



Steve Sjuggerud's

# DAILY WEALTH

## The Commodity Correction is Here

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by Steve Sjuggerud

*“The mega-run for commodities has run its course,”* says Stephen Roach, Morgan Stanley’s chief global economist in a Bloomberg article this week.

The price of gold has fallen 20% from its highs – so it’s officially a bear market in gold. And commodity prices in general are now down over 10% from their highs (as measured by the CRB Index), so commodities are officially in a correction.

Based on these two facts, you might be inclined to believe Mr. Roach... that the *“mega-run in commodities is over.”* I’d say, *“take what Mr. Roach says with a grain of salt.”*

I’ve occasionally read Mr. Roach’s comments for many years now. My casual impression is, he’s always got something negative to say...

He decided a very long time ago that the U.S. economy needs to get dramatically worse. And, with the exception of a tiny recession in 2000 – he’s been wrong for many years.

This is just my impression (as I said, I don’t really follow his stuff closely). However, his commentary yesterday confirmed the negative outlook:

*“Time has finally run out for an unbalanced world. Just like the demise of the equity bubble over six years ago, America’s property bubble is now in the process of bursting. Moreover, a sharp resurgence of [the stock] market is unlikely...”*

I wanted to check my suspicions about Mr. Roach by checking one more date - March 10, 2003. I chose this date because stocks (as measured by the S&P) are up about 60% since then. What was Roach saying then?

He was pessimistic, as always. On March 10, 2003, he said:

*“As the world moves on a slow-motion collision course with war, the wheels of commerce are grinding to a standstill. Financial markets sense the angst and are hunkering down for the duration...”*

*“On the economic front, the world now appears to be in the early stages of a fairly predictable shock-induced downturn. America’s labor market data leave little doubt as to the direction of the next move in the economy -- down, not up. The only questions, in my view, pertain to severity and duration.”*

It’s now three-and-a-half years later, and his “fairly predictable” downturn hasn’t appeared.

The price of gold is now around \$600. That's up over 100% from its lows earlier this decade. Yes the price has fallen recently. But the big trend is up – over 100% from just a few years ago.

At **DailyWealth**, we believe the commodity price boom is still underway.

We believe that – even though commodity prices have risen significantly – Mom and Pop America still have not invested in commodities. And big investors (like pension funds) are just getting around to allocating money to commodities. This thing won't be over until everyone is on board.

Goldman Sachs was the first Wall Street firm to stick its neck out and talk about a commodity boom. I believe Goldman predicted oil could hit \$100 a barrel, when it was trading for less than \$50.

Today, Goldman's senior commodities economist in London, James Gutman, says: *"We're certainly not at the end of the long-term bull market... If there are any near-term corrections, I'd view them as a buying opportunity."*

Commodity prices will be extremely volatile, no doubt... I'd like to remind you, the price of gold fell from about \$200 an ounce to about \$100 an ounce in the mid-70s. It then soared to a peak of \$850 in January 1980. Those who got scared out their position missed the move.

The Goldman Sachs analysts were bold – and right – about this bull market in commodities early on. We share Goldman's opinion today...

We believe that commodity prices are in a secular bull market. There will be corrections along the way, but we have many years to go before this thing is over. We expect commodity prices could be substantially higher once this bull market has finally run its course.

Good investing,

Steve

P.S. I'm so confident commodity prices will remain strong that I wrote my entire September issue of True Wealth on the subject.

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