

# The Master Resource Report

An educational service of [Ravenna Capital Management](#)

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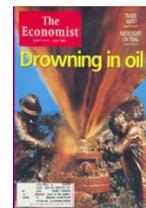
## 400

Since 2006 nearly 400 issues of The Master Resource Report have been distributed as a free educational service of our firm. The motivation was to share some of our insight with a broader group of interested people so they could make better informed decisions in their lives concerning energy. But now it is time to end this venture due to a combination of time constraints and other demands for my attention. In closing out the report I would like to leave a few observations concerning what history might tell us about what may be ahead.

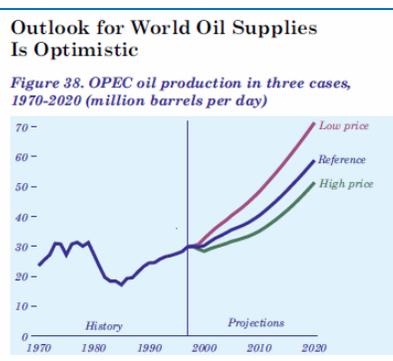
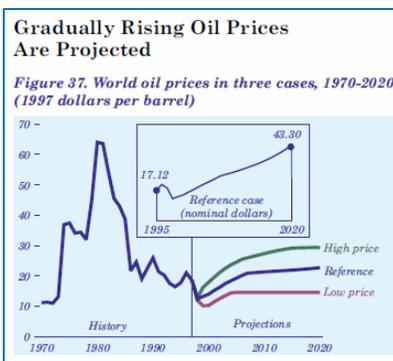
The first observation is that we have been here before with forecasts of oil abundance and lower prices on the horizon. While it is frequently pointed out that we have not run out of oil as if that is what Peak oil is about. The abundance side of the debate is seldom given the same critique.

One of most amazing forecasts was the March 4, 1999 Economist article stating that oil could soon fall to \$5 per barrel from the current price of just over \$10 per barrel. That is right oil was \$10 per barrel. [[\\$10 = \\$14.31 in July 2014 dollars](#)]

*Yet here is a thought: \$10 might actually be too optimistic. We may be heading for \$5. Thanks to new technology and productivity gains, you might expect the price of oil, like that of most other commodities, to fall slowly over the years. Judging by the oil market in the pre-OPEC era, a “normal” market price might now be in the \$5-10 range. Factor in the current slow growth of the world economy and the normal price drops to the bottom of that range.*



The EIA was forecasting in its [Annual Energy Outlook 1999 \(AEO99\)](#) that in 1997 dollars oil would be \$22.73 in 2020. Today those 1997 dollars would be adjusted to \$33.75 per barrel or roughly one-third of today's market price. The AEO99 also forecast OPEC oil production was expected to reach 58.5 million barrels per day in 2020 with Iraq reaching 5 million barrels per day by 2007. So much for the Iraq forecast and OPEC is only around 30 million barrels today.



The two graphs on the left are from the [AEO99](#) showing the EIA's 2020 forecast for oil prices and OPEC production using three price scenarios. It is interesting to note that using the low price scenario OPEC production reaches 71 million barrels per day which is just short of **total** global production today ([75.9 mb/d crude incl. condensate](#)). Total world climbs to 124 million barrels per day in that scenario by 2020. [The price graph is in nominal dollars not real dollars.]

As we know that is not exactly how it worked out.

By 2005 the oil supply story had changed pushing the price of oil to [\\$48.89 per barrel](#) in nominal terms as the lack of investment in the 1990's took its toll on the ability of producers to meet the rapidly expanding global demand. In the [AEO2005](#) the EIA however felt all was well making this forecast out thru 2010.

*The AEO2005 world oil price forecast is characterized by decreasing prices through 2010 and moderately increasing prices thereafter (Figure 1). This is consistent with a forecast that projects increases in world petroleum demand, from about 80 million barrels per day in 2003 to more than 120 million barrels per day in 2025, which is met by increased oil production both from the Organization of Petroleum Exporting Countries (OPEC) and from non-OPEC nations.*

By June of 2008 as the world began to slip into the worst financial crisis in 80 years oil prices blew the top off of everyone's prior forecast and the Peak Oil story hit a crescendo with price predictions reaching \$250 per barrel. Amazingly by December of 2008 crude was in the mid \$30 per barrel range and there were those forecasting \$20 per barrel oil for years to come. 2008 provided further proof why we continue to follow the "Prime Directive" and do not predict price.

Today we are hearing the echoes of 1999. Capital expenditures by the oil companies are being cut back amid cries of crude oil abundance and forecasts of dramatically lower prices. Again **technology and productivity** are being heralded as bringing a new era to the oil and gas industry.



Over the last 15 years there have been as many calls for cheap and abundant oil as there have been for scarce and expensive. But one reality holds, the inflation adjust price of oil today remains near an all-time high while the global economy remains sluggish and crude oil production flat lines. On this point always remember to check and see what is being represented as oil. When the term liquids is used it is a tip off that everything from NGLs, biofuels and the absolutely useless refinery gains are probably in the volume mix being quoted.

Energy is **The Master Resource** required to extract all others. Without the cheap transportation fuels provided by oil the global economy as we know it today would not exist. The food supply depends not only on the diesel fuel for farms and transport but the fertilizers and chemical inputs that oil and natural gas have provided the "Green Revolution".

I hope that by making these points through this report I have given readers some perspective to plan both their lifestyle and investments. The risks we face are great but so are the opportunities. How it works out for all of us depends on how we choose to use or not use the information we have.

Best Wishes to All and thanks for all your feedback over the years.

A handwritten signature in cursive script that reads "Jim".

PS. I have attached a copy of the very first report I put out to the end of this issue. I think I made the goal I laid out in that first report.

If you do not already [subscribe to Peak Oil Review or Peak Oil News](#) I encourage you to do so. Also if you are not already a supporter of ASPO-USA consider doing so.

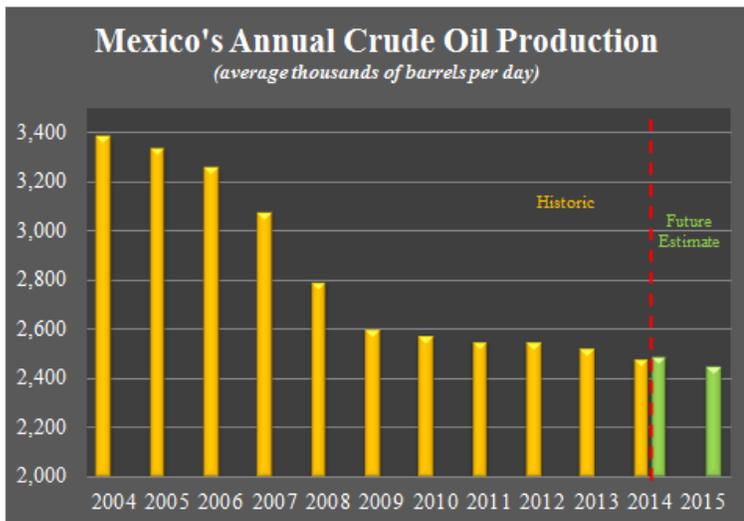


## Mexico

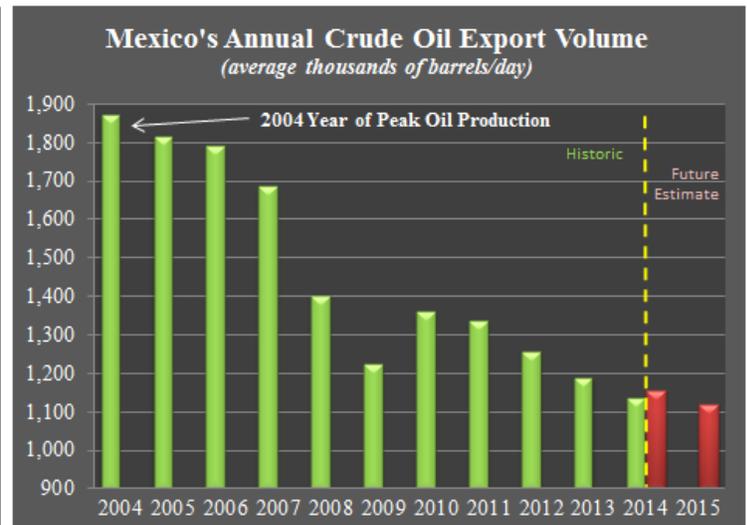
The production of crude oil in Mexico continues to decline while the debate over the nation's energy policy drags on.

In June Pemex reported crude oil production was 2.43 million barrels per day. This is the lowest level of crude oil production since 1996 and is down about 1 million barrels per day since peaking in 2004. That is an average annual decline rate of 3.0% over the decade. While the decline rate has slowed since 2009 it has not been stopped.

As Jeff Brown likes to point out net exports usually fall faster than production and in the case of Mexico it holds true. Net exports of crude oil from Mexico have declined at an average annual rate of 4.85% since peaking in 2004 at 1.87 million barrels per day.



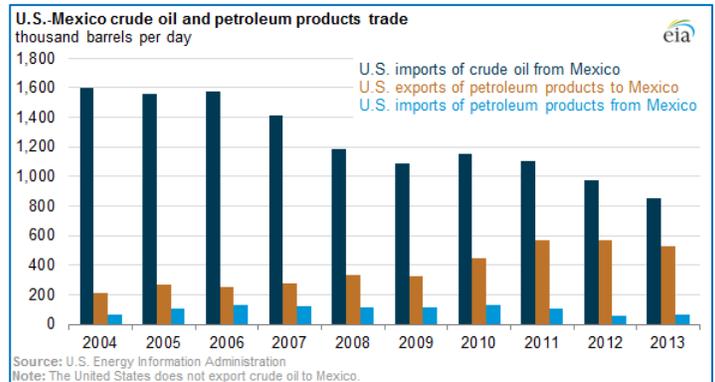
Source: Pemex \*\* 2014 Year-to-date ( June )  
 June 2014 was the lowest level of production in 18 years. (2.43 mb/d)



Source: Pemex \*\* 2014 Year-to-date ( June )

The continued movement of some industrial production from Asia to Mexico along with general improvement in the Mexican economy will put further pressure on net exports and the foreign exchange it provides. More importantly it will add further urgency to government reforms as revenues from oil to the nation's coffers shrink further.

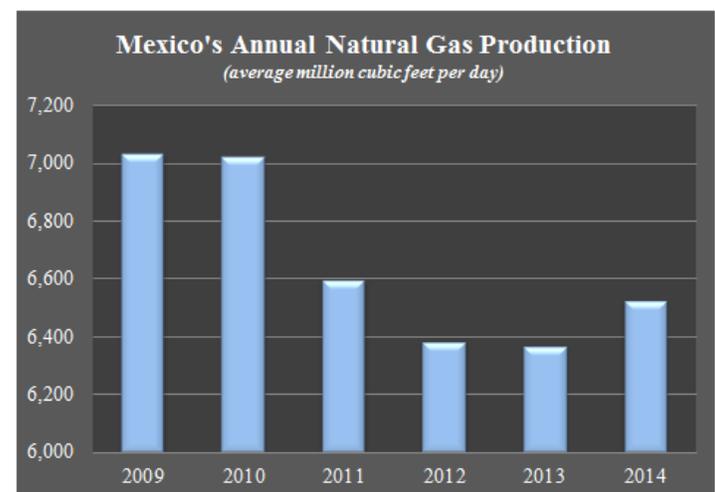
The balance of imports and exports of both crude and products between the U.S. and Mexico has changed substantially since 2004. Even as imports from Mexico have fallen 47% during the last decade the country remains the U.S. number three supplier behind Canada and Saudi Arabia in 2013 according to the [EIA](#) (see graph on right).



Source: U.S. Energy Information Administration  
 Note: The United States does not export crude oil to Mexico.

The EIA graph on the right also illustrates how Mexico's dependence on U.S. for refined products has grown as its production has slipped.

The next graph on the right illustrates that Mexico's natural gas production has experienced similar results since 2009 with a slight improvement so far in 2014. In addition [U.S. exports of natural gas to Mexico](#) continue to grow rapidly to meet demand the domestic supply is incapable of providing.



Source: Pemex 2014 Year-to-date ( June )

It will be both interesting and important to see if the addition of investment capital from outside Pemex is able to stem the declines in any meaningful way over the next few years. The implications for the both the U.S. and Mexico will be far reaching.

## US Gasoline consumption

Readers of this report have seen the graph on the right almost from the first issue. It is important to grasp the scale of the difference between the shift in consumption since 2004 and the price being paid. Even though in real terms the price of gasoline in 2004 expressed in 2014 dollars would be about \$2.30 per gallon most people live and think in nominal terms which are shown in the graph. In addition it is important to consider that household incomes have not kept pace with the price increase of fuel over the decade. It is the combination of consumption and high prices in historical terms that continue to impact the U.S. consumer.

Average daily consumption for the period January 1, 2004 to December 31, 2007 was 9.21 million barrels per day compared to the post-recession levels of 8.90 million barrels per day for the comparable period between 2010 and the end of 2013. Consumption post-recession was down about 310,000 barrels per day or 3.4%. During that time average price per gallon went from \$2.42 per gallon to \$3.42 per gallon up \$1.00 or 41%.

As this report has pointed out many times the net impact of the much touted decline in consumption on consumer spending on fuel has been negated by the triple digit oil price. So while the consumer has cut vehicle miles and improved the mileage of vehicles driven the total cost burden to the society of fuel is higher than before the recession. This is illustrated by the graph on the right which compares estimated daily expenditures in the U.S. for pre and post-recession years.

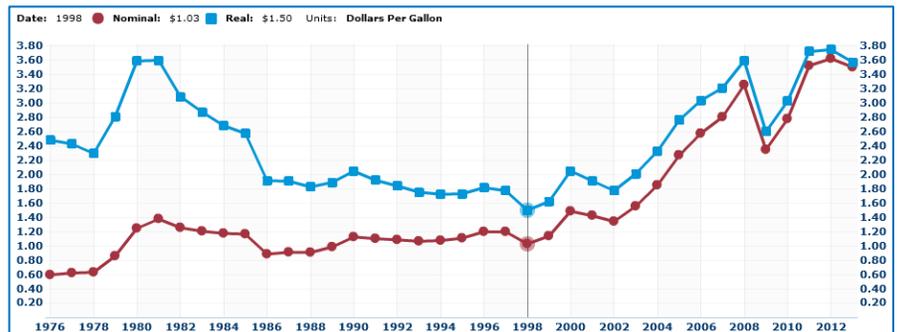
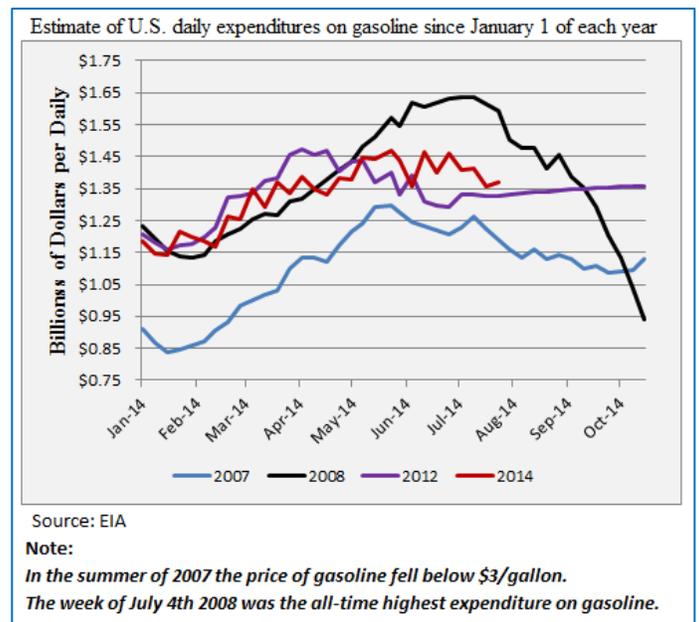
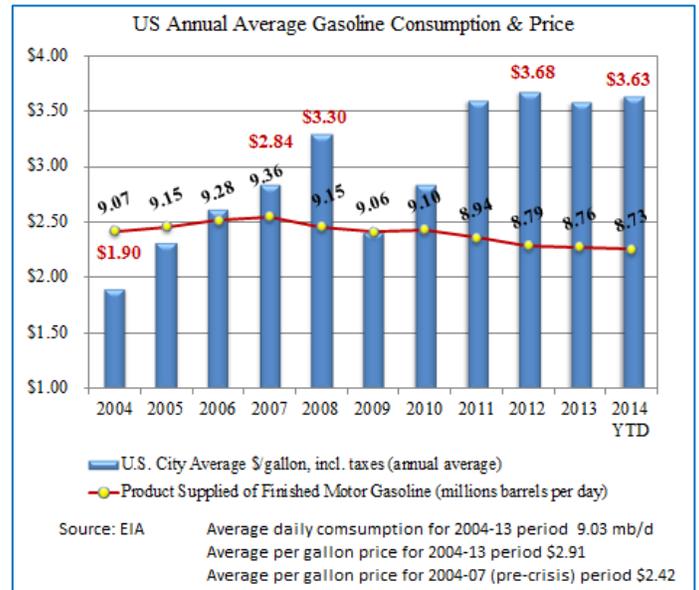
Maybe it is time that economists take a look at energy costs to help explain why the economic stimulus by central banks has not provided the impact that was expected. The average daily expenditure difference between 2007 (blue) and 2014 (red) is nearly \$200 million per day or \$6 billion per month.

While this is clearly not the only reason it can go some way to help explain the economic pressure that still weighs on consumers. This is especially true for lower income households where the cost of transport fuel is disproportionately high as a percent of household incomes. Add the impact of the continued high cost of diesel and jet fuel on industry and it seem likely that energy cost while discounted by many continue to take a toll on the U.S. economy. This burden on transportation costs remains in place despite the now famous "U.S. Energy Independence".

## The real price of gasoline

The graph on the right from the [EIA](#) illustrates just how cheap gasoline was in the 1998-99 period. In real dollars it was the cheapest it has ever been in the last 37 years (1976-2013).

But in terms of what it can do it is still very cheap. Consider that a \$3.50 gallon of gasoline will transport you, 3 or 4 passengers and the mass of a medium sized car thirty miles down the highway in thirty minutes or less. Imagine for a moment paying for that if it had to be done manually or with animal power. In that context gasoline is nearly free today. This might be something worth considering when you fill your tank the next time.

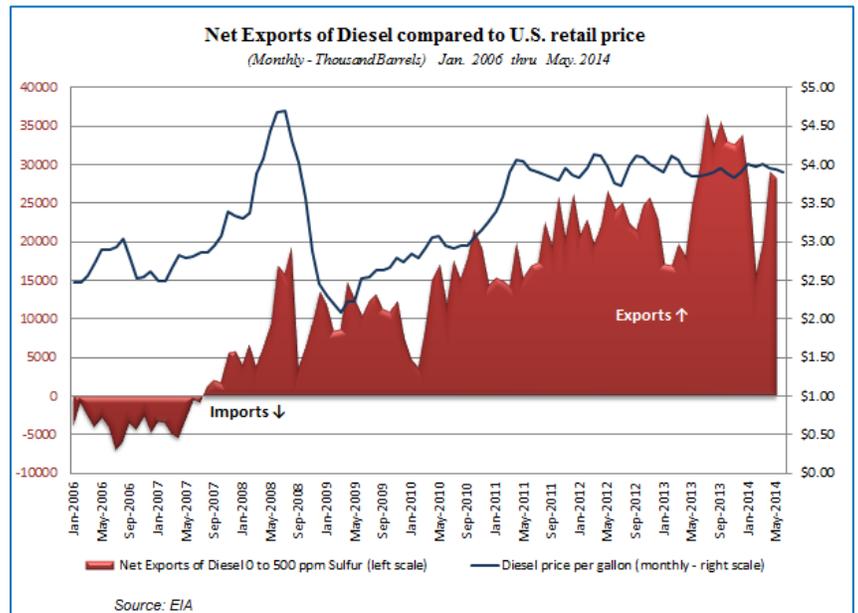


## Diesel exports

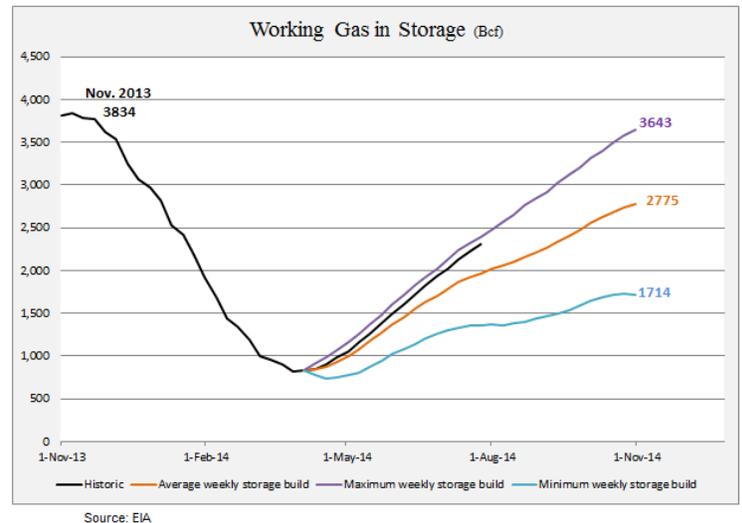
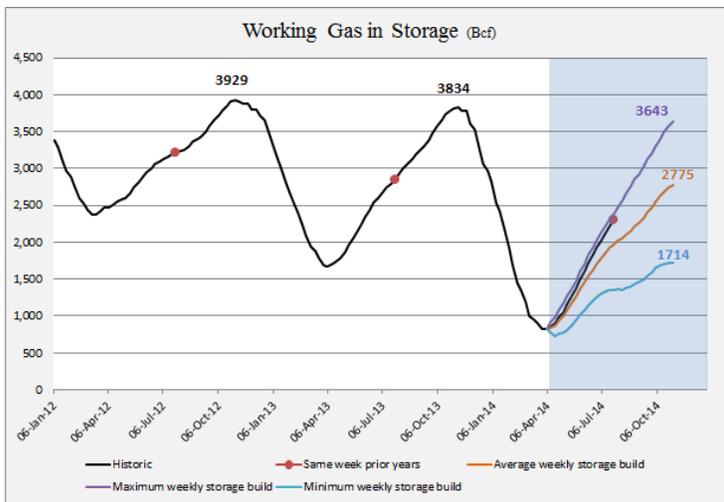
The [EIA](#) released the latest report on petroleum product imports and exports this week.

U.S. net exports of diesel fuel in May were 28.25 million barrels which averages out to just under one million barrels per day. This export volume is about 25% of what the U.S. currently consumes according to EIA data. It is also about 20% of total U.S. diesel production in the 0 to 500 ppm sulfur grade.

Since topping out in the summer of 2013 at 36.7 million barrels for the month of July exports have pulled back this year. Except for that peak in 2013 U.S. exports of diesel remain strong and will continue to impact the domestic price of diesel fuel overshadowing any impact from increased domestic crude production.



## Natural Gas



The two graphs above illustrate where U.S. natural gas storage stands as of this week's [EIA report on working gas](#) in storage. Injections were 88 Bcf for the week ending July 25<sup>th</sup> leaving storage 2,307 Bcf down 18% from one year ago and 21% below the five year average.

The average injection for the last week in July since 2006 is 46 Bcf while the previous highest injection was 77 Bcf. The combination of high production and low demand have provided the right mix to allow continued record setting injections for this time of year.

There are risks that need to be watched carefully in this situation. The first is becoming overly confident that this ability to fill storage is a permanent condition. With spot prices in the North East once again falling near \$2.60/mmBtu at the Dominion hub producers in that region particular could once again experience financial strains.

The second is misreading why the supply is high and the price is low. The mild summer weather in much of the U.S. this summer has played a huge role in the ability to hit record injections. Don't expect Mother Nature to always deal us the winning hand. Remember last winter???

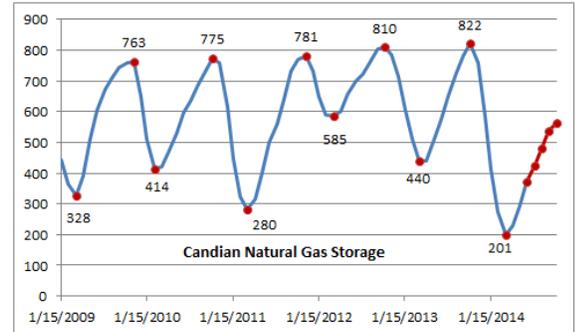
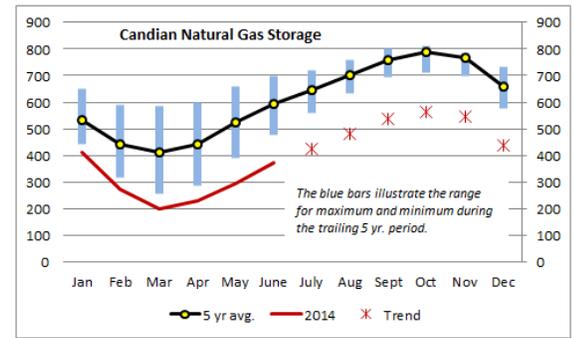
## Canadian Natural Gas

At the end of June Canadian natural gas in storage was 372 Bcf down 37% below the 5 year average of 596 Bcf.

Red “x” represent estimated storage build based on the 5 year average injection each month thru December. This would leave Canadian natural gas in storage at 563 Bcf at the end of injection season in October down 39% from the 5 year average of 787 Bcf.

The second graph further illustrates the comparison with prior years. The red line at the end of the graph plots what the storage level will be if the injections equal the averages for each of the remaining months over the last 5 years.

It is clear that the scenario north of the border is shaping up differently than in the U.S. If the Canadian storage levels do end the injection season nearly 230 Bcf below the 5 year average demands may be placed on U.S. storage to help meet the winter demand. If this should happen U.S. storage volumes much below the current EIA forecast of about 3,400 Bcf could shake up the markets as winter unfolds.



Source: FirstEnergy Capital Corp.

Only time and weather will provide the answer to whether Canadian storage will impact natural gas supply and therefore prices this winter.

## Large SUV sales

The [New York Times had an interesting article](#) about how light truck sales and in particular SUVs have helped GM weather its recall storm. According to the article GM sold 167,259 light trucks in June and only 100,202 cars. This matters a lot since according to the article it takes five small cars like the Cruze to equal the profits from just one Suburban.

Then in the [Financial Times there was news that BMW](#) was going to begin building a larger SUV the X7. Like GM the reasoning is simple, the buyers want them and they are very, very profitable for the manufacturers. So with Audi already moving forward with the new Q8 and other manufactures already in the market with large SUVs the competition should be heating up.

But in another example of history consider that for the 2000 model year two quite different vehicles were introduced to the US market. The [Toyota Prius](#) and the [Ford Excursion](#), the largest SUV ever manufactured both hit the US market that year. It should be interesting to see if these new big rigs fair better than the Excursion which is no longer on the market.

This could be an indication consumers are adapting to today’s high fuels prices. Just not the way one would expect.

## Some of the best quotes from past issues follow.

*“Great minds discuss ideas.*

*Average minds discuss events.*

*Small minds discuss people.”*

*~ Eleanor Roosevelt*

*“It’s difficult to get a man to understand something if his salary depends on him not understanding it.” ~ Upton Sinclair*

*“You and I, and our government must avoid the impulse to live only for today, plundering, for our own ease and convenience, the precious resources of tomorrow.” ~ Dwight D. Eisenhower*

*“Success is a lousy teacher. It seduces smart people into thinking they can’t lose. And it’s an unreliable guide to the future.” ~ Bill Gates*

*“Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won't come in.” ~ Alan Alda*

*“There are really only three types of people: those who make things happen, those who watch things happen, and those who say, 'What happened?’” ~ Ann Landers*

*“The real measure of your wealth is how much you’d be worth if you lost all your money.” ~ Anonymous*

*“The gap between more and enough never closes.” ~ Anonymous*

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# The Master Resource Report

Volume 1, Issue 1, Dec. 8, 2006



**Well I have decided to submit to the requests of several clients and friends and put out my own report on energy issues. It is my intent to go beyond the usual news that you may find in the mass media. I plan to give some comments and when ever possible give you a link to the original source or further resources for you to expand on. If I do it well it will be enjoyable and informative.**

**I am sure you know that I have taken the issue of “Peak Energy” on as a personal mission. I believe that Peak Energy and the issues that surround it are the most important topics of our time. How we deal with the unfolding peak and eventual decline of fossil fuels will determine the world that we and our children live in. The resolution of the Peak Energy crisis will occur during this century and will be impacted by major decisions we will make over just the next few years.**

**This goes far beyond whether your gasoline is going to cost \$2, \$3, \$5 or \$10 per gallon. In many ways it will drive the Global Warming debate to its ultimate climax. It will bring the issues surrounding fresh, clean water to a peak as well. The sustainability of the agricultural green revolution will be decided by peak energy. For energy and most importantly “Cheap Energy” is the concept behind the name of this report. Energy is the “Master Resource” without which we could not run even a fraction of our modern industrial world.**

**I hope to give you the information and insight to step out from the world we have all grown up in, opening your eyes and mind to our world’s dependency on this Master Resource. I hope that you will begin to view the world around you a little differently after you read these reports. The scale of our predicament will become clearer to you and the solutions more obvious. It will give you the informational tools to evaluate the energy intensity of your own life style and take the action needed.**

**Some of this information will be heavy weight and thought provoking. Some will be fun and I am sure generating a few laughs. It will all be important to your energy perspective.**

**Finally feel free to contact me anytime to question my comments, ask for further information, try out a new idea or just share your views. By all means if you do not wish to receive the report let me know and I will have you off the list instantly. So with that let’s take a look at this weeks energy topics**

## Council on Foreign Relations – National Security Consequences of U.S. Oil Dependency

The most significant admission in the report is that the United States will be unable to achieve energy independence (oxymoron term), and should focus instead on reducing our dependency on oil. This report along with the [Hirsch Report](#) and [Stern Review](#) should add the third leg for some serious political discussion of peak energy. The Council on Foreign Relations is highly respected in the halls of government so it should have some impact. Will it? What do you think?

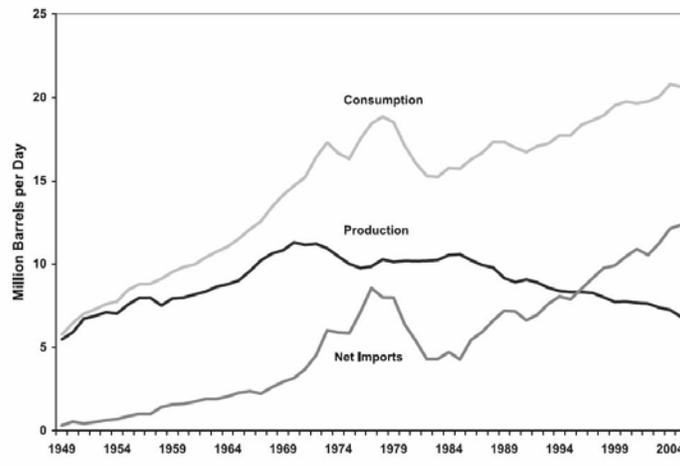
Here is one chart from the report. Simple and to the point, the lines have crossed.

In the Forward the following comments are made:

*“The Council on Foreign Relations established an Independent Task Force to examine the consequences of dependence on imported energy for U.S. foreign policy. Since the United States both consumes and imports more oil than any other country, the Task Force*

*has concentrated its deliberations on matters of petroleum. In so doing, it reaches a sobering but inescapable judgment: the lack of sustained attention to energy issues is undercutting U.S. foreign policy and national security.*

Figure 2: U.S. Consumption, Production, and Imports of Oil, 1949–2005



*The Task Force goes on to argue that U.S. energy policy has been plagued by myths, such as the feasibility of achieving "energy independence" through increased drilling or anything else. For the next few decades, the challenge facing the United States is to become better equipped to manage its dependencies rather than pursue the [chimera](#) of independence.”*

### Further comments cut right to the point!

*“The challenge over the next several decades is to manage the consequences of unavoidable dependence on oil and gas that is traded in world markets and to begin the transition to an economy that relies less on petroleum. The longer the delay, the greater will be the subsequent trauma. For the United States, with 4.6 percent of the world's population using 25% of the world's oil, the transition could be especially disruptive.*

*During the next twenty years (and quite probably beyond), it is infeasible to eliminate the nation's dependence on foreign energy sources. The voices that espouse "energy independence" are doing the nation a disservice by focusing on a goal that is unachievable over the foreseeable future and that encourages the adoption of inefficient and counterproductive policies. Indeed, during the next two decades, it is unlikely that the United States will be able to make a sharp reduction in its dependence on imports, which currently stand at 60% of consumption. The central task for the next two decades must be to manage the consequences of dependence on oil, not to pretend the United States can eliminate it.”* Source:

<http://www.cfr.org/content/publications/attachments/EnergyTFR.pdf>

Lester Brown puts the whole [biofuels](#) debate in very clear terms with this simple fact:

*"In agricultural terms, the world appetite for automotive fuel is insatiable. The grain required to fill a 25-gallon SUV gas tank with ethanol will feed one person for a year. The grain to fill the tank every two weeks over a year will feed 26 people."*

Source: <http://www.renewableenergyaccess.com/rea/news/story?id=45441>

After considering this we don't even need to consider the issue of scale, which of course also puts the [biofuels](#) concept in a deep hole. As you may know I am very worried about the price of my Fritos.

Just in case you weren't convinced here is another concern to consider in the arena of GMO's (Genetically Modified Organisms) for ethanol productions that was discussed in an article titled - "Switchgrass Research Aims to Create Ethanol to Power Vehicles for \$1 Per Gallon". The driving motivation of course is to continue business as usual. No one is asking the critical question, does this make any sense given the scale and demand. Then again who eats switch grass?

*"That's a key concern with using corn for ethanol," Kausch said, "because some of the genes being engineered into corn to make it a better source of ethanol aren't genes we want in the food chain. And without confinement, such as plant sterility, those genes could find their way into the corn that we eat."*

Source: <http://www.newswise.com/articles/view/525656/?sc=rssn>

Want to visit a nuclear waste dump? Well you will soon be able to do that in Connecticut. Just swing by the old [Yankee nuclear power plant](#) and take a quick look (recommend it be a quick look, wouldn't want to linger too long there) around.

*"When the Connecticut Yankee nuclear power plant's physical decommissioning is completed this month, 1,000-plus spent nuclear fuel rods will remain in Haddam Neck stored in steel-reinforced concrete casks."*

Source: <http://www.courant.com/news/local/hc-cyfuel1203.artdec03,0,6665181.story?track=rss>

They say that they should only remain for a decade or two. Now that is good news isn't it? We will need nuclear power going forward to meet our needs, especially in the framework of global warming. But we can't move forward into the future of nuclear power at a time when we haven't even resolved its past. We can't have a nuclear waste dump everywhere we built a power plant. A solution is needed and fast, if we start today it will take us 10 years to get a new plant built and we will need over 400 of them. Remember as I am fond of saying, time is no longer our ally on the energy issue, it has become our major adversary.

Had your [Thorium](#) today? Most of us have heard of [Uranium](#) and [Plutonium](#) but how about thorium? In countries as far apart as Norway and India a slow movement to build prototype thorium reactors is beginning to be heard. Don't believe me? Well check this article out from the India Daily:

*"Charting out the vision for energy independence by 2030 and beyond, President A P J Abdul Kalam today said India should pursue nuclear power generation using thorium, which is abundantly available in the country."*

Source: [http://www.indiadaily.com/breaking\\_news/83121.asp](http://www.indiadaily.com/breaking_news/83121.asp)

Now there are many problems with this solution, the usual ones surrounding traditional nuclear power plants, waste, cost and potential nuclear weapons. The biggest one, it

will take decades before even one commercial plant is up and running and by then we will have rolled through many fossil fuel crisis. While we need to research every possible alternative it is important not to view them as the final solution or that they will come on stream in time to prevent major economic dislocation. So don't expect a new thorium plant in your neighborhood soon.

Now having said all this about nuclear power we have a great example of how [China](#) is moving ahead of us. They have opened their largest nuclear power station up as a tourist destination, no I am not kidding.

*" BEIJING (Reuters) - Tourists in China have another potential point of interest to add to their sightseeing itineraries now that the country's biggest nuclear power station has opened its doors to the public."*

Source: [http://news.yahoo.com/s/nm/20061203/od\\_uk\\_nm/oukoe\\_uk\\_china\\_nuclear\\_1](http://news.yahoo.com/s/nm/20061203/od_uk_nm/oukoe_uk_china_nuclear_1)

One of the most common questions I am asked is, do our elected officials get the energy issue. Well as they say actions speak better than words so here it is, from our own state of Washington. [US News and World Report](#) tells the story of Sen. Patty Murray's commute to her home each week (yes this is each week).

*"In today's world of commuter nightmares, consider this one for the record book. When Sen. Patty Murray goes home every Friday to Whidbey Island, Wash., it takes 10 hours to cover 2,500 miles in a *Planes, Trains and Automobiles* string of transports."*

Well I think that answers that question. From an energy stand point this has to be one of the most amazing examples I could imagine. From a global warming point of view this one is off the charts. Remember always look at what they do not what they say. Oh and don't you wish you had a three day weekend every week.

A final thought from Michael Klare (author of "Blood & Oil") in the Asia Times:

*"Ever since the collapse of the Soviet Union, foreign-policy analysts have struggled to find a term to characterize the epoch we now inhabit. Although "the post-Cold War era" has been the reigning expression, this label now sounds dated and no longer does justice to the particular characteristics of the current period. Others have spoken of the post-September 11, 2001, era as if the attacks on New York's World Trade Center and the Pentagon were defining moments for the entire world. But this image no longer possesses the power it once wielded - even in the United States. **I propose instead another term that better captures the defining characteristics of the current period: the post-abundance era.**"*

Source: [http://www.atimes.com/atimes/Global\\_Economy/HL07Dj03.html](http://www.atimes.com/atimes/Global_Economy/HL07Dj03.html)

Well until next week, keep an eye on your energy gauge and on the news that will shape your life.

**"Great minds discuss ideas; average minds discuss events; small minds discuss people."**  
**Eleanor Roosevelt**

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Questions or comments? E-mail me at [jim.hansen@kmsfinancial.com](mailto:jim.hansen@kmsfinancial.com) or call 206-363-7868 toll free 888-216-4800

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