

Commodities Survey

Last autumn's stock panic fueled a particularly hard selloff in the commodities sector. And many folks were quick to proclaim the end of the 21st-century commodities bull. Indeed nearly all commodities prices were hammered, with some experiencing precipitous declines that were unseen since the Great Depression.

But even at the depths of despair, the secular nature of the commodities bull remained intact. Late in October, just prior to the panic lows, I wrote an essay that [surveyed](#) the commodities sector and supported my conviction that the commodities bull was not over.

Even though fundamentals ultimately support this assertion, it was very unpopular in the face of mainstream ideology. With stocks falling hard, and many commodities falling harder, those that had been calling for an end to the commodities bull finally had reason to support their oft-wrong desires. Unfortunately for them, they were still wrong.

As part of this previous essay I performed a survey of various strategic commodities in order to show just how they were doing over the longer term. In a table that summarized these results I showed the performances of these commodities from a baseline date to their highs, their panic-driven declines since these highs, and finally their bull-to-date performances at the currently depressed prices.

Now one of the messages I wanted to convey was how these commodities stacked up against the general stock markets. So instead of running these numbers off the actual lows of each individual commodity, which would have shown larger gains, I used a stock-market date for my baseline.

In actuality there is no official date that represents the beginning of the greater commodities bull, as individual commodities commenced their bulls at different times. But there is a date that marked the end of the secular stock bull. March 24, 2000 was when the S&P 500 (SPX) reached its apex, and since this is *around* the time when commodities were bottoming after a long ravenous bear market, this date is as good as any for a baseline to run the numbers.

Well with the dust finally settling and a bottom likely carved since the first go-around, I've gotten several requests and was curious myself to see this table updated with current numbers. And as you can see, the commodities trade is still in play.

Commodities Bulls

2000-2009

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	SPX Bull Top 3/24/2000	High Since	Date High Achieved	3/24/2000 to High	Current Level	High to Current	3/24/2000 to Current
S&P 500	1527.46	1565.15	10/9/2007	2%	893.06	-43%	-42%
CCI	212.59	614.57	7/2/2008	189%	404.42	-34%	90%
Oil	\$27.93	\$145.80	7/14/2008	422%	\$63.10	-57%	126%
Nat. Gas	\$2.76	\$15.41	12/13/2005	458%	\$3.41	-78%	24%
Gasoline	\$0.88	\$3.43	6/6/2008	292%	\$1.78	-48%	103%
Gold	\$284.85	\$1005.00	3/17/2008	253%	\$950.60	-5%	234%
Silver	\$5.13	\$20.77	3/5/2008	305%	\$14.77	-29%	188%
Platinum	\$479.50	\$2273.00	3/4/2008	374%	\$1149.00	-49%	140%
Copper	\$0.80	\$4.07	7/3/2008	408%	\$2.08	-49%	159%
Zinc	\$0.51	\$2.10	11/24/2006	315%	\$0.65	-69%	28%
Uranium	\$9.20	\$136.00	6/1/2007	1378%	\$49.00	-64%	433%
Corn	\$2.09	\$7.11	6/27/2008	241%	\$4.08	-43%	96%
Wheat	\$2.59	\$14.07	2/27/2008	444%	\$5.27	-63%	104%
Sugar	\$0.06	\$0.20	2/3/2006	262%	\$0.17	-17%	199%
Cocoa	\$1020.00	\$3593.00	7/1/2008	252%	\$2608.00	-27%	156%
Steer	\$72.00	\$109.25	10/20/2003	52%	\$84.97	-22%	18%
HUI	65.67	514.89	3/14/2008	684%	370.16	-28%	464%
XOI	472.50	1630.09	5/20/2008	245%	940.05	-42%	99%
XNG	150.05	761.11	6/23/2008	407%	417.11	-45%	178%

The components of this table include of course the SPX, along with a mix of commodities and commodities indexes. The individual commodities offer a good mix of energy, metals, and agriculture. And the indexes offer a corporate overview of the elite stocks that produce many of these commodities.

The first four columns show the performances of these components from the baseline date to their bull highs. And as you can see commodities had performed spectacularly. Those prudent investors who got in early saw legendary gains as growing global commodities demand well outpaced supplies, creating an imbalance that drove prices stratospheric.

Supplies were so tight for many of these commodities that there were huge speculative risk premiums affixed to their prices. The raw commodities and the stocks of the companies that mined, drilled, and serviced these industries enjoyed awe-inspiring price appreciation. To their highs, most commodities and commodities stocks saw multiple-hundreds-of-percent gains since 2000.

But those investors who let their capital ride in the general stock markets have been very disappointed. A [cyclical stock bull](#) that peaked in October 2007 duped investors into forgetting about the [secular bear](#) the SPX was mired in. At best the SPX was flat over this span of time, and was setting up investors to painfully feel the ravenous bear.

The next three columns use current prices/levels to show how each component is doing off its bull high and then from baseline to current. And it is hard to miss the blood-red high-to-current column. Many commodities were already in

correction made by the time the panic rolled around, but that didn't stop the panic selling from accelerating and amplifying their losses.

Now many commodities were indeed overbought at their highs and were in need of corrections to balance sentiment. The excessive greed and speculative fervor in the commodities markets were in need of a gut-check. But the already-building corrections leading into the panic created a perfect storm for many prices to crash.

The damage was so bad that even though many of these commodities have seen recoveries off their panic lows, they are still *well off* their highs. But while this column is dreadful to look at, there is much better scenery in the final column just to the right.

This final column pulls away from the recent carnage and provides a reality check. It shows the long-term performance of each component. And even at today's sold-off prices, you can see that commodities are still the best of breed so far this century.

Not only have they well outpaced the SPX, their secular gains remain spectacular. Most of these commodities still have *triple-digit* gains in their bulls to date! And these gains are not even optimized from their actual lows, which are not captured with this SPX-high baseline metric.

But amidst the beautiful sea of black, you'll likely notice the lone ranger. And if your capital was parked in an SPX index fund the last 9+ years, you'll know exactly who this lone ranger is. Since its March 2000 high the SPX is down an abysmal 42% to current. This table does a fine job showing the *secular* nature of the ongoing stock bear and commodities bull.

To further illustrate that the commodities bull is alive and well, I put together another table to show how these same components have recovered since their panic-induced lows. And the following table includes two notable lows. The formal panic low of November 20 and the SPX low of March 9.

The panic low is characterized by the [climax of extreme fear and volatility](#). On November 20 the VXO S&P 100 implied volatility index peaked at a staggering 87. This also marked the launching point of a 24% SPX rally before it continued its downward trend. Even though the SPX would eventually fall below its panic low and bottom in March, you'll see that this November low is important on a variety of fronts.

On the commodities front it was this November panic low that marked a pivotal inflection point for investors. It was at this point that folks started to realize that the world was not coming to an end. And that with commodities sold off so hard and so fast, there were amazing bargains to be had.

Commodities Bulls

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	Panic Low 11/20/2008	March Low 3/9/2009	Low-to- Low Span	Panic Low to Current	March Low to Current	Best Post- Panic Close	Best Gain Since Panic
S&P 500	752.44	676.53	-10%	19%	32%	934.70	38%
CCI	347.00	348.52	0%	17%	16%	404.42	23%
Oil	\$48.90	\$47.13	-4%	29%	34%	\$63.10	83%
Nat. Gas	\$6.76	\$3.87	-43%	-50%	-12%	\$6.85	4%
Gasoline	\$1.07	\$1.23	15%	66%	45%	\$1.84	133%
Gold	\$744.60	\$920.50	24%	28%	3%	\$992.20	33%
Silver	\$8.92	\$12.91	45%	66%	14%	\$14.77	66%
Platinum	\$797.00	\$1064.00	34%	44%	8%	\$1222.00	55%
Copper	\$1.56	\$1.62	4%	33%	28%	\$2.16	70%
Zinc	\$0.51	\$0.54	5%	26%	21%	\$0.72	53%
Uranium	\$53.00	\$42.00	-21%	-8%	17%	\$55.00	31%
Corn	\$3.34	\$3.46	4%	22%	18%	\$4.08	50%
Wheat	\$4.08	\$4.53	11%	29%	16%	\$5.27	59%
Sugar	\$0.13	\$0.14	8%	30%	21%	\$0.17	46%
Cocoa	\$2367.00	\$2764.00	17%	10%	-6%	\$3200.00	35%
Steer	\$89.78	\$81.63	-9%	-5%	4%	\$89.78	13%
HUI	167.01	275.82	65%	122%	34%	379.15	127%
XOI	761.30	780.15	2%	23%	20%	1026.79	35%
XNG	316.24	300.83	-5%	32%	39%	449.61	50%

Provocatively, while the SPX would shed another 10% from the November panic low to its March low, most commodities and commodities stocks rounded the corner and headed northwards. In the third column you can see that in this low-to-low span there were a number of assets that performed exceptionally well.

While the SPX would meander lower and the growing constituency of Chicken Littles proselytized about a shower of fire and brimstone, the commodities sector would stealthily move into recovery mode. But since the SPX colors universal sentiment on the state of the economy, folks were convinced that a neo-Great Depression was knocking on the door.

But commodities would have no part of this mindset. The metals and agriculturals in particular would exhibit solid gains while the SPX was reeling. Even oil's slide would decelerate, it was also outperforming the SPX. But what performed particularly well were the commodities stocks.

Precious metals stocks as a whole performed incredibly well, with the venerable HUI gold-stock index skyrocketing 65%. But there were other elite commodities stocks that did even better. At Zeal we were not overcome by this fear maelstrom, and in our November [monthly newsletter](#) recommended that subscribers add four elite commodities stocks as long-term investments. Over the exact dates of this low-to-low span, these four stocks had *average gains of 85%*.

This stark contrast in performances cannot be overlooked. While most investors feared financial and economic Armageddon as the world's bellwether index continued to fall, commodities stocks were bucking the trend and greatly rewarded investors who were able to see the big picture.

By the time SPX selling was exhausted in early March, this index finally joined the parade. Led by the bloodied and battered financial stocks, the SPX has since carved an impressive new upleg. From the panic low to current the SPX has recovered its losses through March and tacked on a respectable 19% gain on top of that. And many of the commodities and commodities stocks have further added to their gains since March.

The CCI has even seen an impressive gain considering it has been held back by the tropicals, the meats, and natural gas. But it is allowed forgiveness since it didn't fall as far as the SPX and even at these lows still has an awesome bull-to-date gain.

Of all the commodities the one that sticks out the most is gold. Gold has exhibited incredible strength during a period of across-the-board weakness. In the first table you can see that gold not only saw the least of the damage, but that today's price is not too far away from its all-time nominal high.

And since it is gold that drives the gold stocks, this would explain the strength of the HUI. At the height of the panic gold stocks were incredibly oversold, trading at levels not seen since gold was in the \$350s. But since gold didn't crash like the rest of the commodities and eventually led the charge higher, investors finally realized their folly and poured back into this small sector.

Since its bottom the HUI has more than doubled, and gold stocks still likely have a lot more room to run. Not only will they continue to follow the upward trend of their underlying metal, they are [under-leveraged](#) to the current price of gold and have a lot of catching-up to do.

At Zeal we've beaten gold's fundamental drum many times in building a case for ongoing secular strength for this most precious of metals. Continually falling mine supply and growing investment demand are just a couple of gold's endearing traits. But its growingly strong hedge to a radically worsening monetary environment is setting up nicely to repel the [coming inflation tsunami](#). If you aren't aware of [gold's smashing fundamentals](#), I encourage you to do some research.

Circling back around, whether gold or a host of other commodities these tables show that the stock panic and subsequent economic slowdown have not ended the secular commodities bull. Even with these major corrections and by some definitions crashes, commodities are still the best-performing assets of the 21st

century and on balance have been the best-performing assets since the panic lows.

Now I'm not saying prices need to jump right back up to their highs and that the interim fundamentals have not changed. This global recession has indeed created a new economic balance to adjust for a period of softer demand. And this does support commodities prices lower than those we saw at their peaks.

But the steep declines in many of these natural resources were way overdone, some prices even falling below what it costs to produce them. And this price action scared the stock traders to even more of an extreme, sending commodities stock prices way below where even the oversold commodities prices justified. This is reason enough for commodities stocks to outpace the SPX.

The biggest reason to continue to stay bullish on commodities and commodities stocks is their long-term fundamentals. This recession will pass like all the ones before it, and commodities demand will eventually pick back up. And this demand will continue to be driven by the awakening giant.

Growingly capitalistic Asia and its 3.8b people have already woken up from a deep sleep. But its voracious appetite for commodities in the first leg of this bull may only be a morning stretch with a sleepy yawn. After the lull we are in today I expect Asia, led by China of course, to pick up where it left off.

I know folks get tired of hearing about the growing economic power of the developing countries. But I don't think there can be too much emphasis placed on their now and future impact on the global economy. China, and perhaps even India, are emerging economic superpowers that us Westerners simply can't ignore.

Billions of people are just starting to taste what it is like to better their lifestyles and improve the futures of their families. And it is these people, and these countries, that will drive infrastructure growth that we may have only seen the beginning of.

Legendary investor Jim Rogers puts it best: "Commodities ... a great way to profit from China's expansion, since the country's growing demand for everything from copper and nickel to soybeans and oil will be driving world prices for years to come."

It is not too late for investors to consider commodities as part of their portfolios. At Zeal we've been positioning our [newsletter](#) subscribers into elite commodities stocks since the panic lows. And while this buying has gone against the grain of popular groupthink, so far we've seen spectacular unrealized gains. [Subscribe](#)

[today](#) to see our trades and further your knowledge on the ongoing commodities bull.

The bottom line is the secular commodities bull is fine and well. Even amidst the panic-selling carnage of last autumn, commodities still had incredible bull-to-date gains. And when investors realized the apocalyptic vision that the markets portrayed was not to be, commodities were quick to rebound from their oversold levels.

From November's panic lows commodities and the stocks that produce them have had fantastic runs. And investors are slowly starting to realize that real assets are the way to go. This commodities bull still has a lot of life remaining. So make sure you have real assets as part of your investment and speculative portfolios.

Scott Wright

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So how can you profit from this information? We publish an acclaimed monthly newsletter, [Zeal Intelligence](#), that details exactly what we are doing in terms of actual stock and options trading based on all the lessons we have learned in our market research as well as provides in-depth market analysis and commentary. Please consider joining us each month at ... www.zeallc.com/subscribe.htm

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