



FUNDAMENTAL AND TECHNICAL ANALYSIS

Published by
Energy Solutions INC
natural gas buying advisors

Typically analysts use either fundamental analysis or technical analysis. Energy Solutions, Inc. uses a combination of both techniques in its evaluation of bullish and bearish natural gas market conditions and its search for natural gas buying opportunities. Bullish means the anticipation of higher prices, and bearish means the anticipation of lower prices.

Fundamental Analysis: Analysts that use fundamental analysis believe that price behavior can be determined by studying pertinent supply and demand factors. Supply factors include items like production and storage inventories, while demand factors include items like weather and the economy. Fundamental analysis employs reason and logic to model the various price behaviors of a specific commodity. Fundamental analysis is critical in the evaluation of supply and demand, however, fundamental analysis tends to have more emotion associated with it, and this can compromise how the data is interpreted.

Technical Analysis: Analysts that use technical analysis believe that history repeats itself and that price behavior can be determined by studying patterns of futures price changes, rates of change, and trading activity on the New York Mercantile Exchange (NYMEX). Technical analysts believe that there is no need to separately analyze fundamental data because that data is already inherently built into prices. There are numerous types of technical analysis systems, many of which are used to predict price behavior for both commodities and the stock market. Below are just a few technical indicators that Energy Solutions, Inc. utilizes:

- Relative Strength Index (RSI) measures market strength. A value higher than 70 indicates the market may be reaching a top, while a value of 30 or lower indicates the market may be reaching a bottom. Energy Solutions looks to the RSI to help further identify when a fixed price purchase should or should not be made.
- Elliott Wave theory evaluates price movement and from that data identifies why and when certain patterns will materialize. Energy Solutions looks to Elliott Wave to provide insight into the extent of market trends up and down by evaluating resistance and support price levels.
- Seasonality and Time Cycle analysis evaluates seasonal rallies and declines. These rallies and declines will differ depending on whether the overall time cycle is considered bearish or bullish. One premise of annual seasonality is that the front-month natural gas price on the NYMEX historically hits a first quarter low, then rallies to a second quarter high, which tends to occur sometime in May. From that second quarter high, the front-month natural gas NYMEX price is expected to decline to a third quarter low before staging a significant rally into the fourth quarter. From the fourth quarter high, the front-month natural gas NYMEX price historically declines about 45% to a first quarter low, and the annual cycle starts all over again. There are also multi-year time cycles to consider when determining how far into the future to make natural gas purchases. Energy Solutions looks to Seasonality and Time Cycle to help establish the timing of purchases and how far into the future a purchase should be considered.

Overall, Energy Solutions, Inc. looks to fundamental analysis to help establish an overall view of the marketplace. When supply and demand is out of balance, Energy Solutions, Inc. anticipates much more volatile, erratic price fluctuations. Energy Solutions, Inc. then looks to technical analysis to help establish natural gas buying targets and identify the duration of purchases when buying opportunities surface. Energy Solutions, Inc. believes that fundamental factors set the stage for price momentum, but that technical analysis must be used to determine the duration and extent of price moves up or down.