Agricultural Futures Trying To Make Up For Lost Time

If you need further evidence it is the meaningless things in life that really mean everything, take the passion of sport fans and the always amazing story of how one Alcides Ghiggia of Uruguay broke the hearts of Brazil way back in 1950 in a way the country is digesting still. In 2009 Ghiggia said, "only three people in history managed to silence the Maracana Stadium: Frank Sinatra, Pope John Paul II and me."

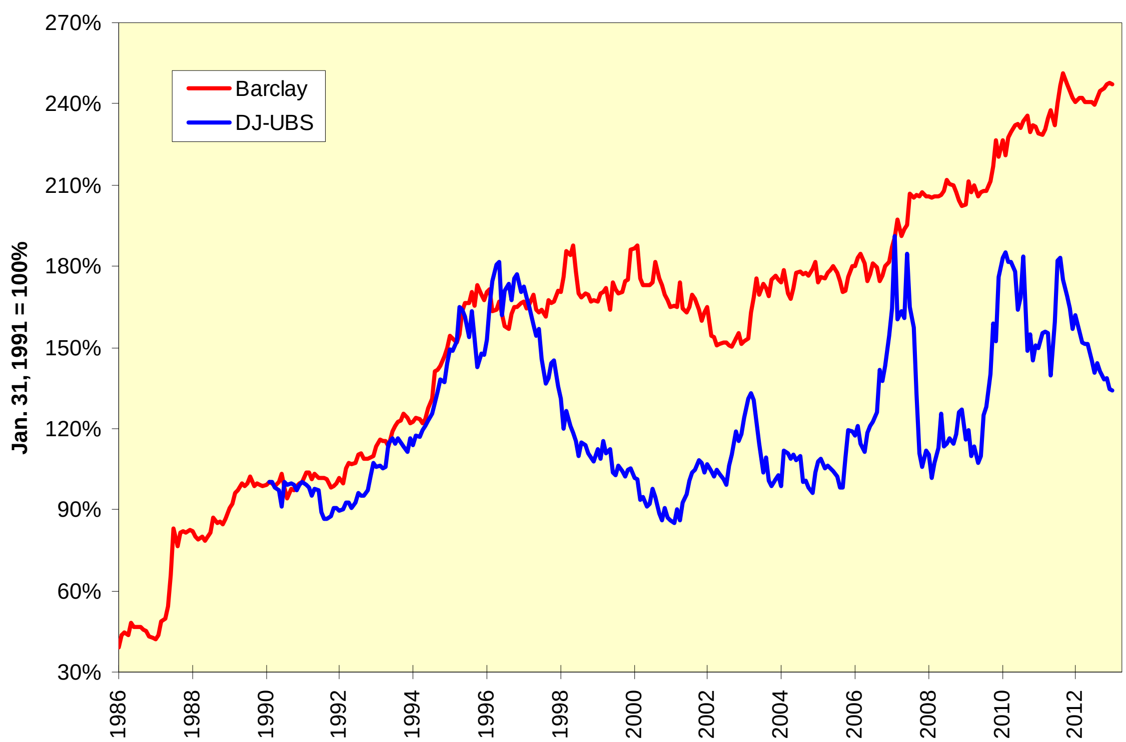
I can relate; I have silenced more than one presentation audience by telling them the long-term constant-dollar prices for nearly all physical commodities is lower and should be lower as higher prices would imply markets are not working. For example, the constant-dollar prices of corn and wheat have declined at average annual rates of 1.44% and 1.73%, respectively, since January 1947. The world's population essentially tripled over this period with the population of doomsayers and assorted loudmouths growing even faster. Obesity is considered as much of a global public health problem as undernourishment once was.

Where Active Beats Passive

I noted back in January 2011 how the Barclay Hedge index of commodity trading advisors specializing in agricultural commodities beat the unmanaged Dow Jones-UBS agricultural index over a long period. It is kind of an unfair competition, really; the CTAs can take short and spread positions or be out of sideways markets while the DJ-UBS index has to keep rolling long positions forward. This unmanaged index is not to be confused with the PowerShares Deutsche Bank Agriculture fund (DBA) based on the broader DBIQ Diversified Agriculture index.

The performance of the unmanaged DJ-UBS index slid further behind the CTA index in 2013; by the end of January 2014 its constant-dollar level was no higher than it was in August 1995. Just as finding the perfectly wrong trader is as valuable and just as difficult as finding the great trader, finding an investment this bad takes some work.

Active Vs. Passive In Agricultural Markets



Quick Pop Before Inevitable Stop

Despite their long-term constant-dollar downtrends, physical commodity markets can and do exhibit some pretty good one-off jumps to the upside whenever there are supply disruptions, such as the 2012 drought propelling grains higher for a few months, and demand surges, such as the one that has been unfolding all winter long in natural gas. Some of the agricultural, livestock and soft commodity markets appear to be in one of those short-term sweet spots right now. The aforementioned DBA has been on a tear as far as these markets go; since its January low, it has gained 10.28%. Hold your applause until you hear the second part of the description: That gain puts its one-year total return at a mere 0.76%. Its average annual return since the March 2009 low has been 1.52%. You have heard about stocks for the long haul? This is an ETF for the short haul; like airlines, you do not own commodities, you trade them.

As there will be no more new supply coming into the major agricultural markets now that the Southern Hemisphere growing season is near completion and we in the Northern Hemisphere are still in our winter wonderland, the gates are open for about two months of movement to the upside before more solid information on the Northern Hemisphere growing season emerges.