

# Commodities: Now, Never, When?

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A client of mine can't get commodities off his mind. He is in stellar company. Jimmy Rogers, the legendary investment banker and author of [\*Hot Commodities: How Anyone Can Invest Profitably in the World's Best Market\*](#), is in the same camp. Though each is probably right, the question is when and how to invest. Jimmy Rogers did in 2004. My client is hoping he won't be too late.

A commodity is different than a stock or bond. It is a real asset, meaning it is intrinsically valuable. Agricultural and energy products plus metals are commodities. Others include staples like coffee, cotton and sugar. Investors buy real assets because they hope they will go up in price like stocks. This happens with inflation because then the cost of commodities increases. For this reason, owning commodities can hedge against price rises. However, if the economy is going nowhere or slowing down, owning a commodity is less attractive. Then, stocks and bonds are traditionally better performers.

In the old days, farmers and others would haul their product to market to trade, for example cattle. No more. Now, buying and selling commodities is infinitely easier. A diversified basket can be purchased in the form of an exchange traded fund. This is also true for a specific commodity such as energy.

As an example, **Green Haven Continuous Commodity Index (GCC)** invests in 17 products in equal weight: corn, wheat, soybeans, live cattle, lean hogs, gold, platinum, silver, copper, cocoa, coffee, sugar, cotton, orange juice, crude oil, heating oil and natural gas. **I Shares S&P GSCI Commodity-Indexed Trust (GSG)** is different. It is production weighted to reflect the relative significance of 24 different commodities to the world economy: 67% energy, 16% agriculture, 7% industrial metals, 7% livestock and 3% in precious metals.

On the other side of the spectrum, there are totally non-diversified funds including agricultural [**iPath DJ AIG Livestock TR Sub-Idx ETN (COW)**], metals [**Power Shares DB Precious Metals Fund (DBP)**] and energy [**iPath DJ-AIG Natural Gas Total Return Sub-Index (GAZ)**]. The examples in these two paragraphs are neither the best nor the least costly. They are simply illustrations of some of the possibilities.

Determining when to invest in commodities can be challenging, but profitable. In a downturn, such as we have now, real assets may not do as well as stocks. Therefore, overweighting them in a portfolio too early can mean lost opportunity because placing investable money elsewhere could glean a better return. In an inflationary upturn however, they can outpace other options. Unfortunately, no one has a crystal ball to determine the best time for an investor to plunge into this asset class, though some are predicting that the second half of next year the fed will raise interest rates, which could start or accelerate any inflationary cycle. Inflation is likely to be the mechanism of choice the government will use to bail us out of our national debt. Before or around the time this happens, the easiest way to make a commodity play is to buy a broad commodity ETF.

Not everyone is as enthusiastic about this option as my client and Jimmy Rogers however. One reason is that the only commodity ETFs backed by physical assets are precious metals. Even then, there is often a lot more invested in them than there is physical storage. This means that a run on the fund in a downturn could prove disastrous. Another concern is that trying to market time any asset class is fraught with hazard. Many advisors suggest that a better approach is to use a diversified portfolio with low correlation and stick to it. On the other hand, some smart investors say, "Go where the money is." For those investors, that could be commodities. The question is, "Which commodities and when?"

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