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THE WEISS REPORT

SMART AND STEADY

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IT'S A GUSHER!

OVERVIEW

As a result of the combination of market prices and new technologies, the recovery of oil and natural gas from shale rock is now profitable. From the search of reserves, we now know that the U.S. has more crude oil in the domestic 48 states than Saudi Arabia or Venezuela! So much natural gas has been found that reserves are estimated in centuries, not years. This year will be the first year since 1951 that the U.S. will be a **net exporter** of finished petroleum products such as gasoline and jet fuel.

While the output of the domestic oil industry has been in decline since the mid-1970s, our collective efforts have declined approximately 40%. Additionally, the annual growth rate of domestic production had declined every year since 1985. As our demand grew and domestic production declined, we imported more and more crude oil from foreign sources.

As crude oil prices near $100 per barrel, the ability to recover new sources of oil provides multi-tiered economic and political opportunities. The obvious benefit is putting thousands of people back to work. Another clear opportunity is for investors who understand the energy product chain. However, recovery of large quantities of crude oil and natural gas will reduce our need for crude from politically undesirable places such as the Middle East and Venezuela.

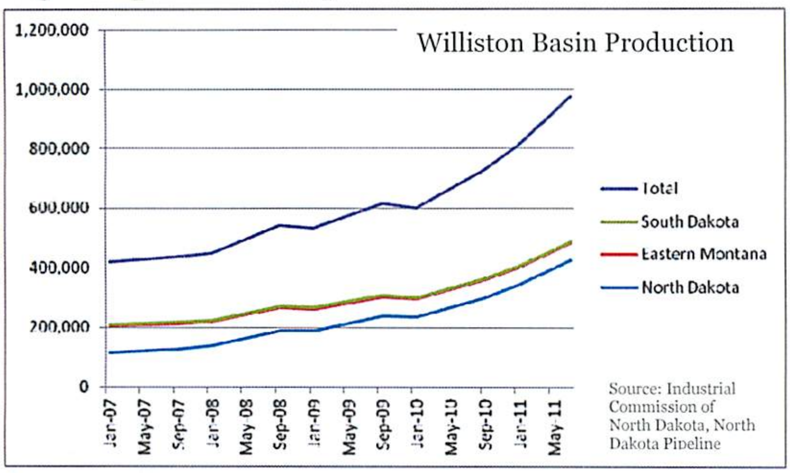
Add it all up, and, although there is no guarantee, we are convinced that the recovery of crude oil and natural gas from shale rock can be as great of an investment opportunity as the technology sector was in the 1990s.

YES, IT'S REALLY THERE

Shale energy is not new. The oil and gas industry has been drilling through the rock for decades on their way to what was called "soft pooled oil." The high energy prices of the late 1970s brought the initial attempts to recover crude oil from shale rock. At the time, they literally mined the rock and heated it to sweat the oil out. This methodology was an environmental nightmare, and unprofitable.

Early in the 21st Century, technology had developed a process to drill a horizontal well. Multiple horizontal shafts from one vertical entry point, combined with the old process of hydraulic fracturing or "Fracking", has sparked the recovery of overwhelming reserves of crude oil and natural gas from areas that had been in decline for many years.

How much crude oil has been found? First, let's take a look at what we were told were the largest deposits on the planet. It is estimated that Saudi Arabia and Venezuela approximately 300 billion barrels in proven reserves each.[1] It is now estimated that the U.S. may have as much as 1.1 trillion barrels in its major shale regions.[2] The most prolific shale oil find is in the Williston Basin of N.W. North Dakota. It is estimated that this region sits atop approximately 400 billion barrels of crude.[3] We have been told for 30 years that the U.S. imports too much of its energy needs. This need to import and its negative effect on our balance of trade can dramatically change with the ability to recover petroleum from domestic sources.



The world of natural gas has been turned on its head by the amounts of recoverable reserves discovered. The supplies are so great that the price of natural gas has almost halved in the last few years. But, the drop in price combined with abundant supplies has made natural gas an industrial energy source. Look at the electric utility industry. The majority of our electricity comes from burning coal or crude oil. The lower the price of natural gas compared to crude oil the more attractive it will be for industry to convert to natural gas.

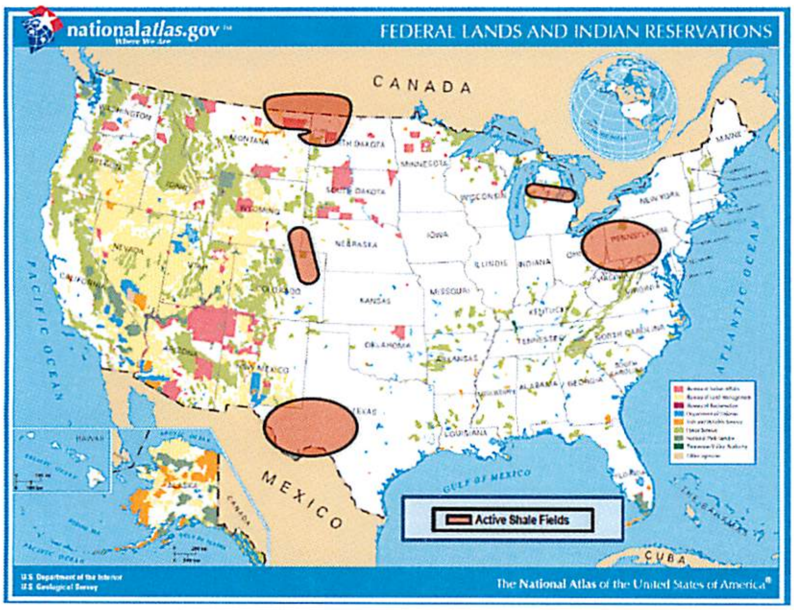
In summary: In 1980, domestic oil production was 8.9 million barrels per day (mbbd). Today we produce approximately 5.5 mbbd.[4] If current trends continue, we may produce as much as 7 mbbd, and 8-10 mbbd by 2015.[5]

If the question is: Is the oil and natural gas really there? The answer is emphatically YES.

THIS BOOM IS AT THE STATE LEVEL

If all you pay attention to is the mainstream media, it would be easy to have missed this energy boom. What most people don't know is that the debate in the media is limited to activity on lands owned by the Federal government, such as offshore drilling. All offshore leases are decided by the Federal Department of Energy. We believe it has been the policy of the current administration to limit drilling for oil. Production of oil and natural gas from federal land has declined under this administration. [6]

In contrast, the recovery of oil and natural gas from shale energy is occurring on lands NOT owned by the Federal government. This sector is mostly regulated by state agencies. The states involved have been regulating local production for decades. The working relationship between state governments and industry has created an environment of growth and job creation. Currently, the unemployment rate in North Dakota is 3.5 %, and is under 2% in the six northwest counties with the greatest concentration of Fracking production.



The greatest shale formations are in the Williston Basin in North Dakota, the Appalachian Basin in eastern Ohio and western Pennsylvania, and the Permian Basis in west Texas. None of these areas are overly populated, and are not in earthquake zones! It is this stable recovery environment that has private industry earmarking billions of dollars of new investment in the extraction, processing and transportation of these revitalized energy fields.

HOW CAN THE INVESTOR BENEFIT?

We should mention that any investments we would use in this trend are in common stocks that are listed on major exchanges. This provides an investor great choices and excellent liquidity. Many have heard horror stories of investing in a private energy partnership that provide little or no liquidity, but these opportunities have prices posted each trading day.

An easy way to begin to seeking investment opportunity is to break the overall trend down to two sub-trends.

The first sub-trend is the ownership of the energy itself. Investors can own the minerals being extracted from the ground. These mineral rights are owned by corporations that have paid for them. Shares in these types of companies offer all the characteristics of traditional growth stocks. They offer the potential for great capital appreciation. Those born before 1965 may remember that Jed Clampett struck oil in Tennessee and moved to Beverly Hills, California.

The other way to invest in this trend is to concentrate on the infrastructure needed to extract energy. One infrastructure idea is in the supply chain of material needed to drill. Many suppliers of steel pipe, cement, hydraulic equipment, and even institutional food services have listed securities for purchase.

Another way to use the infrastructure theme in shale energy is to understand the processes that energy must go through to go from raw to finished product. Whether crude oil or natural gas, product must be moved from wellheads through pipelines to processing centers. Then it must be piped again as finished product to distribution centers. It is in this area that we feel most comfortable with our discretionary assets. We have been using listed energy pipeline MLPs for some time now. Owning the minerals offers potential for capital appreciation; while the processing and pipeline stocks offer competitive dividend rates and the potential for rising income in future years.

We think this pipeline activity, formally called the "Midstreaming" process provides the most visible revenue stream and modest profit growth we can find. The Midstreaming process is vital to the success of the energy chain, as it brings unrefined product, processes the raw product into usable fuel and chemicals.

The Midstream process for crude oil isn't complex. Pipelines take crude oil to large storage facilities. From storage the crude is refined into gasoline, diesel and jet fuel. Pipelines carry the finished products back into storage, and is then fed into the nationwide distribution system of pipelines.

The Midstream process for natural gas is a bit more complicated. Most natural gas comes out of the ground as a liquid. As such, this liquid is chemically treated near the wellhead to extract the natural gas. The gas is then piped in storage, and then transmitted to consumer markets.

The liquid that remains after the natural gas is extracted is extremely valuable. The natural gas liquids (NGLs) are piped to a natural gas refinery call a fractionator. This facility breaks the NGLs down into many chemicals that end in ...ane. Propane, ethane, butane, etc. are common chemicals produced by the fractionization process of NGLs. These chemicals are then piped to storage and held for national distribution.

Even after two chemical processes, the remaining liquid still has some commercial value. It is used in feed stock production.

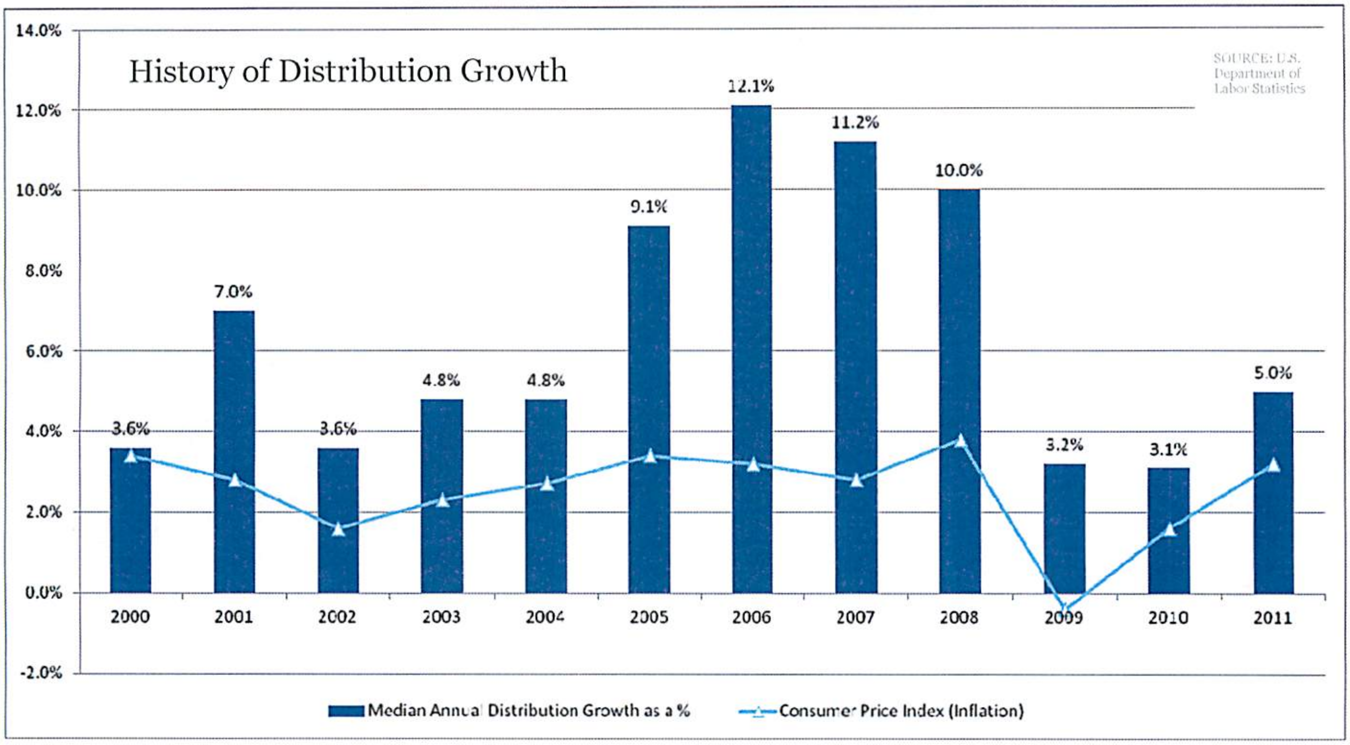
In summary: Investing in this trend is easy. The companies to own are all listed on major exchanges for easy liquidity. An investor can choose to emphasize capital appreciation through participation in the exploration and production cycle, or, the income oriented investor can find many opportunities in the Midstreaming pipeline systems.

LISTED ENERGY MLPs, OUR BEST CHOICE

In our opinion, the greatest opportunities for investors seeking growth **and** income should look to listed energy Master Limited Partnerships (MLPs). Like any other stock, they are traded daily on the New York Stock Exchange (NYSE) or the NASDAQ, so they are easily bought and sold.

An MLP is a business structure that allows a corporation to pay no income taxes on its earnings if they pass through most of those earnings as a distribution. This tax advantage allows the partnerships to offer dividends, as of 2/12/12, between 4.5%-9% for investors. Currently, these distributions are taxed at a maximum of 15% as partnership income. Given the above, if nothing else, MLPs are as tax efficient investment as any available to the public.

More specifically, we believe the energy MLPs are more conservative in nature than the companies that own the minerals and rely on drilling for their profits. These MLPs are the companies that transport crude oil and NGLs to facilities that turn raw product into finished product (gas, diesel, jet fuel). The MLPs benefit most not from how much oil or gas is found, but from the need to get product from the field to processing to storage and ultimately to public markets.



Our experience is this sector traces back 10 years. We have tracked the annual dividend growth of this sector for some time, and it is very impressive. The industry in general has enjoyed dividend growth in each of the last 10 years. In the last few years, the industry's dividend growth had dropped from the level of five or so years ago. We attribute this slowdown to the monies invested by the industry the last few years to create new infrastructure to accommodate the massive new finds. Much of this new infrastructure came on line in 2011 and could accelerate in the upcoming years. In North Dakota alone it is estimated that new finds in the Williston Basin may take 25-30 years to fully extract. This creates need for new pipelines that should be full for many years.

Let's illustrate what a five year commitment to an MLP that raises its distribution just 5% per year for five years looks like:
Today you bought an MLP for $20 per share, and is paying a current annual distribution of $1.40 (7% at purchase). Five years from now that $1.40 per share would rise to $1.78. At that

rate, your $20 share is now paying 8.9%! We believe that an expectation of a rising distribution should also act as a buffer to the company's price during down markets. The largest market capitalization energy MLP has raised its distribution every calendar quarter for 29 consecutive quarters. Not many investments offered its shareholders such consistent rising cash flow over all of the last seven years. (This is a hypothetical example for illustrative purposes only. It is not intended to reflect the actual performance of any security. Investments involve a risk and you may incur a profit or a loss.)

In summary: Investors who realize that living in retirement requires rising income to offset rising expenses should look at the listed energy MLP sector as a core holding in their portfolios. They offer:

- Excellent liquidity
- Direct participation in the extraction of shale energy, this is one of the fastest growth sectors in the economy. Unemployment rates where this activity occurs are less than one half the national rate.
- Investment in the infrastructure of pipelines and processing is our emphasis. We believe this emphasis reduces risk. We are not drilling for oil and natural gas, we're just storing, processing and transporting someone else's oil and gas liquids.
- These companies sell their pipeline and processing facilities capacity 3-4 years ahead. With their revenue hedged, the visibility of future dividend growth is more transparent.
- There are favorable tax laws, such as credits for drilling activity, that make energy MLPs one of the premier opportunities for long term rising income.
- Our research in this sector emphasizes MLPs that in our opinion, should have the greatest dividend growth in the next few years. Our intent is to use energy MLPs as a substitute for many bonds for investors seeking high income.

Fixed income securities are subject to risks including interest rate, inflation, credit and market risks. If sold prior to maturity, an investor will receive the current market value, which may be more or less than the original investment. Dividends are not guaranteed and will fluctuate. There is no assurance a company will achieve its dividend goal.

The Dow Jones Industrial Average (The DOW) is an unmanaged index of 30 widely held, blue chip stocks. The S & P 500 is an unmanaged index of 500 widely held stocks generally considered representative of the US equity market. It is not possible to invest directly in an index.

Investments in the energy sector are not suitable for all investors. Further information regarding these investments is available from your financial advisor.

Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors.

MLP distributions are not guaranteed. The actual amount of cash distributions may fluctuate and will depend on the future operating performance. Increasing interest rates could have an adverse effect on MLP unit prices as alternative yields become more attractive.

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