

## Speed Up or Slow Down—Don't Exit the Commodities Highway



**Frank Holmes,**  
CEO and Chief  
Investment Officer,  
U.S. Global Investors

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When it comes to investing, wise managers are like good drivers, constantly evaluating the environment, looking for signs to step on the gas or slow down. A positive signal received recently came from Goldman Sachs, when the firm recommended “stepping back into the markets” in its latest Commodity Watch. Goldman is anticipating a 29 percent return for the S&P GSCI Enhanced Commodity Index over the next 12 months and suggests investors might want to increase their position in commodities.

Cautious investors might note that this is a significant change compared to the storm we've been driving through over the past several months. Goldman bases its view on a number of compelling factors that reveal improved conditions:

**1. Prices have been pushed below fair value.** Commodities have underperformed all other assets, says Goldman. The U.S. Global investment team tracks numerous resources subsectors' daily movements, and looking over the past 60 days, the Morgan Stanley Commodity Related Equity Index, as well as oil and gas, fertilizers, construction and engineering subsectors have experience double-digit declines, triggering a -1 sigma move. This is a sign that several commodities indices may be oversold; historically, these dips provided buying opportunities.

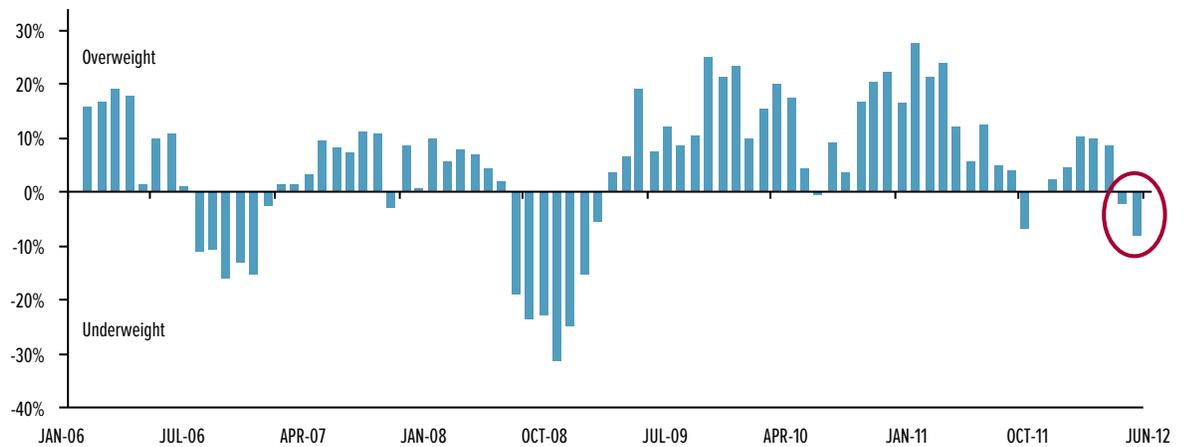
**2. China and the U.S. have been posting improved data.** Forward-looking data for U.S. survey data is more positive and China's activity measures have been “in line with expectations,” says Goldman.

**3. Policymakers are taking accommodative action.** Recently, we've seen *China cut interest rates* for the first time since 2008. Australia and Brazil also cut rates, and Indonesia just introduced a stimulus plan to boost consumption and infrastructure spending, using \$2.5 billion from the budget surplus to fund building projects as well as lift the tax-free annual income level, reports *Bloomberg Businessweek*. Some speculate that the U.S. might be next in making an easing move.

Central banks will do their best to provide liquidity to the banking system, says BCA Research. Recently, the Bank of England's central bank has “taken the lead,” with total assets significantly accelerating after coming out with its own long-term refinancing operation (LTRO) program. England will provide six-month loans, as well as loans that are below market rates to banks for many years, to help drive lending to households and businesses.

## Global Fund Managers May Miss Buying Opportunity

Net Allocation to Commodities



Source: BofA Merrill Lynch Fund Manager Survey, Datastream

## Don't Miss the Entrance Ramp

Many institutional managers have exited the commodities superhighway in favor of cash—currently at the third highest level on record—or technology stocks. In its global fund manager survey this month, Bank of America-Merrill Lynch found that advisors' allocation to commodities reached its lowest level since February 2009.

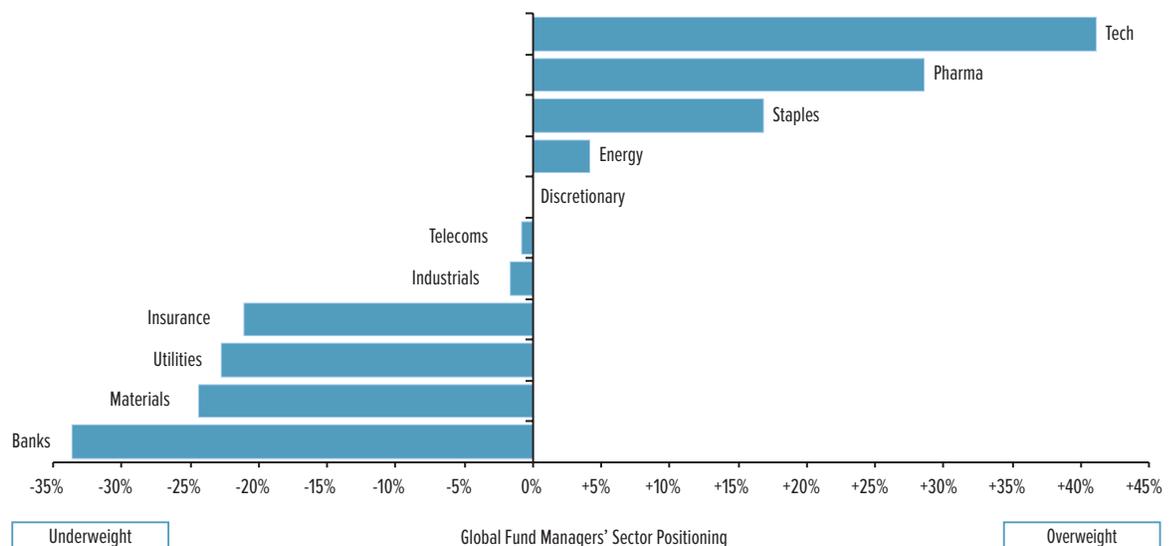
Instead of commodities, global managers are favoring technology. BofA-ML calls tech “the most loved sector by far,” with managers’ overweighting the sector an average of more than 40 percent. On the opposite side of the scale are basic materials and utilities sectors.

We’ve discussed this discrepancy in the market: While tech companies, such as Apple, cater to our

wants, materials and utilities companies supply our needs. *Global resources are needed to power the world:* Utilities recharge Apple’s iPhone, iPod and iPad, basic materials are needed to build the devices, and telecom companies keep us connected to loved ones.

Rather than veering in and out of sectors, there may be a better course for investors. Roger Gibson, one of the nation’s most influential voices on asset allocation, charted a hypothetical investment of a dollar from 1971 through 2011 in three different portfolios: one in U.S. stocks, represented by the S&P 500 Index, one in commodity-linked securities which is the S&P GSCI Commodity Index and one for a 50 percent allocation in each, rebalancing every year.

## Technology “Most Loved” Sector by Institutional Managers



Source: BofA Merrill Lynch Fund Manager Survey, Datastream

Read more of Frank's insights on his blog, "[Frank Talk](http://usfunds.com/franktalk)." Visit [usfunds.com/franktalk](http://usfunds.com/franktalk).

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His math shows that a hypothetical \$1 in U.S. stocks over 40 years would be worth \$42.60. The dollar invested over that same time in commodity-linked securities would be worth \$34.56. **However, a 50 percent allocation in each investment would yield the most, making \$58.31 after four decades.**

Another way to take advantage of a potential upturn in commodities is by choosing dividend-paying global resources equities. Like I told Pimm Fox from Bloomberg recently, I love income with growth—the combination is an important factor in our stock selection process. In the S&P 500 Index, nearly all of the materials and utilities stocks and

more than half of energy companies pay a dividend that is higher than the 10-year Treasury. Materials and utilities companies yield an average of 2.3 percent and 4.1 percent, respectively, while energy stocks pay an average yield of 2.2 percent.

Driving on side roads at 25 miles per hour is an arduous way to reach a cross-country destination. In today's challenging economic environment, it's wise for investors to stay the commodities course, recognize the difference between what's in the windshield and the rear view mirror, and keep an eye on the road for unexpected obstacles.



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Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is also known as historical volatility. The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The Morgan Stanley Commodity Related Index (CRX) is an equal-dollar weighted index of 20 stocks involved in commodity related industries such as energy, non-ferrous metals, agriculture, and forest products. The index was developed with a base value of 200 as of March 15, 1996. None of U.S. Global Investors Funds held any security mentioned as of 3/31/12. Diversification does not protect an investor from market risks and does not assure a profit. 12-280