

BUSINESS

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Investment Trends



Dunteman

When spot coal prices rose 45.8% in the first quarter, the Bloomberg index of companies that mine for coal was down 9.5%.

When spot crude oil prices rose 5.8% during that same quarter, the Standard & Poor's energy

stock index was down 7.2%.

Commodity prices tend to behave very differently from stock prices, and that's why consultants at Francis Investment Council LLC say they are still recommending hard-asset funds for their 401(k) plan customers.

"We still think it's a good time, and we'll probably always think it's a good time, to buy them because of their low correlation to equities and fixed income," said Cliff Dunteman, vice president in investment consulting services at Francis Investment in Pewaukee.

"It's that low correlation we're looking for when we build portfolios for our clients," Dunteman said.

Stocks and commodities, which cover everything from natural gas to aluminum, soybeans and pork bellies, tend to alternate leadership on average every 18 years, according to a study done by Legg Mason in 2002.

Commodities outperformed stocks from 1965 to 1981, then stocks outperformed through 2001, the study showed.

Commodities have been outperforming since then, and that trend is likely to continue, he said.

Take Sheboygan-based Johnsonville Sausage LLC, which employs 1,400 people

around the world and makes commodity-driven products tailored to certain markets that include lemon and herb sausage for Japan and honey and garlic sausage for Canada.

Johnsonville increased exports 67% between 2004 and 2007 and is now exporting to 30 countries, according to the U.S. Commerce Department.

"People have jobs they've never had before in places like India, China and Taiwan, so now they have this newfound wealth, and they'll spend it on various items - one of which is food," Dunteman said.

It makes sense that stocks and commodities should behave so differently, he said.

As commodity prices rise, it puts pressure on profit margins of manufacturers, who use the commodities as raw materials in their products.

"If they can't pass along the price increases, somebody has to eat it somewhere along the line," Dunteman said.

He says his firm recommends customers put as much as 5% to 15% of their assets into any one of three hard-asset funds:

Oppenheimer Commodity Strategy Fund (QRAYX, \$10.56) invests in securities whose return is linked to the Goldman Sachs Commodity Index.

About two-thirds of that index is in energy, such as oil and gas.

The remaining third is split between metals, such as gold and aluminum, and soft commodities, like wheat and pork bellies, Dunteman said.

Consequently, changes in energy prices can have much more influence than changes in other commodity prices.

The fund also holds futures contracts on commodities such as oil, wheat, metals and hogs to keep the fund balanced to the index. The fund hit a 52-week high of \$10.56 on Friday, and has traded as low as \$6.73 in the past year.

PIMCO Commodity Real Return Fund (PCRIX, \$20.12) invests in securities whose return is linked to the performance of the Dow Jones-AIG Commodity Index.

About one-third of that index is in each of three categories: energy, metals and soft commodities.

Once it has full exposure to the index, the fund puts any excess cash into TIPS, or Treasury Inflation Protected Securities. The fund's net asset value has ranged between \$13.62 and \$20.44 over the past 52 weeks.

Credit Suisse Commodity Fund (CRSOX, \$14.65) is similar to the PIMCO fund in the way it invests in securities whose return is linked to the performance of the Dow Jones-AIG Commodity Index.

This fund, however, puts its extra cash in Treasury bills rather than TIPS.

"TIPs will do very well in some years and poorly in others. This year, they've done well. In prior years, they've detracted from the performance of the PIMCO fund," Dunteman said.

On Friday, the shares hit a 52-week high of \$14.65. They've traded as low as \$10.71 in the past year.

The biggest risk he associates with all three funds is the possibility of commodity price levels dropping dramatically, as they did in 2001 after the Sept. 11 terrorist attacks, and in 1998 when emerging market economies blew up, Dunteman said.

Hard-asset funds likely won't turn in the 15% annual returns they have in the three years since Francis consultants began recommending them, Dunteman said.

But there's a good chance they will continue providing investors with a good return, particularly when stocks aren't, he said.