## INVESTING

to expect a price decline. We also noticed a disconnect between the equity market, which seemed to be banking on cheaper oil, and the futures market, where oil traders were betting on further gains.

Convinced oil was headed above \$70, we recommended one exchange-traded sector fund, Oil Services HOLDRS (OIH), and six oil stocks: offshore drillers Diamond Offshore (DO) and Transocean (RIG), oil and gas drilling-equipment maker Cameron International (CAM), oil services giant Schlumberger (SLB), independent oil refiner Valero (VLO), and natural-gas producer XTO Energy (XTO). All but Valero rewarded us with returns in double

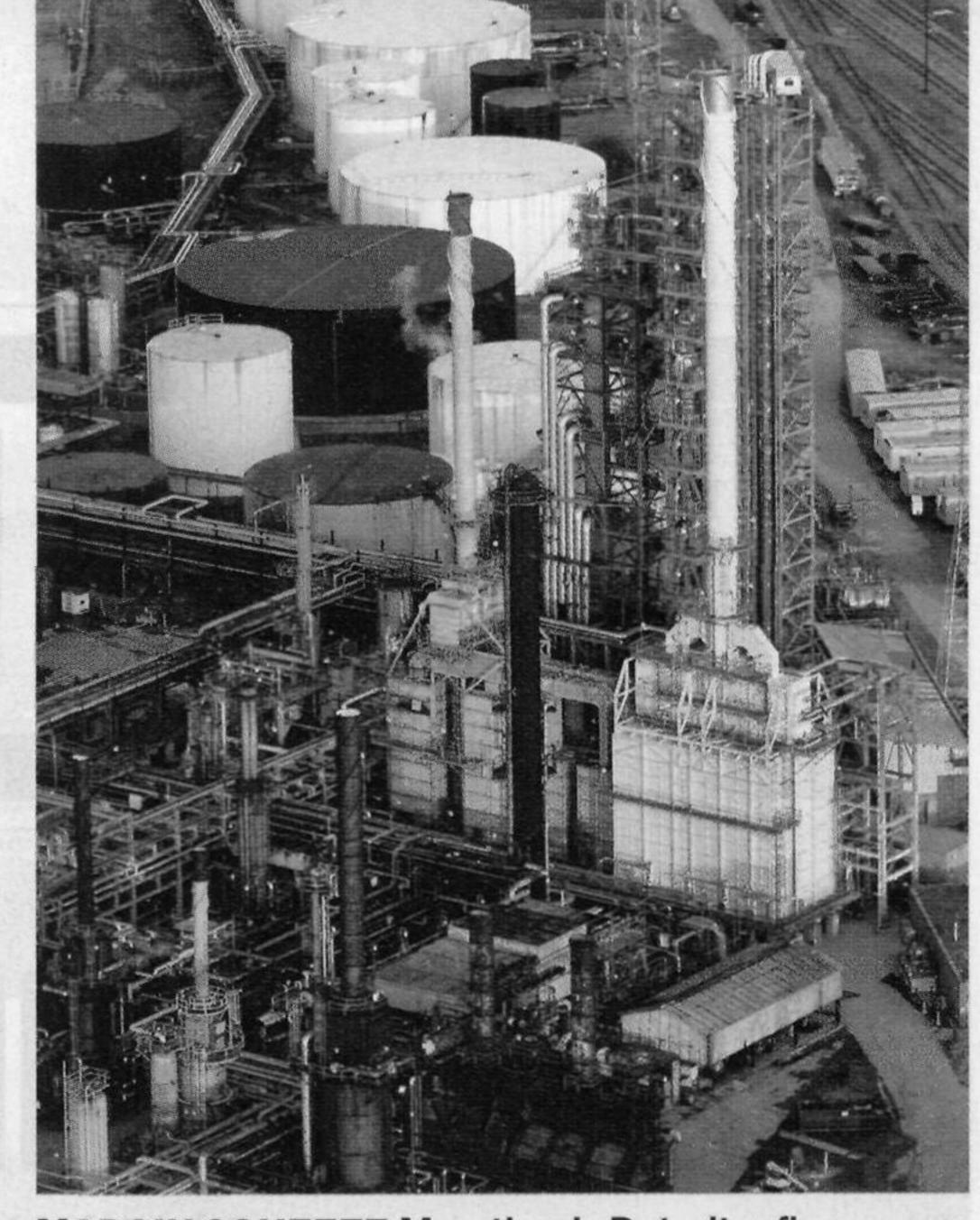
> digits. Our biggest winners: Cameron, up 45%; Transocean, up 38%; and Schlumberger, up 33%.

If you took our advice then, we'd strongly advise you to take some profits now. As much as we still like the business prospects of the companies we recommended,

their stock prices do track oil prices, and we think that, while oil may spike over \$100, the price is headed anywhere from 20% to 40% lower. No, we're not suggesting investors unload all long-term oil holdings and trigger hefty capital gains taxes in the process. We just think this is a good exit point for active investors with

short time horizons. (Among the stocks we picked in May, the one we would hold on to is Valero—more on that in a minute.)

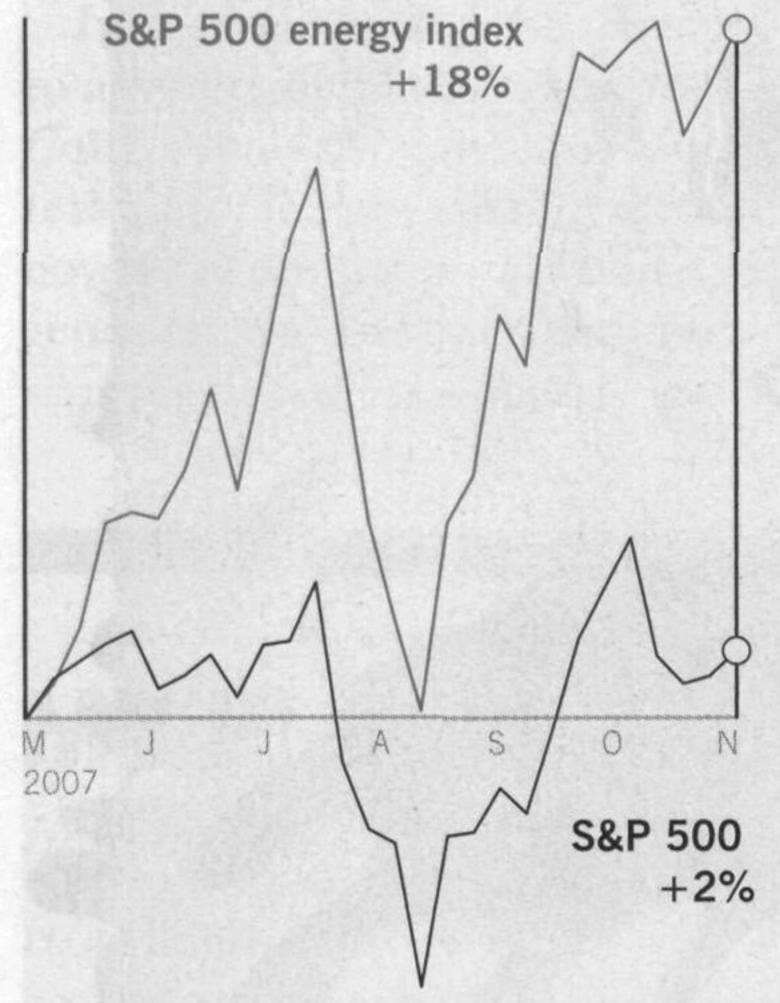
We're not alone in our concern that oil is poised for a correction. Goldman Sachs—which arguably has more influence over oil prices these days than any oil company put out a mildly bearish report on oil on Oct. 29, and oil fell \$3 within hours. Charles Ober, manager of the T. Rowe Price New Era energy fund, tells FORTUNE his fund's cash position is now 6%, up from the 2% to 3% that he normally keeps. "That doesn't mean I believe these stocks are overpriced," says Ober, who has large holdings in Cameron, Diamond Offshore,

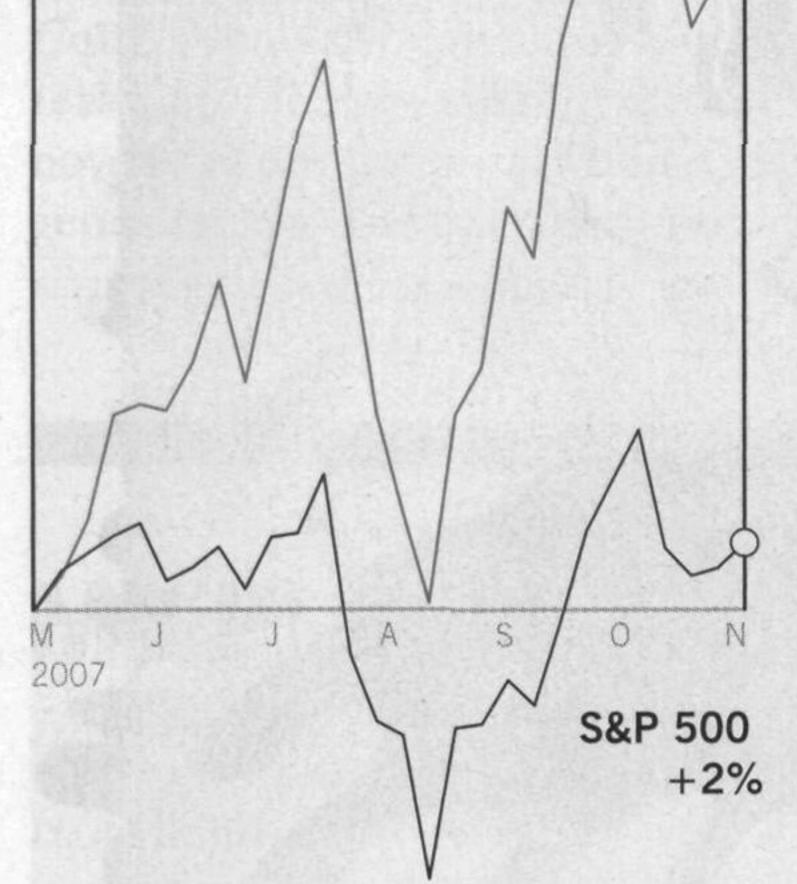


MARGIN SQUEEZE Marathon's Detroit refinery

and Schlumberger. "It's just that oil stocks tend to go down when oil prices fall, and barring some sort of event with Iran, I think oil prices are coming down."

The supply and demand fundamentals of oil haven't really changed since the spring. All that's different is the fear factor. Anything that threatens the flow of oil from the Persian Gulf is going to sound alarms in the oil market, and right now there's a lot for traders to be anxious about. Their biggest concern: a military showdown between the United States and Iran over the latter's nuclear program a possibility that became more real in September after the Senate approved a resolution declaring Iran's





## UPDATE: IPHONE STOCKS

## WHAT WE SAID

In "How to Dial In to the iPhone Bonanza" (May 28) we recommended a basket of stocks poised to benefit from Apple's breakthrough iPhone: AT&T (T), the exclusive phone operator for the iPhone in the U.S.; one of the phone's chip suppliers, Broadcom (BRCM); and rival Nokia (NOK), which would benefit from overall consumer interest in sophisticated phones such as the Apple device.

## WHAT HAPPENED

We gave some mixed signals. Phone giant AT&T, which got some bad press for the slowness of the data connections on the iPhone, is nonetheless up almost \$3, or 7%, as of Oct. 31. Chipmaker Broadcom hit \$43 but fell back to \$33 (its price when we cited it) after analysts downgraded the stock on concerns about the company's investment strategy and expenses. Our one great call? Nokia. The Apple competitor, which is launching an online music

store (sound familiar?) and is pushing into Internet services, has seen its stock climb \$15, to almost \$40, a 60% gain. We were wrong about Apple (AAPL) itself, though. We said the stock, then trading at 32 times trailing earnings, was a risky bet.



HAJUSTRATION BY DANIEL BELAR

The stock now trades at 48 times earnings and has surged \$89, to \$190. — Stephanie N. Mehta