

Insider buying is mounting in exploration, while natural gas prices seem set for volatility. Meanwhile, there is the issue of the housing bubble, writes Henry Molloy.

Insider buys

In recent months, the US markets have seen big insider buys at a number of independent exploration companies. Most notably, Aubrey McClendon at Chesapeake Energy Corp (CHK) bought 500,000 shares at between \$28.32 and \$29.40. Glenn Darden, CEO of Quicksilver Resources, bought 10,000 shares at \$29.98.

Having analysed insider-buying patterns for many years, we find it particularly bullish when there is consensus buying among top executives in the same industry.

In the United States, the markets have seen Burlington Resources getting snapped up, followed by Anadarko's purchase of Kerr-McGee and Western Gas on the back of industry-insiders' trades. We feel that this consolidation will continue as the majors seek to secure supplies of natural gas in the US while they still can.

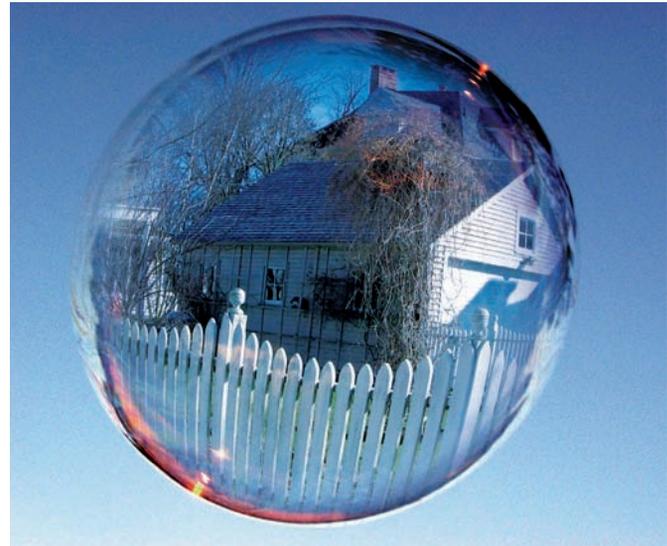
Mary Anne and Pamela Aden from the Aden report look at what has happened over the last 200 years and this may help explain why insiders continue to buy in size even after the dramatic run-up in these stock prices over the past five to six years. "Since 1803, for instance, there have been only five mega moves in commodity prices lasting

about 22 years. The sixth mega up-move is just beginning and it is coinciding with the war on terror, just as the previous up-moves coincided with wars as well."

Just as the technology sector ran for 10 years before it imploded, we feel that the bull run in natural gas has a long way to go. Many of these insiders are buying stocks that look cheap. Energy sector boasts single-digit multiples on earning for the next four quarters, on average, while the Standard & Poor's 500 index is trading at just under 15 times forward earning.

While nobody can say for sure what direction the price of natural gas is headed, what we can say with relative certainty is that its volatility is here to stay. With guys like Aubrey at CHK who have been in the industry through boom and bust, we are confident that they will continue to take advantage of extreme price movements to lock in prices in the futures market. They will also hedge a good portion of their production at very favourable prices, as evidenced before last year's hurricane season when a BTU (British Thermal Unit) briefly hit \$15 before falling below \$5 earlier this year.

As shareholders, it is always nice to know that your interests are aligned with



insiders and there can certainly be no doubt about that either at Quicksilver or Chesapeake.

Macronews

There are two topics central to the market right now. The Fed's stance on interest rates and the housing "bubble". The Fed has stated it is not happy with core inflation at this level but is prepared to pause until the effects of the previous rate hikes and a slowing economy take full effect. If oil prices rally back along with other commodities and put additional pressure on the core inflation rate, they may be forced to raise them sooner than we would like here on Wall Street.

Reverting back to the analysis of insider activity, we have not seen any significant buys

among insiders in the home building sector even after it has dropped about 50% from its highs. This would indicate to us that we have not reached a bottom and, as the old saying goes, we would recommend you "don't try to catch a falling knife".

It was the housing bubble that supported consumers' manic spending over the past few years, many using their home equity as an ATM. Now that that party is over and there is slowing job growth, we wonder who can possibly take up the slack and provide the consumption necessary to continue this global expansion. ■

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