

What Barron's said about the Stock and Commodity Markets

Barron's columnist, Allan Abelson, in his *Up and Down Wall Street* column wrote an excellent article for investors as to what may lie ahead in the stock and commodity markets.

The June 19, 2006 article, *When Ben Burped*, explains what the author believes to be the reasons for the substantial decline in the markets in June as well as what he expects in the future for the stock and commodity markets.

Some of the passages we find particularly insightful are:

What cratered the markets was that investors were having a rare reality moment and having it pretty much in tandem...And we suspect that the glimpse of reality that unhinged the markets will become the increasingly prevailing view in months ahead.

The rich price of petroleum products is affecting agricultural commodities in a less visible but increasingly ponderable fashion as well. The highly, perhaps overly, publicized virtues of ethanol, to illustrate, has prompted a bit of a run on corn and prices of the stuff have responded accordingly. This kind of thing can be contagious. So it's at least conceivable that grains, which generally have not enjoyed the kind of whirl given metals, say, will prove to be late speculative bloomers in this big commodities bull market.

The principal engine of the global inflationary surge is, it's no secret, China. And the latest data from that monstrosly growing economic dragon shows it's still breathing fire at a fantastic rate. Last month, the country's industrial production rose an astonishing 17.9% and in the first quarter of this year, GDP sprinted ahead a blazing 10.3%. Besides an unshakable thirst for oil, China has been bolting down industrial commodities at a truly awesome pace. According to Morgan Stanley's Steve Roach, in '05, it accounted for 50% of the growth in aluminum consumption, 84% of the rise in demand for iron ore, 108% of the increase in the consumption of steel, and 115%, 120%, and 307% in the worldwide demand for cement, zinc, and copper, respectively. How do you say wow!" in Chinese?

The only thing that will truly cool the red-hot Sino economy, we fear, is implosion. That'll happen, but not tomorrow or the day after. Which means the odds strongly favor a fresh lease on the life for the boom in commodities...and their prices.

To read the entire article visit: <http://cta.visionlp.com/articles.cfm?cat=finmed>

Comment: We agree with author that the "reality moment" that caused the stock market decline will become "the increasingly prevailing view in months ahead". We also believe that strong demand from China will add to inflation and "favor a fresh lease on life for the boom in commodities...and their prices". Why? With the population of the U.S. around 300 million and generally using more commodities than Asia with a population

10 times larger of 3.2 billion , and the Asian economies growing at a rapid pace, we believe the demand for commodities will be firmly underpinned for years to come

We believe we are now in a similar period of market insanity, like back in the spring of 2000, where investors woke up to the “reality moment” which then became the prevailing view for years ahead! We believe, investors are now waking up to the negative effects on stocks and the economy that higher interest rates, a deteriorating real estate market, and higher energy and commodity prices will have..... the secular bear market is just starting to reassert itself!...Market analyst John Mauldin likens the period we are entering to the bear market of 1972. The Dow made an historical high in 1972 of 1000 only to fall back 40% to 600, run back up to 1000 and then fall 35% to 750.....We believe we are in the stage similar to then where the Dow, after falling from 1000 to 600, ran back up to 1000 and then after approaching the previous record high, over time, fell 35%.

We believe this is a critical time for investors to act and realign their portfolios as suggested in our June 9th, 2006 *Stock Market Alert*, instead of quite possibly having to react to severe market declines! To read our *Special Stock Market Alert*, visit:
http://cta.visionlp.com/pdf/gen/0614_sreport.pdf

Past performance is not necessarily indicative of future results. The risk of substantial loss exists in futures trading.

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