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THE NEXT NEW THING

By Jim Rogers

A new bull market is under way, and it is in commodities-the "raw materials," "natural resources," "hard assets," and "real things" that are the essentials of not just your life, but the lives of everyone in the world. Every time you walk into the supermarket or the mall, you're surrounded by commodities that are traded around the world. When you get into your car or truck, you are surrounded by other widely traded commodities. Without the commodities, "futures markets" to set and regulate prices, the things we all need in life would be scarce and often too expensive. These essentials include oil, natural gas, wheat, corn, cotton, soybeans, aluminum, copper, silver, gold, cattle, hogs, pork bellies, sugar, coffee, cocoa, rice, wool, rubber, lumber, and the 80 or so other things listed in the traders' bible, the Commodity Research Bureau (CRB) Yearbook.

Commodities are so pervasive that, in my view, you really cannot be a successful investor in stocks, bonds, or currencies without understanding them. You must understand commodities even if you only invest in stocks and bonds. Commodities belong in every truly diversified portfolio. Investing in commodities can be a hedge against a bear market in stocks, rampant inflation, even a major downturn in the economy. Commodities are not the "risky business" they have been made out to be. In fact, I believe that investing in commodities will represent an enormous opportunity for the next decade or so.

For most investors, commodities trading is a land of mystery full of legendary dragons. Intelligent, well-informed people who can recite P/E ratios of large caps and small caps, who study the balance sheets of high techs and biotechs, semiconductors, and small banks in the South, self-proclaimed "savvy investors" who follow bond prices and yields more closely than the baseball box scores and who might even have an eye on the dollar versus the euro, the yen, and the Swiss franc, know nothing about commodities. And if they do know something, it's typically second- or third-hand information, usually mistaken, and, more often than not, involves a cautionary tale about "a brother-in-law who lost his shirt in soybeans." Like Americans who never travel to foreign countries for fear of being humiliated or cheated because they don't know the local language and customs, investors who shy away from commodities are missing out on an incredible opportunity.

You cannot ignore an entire sector of the marketplace-not if you really want to be considered an "intelligent investor." If a friend of yours who was heavily invested in the stock market went through the 1990s without even considering buying a technology stock, and ignored what was happening in the world of Microsoft, Cisco, Amazon, eBay, and even IBM, surely you would find such behavior strange. Yet that is precisely what most investors have done with respect to commodities.

One reason that companies and stocks did so well in the 1980s and 1990s was that raw materials were in a bear market: Cheap commodity prices removed the cost and margin pressures from companies that depend on natural resources to do business. Investors who figured out that the commodity bear market was ending in the late 1990s realized that the stock bull market would be ending, too. The CNBC anchors were still giggling with glee, still advising to buy more dot-com shares, while the smart investors were exiting the market and moving to commodities. They could see that the costs of doing business would soon start eating away at profits-and that stock prices would soon follow.

It is hardly the bush leagues. In fact, natural resources are the largest nonfinancial market on the planet. The annual production of just 35 of the most active commodities traded every day in New York, Chicago, Kansas City, London, Paris, and Tokyo is worth \$2.2 trillion. The volume of dollars traded on the commodities exchanges is several times that of the common stocks traded on all U.S. stock exchanges. (Commodities dealings for many times more than that amount take place outside the commodities exchanges.)

And wherever there is a market, there are opportunities to make money. I know-the business pages of your newspaper, the financial magazines, and CNBC devote most of their time and space to stocks. According to the media and other stock-market "experts," the equities bull is forever hiding just around that next corner on Wall Street. But millions of investors who listened to the experts back in 1998-2001 about "the New Economy" got hammered in the stock market and are still trying to get back to even. The smart investor looks for opportunities to acquire value on the cheap, with one eye out for a dynamic change in the offing that might make that investment even more valuable.

Today, commodities fill both bills. The commodity bear market ended in 1998, when prices were approaching 20-year lows (equal to Depression levels, when adjusted for inflation). That year Merrill Lynch, the largest brokerage firm in the U.S., decided to leave the commodities business, and I began a commodities index fund to capitalize on the end of the bear market.

I am convinced that value and strength in the commodities markets will continue for years to come-that we are, in fact, in the midst of a long-term secular commodities bull market. The twentieth century saw three long commodities bulls (1906-1923, 1933-1953, 1968-1982), each lasting an average of a little more than 17 years. The new millennium has begun with another boom in real things. In my opinion, it began in early 1999.

There is no mystery to it. What could be more straightforward in this world than its very basic materials? Corn is corn, lead is lead, and even gold is just another thing whose price depends on how much of the stuff is around and how eager people are to own it. And there is certainly no magic to figuring out the direction in which prices will go in the long term. These alternating long bear and bull markets in metals, hydrocarbons, livestock, grains, and other agricultural products do not fall from the sky. They are prime players in history, the offspring of the basic economic principles of supply and demand. When supplies and inventories are plentiful, prices will be low; but once supplies are allowed to become depleted and demand increases, prices will rise, just as inevitably.

It has not taken any genius on my part to understand this dynamic; it's just the way the world works. But the investor who sees this supply-and-demand balance going out of whack and is willing to put some money on the table will be rewarded many fold.

Regards

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For The Daily Reckoning

Editor's Note: Jim Rogers helped found the Quantum Fund with George Soros. He has taught finance at Columbia University's business school and is a media commentator worldwide. He is the author of *Adventure Capitalist* and *Investment Biker*. He lives in New York City with his wife, Paige Parker, and their 18-month-old daughter, who is learning Chinese and owns commodities but doesn't own stocks or bonds.

The essay you just read was taken from Jim's recently released third book, *Hot Commodities*

Past performance is not necessarily indicative of future results. The risk of substantial loss exists in futures trading.