

# INVESTOR EXPRESS

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*A semi-annual newsletter for our shareholders.*

## Income Important to Many Shareholders

A sampling of Adams Express shareholder opinions earlier this year indicated that income is an important investment objective for our shareholders. Like many of our shareholders who are retired, the tsunami of the baby boomer population soon to cross the threshold into retirement will increase the importance of income as an investment objective. Generating income for our shareholders in the form of dividends and capital gains is one of the primary objectives of the Company. The others are protecting shareholders' capital and providing the opportunity for capital appreciation.

The most recent listing of annual distributions of income and capital gains over the past 10 years is located on page 13 of the 2005 Third Quarter Report. Those distributions have provided an average annual cash payout of 8.2% to our shareholders over the past decade. (That number is calculated as the annual distributions of quarterly dividends and capital gains, divided by the mean market price per share).

The impact of income taxes is an important consideration when investing for income, and Adams Express's distributions qualify for favorable tax rates. The bulk of the Adams Express distributions consists of long-term capital gains realized from the sale of portfolio holdings during the year. In 2004, \$0.64 of the \$0.96 we distributed to our shareholders was long-term capital gain taxed at the maximum tax rate of 15%. In addition, the Company pays out dividend income received from the common stocks

in the portfolio, most of which is categorized as qualified dividend income (QDI) and taxed at 15% (or less, depending on the income tax bracket). In 2004, 98.2% of the dividends distributed by Adams Express were in the QDI category. When compared with income derived from other instruments, including Treasury bonds, money market funds, certificates of deposit, and bank savings accounts— which currently offer very low rates of return and are taxed at your ordinary income tax rate— Adams Express offers a very attractive source of income.

In addition to the dividends and capital gains distributed to our shareholders, the Adams Express stock portfolio is managed for long-term growth with low turnover. No less important to maximizing the amount of income available for distribution is carefully controlling the expenses of running the fund. The average mutual fund expense ratio is 1.48%; Adams Express has averaged 0.33% over the past five years.

Note that Adams Express distributes all of its income and capital gains to shareholders in the year in which they are earned, with the exception of a minor portion of 1%–2% that typically is distributed in March of the following year. Adams Express sends an annual tax information letter to all registered shareholders in January that also is posted on the website: [www.adamsexpress.com](http://www.adamsexpress.com). Shareholders should consult their tax advisors to make sure they benefit from the lower tax rates.



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**Petroleum  
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## Meet the Analyst



**DAVID WEAVER**  
Research Analyst

David Weaver joined Adams Express as a research analyst in 2004. He focuses his attention on household durables and industrial stocks, two areas where he believes good investment opportunities exist.

"Overall, the economy is trying to find its way," he says. "We continue to get conflicting macroeconomic data, but recent results and business conditions cited by a large number of industrial companies indicate that the economy is decidedly moving ahead. This disparity creates uncertainty in the market, but also opportunities to invest in quality companies at attractive valuations.

"A persistent headwind for industrial companies has been rising energy costs. However, most of the Fund's industrial holdings also provide equipment and services to the oil and gas markets. Taking diversification a step further, many of these companies serve alternative energy markets, such as wind and nuclear.

"Opportunities may emerge in commercial construction as the economy grows and the job market continues to expand. Public construction projects, such as roads and bridges, should be stimulated by the recent passage of a new federal highway bill and by the necessary repair of recent hurricane damage in the South."

David graduated from McDaniel College and earned his master's degree in business from Johns Hopkins University. Before joining Adams Express, he spent seven years at Legg Mason covering homebuilding and building materials companies. David is a chartered financial analyst and a member of the Baltimore Security Analysts Society. He lives in Elkridge, Md., with his wife and two children.

## W. David MacCallan 1927–2005

We mourn the recent passing of our former Chairman and CEO, W. David MacCallan. David joined The Adams Express Company as a research analyst in 1955, while we were still based in New York, and spent the next 50 years either as a key member of management or serving on the Board of Directors. He was elected Chairman of both Adams and Petroleum & Resources Corporation in 1971, CEO in 1975, and he served in those capacities until his



retirement in 1991. He continued to serve on our Board of Directors up until his death. He was the 13th CEO of Adams Express and the 7th CEO of Petroleum & Resources. Known for his keen intellect and careful, thorough investment analysis, David is considered one of the great stock pickers of his generation. He greatly contributed to the success and growth of both Adams Express and Petroleum & Resources, and we will miss him very much.

## Energy Markets in Delicate Balance

Returns provided by stocks in the energy industry have increased significantly over the past three years, as have the energy funds investing in those stocks. Petroleum & Resources has returned, based on market price, 37.3% to shareholders this year, following the strong returns of the previous two years. U.S. and Asian demand, coupled with political instability in producing countries, led to more than a doubling of oil and gas prices and provided tremendous earnings and cash flow gains for oil, gas, and coal companies. Recent hurricanes in the Gulf Coast have exacerbated an already strained energy market. Significant volumes of U.S. gas and oil production have been shut down and refining capacity severely constrained. Prices will reach an inflection point brought on by the unprecedented hurricane season. Material demand dislocations could be followed by a corresponding significant correction in oil and gas commodity prices.

However, supply and infrastructure constraints will continue, and an era of high energy prices could last for an extended period.

Oil, gas, and coal stocks account for more than 70% of the Petroleum & Resources portfolio. Holdings in exploration and production companies, oil service stocks, and large oil companies have provided excellent returns. With more than 75 years of experience in investing in the energy sector, Petroleum & Resources recognizes the inherent volatility of the

sector, and the counter-cyclical nature of energy investments. With the stated objectives of preservation of capital, reasonable income, and opportunity for capital appreciation, the Fund also invests in gas utilities that satisfy those objectives. In some cases, those investments provide income and participation in higher oil and gas prices. Two of our portfolio companies, Energen and Questar, have significant leverage to oil and gas prices through exploration and production divisions, while their utility operations supply an attractive dividend to shareholders. Other investment opportunities are evident in the water industry. Our long-time holding in Aqua America, a large and growing water utility, has provided significant returns and income. Our diversified portfolio provides significant participation in the energy sector as well as income and stability in times when commodity prices decline.

Over the next two decades, energy should continue to provide favorable prospects for investors. World energy consumption is projected by the U.S. Department of Energy to increase by 60% by 2020. The increases in world oil use would require an added oil supply of more than 40 million barrels per day over recent production capacity. Prices and demand will be volatile over this period, and a diversified fund like Petroleum & Resources provides an excellent way to make a conservative investment in the energy sector.

### Forward-Looking Statements

This newsletter contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their very nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Companies' actual results are the performance of the portfolio of stocks held by the Companies, the conditions in the U.S. and international financial markets, the price at which shares of the Companies will trade in the public markets, and other factors discussed in the Companies' periodic filings with the Securities and Exchange Commission. The Companies assume no obligation to revise, correct, or update these statements.

This newsletter is sent to the stockholders of The Adams Express Company and Petroleum & Resources Corporation for their information. It is not a prospectus, circular, or representation intended for use in the purchase or sale of shares of the Companies or of any securities mentioned in the newsletter. Past performance is not indicative of future investment results. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost.