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Jim Rogers likes commodities

Presenter: Lindsay Williams

Guest(s): Jim Rogers

Classic Business Day gets Jim Rogers, former partner of George Soros in the US Quantum Fund, on the line to explain why he likes commodities so much, especially agricultural commodities

LINDSAY WILLIAMS: We grow a lot of maize in South Africa, but it's not really considered to be an asset class. What about those soft commodities and grains - some of them have lagged, but I've noticed the sugar price going to 10-year highs recently above 13 US cents a pound, still way the 1970s high of 60 US cents a pound - is this a sector that's going to start catching up with the industrial commodities?

JIM ROGERS: If I were looking at places to invest now I would be looking at agricultural commodities - they haven't moved as much as industrial commodities - and that's where the better opportunities are, and there are supply demand dislocations developing there as well.

LINDSAY WILLIAMS: Of all of those which do you like? I love the story with sugar - is that one of your favourites?

JIM ROGERS: Sure, I'm bullish on sugar as I explained in my book - picking my favourites today is a hopeless task. Whatever I tell you today could turn out to be the worst. Look at coffee, orange juice, sugar, cotton, maize and wheat - all these things are very cheap, and are going to be much more expensive in the next decade.

LINDSAY WILLIAMS: Is that because of the demand side of things? I know supply is a bit of a problem. From a bullish point of view the corn price has been stuck at two cents a bushel for a long time because of excess stocks, and because of great supply - why would you be so bullish of a commodity like that?

JIM ROGERS: If you look at most agricultural commodities - nobody has been planning new acreage or new plantations in many years. Wheat hectares have been declining for 30 years, and that's true of everything. As the world gets more prosperous people consume more - it's the natural

state of the world, and that's going to continue for the next several years until somebody brings on some new supplies. You can't just snap your finger and bring on a lot of new supply - I would point out that we haven't had any big droughts anywhere in the world for over five years. We used to have droughts all the time - they may start coming back. I'm not investing in commodities because of weather - that would be an absurd thing to do - but it's another reason that you're going to see higher prices for agricultural commodities.

LINDSAY WILLIAMS: The Chinese situation at the moment - you're a great world traveller, and your daughter is learning Mandarin as one of her major languages - do you see that the Chinese economic miracle? Everyone keeps predicting it's end - what do you see?

JIM ROGERS: There will be setbacks, there will be big setbacks along the way. The US became the greatest and richest country in the world in the Twentieth Century, but there were huge setbacks along the way, huge consolidations. There will be setbacks in China too, but China is the next great country in the world whether we like it or not - people need to understand that. If you see problems in China pick up the phone and buy China - don't sell China.

LINDSAY WILLIAMS: The commodity cycle you've predicted may go for 15 to 20 years - how far are we into that commodity cycle at the moment? How much longer can we expect these bullish conditions?

JIM ROGERS: We're about six years into it. If history is any guide this bull market will last until sometime between 2014 and 2022.

LINDSAY WILLIAMS: That's a nice long time horizon. What's the best way to invest? There are various indices that are cropping up - from a South African point of view, from any investor's point of view - is it best to buy the physical commodity, the futures and options? What would you suggest?

JIM ROGERS: If you know what you're doing the best way is to buy futures. If you know a lot about maize or something then do it. Otherwise history has proven over and over again you're better off investing in an index - indexing outperforms something like 80% of all active managers year after year. That's been proven by academics, consultants and everybody else. If you know a lot about gold, maize, rubber or something else then fine - otherwise you should find an index.

LINDSAY WILLIAMS: Would you leave the equities that are actually based on the commodity prices alone?

JIM ROGERS: The studies have all shown repeatedly that the best thing to do is to invest in commodities themselves, rather than the stocks. The studies show that you would have earned 300% more if you had invested in commodities rather than in the commodity stocks themselves.

LINDSAY WILLIAMS: At the risk of us appearing myopic when it comes to commodities, but at the same time recognising a bull trend when we see it is the best thing to do now just to focus on commodities as an asset class - forget about property, equities, and the currency markets etcetera?

JIM ROGERS: It depends on what you know, but if you're looking for an asset class where there's a clear bull market that's commodities. If you don't know anything about commodities do some homework or look at other things. In the meantime I would look at commodities - that's where the bull market is. If you happen to know a great deal about bonds you might make a lot of money in bonds - stay with what you know.

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