MARKET COMMENTARY

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Since 1998, our general theme has been that the assumed 18-year cycle in commodity prices would result in higher prices for commodities and commodity based companies through 2016. It was also our view that commercial real estate would parallel the upside movement in commodity prices and that traditional stock and bond investing would be essentially flat or on the defensive throughout most of that time. We base this thesis on our interpretation of decades of cycle experience. Given the fact that during the previous 18 years (1980-1998), there had been so much disinvestment in commodity based assets and purging of real estate, it seems reasonable to envision the up phase of the next cycle (1998-2016). Stocks and bonds have risen dramatically for 18 years and have priced themselves so high, in valuation, that one could imagine that stocks and bonds could spend the next 18 years underperforming real estate and commodity based assets. Also, this period would provide enough time for growth and earnings to catch up to the lofty end of cycle prices. Given the resurgence of third-world countries and their associated political trauma, one can certainly find fundamentals to support the original proposition that commodities would be in short supply for some time.

In short, I have no reason to change our long standing view that investors should continue to allocate a portion of their assets to oil, gas, gold, and real estate based investments. This conclusion is especially true when those investments (excluding gold) provide the prospects for income and tax incentives.