

The New Bull Market

Commodities will do well for years to come

By **JIM ROGERS**

IT MAY HAVE BEEN Meyer Rothschild, the German banker and patriarch of the legendary House of Rothschild who, when asked how he got so rich, attributed his success to two things. He said he always bought when there was blood in the streets -- panic and chaos, at any rate -- when despondency gripped the markets.

(In old man Rothschild's time, investing amid the turbulence of the Napoleonic wars, the blood was just as likely to be literal as it was to be figurative.)

Rothschild also always sold "too soon." He did not wait for enthusiasm to peak. He always knew when to get out, and he got out in time with all his money.

It's not likely that Meyer Rothschild would be buying U.S. stocks these days, since he always waited for serious despair. After all, many on Wall Street are still raking in big money, employment there is down only slightly, stocks are not cheap by historical measures, and mutual funds are still thriving. He would probably point out that Japanese mutual funds have lost 95% of their asset value since 1990; that is more like real blood in the streets.

Old Meyer Rothschild, if he were around today, would have moved his investments to commodities, after having gotten out of stocks years ago. Throughout history, there have been bull markets in raw materials every 20-30 years. There have been long periods when stocks did well while raw materials did horribly -- the 1980s and 1990s, for example.

The late 1960s and the 1970s saw the reverse, with commodities booming and stocks declining.

From 1906 to the early 1920s stocks did nothing while commodities boomed. It may sound radical, but it has occurred repeatedly. These cycles always have occurred as supply and demand patterns have shifted. Everyone invested in stocks in the 1980s and 1990s, but little money went into productive capacity for natural resources. There was a glut after the great commodities booms of the 1970s, so no one was calling to invest in sugar plantations or lead mines or offshore drilling rigs.

Natural resources have been in a bear market for about 25 years now (e.g. sugar peaked in 1973, oil in 1980, etc.).

Declining markets attract little in the way of increased productive capacity, and this commodities bear market has been no different. Virtually no one has built an offshore drilling rig, or opened a lead mine, or developed a sugar plantation during the 1980s and 1990s. Quite the opposite: Productive equipment has deteriorated, been cannibalized, or scrapped while other capacity has closed.

Demand has continued growing worldwide, and eventually it will exceed supply, which has been flat for years. Asia already has become a huge buyer; China is now one of the world's largest importers.

Prices have been held down by inventory liquidation. The stockpiles built up because of the carry-over from the previous bull market with its hoarding mentality have been liquidated, leading to low inventories on the basis of stocks versus consumption. For example, the percentage ratio of foodstuff inventories to annual consumption reached records of about 35% in the 1980s. The ratio is in the low teens now.

We now face a classic change in commodities markets. Raw materials supplies and demands are out of whack again, and inventories are down. Commodities will do well for years to come, while stocks, recovering from their recent bubble, will do little. We now see long term double and triple bottoms in commodities even if the world economy slows.

Remember, the 1970s saw tremendous rises in raw material prices, despite economic stagnation, as supply and demand corrected imbalances.

An occasional argument heard for the proposition that natural resource prices will never rise again is "technology." But the world has experienced repeated dramatic breakthroughs throughout history, yet these breakthroughs have not prevented periodic, multiyear commodity bull markets.

We have seen faster transportation, communication, and productive advancements before, in railroads, steam ships, radio, telephone, electricity, planes, etc. None of them kept commodity prices down forever.

The hydrocarbon industry of the 1960s and 1970s is a recent example. In the mid-1960s, drilling below 5,000 feet or offshore was almost impossible. An explosion of technological advancements led to 25,000-foot wells and offshore development worldwide. The Hughes diamond bit drill led to unthinkable drilling efficiency. Yet oil prices rose 1,500% in that 15-year period.

Commodity investing gets a bad rap, because everyone knows of people getting wiped out in pork bellies or soybeans or whatever. The reality is that the horror stories are of people buying on thin margin. One can buy \$20,000 of corn and post \$20,000, just as one can when buying Cisco stock. In fact, inadequate margin in the stock market has wiped out more people in recent years than in the commodity markets.

The new commodity bull market has started, but few realize it yet, just as few recognized that a new bull market in stocks had started in the 1980s. My commodity index (see chart) has risen more than 100% since the end of 1998, when my wife Paige and I left on our three-year drive around the world.

The government, Wall Street, and the media keep telling us that prices are not rising, but one can go over to the commodity pages to check reality. In fact, commodity indices have far outperformed stocks, bonds, currencies, and real estate since 1998. War and the printing of money just ensure that the commodity boom will last even longer.

The Federal Reserve's new official policy is to drive prices higher. It's not good for the country, but it's great for commodities.

But it will not last forever. Someday, probably several years from now, we will have to sell our commodities and go back to stocks. Merrill Lynch no longer has commodity brokers because it is such a bad business. When Merrill Lynch goes back into the commodity business and CNBC starts broadcasting from the soybean pits in Chicago, sell out.