Are commodities the only asset class worth holding, as the legendary investor suggests?

Following Jim Rogers around the world

MARKET WATCH
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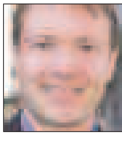

Jim Rogers has been in town, notably at the launch of RBS's new range of covered warrants, where I was fortunate enough to hear him speak. Mr Rogers is an investor of legendary status, having set up the Quantum fund with George Soros in 1970, enabling him to retire at the grand age of 37 to pursue other interests. His activities have included a 245,000 km record-breaking drive around the world and launching the Rogers International Commodities index.

Unsurprisingly, Mr Rogers is a commodities bull. He points out that, in the 1930s, commodity prices fell before equities but also recovered earlier, performing exceptionally well over the decades which followed. During the current crisis, too, some commodities suffered before equities.

The attraction (or otherwise) of commodities over the longer term is tied up with the prospects for the global economy. If we accept Mr Rogers's interpretation of this crisis as falling into the pattern of 1873, 1929, 1974 and 2008 where there was forced degradation, then investors should own assets which have their fundamentals unimpaired. For the most part, that is commodities such as oil, which, having seen a fall by half on its peak of this year, faces a future of increasing demand and falling supply.

> "Mr Rogers says that, in the 1930s, commodities fell before equities but recovered earlier"

To buy fully into his belief that commodities are the only asset class worth holding, we have to agree with his criticism of American attempts to tackle the recent crisis. He believes the US government is making the same mistakes as Japan did in the 1990s. The US, he argues, is propping up failing institutions, which could create the sort of "zombie banks" that led to the lost decade in Japan. Indeed, both countries experienced credit bubbles, failing banks, falling asset prices and house price weakness. But the key is inflation (or deflation), where numbers are similar in the early stages of the cycle. Japan, after all, did not enter deflation until 1999, and has yet to come out of it. Here, Mr Rogers's view is more difficult to buy into, partly because he does not believe inflation numbers in the developed world and partly because he makes a direct comparison between the responses of the two governments a decade apart. The difference, however, is that whatever one thinks of the policy, the US's monetary and fiscal response was prompt and authoritative. The same cannot be said for Japan.

Ben Bernanke, the chairman of the Federal Reserve, is clearly concerned that, even if the idea of a 1930s style depression is unlikely, a Japanese-style "lost decade" is a possibility. What will cheer equity investors is his determination that this should not happen. The Fed is willing to dramatically cut interest rates, buy short-term T-bills and ultimately effect a "helicopter money drop". That is a tax cut financed by printing more dollars; an option open almost uniquely to America and something Japan failed to attempt.

Using instruments such as covered warrants and exchange-traded funds, investors have opportunities to pick up commodities for the long term at low prices during the current downturn. But let's not write off equities or the mighty United States of America just yet.

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