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Too Soon To Bury Commodities

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A few weeks ago, gold bugs were in ecstasy. Their precious metal had topped $700 an ounce, its highest level in 26 years, and many bulls were forecasting that an $800 price tag was fairly imminent and $1,000 not too far behind.

It was a rotten prediction: Gold (now about $576) and a slew of other commodities were struck by a wave of profit taking that has led to widespread speculation about whether the five-year boom in commodities is kaput.

Judging from recent comments by Federal Reserve governors, the Fed seems hellbent on extinguishing possible inflation fires. That augurs poorly for gold, a San Francisco precious metals trader, Andrea Andes, said. For the rest of 2006, she says she thinks the golden days may be over for commodities. However, she does see a catalyst: possible inflationary risks arising from prospects of strong global economic growth this year - say about 5%, with China and India growing a lot faster.

A Viennese-born 37-year-old former policeman, Christian Baha, takes a decidedly different view of the commodities sell-off. In effect, he says he thinks it's foolhardy to consider holding funeral rites for commodities just yet. He views the sell-off as "nothing more than a normal decline in an ongoing bull market," one, he says, that offers investors good buying opportunities.

Gold, which he sees streaking to an all-time high of $1,800 an ounce in three to five years, is far and away his no. 1 pick. He also likes crude oil, palladium, and coffee. Sugar and corn, both used in fuel substitutes, are also favored.

Mr. Baha is not a fellow to be taken lightly on the subject of commodities. In 1996, he founded Superfund Asset Management, a Monaco-based investment firm specializing in commodities and financial futures. The firm, which now boasts assets of $1.6 billion and offices around the globe, has some 50,000 retail investors worldwide, about 4,500 of which reside in America.

The firm manages two SEC-registered trading funds in America that started up in November 2002 and have combined assets of about $120 million. Both - one basic, the other more aggressive - take long and short positions and follow current trends, rather than try to create them. Since inception, the basic fund has achieved a total return of 33.9%, while the more aggressive fund is up 54.7%. Given the recent sell-off in commodities, though, both funds, whose minimum investment is $5,000, show gains this

year of less than 2%.

In arguing his case for commodities, Mr. Baha, in a telephone interview from a Superfund office in Innsbruck, Austria, observes that over the past 200 years commodity bull and bear markets have averaged between 15 and 25 years. Usually, bull markets in stocks coincide with bear markets in commodities, and vice-versa. For example, during the period between 1980 and 2000, one of the biggest bull markets in the history of stocks, gold fell to about $230 an ounce from $850, while oil skidded to $10 a barrel from $40.

Mr. Baha reckons that commodities now are in the early stages of a new bull market, which will always be subject to setbacks along the way.

Why so bullish on gold? For starters, he says, the precious metal has been the currency of human beings for 7,000 years. He also views gold as vastly underpriced relative to stocks considering that there are 150,000 tons of gold in the world and that the total value is less than the market cap of the 10 largest American companies. Yet another point: When gold reached its all-time peak of $850 in 1980, it actually traded at around $1,700 an ounce when you factor in its price on an inflation-adjusted basis. Given that, he feels his outlook for $1,800 an ounce is hardly off the wall.

Another plus: Demand is outstripping supply. Mr. Baha says too much demand (especially from India and China) is chasing insufficient supply. He told me that in India, people love gold so much that they actually eat and drink it, notably in desserts and Champagne.

Mr. Baha also sees the likelihood of rising inflation stemming from an expected increase in the amount of money being printed to protect the dollar in the face of very high debt. It hasn't happened yet, but he says he can also envision the following extreme: "where foreigners will no longer buy American bonds."

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