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Market Update

Prior Market Review - April 22, 2008

XLU Market Screens Performance & Street Recommendations

Relative Performances

For the year-to-date, 3-month, 6-month and 12-month periods, performances among the utilities, the S&P 500 and the Dow Jones Industrials have been about the same, up a little or down a little, hardly an observation that generates investor interest. But averages disguise individual performances. In the S&P Utilities Index, the best and worst performers year to date were a turnaround by **Dynegy** (DYN-not rated), up 27% and a 20% decline by **Constellation Energy** (CEG-hold), one of the sell side favorites. **Teco Energy** (TE-hold), another turnaround candidate, posted a 23% gain for the 6-month period and **Questar** (STR-not rated) registered price increases of 24% and 34%, respectively, for the 6- and 12-month periods.

Table 1
Market Indices
Comparative Performance

Column	(1)	(2)	(3)	(4)	(5)	(6)
			Price			
		5/14	ytd %	3-mos %	6-mos %	1-yr %
S&P 500	SPX	1,411	(4)	5	(4)	(6)
Phila. Index	UTY	534	(6)	2	(4)	(6)
SPDR	XLU	41	(4)	3	(2)	(4)
Dow Ind.	INDU	12,895	(3)	4	(3)	(3)

Best & Worst Year to date

Four of the top five performers in our April 22, 2008 review remained unchanged as of May 13, 2008: **Dynegy** (up 27% year to date), **Questar** (23%), **First Energy** (FE-not rated-6%) and **Exelon** (EXC-hold-3%). **Teco Energy** (10%) joined the top five following a buy recommendation from CitiGroup on May 9th. **Teco Energy** is the only one among the top five having less than a 50% favorable bias from the sell side community.

Constellation Energy (minus 20%) was the poorest year-to-date performer despite a sell-side bias of 50% (but down from over 80% in January 2007). Its 11% price decline since April 22nd reflects profit taking, and perhaps a 'wait and see' attitude following disappointing hedging results in the non-regulated sector for the first quarter. (Hedges work until they don't.) Earlier in May, both Matrix USA and B of A reiterated buy ratings.

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Pinnacle West Capital (PNW-hold-minus 20%) and **Ameren** (AEE-buy-minus 16%) remained among the poorest five performers and were joined by **Allegheny Energy** (AYE-not rated-minus 19%) and **Consolidated Edison** (ED-hold-minus 15%). But **CMS Energy** (CMS-hold-minus 12%) and **AES Corp.** (AES-not rated-minus 8%), among the worst five performers in our April review despite favorable sell-side biases, (79% and 88%, respectively) have since rebounded 6% and 11%, respectively. Recent buy or equivalent ratings on **AES Corp.** include Lehman Bros., Ladenburg Thalman, CitiGroup and Deutsche Bank. Recent **CMS Energy** buy recommendations include Ladenburg Thalman, Credit Suisse, Hilliard Lyons, Wachovia, and Deutsche Bank. **Nicor** (GAS-not rated minus 7%) shares gained 12% since April 22nd, which we assume was influenced by a buy recommendation from Sidoti & Co.

Table 2
Year-to-Date
Market Performance
Best & Worst

Column	(1)	(2)	(3)	(4)	(5)	(6)			
	Price	ytd	Bias	Price	ytd	Bias			
Best	Sym	5/13	%	Worst	Sym	5/13	%	%	
Dynegy	dyn	9	27	75	Constellation	ceg	82	(20)	50
Questar	str	66	23	50	Pinnacle	pnw	34	(20)	9
Teco	te	19	10	29	Allegheny	aye	51	(19)	82
First Energy	fe	76	6	75	Ameren	ae	46	(16)	18
Exelon	exc	84	3	56	Con. Edison	ed	41	(15)	7

Trailing 12-Months

Teco Energy's 4% trailing 12-month price gain was enough to place it among the five best performers in the S&P index. The remaining four companies were among the top five in our April review: **Questar** led the index (34%), followed by **Exelon** (10%); **First Energy** (6%); and **PPL Corp.** (PPL-hold-6%). **Exelon Corp.**, with its \$56 billion equity capitalization, has a 12.56% weighting and is the giant in the S&P Utilities, dwarfing the \$28 billion and 6.39% weighting of the next largest company, **Southern Company** (SO-Hold). Because of its size, **Exelon** is often used as a proxy for the S&P Index by portfolio managers.

The worst 12-month trailing performance was the 30% drop posted by **Pinnacle West Capital**. Not far behind was **NiSource** (NI-not rated) with a 28% decline. **CenterPoint Energy** (CNP-not rated) is off 21%, but earlier this month buy or equivalent ratings were issued by Lehman Bros., Jefferies, Credit Suisse and Morgan Stanley. **PG&E Corp.** (PCG-not rated) has also lagged, declining 20%, despite it being highly recommended by the sell side. Since May, buy or equivalent ratings on **PG&E** have been issued by Lehman Bros., Jefferies, Deutsche Bank, Wachovia, Credit Suisse, Edward Jones, and BMO Capital.

Table 3
12-Months
Market Performance
Best & Worst

Column	(1)	(2)	(3)	(4)	(5)	(6)			
	Price	12-mos.	Bias	Price	12-mos.	Bias			
Best	Sym	5/13	%	Worst	Sym	5/13	%	%	
Questar	str	66	34	50	Pinnacle	pnw	34	(30)	9
Exelon	exc	84	10	56	NiSource	ni	18	(28)	30
First Energy	fe	76	6	75	CenterPoint	cnp	16	(21)	63
PPL Corp	ppl	48	6	73	Nicor	gas	39	(21)	22
Teco	te	19	4	29	PG&E	pcg	41	(20)	75

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Most & Least Loved

Table 4 sorts the S&P Utilities Index based on buy or equivalent ratings as a percentage of total recommendations as per Bloomberg Financial Service (Columns 4 and 8). Columns 2 and 6 list 2009 price/earnings multiples based on consensus estimates and columns 3 and 7, the indicated annual dividend yields. With the exception of **CMS Energy's** 2009 P/E of 11.8 times, the most loved companies have above average price/earnings multiples and insignificant yields.

Then there's always the contrarian investor, i.e. the portfolio manager who says "Don't tell me what you like, tell me what you don't like." The least recommended companies are characterized by low price/earnings multiples and well above-average yields.

Table 4
Most /Least Recommended

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)			
Most	Sym	Price 5/13	2009 P/E	Yield %	Bias %	Least sym	Price 5/13	2009 P/E	Yield %	Bias %	
AES Corp	aes	20	15.4	0.0	88	Con. Ed.	ed	41	13.2	5.6	7
Allegheny	aye	51	15.5	1.2	82	Pinnacle	pnw	34	13.3	6.2	9
CMS	cms	15	11.8	2.4	79	Progress	pgn	42	13.5	5.8	17
First Energy	fe	76	15.1	2.9	75	Ameren	aee	46	13.2	5.6	18
Dynegy	dyn	9	30.5	0.0	75	DTE Egy.	dte	43	13.1	4.9	20

S&P Utilities

Table 5 lists the 31 companies in the S&P Utilities Index priced as of May 14, 2008. The companies are sorted by weighting (column 2). Columns 4-7 list percent price changes on year-to-date, 3-month, 6-month and trailing 12-month bases. Column 8 lists the percentage of buy recommendations to total as per Bloomberg Financial Service. Market value (column 9) is shares multiplied by price. Earnings per share and price/earnings multiples based on consensus 2009 estimates are in columns 10-11.

Highlighted numbers reflect better than S&P price performance (columns 4-7), analysts' biases of 75% or greater (column 8), higher-than-average market values (column 9), lower than average price/earning multiples (column 11), and higher-than-average yields (column 13).

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Table 5
S&P Utilities
(Sorted by Weightings)

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Company	Sym	Weight 5/13	Price					Bias %	Mkt Val \$bil	eps 2009c	P/E 2009c	Div. PS	Yield %
			5/14	ytd	3-mos	6-mos	1-Yr						
Exelon	exc	12.56	84	3	7	6	10	56	56	4.69	17.9	2.00	2.4
Southern	so	6.39	37	(5)	3	1	(0)	26	28	2.45	15.1	1.68	4.6
FPL	fpl	6.00	65	(3)	3	(3)	(0)	53	26	4.25	15.4	1.78	2.7
Dominion	d	5.88	45	(4)	6	0	0	28	29	3.30	13.8	1.58	3.5
Duke	duk	5.35	19	(7)	3	(2)	(9)	28	24	1.35	13.9	0.88	4.7
First Energy	fe	5.27	76	6	8	14	6	75	23	5.04	15.1	2.20	2.9
Entergy	etr	5.03	116	(3)	8	(2)	(2)	50	23	7.93	14.6	3.00	2.6
PS Ent.	peg	4.60	42	(14)	(10)	(9)	(7)	45	21	3.31	12.7	1.29	3.1
PPL Corp	ppl	4.13	48	(7)	2	(0)	6	73	18	2.52	19.2	1.34	2.8
AEP Corp	aep	4.00	44	(6)	2	(5)	(11)	61	18	3.42	12.9	1.64	3.7
Edison Intl.	eix	3.90	53	(1)	2	(4)	(8)	62	17	4.33	12.2	1.22	2.3
Sempra	sre	3.48	59	(5)	5	(1)	(6)	71	15	4.54	12.9	1.28	2.2
Constellation	ceg	3.31	82	(20)	(15)	(15)	(13)	50	15	6.43	12.7	1.91	2.3
PG&E	pcg	3.28	41	(6)	2	(9)	(20)	75	14	3.21	12.7	1.56	3.8
AES Corp	aes	2.98	20	(8)	2	(10)	(13)	88	13	1.28	15.4		0.0
Con. Edison	ed	2.62	41	(15)	(2)	(11)	(18)	7	11	3.15	13.2	2.34	5.6
Questar	str	2.60	66	23	22	24	34	50	11	3.60	18.4	0.49	0.7
Progress	pgn	2.51	42	(12)	(4)	(10)	(19)	17	11	3.15	13.5	2.46	5.8
Ameren	aee	2.17	46	(16)	4	(13)	(16)	18	9	3.47	13.2	2.54	5.6
Xcel	xel	2.09	21	(5)	4	(3)	(10)	23	9	1.61	13.3	0.92	4.3
Allegheny	aye	1.95	51	(19)	(3)	(11)	(7)	82	9	3.30	15.5	0.60	1.2
DTE Energy	dte	1.61	43	(2)	4	(10)	(18)	20	7	3.30	13.1	2.12	4.9
PEPCO	pom	1.21	27	(9)	2	1	(11)	70	5	2.12	12.6	1.08	4.1
CenterPoint	cnp	1.18	16	(9)	2	(13)	(21)	63	5	1.32	11.8	0.73	4.7
NiSource	ni	1.13	18	(4)	(0)	1	(28)	30	5	1.37	13.2	0.92	5.1
Dynegy	dyn	1.02	9	27	16	8	(15)	75	7	0.30	30.5		
Teco	te	0.92	19	10	23	10	4	29	4	1.24	15.2	0.80	4.2
Integritys	teg	0.88	50	(3)	4	(2)	(15)	63	4	4.00	12.6	2.68	5.3
CMS	cms	0.79	15	(12)	(3)	(7)	(18)	79	3	1.30	11.8	0.36	2.4
Pinnacle	pnw	0.78	34	(20)	(7)	(19)	(30)	9	3	2.56	13.3	2.10	6.2
Nicor	gas	0.42	39	(7)	3	(5)	(21)	22	2	2.47	16.0	1.86	4.7
Average			44	(6)	2	(3)	(8)	47	16	3.11	14.2	1.40	3.2

Source: Bloomberg Financial Service

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