United States Natural Gas Fund, LP (UNG)

Sell in May and Go Away **May 1, 2008**

Investment Conclusions

- *Natural gas seasonality is negative from May 1 to August 30*
- *The recent increase in natural gas prices relative to crude were likely driven by futures activity*

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Executive Summary

Over the past seven years, natural gas prices have shown strong negative seasonality from May 1st to August 30th. In six of the past seven years, natural gas spot prices fell by an average of 19.63% during this period. The only year in the past seven that natural gas prices have risen from May 1st to August 30th was 2005, when hurricane Katrina hit in August of that year.

The natural gas seasonality of the past seven years, combined with the expected cost of rolling futures contracts, should lead to a decline in the share price of the United States Natural Gas Fund (UNG) shares of over 20%. Our price target is $40.00, based on historical average declines.

The UNG is currently trading at $50.77

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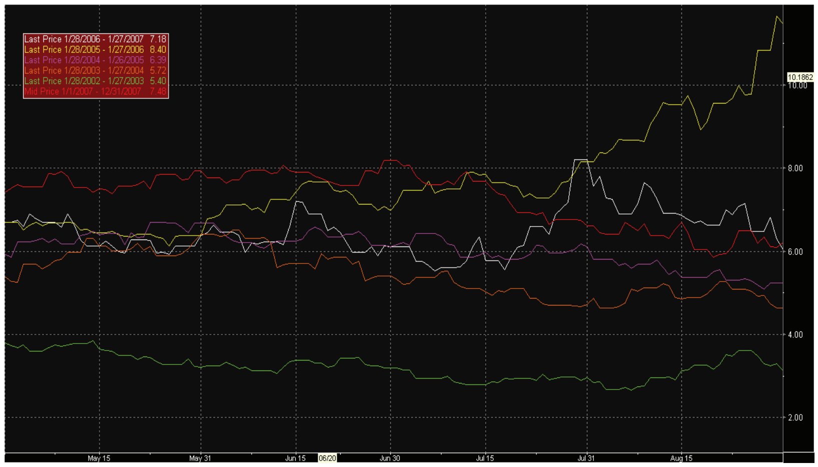
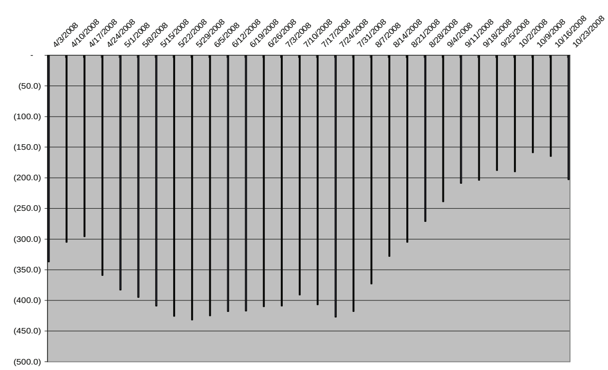


Graph courtesy of Bloomberg

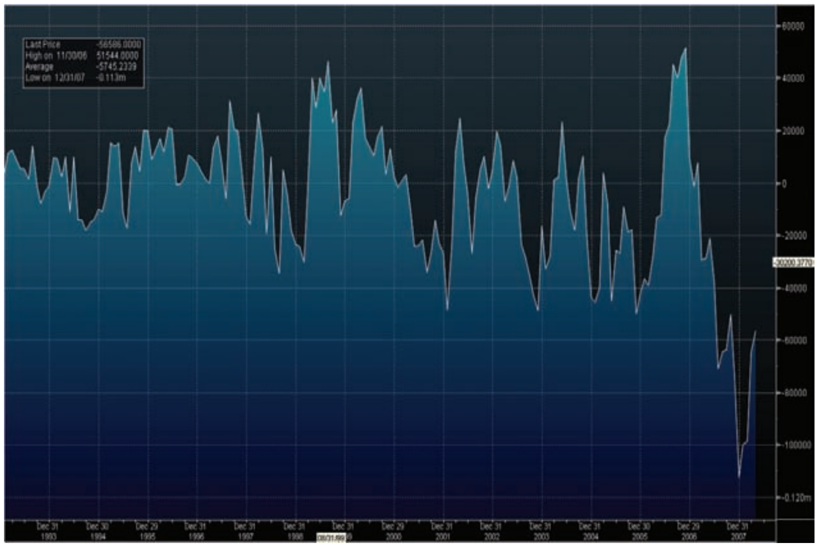
We believe that one of the driving forces behind this seasonality in natural gas prices has been the year over year change in total gas in storage. When the amount of natural gas in storage increases vs the prior year, gas prices tend to decline. When the amount of natural gas in storage decreases versus the prior year, gas prices increase. This has likely been a major driving force behind the rally in natural gas so far in 2008, relative to crude, as the amount of gas in storage has declined sharply year over year.

Going forward, we forecast natural gas storage to stabilize relative to 2007 levels during the coming weeks, before increasing sharply, as the following table displays:



This increase in natural gas in storage relative to 2007 should negatively impact natural gas prices, ceteris paribus.

The net futures position in natural gas reached an all-time record short position at the end of 2007, but has since declined by nearly fifty percent, fueling the recent rally in natural gas prices:

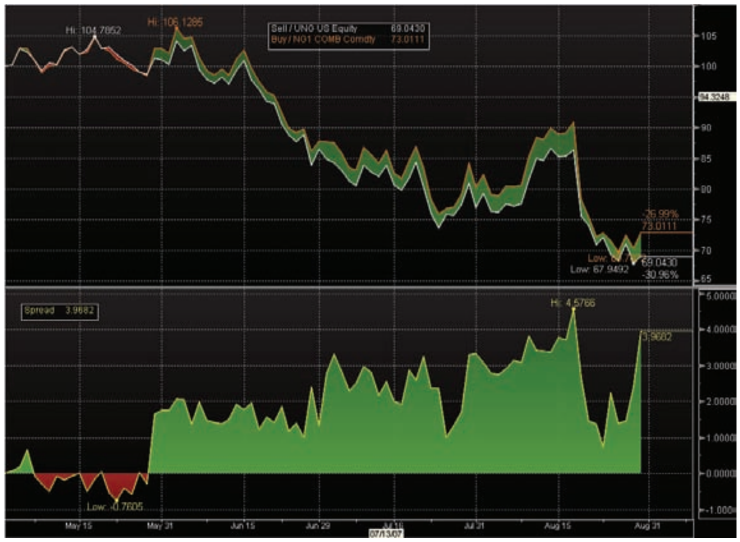


Graph courtesy of Bloomberg

While we expect investors to continue covering their natural gas short positions, we believe that producers will be adding to their hedge positions with natural gas at current high levels. For example, Chesapeake Energy, generally thought of as among the best E&Ps at hedging production, announced on March 24th that they were adding to their 2008 and 2009 natural gas hedge positions. In addition, Chesapeake announced that they were beginning to hedge 2010 production.

An interesting way for equity market participants to take advantage of a potential natural gas decline is by selling the US Natural Gas Fund, LP (UNG). This ETF, introduced in April of 2007 by Victoria Bay Asset Management, LLC., attempts to replicate the total returns from 'the movement of natural gas prices." Besides providing equity investors with a means to gain exposure to the natural gas market, the ETF provides exposure to the natural gas forward curve. The fund primarily uses NYMEX Henry Hub natural gas contracts for the current month and the next month to gain market exposure to natural gas prices.

The natural gas futures market has been in contango for most of the last three years, with the current month's contract trading slightly below the next month's contract. Today, the current month natural gas contract is trading at a $.15 discount to the next month's contract. Any futures trader using current month contracts, such as the US Natural Gas Fund, loses $.15 per contract when rolling over their exposure from the current month to the next. In 2007, the contango ranged from $.06 to $.23 from May 1st to August 30th, with an average of $.16. During the course of this period, the US Natural Gas Fund lost 3.97% against the spot natural gas price, as demonstrated on the graph on the following page.



Graph courtesy of Bloomberg

The natural gas seasonality of the past seven years combined with the expected cost of rolling over the futures contracts should lead to a decline in the share price of the United States Natural Gas Fund shares. Our target price is $40.00, based on historical average declines.

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