



Steve Sjoggerud's

# DAILY WEALTH

## A Huge Reversal in Crop Fortunes

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by Tom Dyson

Imagine what would happen to this country if Citigroup failed tomorrow. Well, that's how bad it was in the Panic of '57.

In 1857, the Ohio Life Insurance and Trust Company imploded. It triggered a waterfall on Wall Street. Stocks dropped 50%, and more than half of Wall Street brokers went into liquidation.

A two-year depression followed. They called it the Western Blizzard. The trigger that started it all? Crops were terrible that year.

Ohio Life and Trust had made huge investments in agriculture businesses. When the crop went bad, it blew up.

Up until about 50 years ago, crops were a big deal. If crops were good, America was rich, stocks went up, and people felt good. But if crops were bad, you'd get bank failures, credit crunches, and long lines outside soup kitchens.

It's different these days. No one is interested in wheat and corn as investments. For one thing, there's plenty of food for everyone. Huge improvements in farming techniques mean much higher crop yields, so in the United States at least, there's never any danger of food shortages.

Also, agriculture has been in a long bear market, so the public has lost interest in betting on crop prices. I looked at 100-year charts of corn, wheat, oats, soybeans, cattle, and hogs. I found stagnant prices across the board. They've gone nowhere in 20 years.

If you look at prices adjusted for inflation, prices have always fallen. But 20 years ago, prices started accelerating downward so fast, now the charts look like upside-down hockey sticks.

Here's the thing: I think we are about to see a huge reversal in crop fortunes. If I'm right, corn and wheat prices will shoot through the roof. Hog and cattle farmers will become millionaires. Iowa land will go for more money, per square foot, than Florida land.

Sounds like hyperbole? It's not. This is already happening.

- Wheat prices just exceeded 2003 levels and are now making 10-year highs. Prices on Monday hit their maximum allowed increase... a 7% one-day gain.
- Corn prices are up 50% in 12 months and are closing in on 10-year highs.
- Oat prices are up 17% in a little more than a month and are also about to

hit 10-year highs.

There are four elements driving this bull market.

### **One: Supplies of Sunshine and Rainwater**

This year's crop looks bad... worse than everyone had expected. You may have read about the horrendous droughts in Australia and Argentina, but did you know the U.S. crop is far worse than even the USDA predicts?

I received this e-mail from an Iowa farmer recently:

*“Talked to a very knowledgeable man yesterday with many farm contacts in Illinois, Indiana, Kentucky, and Nebraska.*

*“In every case, any corn that was harvested whether in test plots or fields, the yields have consistently been below last years' numbers. Remember, these are the states that the USDA has said will have yields higher than last year. If this is a trend that has legs, corn could be explosive in the next six months.”*

### **Two: Inflation**

Farming is energy-intensive. Fertilizer and pesticide production is the most energy-intensive of all farm inputs. Plus, you need gas to run tractors and move your produce to market. As the price of inputs rises, so must the price of the final product.

### **Three: Fuel or Food**

Anything that grows on a farm can be turned into fuel. Turning soybean oil into diesel and corn into ethanol are the big stories in the media right now, but any farm product will work. Farms are even good places for wind turbines.

As the price of energy rises, our mouths will compete with our cars for agricultural produce. Prices will rise.

### **Four: Water**

Facts from the *New Scientist*:

Every teaspoon of sugar in your coffee requires 50 cups of water to grow it. Growing the coffee itself requires 140 liters of water, or 1,120 cups. The 250 grams of cotton needed to make a single T-shirt uses 25 bathtubs of water.

Crops use about 75% of all water withdrawn from rivers, aquifers, and lakes. One-third of the world's population is living in water-scarce areas.

Water and energy are scarce. Demand will increase. Inflation is rising. Result: Crop prices have to rise.

This bull market is in its infancy. As you'd expect, access to these markets is difficult. Without playing the futures market, there are two simple ways to get exposure to agriculture. Buy the Deutsche Bank commodity ETF (DBC) or buy companies that benefit from richer farmers.

The Deutsche Bank commodity ETF tracks the prices of six basic commodity futures: light sweet crude (35%), heating oil (20%), aluminum (12.5%), corn (11.25%), wheat (11.25%), and gold (10%). While it's not a pure play on grain, corn and wheat carry heavy weightings in the ETF.

As for stocks, I suggest investigating John Deere (farm equipment), Lindsay Manufacturing (irrigation equipment), and Agrium (ag chemicals). An outright purchase of Iowa farmland is the answer for folks looking to keep assets away from Uncle Sam.

Good investing,

Tom

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