

INVESTOR EXPRESS

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Is Ethanol the Solution to the Nation's Energy Problems?



Ethanol was Henry Ford's first choice for use in the Model T, but gasoline derived from petroleum carried the day. Because of changes to the internal combustion engine, ethanol today is primarily used as a performance-boosting gasoline additive. Ethanol is made from corn or other agricultural feedstocks; corn is the favored source in the U.S. Ethanol production capacity is forecast to grow from 4 billion gallons in 2005 to over 8 billion gallons by 2012.

There are three major factors that are affecting the increase in ethanol consumption. First, ethanol is environmentally friendlier than most petroleum-based additives. For instance, ethanol is replacing methyl *tert*-butyl ether, or MTBE, in gasoline formulations as concerns increase over MTBE groundwater contamination. Second, high oil prices and the Energy Policy Act of 2005, which mandates an increase in the use of renewable fuels, are contributing to ethanol demand. The government has stepped up import tariffs and improved tax incentives for biofuel producers. Third, the automakers are making more of a commitment to flexible-fuel vehicles. These have all contributed to positive press reports and consumer attention on ethanol.

"This public excitement regarding ethanol does not equate to immediate investment success," cautions PEO Vice President Nancy J. F. Prue. "While demand for ethanol as an additive is strong, flex fuels, such as E85 (85% ethanol and 15% gasoline), are evolving." Ms. Prue points out that only

3% of cars on the road today can run on E85, and ethanol is less efficient than gasoline. For instance, the Department of Energy estimates that an ethanol-based car will deliver 14 miles per gallon versus 20 miles per gallon using gasoline. This roughly translates into a 25% – 30% fuel economy penalty. As such, energy experts forecast that by 2030 ethanol would account for only 3% – 6% of all fuel consumption. And, Ms. Prue says, of the increased ethanol usage, 99% will be as an additive to traditional petroleum fuels and 1% will be for vehicles that use E85 or E90.

The fragmented ethanol market is evolving. Careful examination of the producers, transporters, marketers, and consumers may yield investment opportunities. Industry profitability will fluctuate with corn and energy prices as well as gasoline demand. "Ethanol is one of the many alternative energy solutions we evaluate in addition to our solid portfolio of fossil-fuel-based companies," explains Ms. Prue. "Our strategy is to identify companies with solid balance sheets, established management teams, and carefully constructed growth plans."

Clearly, the recent interest in ethanol is the result of a number of positive catalysts. However, ethanol currently offers the U.S. fuel market an environmentally-friendly additive and a limited alternative to gasoline, and most likely will not become a significant oil substitute in the near future, concludes Ms. Prue.

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Anniversary Archive—What’s Your Story?



Many of our investors hold on to their shares for 25 years and longer, often passing them to the next generation. That kind of loyalty simply does not happen with all investments, so why do so many ADX and PEO owners retain their shares so long?

We suspect there is an array of interesting answers to that question. Such loyalty is a compelling tribute, and we think ADX and PEO shareholders would like to read your story.

We are initiating a Shareholder Anniversary Archive and are asking for permission to collect stories about when and why you became a shareholder—and about why you’ve stayed. We’ll feature those stories from time to time in this newsletter. The Archive will acknowledge those who recognize the long-term benefits of an investment in ADX or PEO.

To submit your story to the Archive, send an e-mail to contact@adamsexpress.com; call us at 800-638-2479; or write either company, c/o Anniversary Archive, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202.

Please tell us when you bought or acquired your first shares, and why. We would also like to hear about any other investment decisions you have made regarding your ADX or PEO shares that might interest or help fellow shareholders—yesterday’s, today’s, and tomorrow’s.

How Board Members Are Chosen

The work of our Boards of Directors is vital to the oversight and operations of the funds, and member selection is a rigorous process based on key criteria developed over years of experience.

“Our shareholders deserve insightful board members who bring as many diverse perspectives as possible. In recent years, we’ve added members with international experience to offer a global point of view to shareholder interests. We want people with vision and a passion for making sure our shareholders’ investment dollars work as hard and as effectively as possible,” said Chairman and CEO Doug Ober.

Since 1987, ADX and PEO have shared one board, and of the current 10 members, only Mr. Ober is employed by the funds. The Boards meet twelve times a year to review and discuss shareholder interests, investment strategies, operational issues, and the market environment.

Member selection starts with recommendations from current directors or others in the business community. The Nominating Committee, comprised of independent directors, then compiles a list of potential candidates. After a careful review of experience, background, and compatibility with the philosophy of each fund, the Committee whittles the list to the

strongest candidates, who are interviewed by the Committee and other board members. From that group, a top choice emerges, who is voted on by the full Board and is formally placed for election by the shareholders at the next annual meeting.

The selection criteria include more than business acumen and insight. Dedication is required: ADX-PEO directors may serve on no more than two other boards of public companies. “Our Boards meet monthly and are involved in every facet of the operation of the funds. It would be unfair to us and to them if they were spread too thin,” Mr. Ober explains. “Board service requires a lot of give and take; we need people who can work with each other and for our shareholders.”

While the Nominating Committee is diligent in the selection of candidates recommended to serve on the Boards, shareholders must annually elect the directors. Mr. Ober stresses that the shareholders’ votes matter, and that the Boards’ composition is important to shareholders’ investments. Everyone should review background information on each director in the proxy statement that is mailed to shareholders prior to the annual meetings.

Long-Term Investment Strategy

Long-term investors should not allow their investments to control their lives, says Barry Strudwick of Strudwick Wealth Strategies.

“Too many people spend hours doing needless research, trying to know everything about every stock. Most people will make money doing what they love. Investing is simply a tool to leverage that money. Investors should try not to get crazy about investment decisions,” Mr. Strudwick advises.

The Baltimore-based money manager says a good long-term strategy should include broad individual stock diversity and a wide spectrum of risk. Investors should look for opportunities in geo-economic trends and hedge against those that exert negative pressure on the market—at as low a cost as possible.

“I believe that funds such as Adams Express and Petroleum & Resources can provide investors several long-term strategy components,” Mr. Strudwick says. “PEO is a one-stop shop for diversity in resources—both stock and risk diversity—that can mitigate volatility. ADX offers diversity and blue chip stocks across a broad swath of the U.S. economy.”

Mr. Strudwick says both funds can also provide investors with a low-cost hedge against loss. “When closed-end funds trade at a discount, that discount serves as a shock absorber in down markets. ADX and PEO also have low expense ratios, significantly lower than traditional mutual funds, and that’s crucial to successful long-term investing.”

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.

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.