

Personal Finance Strategies

By Philip Braude

Investing in commodities & agriculture

Rationing is something that is associated with the dark days of the last world war, but it is still a reality in many parts of the developing world. Global food shortages have become such a problem that Egypt has widened its food rationing system and Pakistan has reintroduced a system of ration cards not needed since the 1980's. Russia and China are trying to counter rising prices by putting price controls in place, while Argentina and Vietnam are imposing foreign sales taxes and export bans to protect their own supplies. Yesterday there were demonstrations in major cities of South Africa, with calls for the government to impose price controls on foods.

Why the sudden scramble for food? The problem is that global food supplies cannot cope with the demands of a growing world population, together with a more emerging market consumer adopting Western meat-heavy diets. On top of that, are the EU and US imposed biofuel targets, which require that foodstuffs such as grains be turned into energy inefficient fuel. These forces have driven up the prices of various foodstuffs. For example the rise of corn prices in 2005 from \$1.75 to more than \$5 a bushel, together with the biofuel subsidies, has attracted farmers to plant more corn. However, for every extra acre of corn planted, an acre of something else has to be sacrificed, thus driving up the prices of other crops, such as wheat and soybeans, as their supply is being restricted.

Rising oil prices are straining consumers and economies, but for investors prepared to take on some investment risk, and look hard, there is a bright side. I have been suggesting to investors concerned with inflation due to the rise in food and oil prices, to include investments exposed to the energy, commodity and agriculture sectors in their investment portfolios. Over the past few years,

the energy, commodity and agriculture sectors have performed strongly, at the same time as other sectors, such as share markets have responded negatively, often due to the rise of commodity prices. To illustrate, as the oil price rises, it becomes more expensive for business's to operate, and their profits fall, which will drive down their share price.

Exposure to these sectors is easily available either via investment vehicles such as futures, index tracker funds, or mutual funds that specialize in these asset classes. Out of the three mentioned, mutual funds are by far the easiest to access and understand.

In these turbulent times, diversification of one's investment portfolio into various asset classes is imperative, and is one of the keys to a successful long term investment strategy.

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