (%) | McDep Ratio |
|----------------------------------------|---------------------------|--------------------|---------------|-------------------------------|---------------------------------|---------------|-------------------------|-----------------------|----------------|
| | | | | | N.Amer. Natural Gas | Oil Prod'n | | | |
| | B = Buy CB (see below) | 20-May 2010 | Cap | | | | | | |
| Canadian Income Trusts (US\$) | | | | | | | | | |
| Pengrowth Energy Trust | PGH | 8.97 | 1.49 | 3,900 | 39 | 61 | 0.79 | 8.8 | 0.87 |
| Peyto Energy Trust | PEYUF | 12.25 | 1.28 | 1,890 | 77 | 23 | 1.35 | 11.0 | 0.85 |
| Penn West Energy Trust | PWE | 18.30 | 1.41 | 11,100 | 23 | 77 | 1.69 | 9.2 | 0.85 |
| Enerplus Resources Fund | ERF | 20.74 | 1.23 | 4,600 | 42 | 58 | 2.02 | 9.8 | 0.73 |
| Canadian Oil Sands Trust | COSWF CB | 24.75 | 1.11 | 13,300 | | 100 | 1.87 | 7.6 | 0.67 |
| <i>Total or Median</i> | | | | 34,800 | | | | | 0.85 |
| Small Cap Independent Producers | | | | | | | | | |
| Range Resources | RRC | 42.95 | 1.24 | 9,510 | 71 | 29 | 0.12 | 0.3 | 1.28 |
| Petro-Hawk | HK | 17.83 | 1.54 | 9,280 | 97 | 3 | - | - | 1.15 |
| Ultra Petroleum | UPL | 42.74 | 1.16 | 8,390 | 90 | 10 | - | - | 0.95 |
| Whiting Petroleum Corporation | WLL | 73.81 | 1.23 | 6,050 | 13 | 87 | - | - | 0.90 |
| Berry Petroleum Company | BRY | 28.49 | 1.74 | 2,520 | 30 | 70 | 0.30 | 1.1 | 0.88 |
| Cimarex Energy Company | XEC B | 62.95 | 1.12 | 6,000 | 66 | 34 | 0.32 | 0.5 | 0.85 |
| Birchcliff Energy Ltd. (US\$) | BIREF B | 8.22 | 1.24 | 1,290 | 66 | 34 | - | - | 0.64 |
| <i>Total or Median</i> | | | | 41,800 | | | | | 0.92 |
| Top Line Cash Payers | | | | | | | | | |
| Sabine Royalty Trust | SBR | 45.09 | 1.00 | 660 | 39 | 61 | 3.44 | 7.6 | 1.00 |
| Cross Timbers Royalty Trust | CRT | 33.00 | 1.00 | 200 | 78 | 22 | 2.59 | 7.9 | 0.97 |
| Dorchester Minerals, L.P. | DMLP B | 25.00 | 1.02 | 760 | 67 | 33 | 1.77 | 7.1 | 0.93 |
| Permian Basin RT | PBT | 16.16 | 1.00 | 750 | 27 | 73 | 1.21 | 7.5 | 0.90 |
| Freehold Royalty Trust (US\$) | FRHLF | 14.91 | 1.09 | 950 | 29 | 71 | 1.63 | 10.9 | 0.89 |
| <i>Total or Median</i> | | | | 3,300 | | | | | 0.93 |
| Bottom Line Cash Payers | | | | | | | | | |
| Linn Energy, LLC | LINE | 22.71 | 1.52 | 4,980 | 45 | 55 | 2.52 | 11.1 | 1.05 |
| Legacy Reserves L.P. | LGCY | 19.22 | 1.46 | 1,100 | 16 | 84 | 2.08 | 10.8 | 0.97 |
| San Juan Basin Royalty Trust | SJT B | 22.06 | 1.00 | 1,030 | 100 | - | 1.51 | 6.8 | 0.96 |
| Encore Energy Partners, L.P. (52%) | ENP | 15.88 | 1.37 | 510 | 23 | 77 | 2.11 | 13.3 | 0.95 |
| Mesa Royalty Trust | MTR | 42.00 | 1.00 | 78 | 75 | 25 | 3.31 | 7.9 | 0.87 |
| Hugoton Royalty Trust | HGT B | 17.72 | 1.00 | 710 | 90 | 10 | 1.59 | 9.0 | 0.84 |
| <i>Total or Median</i> | | | | 8,400 | | | | | 0.96 |
| Composite (excl COSWF) | | | | | | | | | |
| <i>Enterprise Value Weighting</i> | | | | 76,300 | 56 | 44 | | | 0.94 |
| <i>Equal Weighting</i> | | | | | 55 | 45 | | | 0.92 |
| <i>Equal Weighted Buys</i> | | | | | 66 | 34 | | | 0.84 |

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

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



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| | | | <i>Price</i> | | | <i>Net</i> | | |
|---------------------------------------------------------------------------------------------------------|----------------|----|----------------|---------------|---------------|----------------|----------------|--------------|
| | | | <i>(\$/sh)</i> | | <i>Market</i> | <i>Present</i> | <i>Debt/</i> | |
| | <i>Symbol/</i> | | <i>20-May</i> | <i>Shares</i> | <i>Cap</i> | <i>Value</i> | <i>Present</i> | <i>McDep</i> |
| | <i>Rating</i> | | <i>2010</i> | <i>(mm)</i> | <i>(\$mm)</i> | <i>(\$/un)</i> | <i>Value</i> | <i>Ratio</i> |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Pengrowth Energy Trust | PGH | | 8.97 | 290.0 | 2,600 | 11.00 | 0.28 | 0.87 |
| Peyto Energy Trust | PEYUF | | 12.25 | 120.5 | 1,480 | 15.00 | 0.19 | 0.85 |
| Penn West Energy Trust | PWE | | 18.30 | 428.3 | 7,840 | 23.00 | 0.25 | 0.85 |
| Enerplus Resources Fund | ERF | | 20.74 | 178.0 | 3,690 | 30.00 | 0.14 | 0.73 |
| Canadian Oil Sands Trust | COSWF | CB | 24.75 | 484.0 | 11,980 | 38.00 | 0.07 | 0.67 |
| <i>Total or Median</i> | | | | | 27,600 | | 0.19 | 0.85 |
| Small Cap Independent Producers | | | | | | | | |
| Range Resources | RRC | | 42.95 | 160.0 | 7,680 | 35.00 | 0.25 | 1.28 |
| Petro-Hawk | HK | | 17.83 | 303.0 | 6,040 | 16.00 | 0.40 | 1.15 |
| Ultra Petroleum | UPL | | 42.74 | 154.0 | 7,230 | 50.00 | 0.13 | 0.95 |
| Whiting Petroleum Corporation | WLL | | 73.81 | 59.2 | 4,920 | 95.00 | 0.17 | 0.90 |
| Berry Petroleum Company | BRY | | 28.49 | 51.0 | 1,450 | 35.00 | 0.37 | 0.88 |
| Cimarex Energy Company | XEC | B | 62.95 | 85.4 | 5,380 | 75.00 | 0.09 | 0.85 |
| Birchcliff Energy Ltd. (US\$) | BIREF | B | 8.22 | 127.0 | 1,040 | 14.00 | 0.12 | 0.64 |
| <i>Total or Median</i> | | | | | 33,740 | | 0.17 | 0.90 |
| Top Line Cash Payers | | | | | | | | |
| Sabine Royalty Trust | SBR | | 45.09 | 14.6 | 660 | 45.00 | - | 1.00 |
| Cross Timbers Royalty Trust | CRT | | 33.00 | 6.0 | 200 | 34.00 | - | 0.97 |
| Dorchester Minerals, L.P. | DMLP | B | 25.00 | 29.8 | 750 | 27.00 | 0.02 | 0.93 |
| Permian Basin RT | PBT | | 16.16 | 46.6 | 750 | 18.00 | - | 0.90 |
| Freehold Royalty Trust (US\$) | FRHLF | | 14.91 | 58.4 | 870 | 17.00 | 0.07 | 0.89 |
| <i>Total or Median</i> | | | | | 3,230 | | | 0.93 |
| Bottom Line Cash Payers | | | | | | | | |
| Linn Energy, LLC | LINE | | 22.71 | 144.0 | 3,270 | 21.00 | 0.36 | 1.05 |
| Legacy Reserves L.P. | LGCY | | 19.22 | 39.2 | 750 | 20.00 | 0.31 | 0.97 |
| San Juan Basin Royalty Trust | SJT | B | 22.06 | 46.6 | 1,030 | 23.00 | - | 0.96 |
| Encore Energy Partners, L.P. (52%) | ENP | | 15.88 | 23.4 | 370 | 17.00 | 0.26 | 0.95 |
| Mesa Royalty Trust | MTR | | 42.00 | 1.9 | 78 | 48.00 | - | 0.87 |
| Hugoton Royalty Trust | HGT | B | 17.72 | 40.0 | 710 | 21.00 | - | 0.84 |
| <i>Total or Median</i> | | | | | 6,210 | | | 0.96 |
| B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average. | | | | | | | | |
| McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses | | | | | | | | |
| Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas. | | | | | | | | |



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| Table 3 | | | | | | | | |
|---------------------------------------------|----------------|----|----------------|----------------|---------------|----------------|---------------|------|
| McDep Income and Small Cap Energy Portfolio | | | | | | | | |
| Value Multiples - Rank by EV/Ebitda | | | | | | | | |
| | | | | | | | | |
| | | | <i>Price</i> | | | <i>Adjstd</i> | | |
| | | | <i>(\$/sh)</i> | <i>Revenue</i> | <i>Dist/</i> | <i>Resrvs/</i> | <i>PV/</i> | |
| | <i>Symbol/</i> | | <i>20-May</i> | <i>Royalty</i> | <i>Equity</i> | <i>Prod</i> | <i>Ebitda</i> | |
| | <i>Rating</i> | | <i>2010</i> | <i>(%)</i> | <i>Ebitda</i> | <i>NTM</i> | <i>NTM</i> | |
| | | | | | | | <i>NTM</i> | |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Peyto Energy Trust | PEYUF | | 12.25 | | 1.07 | 23.1 | 11.9 | 10.2 |
| Canadian Oil Sands Trust | COSWF | CB | 24.75 | | 0.64 | 31.4 | 13.0 | 8.8 |
| Penn West Energy Trust | PWE | | 18.30 | | 0.67 | 9.9 | 9.1 | 7.7 |
| Pengrowth Energy Trust | PGH | | 8.97 | | 0.57 | 9.7 | 8.0 | 6.9 |
| Enerplus Resources Fund | ERF | | 20.74 | | 0.60 | 9.7 | 9.0 | 6.6 |
| | <i>Median</i> | | | | | 9.9 | 9.1 | 7.7 |
| Small Cap Independent Producers | | | | | | | | |
| Range Resources | RRC | | 42.95 | | - | 13.3 | 11.5 | 14.7 |
| Petro-Hawk | HK | | 17.83 | | - | 8.0 | 10.7 | 12.3 |
| Ultra Petroleum | UPL | | 42.74 | | - | 14.1 | 12.6 | 12.0 |
| Birchcliff Energy Ltd. (US\$) | BIREF | B | 8.22 | | - | 23.6 | 16.4 | 10.5 |
| Berry Petroleum Company | BRY | | 28.49 | | - | 13.2 | 8.3 | 7.3 |
| Whiting Petroleum Corporation | WLL | | 73.81 | | - | 10.3 | 7.7 | 6.9 |
| Cimarex Energy Company | XEC | B | 62.95 | | - | 6.4 | 6.2 | 5.3 |
| | <i>Median</i> | | | | | 13.2 | 10.7 | 10.5 |
| Top Line Cash Payers | | | | | | | | |
| Dorchester Minerals, L.P. | DMLP | B | 25.00 | 64 | 0.93 | 7.5 | 14.2 | 13.2 |
| Sabine Royalty Trust | SBR | | 45.09 | 100 | 1.00 | 9.2 | 13.1 | 13.1 |
| Cross Timbers Royalty Trust | CRT | | 33.00 | 84 | 0.96 | 13.4 | 12.6 | 12.2 |
| Permian Basin RT | PBT | | 16.16 | 32 | 0.89 | 13.1 | 13.3 | 11.9 |
| Freehold Royalty Trust (US\$) | FRHLF | | 14.91 | 71 | 0.89 | 8.6 | 9.3 | 8.2 |
| | <i>Median</i> | | | | | 9.2 | 13.1 | 12.2 |
| Bottom Line Cash Payers | | | | | | | | |
| Linn Energy, LLC | LINE | | 22.71 | | 1.62 | 20.3 | 13.5 | 14.2 |
| San Juan Basin Royalty Trust | SJT | B | 22.06 | | 0.84 | 14.8 | 12.8 | 12.3 |
| Mesa RoyaltyTrust | MTR | | 42.00 | | 0.91 | 9.1 | 13.1 | 11.4 |
| Hugoton RoyaltyTrust | HGT | B | 17.72 | | 0.90 | 12.3 | 11.9 | 10.1 |
| Encore Energy Partners, L.P. | ENP | | 15.88 | | 1.22 | 12.8 | 9.8 | 9.3 |
| Legacy Reserves L.P. | LGCY | | 19.22 | | 0.95 | 12.0 | 9.2 | 8.9 |
| | <i>Median</i> | | | | | 12.5 | 12.4 | 10.8 |

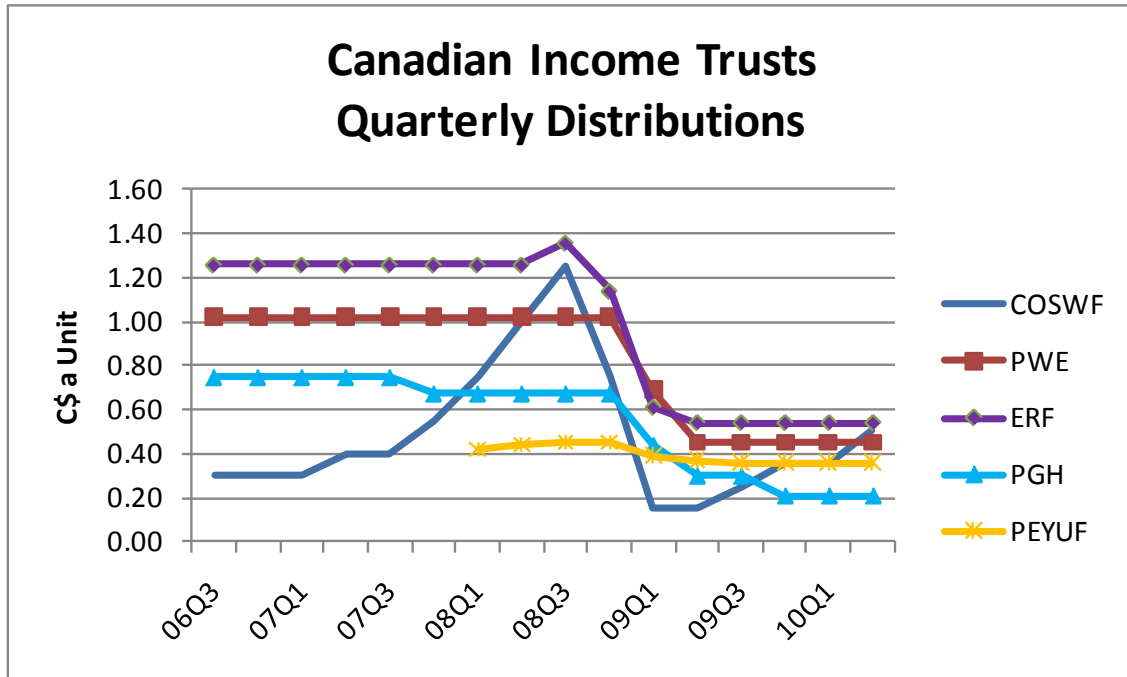
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.
 EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses
 Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).



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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.