Common Sense on Commodities
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Interview with Jim Rogers: 'The Best Place to Be Is In Commodities'

Jim Rogers is widely known as one of the most insightful – and irreverent – commodities bulls in the market today. Rogers, who made his (first) fortune as George Soros' partner in the Quantum Fund, has been championing commodities to investors since at least 2004, when his book "Hot Commodities" laid out the case for a long-term bull market in hard assets.

Rogers, who runs his own index to capture the growth in commodities, argues that the commodities market runs in what might be called "supercycles"; 10-20 year stretches when pent-up demand meets the long lead times required to bring on new supply, sending prices steadily higher. With China and India growing fast, he thinks the current commodities bull market has plenty of room to go.

The editor's of Hard Assets Investor recently spoke by phone with Rogers, to get his view of the current situation in the commodities market.

HardAssetsInvestor [HAI]: With recent fluctuations in the commodities market, are you sticking with your "supercycle" theory? Where are we in the cycle?

Jim Rogers (Rogers): Supercycle is your term, not mine, so I won't say that. But I will say that we are in a bull market for commodities.

We are in a bull market for commodities because supply and demand got terribly out of whack years ago, and they are still out of whack.

I also wouldn't call it a theory. Nobody has discovered a gigantic oil field for thirty years. That's not a theory; that's a basic fact. In the meantime, demand for oil has been going up for many years. That's not a theory, either; that's a simple fact. Likewise, there has been one lead mine open in the world for the past twenty years, and the last lead smelter was built in the U.S. in 1979. I could continue: the number of acres devoted to wheat farming has been declining for 20 years.

Those are simple facts that lead me—and, I think, any rational person—to conclude that we're in a bull market for commodities that has a ways to go.

HAI: What about the recent pullback?

Rogers: There have been consolidations along the way; there always will be. In the stock bull during the 1980s and 1990s, there were huge corrections that scared the pants off some people. But the people who really knew what was going on, they bought more stock during those consolidations, and they did well. It was the same during the gold bull market in the 1970s. There was a stretch when gold went down every month for two years, and eventually ended down 50-plus percent. Everyone was scared. But then gold turned around and went straight back to $820/ounce, a new high.

That's how markets work. There will be awesome corrections in the commodities markets during this period of time, and I hope that I'm smart enough to recognize them for what they are.

HAI: The market panicked when China's stock market fell in February. Was that a blip, or signs of a bubble beginning to burst?

Rogers: Anybody who sold stock in the West or in Japan because China had a 9 percent drop in one day is a little bit nuts. The Chinese market has almost zero percent impact on the rest of the world. Foreigners can't invest in China, and the Chinese can't invest here. The idea that what goes on in China's market matters to us is nuts.

I'm sure that people worry about China's growth. That's understandable. The Chinese government is trying to slow down growth. But let's say that they succeed, and that China's growth slows from 10 percent GDP growth to 3 percent GDP. That's still growth. People still need to buy more tires and more eggs.

HAI: The commodities markets have been in deep contango recently. Is that situation permanent, and is it harming the thesis to invest in commodities? Are investors better off in physicals?

Rogers: Some sectors of the market have been in contango, and some have not. I'm not sure I agree with your assertion.

HAI: I was referring specifically to energy.

Rogers: Well, energy is just three or four commodities out of fifty…

Oil and energy have been in contango recently for a variety of reasons, and partly because of the index funds. I've seen contango come and go for decades. Usually, when the market gets out of whack, the people who need to buy the oil come along and take advantage of it. If people come along and there's contango, people will make money off it [presumably, buy buying oil today and storing it to sell in the future]. Likewise, when there's backwardation. People who need oil will find the best price and the best place to buy oil, and they will do so. They take advantage of the discrepancies and then the discrepancies disappear.

HAI: What are the most pressing issues that commodity investors should understand?

Rogers: They should understand that until somebody brings on a lot of supply, commodities will do well. If people start seeing windmills on every roof and solar panels on every house, then maybe this [commodities boom] is coming to an end. If somebody discovers a gigantic gas field in Berlin, maybe this will start to change. Investors need to watch and see when and if new sources of supply develop.

Bur really, short of worldwide economic collapse, the best place to be is in commodities. There is no shortage of stocks. The world is cranking out new stocks every day. No one is cranking out new lead mines every day. People need to get a basic understanding of supply and demand, and then they'll figure out what the big picture is, and they will make money.

HAI: Are agricultural commodities a different animal from metals and energy, in that their supply is more elastic. Does that change the analysis there?

Rogers: They are not much more elastic. It takes five years for a coffee tree to mature. If you decide to go into the coffee business today, it might take five or seven years before you come to market. It takes ten years to bring on a new coal mine, but many plantations take a long time, too.

In theory, we can increase our acreage devoted to corn, as America did recently [per the USDA's perspective plantings report]. But farmers did that at the expense of soybeans and cotton and everything else. It's not as if the world has created a lot more land. Even when farmers do bring on more acreage, it takes a few years and it costs money and time.

Moreover, when you have acreage lying fallow, it's always the marginal acreage. When farmers take acreage out of production, they keep the good acreage in production. Doubling the number of acres devoted to corn will not double production. Yes, in theory, you can bring on more corn quickly. But it is at the expense of other things.

HAI: Does active management have a role in the commodities space?

Rogers: The world has demonstrated repeatedly that index investors outperform 80 percent of active managers year after year after year. If you can find a good active manager who can beat the market consistently, invest with her, and introduce me to her, too. But my index fund has been running since August 1998, and it has done 500 percent better than the average CTA over that time.

HAI: Last year, we saw the London Metals Exchange intervene in the nickel markets. With supplies tight for many commodities, will we see that happen again? Will it become more frequent?

Rogers: I suspect it will happen less. The more it happens, the more credibility the exchange loses. With the internet and electronic trading, it's very easy for a new market to develop. And any exchange where that happens frequently will lose its market.