



*The right solutions
at the right moments.*

There's Always a Bull Market Somewhere

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Weekly Market Beat*

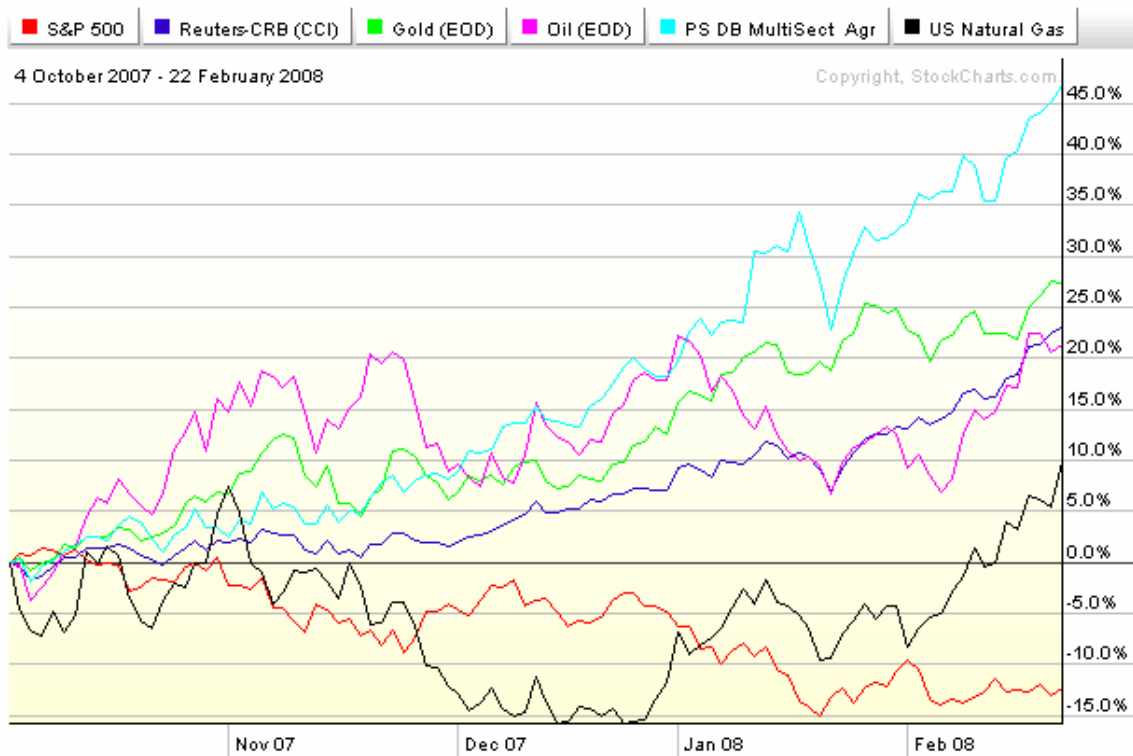
Jim Cramer, the wild-eyed market maven who hosts a financial gong-show daily on CNBC called *Mad Money* makes the promise that he'll help viewers make money because there is "always a bull market somewhere." Last week's action in the commodities markets certainly bore out that contention in spades.

While the major stock market indices were ahead by 0.2% to 0.8%, and only because of the last 45 minutes of the market day on Friday in reaction to a rumor of a bailout of municipal bond insurer Ambac, the real fireworks were in the commodities markets. Gold and agricultural prices surged 4.6%, oil prices rose 3.5%, and natural gas climbed 6.6%. The CRB Spot Industrial Commodities Index which consists of 22 raw materials gained 2.8%. Platinum prices, due to a power shortage in South Africa, the main supplier of the metal, rose 4.8%.

Lasts week's commodity price frenzy was fueled by a faster than expected rise in the Consumer Price Index for January and the Fed's revised forecast of slower growth and higher inflation. The "stagflation trade" is gaining momentum among investors as the expected further lowering of the Federal funds rate by the Federal Reserve is expected to generate more upward inflation pressures. Add to this the drive by institutional investors to diversify away from risks in equities, plus the availability of ETF's (exchange-traded funds) that make it easy for individual investors to gain exposure to commodities markets, and you have a recipe for another potential asset bubble.

The action in commodities last week was just the latest in a series of gains. Since the peak in the S&P 500 on October 4, 2007, commodity prices have soared, while stocks have fallen 15% (excluding dividends). The chart below shows various commodities and the S&P 500 from the stock market peak until last Friday. The clear winner has been the agricultural commodities index (light blue line), up a whopping 45%. This is actually an ETF that represents four commodities – wheat, corn, sugar, and soybeans, the last three of which are used in the production of biofuels. Natural gas prices have recently taken off as well in light of falling inventories and the extended cold weather in most parts of the country. Natural gas is increasingly being touted as a clean fuel alternative to crude oil.

While commodities have desirable diversification characteristics relative to stocks, their price movements are volatile and subject to wide swings in short-term sentiment. So it is important to have a longer term view of their place in a portfolio. If one thinks inflation pressures will build over time, along with continuing downward pressure on the dollar, commodities should have a place in your portfolio.



During the last equity bear market in 2000-2002, the CCI Commodity Index rose 20%, oil gained 50% and gold prices increased by 12%, while the S&P 500 lost 30%. Each of these commodity types are now available as ETF's which has significantly broadened their appeal. The commodity ETF presented in the chart trades over one million shares per day, reflecting a broad and liquid market for these types of exchange-traded funds.

Commodities have been shown to be an excellent asset class to diversify an equity portfolio, especially during downswings in equity prices. With the continued demand for food commodities in the emerging markets to satisfy the dietary habits of the growing middle classes, and the surfeit of investable cash among oil producing countries looking to diversify away from reliance on equities, commodities are likely to continue to post favorable rates of return, even in the absence of a bear market in equities. And the boom in demand for inflation protection that commodities represent is not likely to dissipate soon.

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