

Light-Years Ahead of the Crowd: Interview With James B. Rogers, Private Investor

By LAWRENCE C. STRAUSS

JIM ROGERS HAS A SEVERE CASE OF WANDERLUST. The longtime investor and author, whose books include *Investment Biker* and *Adventure Capitalist*, also has a new address: Singapore. Rogers recently moved his family to the island state from New York because he wants his young daughters to learn to speak fluent Chinese, which will be crucial in this century, he says.



Scott A. Woodward for Barron's

"We have seen all this before -- bubbles, panics, collapses. And yet, somehow, the world adapts." -- *Jim Rogers*

Chinese. I want to make sure she continues to speak Chinese. We now have another daughter, 4 weeks old, and we want both of them to grow up speaking Chinese fluently. If I'm right, the best skill I can give them is to be completely fluent in Mandarin.

Why not live in China?

The pollution is so horrible and, at least in the cities where we wanted to live, we just couldn't bring ourselves to move there. Singapore is a terrific place. They don't speak as much Chinese here as we would like, but they speak plenty of it.

Why are you so bullish on China?

It fits that Rogers, a former member of the *Barron's* Roundtable and, with George Soros, co-founder of the Quantum Fund in the 1970s, looks far afield for investment opportunities, both long and short. He remains bullish on commodities but has sold many of his emerging-market holdings. Rogers, 65, doesn't run others' money these days, though an index he developed in the late 1990s, the Rogers International Commodities Index, has been licensed to some funds. Its cumulative return, from inception in 1998 through the end of March, was more than 380%, versus about 38% for the S&P 500.

In a recent conversation with *Barron's*, Rogers had no shortage of strong opinions on topics ranging from regulation of the financial markets to China's future.

Barron's: *You've set up house in Singapore. Why the big move?*

Rogers: I wanted to move to a Chinese-speaking city because we have a 4-year-old daughter who speaks

China is going to be the next great country. The 19th century was the century of the U.K. The 20th century was the century of the U.S. The 21st century is going to be the century of China. Even if I'm wrong, there are 1.5 billion people who speak Chinese every day, so it's not as if our daughter is learning Danish. Even if she winds up working in a Chinese restaurant, she is going to be the maitre d' -- not the dish washer.

What else intrigues you about China?

China was in decline for 300 years and then around 1978 Deng Xiaoping said, "OK, let's find something new." He reintroduced entrepreneurship and capitalism to a country that has had a long, long history of both. In China they save and invest more than 35% of their income; in America we save less than 2%. The Chinese work from dawn to dusk. When they come to work, they don't say, "How many holidays do I get?" They want to live like we do in America and they are willing to work hard, save and invest for the future.

What about investment opportunities in China?

Perhaps the safest investment is the renminbi, the Chinese currency. I don't see how the renminbi should not go up against the dollar, anyway, for the next several decades. Commodities, of course, are a great way to invest in China. If you have nickel, they will take you to dinner, pay for dinner and pay you on time. They have to buy commodities. And there are some industries in China that are going to do well, no matter what happens to the world economy -- water treatment, for instance. China has a horrible water problem that it is doing something about.

What other industries in China look interesting?

Agriculture. Mao Zedong [who ruled China from 1949 until his death in 1976] totally ruined agriculture. China now is spending huge amounts of money trying to rebuild agriculture. The same goes for power generation. Another growing industry is tourism; the Chinese have not been able to travel for some 300 years, for a variety of reasons. But now the government is making it much easier to get passports, and they are encouraging travel.

Switching to your old home, what are your thoughts on the U.S. credit crunch?

We had the worst credit bubble ever in American history, perhaps world history. I can't remember anytime in history when people were able to buy a house with no money down -- sometimes with no income. You don't clean out a bubble like that in six months to a year. I've been short the U.S. investment banks by using the **Amex Securities Broker/Dealer** Index [ticker: XBD], an exchange traded fund with exposure to many of those firms. I've also been short [Citigroup](#) [C] and [Fannie Mae](#) [FNM]. I'll short some more if we get nice rallies in any of them. I am still short some of the U.S. homebuilders like [Lennar](#) [LEN].

Anything you like?

The airlines, mainly international airlines like **Lufthansa** [DLAKY], **Austrian Airlines** [AUA.Austria], **SAS** [SAS.Sweden], **Iberia** [IBLA.Spain], **Japan Airlines** [JALSY] and all the Chinese airlines. I fly a lot and see that the planes are filling up and that the fares are going up. I also realized that [Boeing](#) [BA] and Airbus are sold out and that you can't get a new plane for five to seven years. Rising oil prices are a problem, but the airlines can pass on the cost increases.

You have been quoted as saying you don't think bailouts of troubled companies are a good idea. Is that still your view?

Yes, it is. If the government had not bailed out the hedge fund Long-Term Capital Management in 1998, I don't think we would have some of the problems we have now. Investment banks have been going bankrupt for hundreds of years. It is not the first time something like [Bear Stearns](#) [BSC] has happened and the world has always survived.

If you had a few investment bankers go broke in 1998 or after the dot-com bust -- or if they lost hundreds of millions of dollars -- they probably would have had a different approach to their balance sheets. But since relatively few people got hurt with Long-Term Capital Management, in a few months everybody had forgotten the lessons that should have been learned about leverage or crazy products or crazy approaches. The government has been intervening to save all its friends for a decade or so rather than letting the market work properly.

But isn't it so that a Bear Stearns bankruptcy would have devastated the financial system?

If the system is so fragile that the fifth-largest investment bank can bring it all down, then you better go ahead and have the problems now. What if three or five years from now it is the largest investment bank that fails or the largest five or six banks that fail? Then there will be a disaster.

As an investor, you often allude to the importance of understanding history.

History will teach you that, first, we have seen all of this before, whether it's bubbles or panics or collapses. And yet, somehow, the world adapts. It also shows that whatever we are seeing today is not going to be true in 10 years, as was the case with the bubble in technology stocks in the late 1990s. As an investor, it's crucial to figure out what is going to change.

Are we still in the early stages of a bull market for commodities?

I wouldn't say it's early; the commodities bull market started in early 1999. There are going to be corrections -- and big ones -- along the way. That's true for every bull market.

But nobody has brought on any new supply of anything in the past 25 or 30 years. The last gigantic oil field was discovered in the 1960s. The number of acres devoted to wheat farming has been declining for more than 30 years. Food inventories are the lowest they've been in 60 years.

Our colleague Gene Epstein argued in a recent Barron's cover story that there is a huge speculative element pushing up commodities prices.

But where is the oil coming from that's going to drive down prices and keep them down? We are going to have corrections, as was the case in 2001 after 9/11. Is there speculation in commodities? Of course. Whenever you have a bull market, it draws money. If the fundamentals are right, investors make money and they want to make more. But people were buying commodities for 20 years in the 1980s and 1990s and nothing happened, because the fundamentals weren't right yet. Now that the fundamentals are right, more money is going into commodities. It will end in a bubble and hysteria. But in 2018, or

whenever this bubble finally starts to peak, if I'm lucky you will call me up and I'll say it's time to sell commodities.

So you expect commodities prices to keep running up.

Absolutely. Look, if somebody discovers a gigantic oil field in Chicago or Berlin, then we will maybe have to start reassessing. But remember that all the great oil fields are in decline, including those in Alaska, Mexico and the North Sea. And I'm not just talking about oil. You can't go into your garage, snap your fingers and bring a new zinc mine to market. It takes on average 10 years to bring on any new mine.

Why have you sold most of your emerging market holdings?

Take Africa as an example. It's a natural- resource-based economy, so a huge fortune is going to be made there in the next 10 years. Many countries will look a lot better because they do have lots of natural resources.

Having said that, right now there are probably 15,000 MBAs on airplanes flying around the world looking for emerging markets, some of which are now called frontier markets. I've been investing in these markets for many years and all of a sudden they have a name. That's why I have sold all my emerging markets except China and Taiwan.

But I hope I'm smart enough that if and when there is a big correction, I'll be able to buy back some of those holdings.

You've been bearish on the dollar for some time -- a good call. What do you have against the greenback?

I continue to be skeptical about the dollar, though I'm not selling dollars at the moment because there are too many bears, including me. I hate to say it but the U.S. dollar is a terribly flawed currency. It seems that the people in Washington are trying to debase the currency. The Fed has been printing money.

When interest rates start rising again in the U.S., won't that strengthen the dollar?

There will be rallies along the way. For every currency that's been under pressure throughout history, that's one of the tools that's used eventually. That causes a rally whenever they do it, but eventually it is just another central bank, or another government, trying to protect itself. Experience tells me that when this scenario occurs, let the rally come and sell more dollars.

In some ways a weaker dollar helps the U.S. economy, making exports cheaper. What's driving the dollar lower?

As recently as 1987 the U.S. was a creditor nation. We are now the largest debtor nation the world has ever seen. We owe trillions. That's with a "t." The real problem is that that our foreign debt is increasing at a rate of \$1 trillion every 15 months. You can do the arithmetic.

We will. Thanks, Jim.