# Eagle News

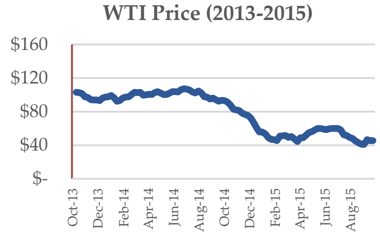
Eagle Equity Holdings, LLC
4th Quarter 2015

## Eagle Energy

### Looking Back

First, let's take a look at what happened to the price of Crude oil (WTI) over the past 2 years.

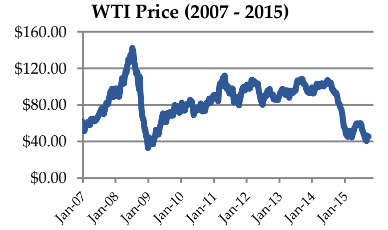
Figure 1
WTI Price (2013-2015)




Oil prices have fallen from a June 2014 high of $108 to a range of $40 - $60 in 2015 (Figure 1).

correction was caused by demand slumps and a global financial crisis; the main cause of the current correction is over-production. Both resulted in supply/demand imbalances, however, the rectification pathways appear to be quite different.

Figure 2
WTI Price (2007 - 2015)




*Unlike 2008, the 2015 oil price correction is due to over production not reduced demand.*

The energy market has seen similar corrections in the past. For example, in 2008, we saw the price of WTI retreat from $142 to $32 (Figure 2).

However, there are some key difference between these two corrections. In 2008, the

In 2008 oil prices stabilized after the US shutdown approximately 60% of active drilling rigs and OPEC made three production cuts totaling 4.2mm barrels/day. At that time the US also launched a quantitative easing (QE) program to

## Eagle Focus

Looking Back:

- Oil is currently trading within the range of $40 to $60 per barrel
- 2008 correction was due to a demand slump
- 2015 correction was due to over-production

Looking Forward:

- We need to see some of the following factors to turn the market round:
- QE programs from Europe/China/Japan
- Failure of some E&P companies
- OPEC / non-OPEC production Cuts
- Retreating US dollar
- Conflict in the Middle East

Investment Strategy

- Bottoming will happen within next 3 to 6 months
- Currently positioning for multi-year steady growth
- Precise subsector weighting to maximize return on investment

stimulate the economy. 2015 drilling activities have been reduced by a similar percentage in the US. However, we have not yet seen any indication of production cuts by OPEC or non-OPEC producers. The US economy is on its way to recovery and the Fed is telegraphing a raise in interest rates, so no more QE programs are expected in the US, but we could see QE programs from other countries such as Europe, China and Japan. So why haven't other producers cut production to stabilize oil prices? Among the 3 biggest oil producers in the world, (Saudi Arabia, Russia and the US) Saudi Arabia has kept production high in order to maintain market share. Russia needs the revenue to support its economy after sanctions were imposed by the western world. The US is a very different animal. Unlike most other oil producers in the world, US oil production is driven Mainly by individual Exploration and Production (E&P) companies which are not governed by a centralized energy policy. Each E&P Company has its own independent profit & loss statement and debt-equity ratio to manage and protect.

We have seen over and over again that the individual freedoms that make free enterprise great can easily turn into irrational exuberance, resulting in a bubble type crisis.

## Looking Forward

We believe oil prices are going to bottom within the next 3 to 6 months. Key factors that could trigger the bottoming process include: QE programs from Europe, China and Japan; the failure of select US E&P companies; OPEC and non-OPEC countries dramatically cutting production; stabilization of the US dollar and escalation of conflicts in the Middle East.

Barring unforeseen events, we believe we are going to see additional failures of high debt US E&P companies starting in Q4 2015. US production should also continue to retreat back below the 8M bpd level. In addition, OPEC will coordinate a series of production cuts with key non-OPEC members while Europe, China and Japan accelerate their own QE programs. The US dollar should also begin to reverse course during this period.

## Investment Opportunities

We saw the S&P 500 Energy Index (XLE) recover nicely after the 2008 correction and the long term foundation is still bullish for energy as the global demand continues to grow. Many oil producing countries require an oil price close to $100 in order to balance their fiscal budgets. We may see a sudden bounce that pushes oil prices back above the $60 range in the near term, but long term price recovery will be gradual and steady. This could set the stage for the next multi-year bull market in energy.


As some of the referenced bottoming factors materialize, we will continue to balance our sub-sector weighting in order to take advantage of price movement opportunities.

## *Energy Investment*

**Eagle Strategy**

Our equity investment strategy is very simple.

1. Study and analysis overall trends in the energy market
2. Determine the short and medium term trends.
3. Create subsector weighting between Upstream; Midstream and Downstream investments
4. Research the subsector companies that have the best potential return on investment (ROI)
5. Establish positions in these companies based on our sub-sector weighting analytics
6. Utilize technical analysis and financial discipline (such as Dollar cost averaging) to create positions
7. Setup exit strategies that maximize gains

Balance commodity exposure within the overall investment portfolio. Again, utilizing the following simple investment strategies.

1. Compare current commodity price movements to our energy analysis to identify opportunities
2. Analyze trends in oil and gas commodities
3. Accumulate bullish or bearish positions with commodity ETFs utilizing the same technical and financial methods as equities

Consistently monitor the overall macro and micro conditions and adjust portfolio positions to manage risk and maximize potential opportunities

## *Dear Eagle – Q&A*

- **Why is there three classes of investors? What are the differences?**
  *Class A and Class C are for Eagle Equity Holdings, the management company. Class A is the managing member of Energy Fund II, LLC and Class C is for the management team to invest as individual into the Fund. Class B is setup for all outside investors.*
- **What kind of tax statement will I get from Energy Fund II?**
  *All investors will receive a K-1 tax form at the end of each fiscal year. The K-1 represents your share of the proceeds from Energy Fund II.*
- **Can I withdraw money during the investment period?**
  *The Fund is setup as a closed fund and will disperse all funds at the end of the 12 month period (up to 18 months based on investment conditions. Contact your Eagle Representative for additional information*
- **Is there a minimum and maximum amount I can investment in Energy Fund II?**
  *The minimum investment is $10,000 (10 units) and there is no maximum.*