

INVESTOR EXPRESS

A semi-annual newsletter for our shareholders.

Issue No. 5
SPRING 2002

Buy-Side Analysts are Singularly Focused on Selecting Securities for Fund Shareholders

Research analysts of major investment banks are defending the objectivity of their research recommendations lately, and the financial media has introduced investors to jargon like “buy-side” and “sell-side” research. Buy-side analysts are typically employed by institutions or funds such as ours that have the discretion to purchase securities on behalf of clients or fund shareholders. This contrasts with sell-side analysts, who are typically employed by stock brokerage or investment banking firms and whose recommendations are passed on to the brokerage firm’s customers. Sell-side analysts are often referred to as Wall Street analysts.

The research analysts who make investment recommendations for Adams Express and Petroleum & Resources are buy-side analysts. They are full-time employees of the Funds whose sole objective is to recommend favorable investments for the portfolio. Our analysts do not publish research reports for public consumption and their analysis and conclusions are not available to the managements of the companies they follow. Their compensation is based, in part, on the performance of the stocks they have recommended.

In pursuit of suitable investments, our analysts investigate investment ideas through a variety of information sources. They comb company annual reports and company disclosure documents to understand the financial picture of a company as well as outstanding and potential liabilities. They use the Internet to access press releases about the company and its competitors, and learn about product introductions, corporate

developments and the industry. They meet with the managements of the companies they follow, attend industry conferences, and review research reports as part of a more thorough exploration of the companies’ investment potential.

The analysts cover specific industries and propose and defend their recommendations to the Investment Committee, a group comprised of Doug Ober, Joe Truta and Dick Koloski. They are encouraged to weigh in on their peers’ recommendations as non-voting members of the Investment Committee.

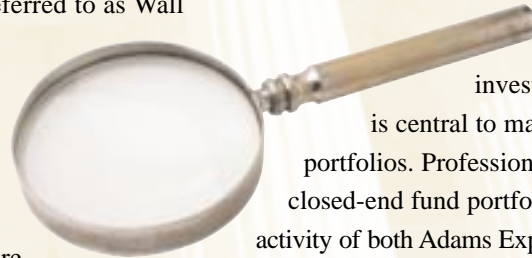
This straightforward investment selection process is central to management of the Funds’ portfolios. Professional management of the closed-end fund portfolio is the sole business activity of both Adams Express Company and Petroleum & Resources Corporation.

When analysts work for firms that have other business relationships with the company being analyzed, potential conflicts of interest can arise. For example, in major investment banking firms, an analyst’s compensation may be tied to investment banking business he may help to secure, or a research report may be subject to the approval of the firm’s investment banking department. Such conflicts have gained added scrutiny in the wake of the Enron collapse. These potential conflicts are not raised by the research done by our analysts.

The New York Stock Exchange approved rules at its February Board Meeting that would strengthen barriers between securities analysts and investment bankers. Securities and Exchange Commission Chairman Harvey L. Pitt said he expects the SEC to approve the rules this Spring.

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Meet the Analyst



STEPHEN E. KOHLER
Analyst
The Adams Express Company

In the last issue of Investor Express, we initiated a series in which we introduce our research analysts. This time, we introduce Stephen E. Kohler, Analyst, The Adams Express Company.

Mr. Kohler has been covering technology companies for Adams Express since he joined the Company in 1999, and added telecom equipment companies to his coverage last summer. He began his career as a corporate finance associate with First Interstate Bank. He moved to New York to work with Deutsche Bank, where he rose to vice president in project finance, financing initiatives such as under-sea cable projects and wireless buildouts for the telecom and media cable industry. After completing his studies to become a Chartered Financial Analyst, he joined the research department of Alex. Brown to cover computer service companies. He joined Adams Express to realize his long-term goal of becoming a buy-side technology analyst.

Mr. Kohler received his undergraduate degree in Economics from the University of Virginia and earned an MBA degree at Tulane University.

As the economy begins to see signs of a recovery, Mr. Kohler is becoming more positive about the prospects for the technology sector. Noting the dominant market positions, experienced management teams, and strong balance sheets of the Fund's portfolio holdings, Mr. Kohler says, "In general, our current technology holdings are relatively defensive for the industry and are well-positioned to benefit from increased capital spending as the economy improves."

Mr. Kohler lives in Baltimore with his wife and three small children.

Convertible Securities Can Offer Stability to an Investment Portfolio

Convertible securities can offer the best of both worlds in a dampened climate of expectations for equity returns: the income and downside protection characteristics of fixed income instruments with the upside potential of equities. Convertible bonds and notes are general *debt* obligations of a corporation that can be exchanged at the option of the holder for a set number of shares of stock of the issuing corporation at a pre-stated *conversion price*. At the same time, they pay income by way of a coupon, similar to the way that Treasury bills offer coupon interest.

The Investment Committee of our Funds has favored convertible securities for many years. Last year, however, the Committee found that convertible securities, which often were trading at premiums as much as 40-100% higher than the common stock, were not attractive investments under those market conditions. Recently those premiums have settled down, enabling the Funds to invest in such companies as Boise Cascade, Symantec, and Williams Cos. in the convertible form.

Analysts and academicians have produced many and varied conversion formulas to pinpoint the precise value of a convertible security relative to its common stock equivalent. They factor in the coupon rate of interest, the premium of the convertible price vs. the common stock price, and the

time value of money. Using these valuation parameters, the Investment Committee determines whether the price of the convertible security of a company represents a better value than the common stock offers.

The Investment Committee favors these securities for a variety of reasons. Any time you can receive predictable quarterly income, and still have the opportunity to share in some of the gains generated by the common stock, it provides downside protection, offers Doug Ober, Chairman and Chief Executive Officer. In addition, like all bonds and notes, convertible bonds carry a redemption price at the end of their term that is fixed and predictable. Observes Mr. Ober "When considering an analyst's equity recommendation to the Investment Committee, we often ask 'does the company offer a convertible?' We always like to compare the two if they do."



Frequently Asked Questions:

What are the expense ratios of our Funds and how do they compare to other funds?

The expense ratio of a fund represents the ratio of the expenses incurred in running the fund to the net assets of the Fund. As internally managed funds, both Adams Express and Petroleum & Resources are able to keep a tight rein on expenses and each operates with a lean staff. Adams Express, which is actively managed, had an expense ratio last year of .19%, comparable to what passively managed index funds charge. Petroleum & Resources' expense ratio, which is spread over a smaller asset base than that of Adams Express, was .35% last year. In contrast, the average U. S. diversified mutual fund last year had an expense ratio of 1.42%.

This newsletter is sent to the stockholders of The Adams Express Company and of 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.