

### **Jim Rogers' Interview**

Alan Konn, Managing Director of Uhlmann Price Institutional Group chats with the world-renowned Jim Rogers – Creator of the Rogers International Commodity Index® (RICI®). Institutional team members also present were Jerry McEntee, Ruth Mignerey, Alan Delcorse and Myles Wagner.

After the historical correction in 2008, commodities began to recover in 2009 and the RICI® was up over 24% in 2009. As 2010 unfolds, we thought it would be a good time to step back and revisit the long term thesis for the commodity asset class.



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**Alan Konn:** Your original thesis on commodities was the existence of a long term imbalance between demand and supply. Indeed, the RICI® has been one of the best performing indices of

any kind since you created it in 1998. How long might this current cycle last given the recent credit crisis and volatility of the past 2 years?

**Jim Rogers:** Well, I have no idea. It just depends on supply and demand. So far there's very little movement on the supply side, in fact the supply side is getting worse. The inventories of agricultural products are the lowest in decades and yet many farmers cannot get loans for fertilizer. Virtually nobody can get a loan to open a mine and it takes 10 years to open a mine in the best of times. In the meantime, the reserves and all the known mines continue to decline. All of this going on in the world just makes the supply side even worse so the fundamentals are improving. I have no idea how long this lasts. Alan, if somebody discovers a gigantic oil field in Chicago we'll have to re-assess or if a gigantic zinc mine in Berlin is discovered we'll have to re-assess. But so far the fundamentals are getting better, not worse, depending on what side of the equation you're on.

**Alan Konn:** It's easy to understand a copper mine or a zinc mine taking a very long time to open. Are there long lead times in agriculture as well?

**Jim Rogers:** It takes a coffee tree five years to mature. That's from the day it's planted, and you don't plant it the first day you think about it. Orange trees, rubber trees, palm trees, much of this stuff takes a while to grow and mature. Yes, you can conceivably plant more cotton next year, but you're probably going to have to reduce something else if you plant more cotton. But even if you add extra acreage, it's marginal acreage because farmers keep their good acreage in production. If there's any extra acreage to be brought in, it's always the marginal acreage, and even that doesn't happen overnight. Yes, it can happen sooner than opening a zinc mine, but all this takes a while and in the meantime the inventory's the lowest in decades. Nobody's going to sit around with no inventory as happened in the 70's; eventually they built more inventories. Well now we're out of inventories again so I feel that there is going to be a period of time when everybody's going to have to build inventories as well. Let me remind you, if there is a blizzard, it might close your zinc mine for a day or a week, but if there's a blizzard it may destroy your orange plantation and it's going to take years to replace. In the meantime the price of orange juice is going to skyrocket. The blizzard is not going to make the price of zinc double, it could make the price of orange juice (double), or sugar, or something else. Weather is more important in agriculture than it is in other things. And climate change of course, which has been happening for thousands of years, has the most direct effect on agriculture.

**Alan Konn:** That helps a lot! Now, you've talked a lot about the credit crisis we've been in; how long does it take for credit to start being restored in the normal environment. Do you think the banks are going to be under duress for some time?

**Jim Rogers:** Well, some areas are getting as much credit as they need. The home building industry is getting as much credit as they want. Unfortunately, nobody wants it. The Federal Reserve is buying up everything that Fannie Mae and Freddie Mac can issue. It's horrible for you and me and for America but there's credit if you want to build a house in some parts. GMAC just got another several billion dollars. So some people are getting credit now if they want it, unfortunately most people don't want it. It's opening up more and more just because there's so much liquidity around. When the banks will start doing something in a big way, I don't know. They're happy right now. They get free money and play the spread by buying ten year

treasuries. Money is flowing, it's just not to most people because most people don't want it right now.

**Alan Konn:** Your RICI® outperformed the other major (commodity) indexes again last year. What are the key attributes of your index?

**Jim Rogers:** Well, it's broadly diversified and a better reflection of the cost of doing business around the world, or the cost of being alive. None of the others have rice in them, even though 2/3 of the people in the world eat rice every day. They don't have rubber, even though nearly everybody in the world uses rubber everyday, one way or another. The others are designed to be U.S. centric so that the trading desk can arbitrage against their customers. I don't have any customers, so it's designed to be as broad as possible and as all-inclusive as possible. I wish I could add more things to it.

**Alan Konn:** Maybe you could talk about your index committee and what are your thoughts about either making changes or adding over time. Do you think there will be some adding? It's been a very stable, consistent index, what is the process and what would you consider changing?

**Jim Rogers:** Well, so far Alan, the few changes there have been were diminutive, one would not even really notice them since they have been so small. This is pretty stunning because a good index should never change! That's the sign of a well designed, well constructed index. You look at the Goldman Sachs Index, their index changes dramatically every year, DOW Jones, all of them change dramatically. If you invest in the DOW Jones commodity index you have no idea what you will own in five years, and they don't either. Likewise it is the same with the Goldman Sachs. I don't consider that a very good index when I want to know what I'm investing in. I need transparency and consistency and stability so the fewer changes the better. But if we find out that orange juice causes cancer, I suspect there won't be any orange juice traded, we'll have to drop it. Or cotton cures cancer, I suspect the cotton will skyrocket and we'll probably add to it. But otherwise, let's hope it doesn't change.

**Alan Konn:** It's really been a great selling point that it's been so stable. How about natural gas? We have people like Boone Pickens thinking that natural gas could be used a lot greater in this country in the form of liquid natural gas and potentially used more throughout the world. If you saw a trend for natural gas being used more often relative to oil both here and abroad, would that be where you might make a change in the index?

**Jim Rogers:** Well, of course. But, the problem with natural gas is that most people in the world have never seen or heard of natural gas and don't use it. You and I do, many developed countries do, but most of the world uses coal or oil and has no use for natural gas, no infrastructure, no anything. So, yes, there could be a change, but you know, if Africa says that they're all of a sudden using a lot of natural gas, it's going to take a few decades and massive changes in infrastructure before it's even possible....

**Alan Konn:** So that would be something that would probably be very gradual should those changes start to occur.

**Jim Rogers:** Extremely gradual, there's no other way you can do it. You've got to put in pipelines, you're got to put in a whole infrastructure. You can't go home and turn on your gas cooker if you don't have any gas. You're not going to buy a gas hot water heater if there's no gas. Eventually of course, there will be discoveries of liquid natural gas, of pipelines and everything else. But all this stuff takes a long time.

**Alan Konn:** Let's talk about the wonderful words of backwardation and contango which most investors had never heard of before the last few years. In 2009 the contango in oil and some markets held back some of the returns of the indexes which roll their futures over. Do you think investors should be concerned about backwardation and contango? And the second part of the question is; you have said before that if you thought there was a better way to roll over your index you would evaluate it, have you given that consideration or any thoughts to the mechanics?

**Jim Rogers:** I've been investing in the markets for a long time, contango and backwardation have always been there, they've come and gone. Markets with contango and backwardation have been around for decades. And usually, at least there is a perceived reason when it suddenly arises, but I've seen the markets always somehow correct themselves. But if anybody sees a month where, "Oh my, look at how high September cotton is", they rush out and sell September cotton. And it doesn't take too long for these things to correct themselves over time. So, I don't pay that much attention. Now, obviously, if you're a skilled trader, and you know how to take advantage of all these things, sure, a guy could make money on it. But, what we're trying to do is have an index fund, we're not trying to outsmart anybody. We just want to have a simple, very simple index fund which is going to reflect the price of doing business around the world or the price of being alive. The only way I know to do that is to be consistent and the only way to really do it is the way we do it when you're in the second month contract so that that's the closest to spot prices you're possibly going to get. There are many guys who say they are going to outsmart the market and there are many guys who have been saying that for many decades. Some will, 70 or 80% of them will not. So we just want to stay simple and reflect what the markets are doing, not trying to be active fund managers! But if you know a fund manager who can meet all of these criteria, introduce me to her too.

**Alan Konn:** We all want to meet her.

**Jim Rogers:** Especially if she can do it for decades. Plenty of people can do it for a quarter or two or a year or two or several years, but you need somebody who can do it for decades.

**Alan Konn:** On the same subject, what would you say to someone who is concerned about the idea that all these index funds have permanently changed this backwardation and contango that's been around? There are some people who say "Well, we never had this much index money and they're going to permanently change the level of contango and so past returns are no longer a very good measure. Do you think that it's possible or likely that they have changed the nature of the curve?"

**Jim Rogers:** I cannot conceive of that! I mean, especially if they, market participants, see this kind of opportunity they are going to go out into other months and buy sugar, cocoa, whatever they need. And the curve is going to adjust itself. Maybe the index funds went in but the users are a lot bigger and the producers are a lot bigger than index funds. The guys that have the

sugar, if they see near term sugar is expensive, they're going to sell it, and then they're going to be buying the far out sugar. That's why these things have always adjusted over the years. And they will now too. Index funds do not take delivery, whatever they buy, they just turn around and sell. It's different from a stock index fund, if you want to talk about manipulating markets. Stock index funds actually take delivery of stock, and reduce the supply of stock on the market. Index funds do not take delivery. They buy something and sell it. The consumers and producers will seize the opportunities for themselves and adjust.

**Alan Konn:** Switching to another subject; people look for your guidance on currencies. Recently you indicated that you actually bought U.S. dollars. However, you have indicated that the dollar is in decline over the long term. Can you talk about your thoughts on the U.S. dollar, looking out to 2010, 2011? How important is the dollar in terms of the attractiveness of commodities?

**Jim Rogers:** The very fact that I'm trying to trade the dollar insures that whatever I say is wrong and so I deserve to lose money for even trying because I know I'm no good at it.

**Alan Konn:** I don't want the other side of any of your trades!

**Jim Rogers:** I just see this huge pessimism about the dollar and gigantic shorts in the dollar. That nearly always leads to some kind of rally. Will I do a good job on it? I doubt it. I doubt it very seriously. If it rallies for a quarter, or a year or two, I don't know how long, I hope I'm smart enough to reverse it, because the U.S. dollar is a terribly, terribly flawed currency. It's going the way of the pound sterling, it's going the way of a lot of things, because it's terribly flawed and in Washington they want to debase the dollar. So I don't think I'm going to be long the dollar for many years; maybe many quarters, maybe many months, I don't know. Because long term it is a terribly flawed currency. So it's not a good thing for any of us, for American citizens, unfortunately. What affect it has on commodities? I mean, it may have short term temporary affects but commodities are driven by supply and demand, not because of weak currencies. Commodities are going to go up and down due to demand and supply no matter what happens to the dollar. If the dollar collapses, it's icing on the cake. Even if the dollar goes up, if you have too little corn out there, and other supplies are still depleting; a rising dollar is not going to help for long. A rising dollar, temporarily might help, but people who think it happens always or forever, it's absurd, I don't pay too much attention. The dollar has its own fundamentals and so does each commodity.

**Alan Konn:** If the yuan were allowed to float, you have said that it could become a lot stronger. If it was allowed to truly float, what effect might that have on commodities and inflation potentially?

**Jim Rogers:** If it floats, and if it rises, that's more demand for commodities because then commodities are cheaper for the 1.3 billion Chinese. The Chinese suddenly can pay a lot less for bananas or cotton or anything else. So it should increase. By the way if the Renminbi floated, the Renminbi might go up and might go down for a while. So many people are pessimistic on the dollar versus the Renminbi, it wouldn't surprise me if the Renminbi went down for a while. Remember, there are hundreds of billions of dollars, including me speculating on the long side of the Renminbi. So if and when the market makes it convertible, many people are going to say this is what they were waiting for, let me get out of my Renminbi. So you might see it go down for a while. It is not a prediction. I am just suggesting it would not surprise me if that

happened. Perhaps, if it goes down I hope I buy more, if it goes up, I hope I buy more. In the long-term it's a much better currency than the U.S. dollar.

**Alan Konn:** You continue to have a strong opinion that we may have inflation fueled by the incredible global easing. Still there are some investors more worried about deflation. Inflation seemingly is not yet reflected in the U.S. data. What is your outlook on the timing?

**Jim Rogers:** Well, it's rich guys like you who don't see inflation. Your butler does your shopping.

**Alan Konn:** Prior to 2008 maybe!

**Jim Rogers:** Well, the rest of us know that prices are up. Whether it's insurance, education, entertainment, you pick it, cab fares, tolls, medical care, everything. The only thing that's not up is energy. When energy prices are going up the U.S. government says it doesn't count, and now that it's going down, they do say it counts. The government lies about inflation. As I say, everybody who shops knows that prices have been and are going higher. So, there is inflation, printing money has always led to higher inflation, but there's no reason to argue about it. People who think there is deflation should go out and short commodities and go long bonds, I don't need to discuss it with them, they make their own decisions, or ask their butlers whether there's inflation or not.

**Alan Konn:** You mentioned earlier that you are one of the worst traders so I'm sure you might say the same thing to this question. Do you have a favorite sector or any favorite commodities in the next year or two?

**Jim Rogers:** Agriculture on a historic basis is still extremely depressed. Sugar is at a 28 year high, but sugar is still down 70% from its all time high. Virtually nothing is 70% cheaper than it was in 1974. Cocoa has been going through the roof; it's still very depressed from its all time high. Cotton, anything, coffee, you can look at the same things I do, silver, I mean silver is below its all time high. Sure, silver is up a lot in the last few years, but it's nothing compared to what it has been in the past. Usually or often, one can make a lot of money by buying things that are at not just multi-year but generations of depressed prices. So, that's what I would look at to see if there are opportunities.

**Alan Konn:** I think you have covered most of what was on here, Jerry, you had a question?

**Jerry McEntee:** When I read "Market Wizards" Jim, and excuse me if I don't get the exact words correctly, they quoted you as saying something to the effect that in regard to trading you just wait until there's a little pile of money in the corner and then go pick it up. From a conviction point of view, is this one of the strongest conviction trades? One of the best little piles of money in the corner so to speak?

**Jim Rogers:** Right now commodities are because if the world economy improves commodities have to get better. Because, you're talking about trading, I'm not a trader but if we're talking about the intermediate or shorter-term, if the world economy gets better, commodities have to get better, because they already have shortages and there are going to be more shortages. If the world economy does not get better, commodities are still the place to be because they can print so much money, and I assure you if the world economy doesn't get better, they're going to print

even more money. So I don't really see a better place. With some currencies there is going to be currency turmoil coming because of all the imbalances, but even in currency turmoil, frequently, raw materials can be a refuge away from paper money. I own very few stocks these days for the reason I just said; if the economies are going to get better, commodities have to be leaders; if things aren't going to get better, your money is still going to be a whole lot better in commodities, I'll make a lot more money, or lose less, in my RICI® than I am in anything else you want to mention.

**Alan Konn:** It's a great way of making the thesis easy to understand.

**Jim Rogers:** Looking at the bigger picture, needless to say, the overall long-term secular fundamentals for commodities continue to improve for the reasons we discussed, you cannot get a loan to open a mine, etc. etc.... So both, in a trading aspect and from a secular fundamental aspect, I don't see much that's better than commodities; there are some things I'm sure, but for the most part, as an asset class, it's a great place to be.

**Alan Konn:** Well put! As we finish up, you've expanded your family; are the children taking the spotlight away from you all the time? Can you give us a little input about what it's been like now to be a father of two?

**Jim Rogers:** It way more than doubled the fun, if you believe in geometrics, the way it increases the fun and the pleasure. Children are a lot of fun, a great deal of fun! I spend as much of my time with them as I can. There's nobody I'd rather go to dinner with than my own two little girls. So, I started to spend less and less time on other things, and more and more time on them.

**Jerry McEntee:** And Singapore is treating you well Jim?

**Jim Rogers:** Oh yes, we are very keen that we came to Singapore.

**Alan Konn:** We really appreciate this Jim. Thank you so much for your time.

END OF TRANSCRIPT

Thank you for reading Alan's interview with Jim Rogers®. If you would like additional information on the commodity asset class, the Rogers International Commodity Index® or the Agricultural Sector please contact us at [www.upsecurities.com/investor/default.asp](http://www.upsecurities.com/investor/default.asp).

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