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listeningin

The Raw Materials Guy

Jim Rogers, Back From Trek, Finds Value In Commodities, Shorts Stocks

Jim Rogers is back. Been back for over a year, in fact. Enough time to publish his second book, Adventure Capitalist, *and have it go into its fifth printing. Enough time for Jim and wife Paige Parker to welcome a daughter and equip her with a passport. Enough time too, for the wily hedge fund veteran to reassess an investment landscape that went from bubble to bust while he canvassed the globe—and to come to characteristically iconoclastic and outspoken conclusions. Remember commodities? Jim does.*
KMW

Welcome back.
Thank you. I guess I am delighted to be back. Actually, I am *not* delighted to be back. I wish I were still on the road. It seems that I have a defective gene. What I really love spending my time doing is seeing the world close to the ground, seeing what is really going on. The education plus the adventure—it doesn't get much better than that.

Didn't I see you quoted somewhere saying that your first round-the-world jaunt was more fun?
In the financial sense. During my first trip, I opened a lot of accounts in various countries. This trip, I closed as many accounts as I had opened. Markets in many places are sort of closing up, if you will. It is not good for the world and it is certainly not good for investors. I *think* we all know that open markets and free trade are best for the world. But unfortunately when things start going wrong a lot of politicians look for the easy way out, look for the Band-Aid to solve problems short-term. Even though that always means bad things long-term. Look at **Alan Greenspan.**

Only if you insist.
Even that incompetent is doing it. Reaching for the short-term solutions instead of the long-term. *[See Guest Perspective.]* That is happening in many parts of the world.

The whole world seems to have *that* defective gene.
Unfortunately.

You came back and wrote a book, so the experience couldn't have been that discombobulating.
I did come back and get the book written. But I had postpartum depression of sorts when I got home. I don't want to overstate it, but the year before I got back I had been driving from the Taj Mahal to Calcutta and two years before, I had been about to go into 32 countries in Africa. Coming home and suddenly having to deal with the plumber and the electrician was a bit of a downer.

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Ann Field
Page 1 Illustration

Gee, just like ordinary folks.
It was bad enough to be home after that adventure, but when the mundane instantly intruded after an absence of three years, it just wasn't much fun. But I have gotten over it. Paige got over it much faster than I did.

I hear you two just embarked on another sort of journey entirely–parenthood. Congratulations.
It is a terrific new adventure. I never had a baby before so I didn't quite understand why people got so enthused and excited about babies. But gosh, she is a lot of fun. For me, anyway. She is only two months old. She can't count yet. But I am trying to teach her. She has a globe and an atlas in her room and we have already gotten her a passport.

It must not have been easy to get your head back into economics and the markets–
Actually, I was never really out-of-touch. One of the major changes between this trip and my last was that the telecommunications revolution is definitely real. My last trip, frequently all I could do was send postcards back to the States and hope that people would know I was alive. This time, in every country in the world, there are now phone connections. So we could keep up the website [www.jimrogers.com] to our amazement. It was a ground level lesson that yes, the revolution is real even in African villages, even in Siberia, lots of places where before it was almost impossible to make a phone call. So that part of the revolution is real and it continues to grow and expand and will be terrific. But that doesn't mean that a lot of people aren't going to make money out of it.

"North Korea has all of 22 million people. It is certainly no threat to the U.S. despite these lunatics in Washington. *If* it is a threat, it is a threat to South Korea, Japan, China and Russia. Those countries have between them, what–1.5 billion people? Not to mention huge armies and a lot of dough? Let *them* deal with North Korea."

And it affects ordinary folk, not just ruling elites?
Yes. That's where we spent most of our time, because you learn more. If I go to see the minister of finance or the foreign minister, I know exactly what he is going to say. I can say it better than he can. If you fly into the international airport and take a taxi down to the main hotel, you don't learn much. But by the time you cross a remote border, you know 25% or 30% of all you need to know about a country. If you then drive across the country, you will know another 25% or 30%. If you can find a madam, you *really* find what you need to know.

Now, Jim, you took a bride on this trip...
No, I say that facetiously. Actually, I have never been to a prostitute. But Paige–we stayed in hotels a lot, needless to say, and that is where prostitutes hang out. Paige got sort of intrigued and would interview prostitutes, and I would go along with her. The prostitutes are okay, but the madams are the ones who really know what is going on in a country and who is doing it. So by the time you see the black market and a madam and cross the border –you will have learned far more than you could from any foreign minister. More conventionally, the currency market is like a thermometer. It doesn't tell you *what* is right or wrong with a country, but it tells you if something is wrong and it tells you how wrong it might be. If there is a huge premium in the currency in the black market, there is a serious problem. If there is no black market, that tells you something is going fairly right.

Where did you discover that sort of good news?
The European countries, Tokyo, Australia are places where there is no black market.

Outside of the developed world, I meant.
There have been black markets in the developed world at times. Whenever anything is restricted. When Britain had exchange controls there was a black market there. When I was at Oxford. At the moment, while there still is a black market in South Korea, it is a pale reflection of its former self. In fact, in Korea old women run the black market, and that's usually a young man's game. But opportunities have opened up a lot there in the last 10 years so all the young guys who used to run the black market have gone on to other things and you just have some old babushkas sitting down behind the central bank running the black market. There is not much demand. Just for some people to launder money.

Since you mentioned it, what's your take on how we should be dealing with Mr. Kim and his nukes?
Geopolitically, we are wasting our time and money. The money that we have spent in South Korea in the last 50 years could have cured cancer or paid our government debt. It is amazing how much money we are wasting there. I mean we have 37 or 40 military bases in a country the size of Indiana. North Korea has all of 22 million people. It is certainly no threat to the U.S. despite these lunatics in Washington. *If* it is a threat, it is a threat to South Korea, Japan, China and Russia. Those countries have between them, what–1.5 billion people? Not to mention huge armies and a lot of dough? Let *them* deal with North Korea. Why *we* are spending so much time and energy and money there is beyond me. Let them spend that money in my neighborhood if they want to throw some money out the window.

Another dictator with nukes doesn't worry you?
Even if they do have them, they don't have more than one or two. Even the guys in Washington who say they do, don't claim they have more and it is no threat to us. I mean, a lot of places have nuclear weapons. Pakistan does. India does. There are 15 countries around the

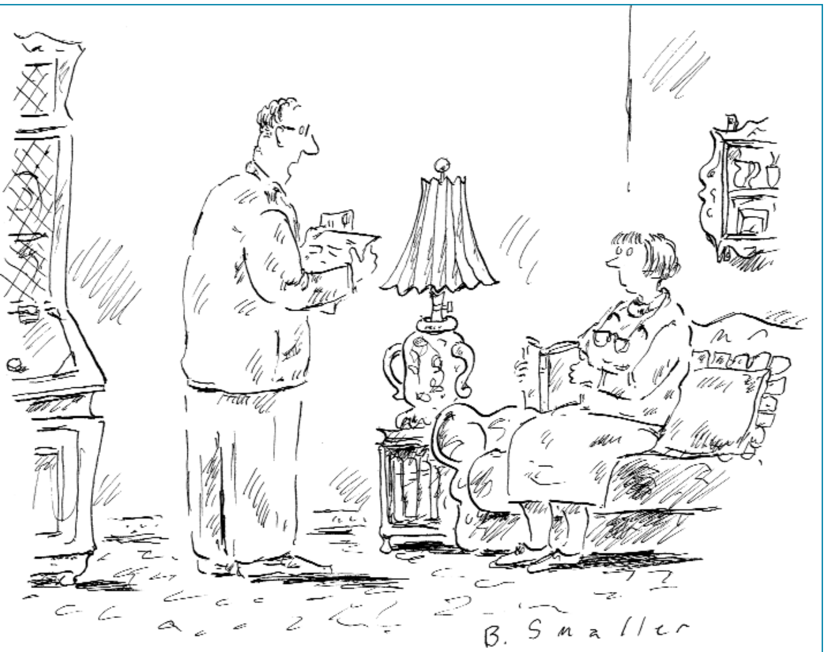
world that have nuclear weapons–are we going to invade all 15 of them? No. I hope not. Not with my money, anyway. Beyond that, South Korea itself is a very protected economy. It has had a great growth story, but it basically has been through horrible protectionism. The only thing I invested in after visiting Korea is this dramatic, gigantic shortage of women developing in Asia.

We *were* talking about short-sighted decisions–
Well, we noticed it at first because we were always visiting the tourist sites, which were usually crowded with school groups. After a while I said, where the hell are the little girls? So I did some homework and found out that for every 100 14-year-old Korean girls there are 120 14-year-old Korean boys right now. In some parts of India, men simply can't find wives. In China, last year, there were 117 boys born for every 100 girls.

Clearly, mother nature is being tampered with.
Right, the natural proportion is usually about 51% boys, 50% girls. Not even 51%. Just slightly more boys born than girls, because infant mortality is higher in boys. But there are far more boys being born all across Asia, for all the reasons you know.

So gender genocide isn't just a Chinese issue?
No, in fact, it is so bad in South Korea that they have outlawed sonograms to determine gender. But it doesn't do any good. People fly to Japan or China to get their sonograms. And it is going to change everything– economics, politics, society, education. Forget the Nobel Peace Prize. The unification of North Korea and South Korea is going to come about because there are no girls. Koreans are like everybody else. They don't want to marry Filipinos or Indians. They want to marry Koreans. They will get some girls from Queens and they will get a few from Los Angles. But the only really accessible and acceptable pool of girls will be in North Korea.

The gender imbalance isn't extreme there, too?
No. They don't have sonograms in North Korea. Kim actually encourages people to have babies because he thinks it is good for the country and for the army, which is in stark contrast to the rest of his immediate neighbors. So there are two things you can invest in in Korea. You can buy land on the north side of the river in Seoul, which is much, much cheaper than the south side of the river. Everybody assumes that if there were war, the North Korean army would get to the river straight away. It is only 30 miles from the border, so that land is very cheap. But I did not do that. I am not a real estate investor. Still, if I were the North Koreans, I would just buy up a lot of land on the north side of the river and then declare peace. Get rich. I don't know why they don't do it. They could raid the market easily. Make a few threats. Drive the prices down even further. Buy all the land up and then declare peace and unification.



"My pension has been renegotiated, and in lieu of a monthly check I'll receive a crateful of seasonal fruit."

Maybe that's what all Kim's saber-rattling is about.
It could be. But I doubt it. Anyway, I did buy birth control pill companies in South Korea. They were essentially bankrupt because of the Asia crisis. And not many people in Asia use birth control pills. They aren't terribly socially acceptable, like in the West years and years ago. But my view is that when those 14-year old girls become 24-year old women and realize they can have any guy they want, the status of women is going to change very dramatically. Anyway, that is the only real way I found to invest in Korea. I suspect that if you could find a chain of exercise studios or health clubs there, it could be a pretty good investment, but I didn't find one. High fashion is also a good business there. But I bought three birth control pill companies. They have all gone up since then. But in my view they have a long way to go. I am old enough to remember when the shares of Syntex, the great birth control pill company here, went up 500 times or so when people started using it. I will settle for 100 times. Heck, I will settle for 10 times. The coming shortage of women in Asia is a major league trend.

Now, if I could only turn myself into a 14-year old Korean girl–
You'd be rich. Despite their shortage of women, China is going to be the next great power in the world. You have heard me say that before. My trip just re-emphasized that. No question. There is no question that China is going to be the next great country in the world. I opened a brokerage account in China. I bought a lot of the "B" shares back in May of 1999. They have all gone up a lot, though they were ridiculed and scorned at the time. Every once in a while, I get it right.

But what happens when you want to take profits?
In China's case, I am going to own those stocks forever. That is my plan, anyway. If you bought stocks in New York in 1903, you were nuts ever to sell them–even though in 1907 there was a gigantic collapse. Virtually

the whole country went bankrupt. But if you sold in 1907, you made a terrible mistake. There are going to be horrible setbacks in China as they develop. There always are. Japan had horrible setbacks as they developed. But I am just going to own these things. They will be in my estate and I will buy more as time goes on.

Jim, isn't survivorship bias clouding your view there? You can't "buy China" in an actively managed index, so you have to be widely diversified—which means your estate will end up owing a lot of turkeys—and still perhaps miss out on the best Chinese stocks.
I am sure I will end up holding turkeys. Absolutely. I didn't say this was without risk. If you bought the constituents of the Dow Jones Industrial Average in 1903 and just held, I think there is only one company left that's still trading.

I wouldn't be surprised.
So, of course, I bought a big basket. Of course, some of them will disappear. Some of them will undoubtedly be merged, which is okay. You are right. There will be tremendous failures and China will have tremendous setbacks. But you only need five or six to go up 50 or 100 times to make up for as many losses as you want to take. Then too, my Chinese portfolio is not totally static. When I think about it, I may sell something but I am more likely to buy more. The best investment advice I can give you is to teach your children and grandchildren Chinese. It is going to be the most important country in the world in the 21st Century. They save and invest 35% of their income. They work from dawn to dusk. It is an astonishing country.

Yet for many investors—even large institutions—investing in China today, with its still-evolving legal framework, is simply beyond the pale.
Well, there are ADRs. I don't use ADRs and I don't know the companies that have them. But a lot of the stocks trade in Hong Kong. There *are* ways to do it. I did it by opening an account in Shanghai, but there are other routes. I have to admit, this is the only time I have invested in a country that has a blocked currency. When the currency becomes freely convertible I will undoubtedly—or my plan, anyway—is to buy a lot more of China.

That's inevitable, isn't it?
It became so, as soon as they joined the WTO, since it's a requirement. But they were going to do it, even if they hadn't joined WTO. You can't be a major economy or world power without a convertible currency and they know it. It will come.

The question is how quickly.
Well, their fear has been that if they made it convertible a lot of money would leave the country. Now, I would hope that is the case, because then I could buy it cheaper. But I am not so sure that would happen now.

The reverse might actually happen.
Exactly. I am afraid now that more and more people are understanding China and have figured it out. So the currency might actually go up. But either way, I expect to be buying it the first day.

How does India stack up to China, for adventurous investors?
It doesn't. India is a hopeless case. I still wouldn't put any money in India. There's always the occasional great success story, but the Indian government is hopeless. The infrastructure is a disaster. India talks a good game but not with my money. In China, I could use my mobile phone all over the country. In India, you have to buy a separate mobile phone in each city. And those guys claim to be the great IT leaders of the world. If you walk into the shops in India, you see computers that are three years behind what you would get in New York. Most phones there don't work at all. It is a bureaucratic and chauvinistic nightmare. I went there very optimistic. But the reality close to the ground was not with my money. And the country, of course, is going to split up. It is not a real country. The English mushed it together in 1947 in a panic and the borders of India as we know it will not survive.

The regional tensions just can't be tamed?
There are different religions, different languages, different everything. I mean, it is not a country. Not a logical country, anyway. Those tensions will come to the fore and something will happen. Now if you can find a good Indian company, this doesn't mean you won't make a fortune. England has been in decline for 80 years. A lot of people have still made a lot of money there—in stocks and otherwise too. So don't get me wrong. But I only have so much time. If I found a good trader, I might do something in India, but otherwise I'll skip India.

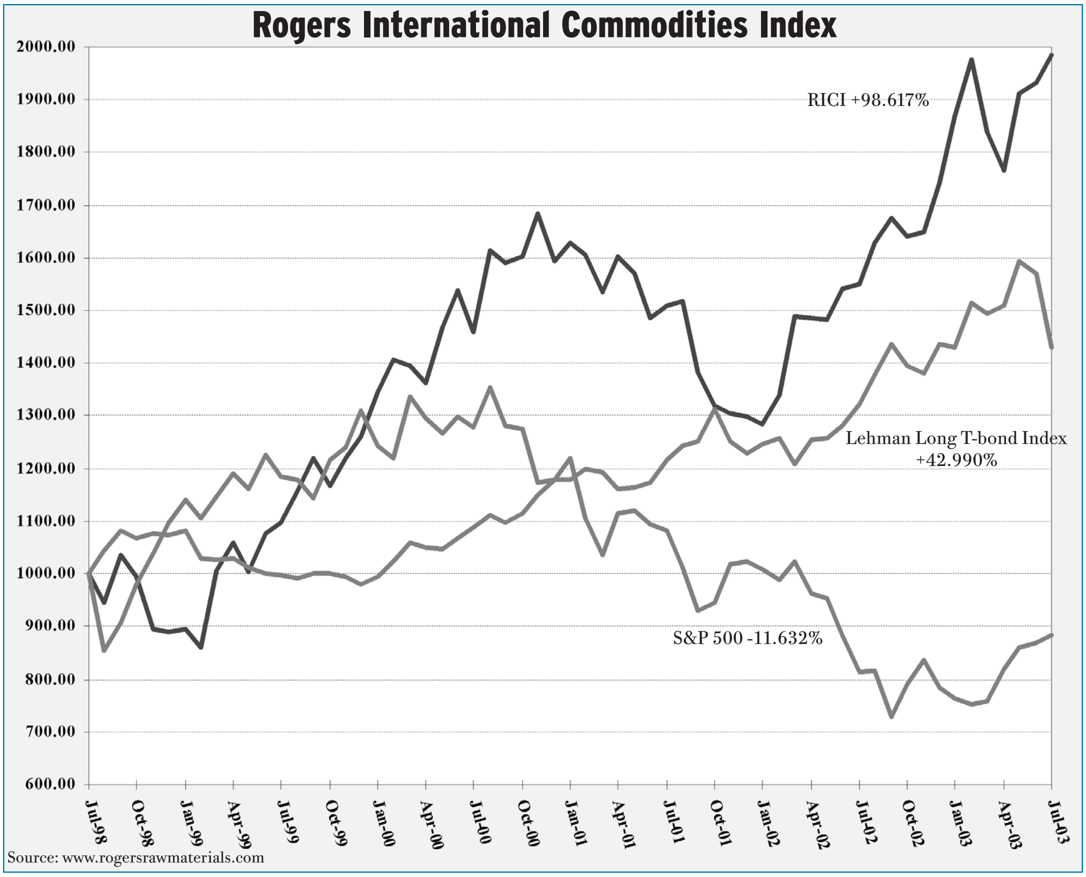
Where do you spy better opportunities?
There are some extremely good stories out there, especially Japan.

Japan's long bear market is finally over?
Two or three things just caught my eye. Japan's suicide rate is the highest in history. The birth rate is the lowest in history. All the college graduates, even the junior high school kids, say they want to go to work for the government. There is terrible fear and pessimism in Japan. When you have that kind of pessimism, you can't necessarily assume stocks are going to go up—but it is a reason to look closer. Now, whether they let their zombie companies go bankrupt or not, they are printing money at such a rapid rate that the market *has got to go up*. I mean, their central bank and ours are printing huge amounts of money. Bush is spending huge amounts of money. That money has got to go somewhere and the Japanese stock market has been and will continue to be one of the beneficiaries.

Everything you've mentioned—except the pedal to the monetary metal—was just as true back in 1999, when you wrote a piece about Japan that I printed [w@w 9/10/99]. Yet the Nikkei—at least til very recently—hasn't exactly set the world afire.

The contrast back then was stark. The Japanese market was down 80%. There was horrible pessimism. Its mutual fund industry had lost 95% of its assets. Here, there was total optimism. The market was at an all-time high. Money was pouring into mutual funds–

My point is that nothing much has changed *in Japan* since then. The country has continued to wallow in depression. So why should it change now?
Therein lies the reason to be optimistic. The Japanese bear market has been going on for 14 years. Nobody has any confidence. Everybody wants to worry. I mean, there is nothing wrong with working in civil service but most young kids *here* say they want to grow up to be a baseball player or a movie star or something.



What do you own in Japan?
A variety of stocks. I own things like **Mitsubishi.** I own the commodities brokers. I am very bullish on commodities in Japan. Many of the commodities brokers are publicly traded. I own the oil, gas, and the service station companies because the government is trying to make them consolidate. I own the birth control pill company. I own the EFTs–ETFs, I mean. The exchange-traded funds.

I have trouble with that acronym, too.
The exchange traded funds will put the American mutual fund industry out of business, because they are so cheap and efficient. There really is no reason for anybody to buy a specialized mutual fund anymore. When the American mutual fund industry loses 95% of its assets, as the Japanese funds have, *then* maybe there will be more reason to be optimistic about this market–

Is that a prediction?
It's not a typo, that's for certain. That is exactly what happened in Japan–a country that has a huge savings rate and an enormous propensity to save. Can you imagine what is going to happen here as the mutual funds get decimated?

I'd rather not. Already, it hasn't been pretty.
But we haven't seen anything yet. There are still a lot of people on Wall Street making a lot of money. Business school students still want to go to the Street. Wall Street employment is down a little bit but nothing in percentage terms. What usually happens in serious bear markets is that numbers become appalling and terrifying. I can remember in the 1970s, nobody wanted to go to Wall Street. In fact, if you look at Wall Street in terms of generations, there is a big gap between the people who went into the business in the 1960s and the people who went there in the 1980s. Nobody went in the 1970s.

Except oddballs like me, who just write about it.
Bear markets are great for journalists and accountants. Somebody still has to keep the books. Somebody has to write about it.

Well, *this one* hasn't been wonderful for accountants—or for writers at ad-starved media outlooks either, for that matter.
You're right. A lot of magazines will close. In the bubble, a huge number of periodicals started up and thrived on the mania, so I guess I spoke too soon.

Not just magazines, I'll bet. Maybe even a network or two. Anyway, you think ETFs pose more of a threat to the fund industry than *hedge funds* do?
There's not a doubt in my mind. Most of the hedge funds will disappear in the bear market. Most of the ETFs will certainly survive. They are much cheaper to buy and sell, much cheaper to administer. Mutual funds have 1 or 2 or 3% fees every year, depending on how you count all the fees, they have so many hidden fees. And all those guys make a lot of money running mutual funds. ETFs have virtually no administrative fees. You can buy and sell them at will for virtually nothing. You don't have to worry about taxes. You know, if you have a mutual fund, the portfolio manager can always take capital gains. So you have to pay capital gains taxes whether you want to

RICI Composition

Crude Oil	35.00%
Wheat	7.00%
Corn	4.00%
Aluminum	4.00%
Copper	4.00%
Heating Oil/Diesel	3.00%
Unleaded Gas	3.00%
Cotton	3.00%
Soybeans	3.00%
Gold	3.00%
Live Cattle	2.00%
Coffee	2.00%
Zinc	2.00%
Silver	2.00%
Lead	2.00%
Rice	2.00%
Platinum	1.80%
Palm/Soybean Oil	2.00%
Live Hogs	1.00%
Sugar	1.00%
Azuki Beans	1.00%
Cocoa	1.00%
Nickel	1.00%
Tin	1.00%
Wool	1.00%
Rubber	1.00%
Lumber	1.00%
Barley	0.77%
Canola	0.67%
Orange Juice	0.66%
Palladium	0.30%
Silk	0.15%
Flaxseed	0.15%
TOTAL	100.00%

or not, because the guy is always turning the portfolio. ETFs are tax-efficient, they are transaction-efficient. They are so superior to mutual funds. They are not well understood yet, but as people figure them out and as more of them come to the market, they will put the mutual funds out of business. By contrast, the hedge funds–how many do we have now? 6,000?

Something like that. But isn't there a fly in the ETF ointment? They need fairly deep and liquid markets to operate properly. Yet those are problematical, to say the least, in the sort of nasty bear market you're talking about.
Well, *everything* will be compromised in a bear market. Look at the Japanese bear market. Mutual funds have gone out of business. Brokers have gone out of business. I am just saying that the ETFs will still be standing and most mutual funds won't. But there is no question that the whole thing is going to be compromised, if we have the bear market like Japan's, and we certainly will some day.

And the hedge funds?
Well 6,000–we can't have that many smart 29-year-olds in this country.

You were one, once.
Fine. We can have one or two or six smart 29-year-olds. I am just saying we can't have 6,000 smart 29-year-olds. That is all. The market is not that easy. Everybody seems to think that making money in the stock market is an easy thing. It never was for me. I had to work really hard at it. The guys I know who were very successful at it were either very smart or worked very hard. I wasn't very smart but I worked hard. Do you remember a book, *"The New Breed on Wall Street?"* Virtually all of those guys went out of business. But in the late '60s, there were so many successful hedge funds that the whole book was written about them.

Fame is fleeting, you're saying?
The same thing is going to happen again. This is not magic. It is just history. It has always happened. Hedge funds have always come and gone.

But what the marketing guys tell you today is that these aren't your father's hedge funds–or, in your case, yours. The name is a misnomer and the animal has changed radically since the days when George Soros and you created Quantum. A long/short or a macro strategy is just one arrow in the hedgies' quivers–and they're all non-correlated, blah, blah, blah.
Most of the people in the hedge fund business today aren't really running hedge funds, as I understand them. Many of them are just mutual fund managers disguised with higher fees. Most of them have just a single narrow focus, whether it is energy or convertible arbitrage or whatever. My idea of a hedge fund is invests all over the world in stocks, bonds, commodities, currencies–long and short. That is what we did. That is what I still do. But most of them don't. Don't misunderstand. I am not knocking these guys. If a guy can make a fortune every year investing just in energy stocks, more power to him. I want to meet him. I am just saying it is not that easy and they are not real hedge funds, in my view. But they are getting huge fees at the moment, some of them are making a lot of money. There will be some good ones. No question. Not everyone is a dunce. I just know we don't have 6,000 geniuses.

Rogers Raw Materials Fund L.P. Data Dump

Type: Privately offered commodities pool.
Inception of Trading: August 1998
Total Contributions: $21,500,000
Jan 31, 2003 NAV: $30,613,000
Largest Peak-to-Valley Drawdown in last five years: 18.12% (October 1998–February 1999)
Largest Monthly Drawdown in last five years: 10.46% (November 1998)
Annualized Rate of Return: 15.37%

The following table shows the monthly and yearly performance of the Rogers Raw Materials Fund, as a whole, since inception of trading in August 1998 through January 31, 2003.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2003	7.07												
2002	(1.18)	4.38	10.13	0.02	(0.56)	3.98	0.61	4.67	2.37	(2.14)	0.45	5.17	30.93
2001	1.97	(1.32)	(4.15)	4.38	(2.10)	(5.86)	1.83	0.52	(8.56)	(4.25)	(2.24)	(0.78)	(19.61)
2000	6.56	4.57	(1.17)	(2.25)	7.35	5.25	(5.99)	10.44	(1.47)	(0.59)	5.26	(5.00)	25.16
1999	0.75	(4.26)	16.98	5.26	(5.66)	7.44	1.94	5.14	4.56	(3.93)	4.42	3.06	39.48
1998						(3.81)	8.05	(4.19)	(10.46)	(1.05)	(11.7)		

Talk about a safe bet. Yet every self-respecting institution just has to have some hedge funds–or funds of funds–in their portfolios.
What do you need a manager to manage managers for? That concept is another reason that I *know* the bear market is not over. This whole class of people, whatever they are called, who help you pick managers. This is a whole extra layer of expense that did not exist in the past. When we finally get to the end of the bear market, it probably won't exist anymore. They only are just an artifact of the gigantic bull market. I am sure they are nice and smart people, but it is a whole extra layer of expense that the world will not be able to afford.

There *is* a certain cost involved in covering your rear.
Yes, but somewhere along the line, the beneficiaries, the pensioners, whoever, are going to say, "Wait a minute guys, we've got to have some money." Most pension funds are broke as it is now. If the bear market continues–or really, if a new monster bull market simply fails to appear soon, most pension funds will have serious problems. They certainly are not going to be able to spend huge sums on managers and then managers for managers and managers for managers of managers.

You sound awfully downbeat, considering that the stock market has enjoyed one heck of a rousing rally over the last year, almost.
Well, for the last year, until recently–until June or July–I have had no shorts in this market. Which has been rare in my career.

None? Zilch? You?
Absolutely zero shorts in the U.S. and I cannot remember ever in my life when that has been the case. I turned optimistic last summer when a lot of things came together–panic selling, Greenspan starting to print money like a wild man, Bush starting to spend money like a wild man. All those things just meant that I did not see any reason to sell short. So I covered everything. But now I have started selling short here again.

What, for instance?
Well, **Fannie Mae** (FNM) is one of my shorts.

How about Freddie Mac (FRE)?
I am not short Freddie. It got away from me. I was focusing on shorting Fannie and selling naked calls on it as well, when FRE collapsed. I guess I had a vague impression that Freddie Mac was different. Well, it was. But in the wrong way for me! But I am still short Fannie Mae and I am short several things in other countries. I am not net short but I don't think the stock market is the place to be. It is going to be like 1966 to 1982. Or 1903 to 1923. A long, multi-year period when stocks don't do anything. That may sound radical but it has been the history for a few hundred years. After every bubble, it takes a long time to sort things out. Whether this means the market is going to fluctuate between 4,000 and 12,000, I don't know. Whether it is going to be like Japan's and go down for 75%-80%, I don't know. I just hope that I can be smart enough to make enough money to pay the rent. The place to be long will be in commodities–in the U.S., anyway.

What makes you so sure?
Greenspan is ensuring it. He got rid of the stock market bubble, replacing it with a housing bubble and a consumption bubble. But eventually, when the housing bubble and the consumption bubble end, it is going to be even worse than the stock market bubble popping. Because a lot more people have houses than have stocks. Greenspan is going to go down in history as one of the worst central bankers in the history of the world because of how he has fouled this up. But all that is very good for commodities. In 1966, the Dow Jones was at 1,000. In 1982, the Dow Jones was 800. Down 20%, 16 years later–not adjusted for inflation. And the inflation rate was the worst in the history in the republic in those 16 years. Between the turn of the 20th century and the early 1920s, the DJIA was flat. We went from being a debtor nation to a creditor nation, becoming the most successful country in the world. But the stock market did absolutely nothing. Commodities went through the roof, though, during that period and likewise between '66 and '82. So throughout history, you have these long multi-year bull markets in stocks and long, multi-year nothing markets in stocks. The same thing in commodities. We are now in a period where stocks are *not* the place to be. Commodities *are.* Consider: **Merrill Lynch** is out of the commodities business.

You take that as a contrary indicator?
Right. Merrill Lynch in 1998 decided to get out of the commodities business. That August 1, I started a commodities index fund, the **Rogers Raw Materials Fund**. When Merrill Lynch goes back into the commodities business, when CNBC is broadcasting from the soybean pits, then *maybe* it will be time to start worrying about commodities. But at the moment nobody is interested in commodities. There are *no* commodity mutual funds. It is the place to be.

But there are lots of CTAs. And your fund, of course.
My fund is only for accredited, institutional-size investors; it's not a mutual fund. But yes, there are lots of commodities trading advisors running pools of money. And that is useful and good. You *want* more money to come into the commodities markets. You have to have somebody buying to have a bull market. Merrill Lynch will come back into the business, absolutely, but it will take a while. My point is that there are 10,000 stock and bond mutual funds in this country, but essentially none for commodities.

Your own fund just turned 5 years old, and yet everybody thought you'd gone off the deep end, starting a commodities fund back in 1998—
Of course, it is up 100% since then. It is an index fund, strictly passive, and long-only, employing no leverage. We put up 100% of the money. If we buy $100,000 worth of soybeans, we put up $100,000.

***No* leverage, in the commodities markets?**
That's right. It is run like an S&P index fund. If they buy IBM, they put up 100% of the money. This thing is the same thing. It is a simple, long-only, no-leverage index fund and it is up 100% since we started it.

Is that the gross return?
Net. The fees are almost nothing: 65 basis points. A rich guy in Switzerland heard about this fund. He came to see me, wanted to invest in it. and he said, "I understand what you are saying. I want to do it for diversification. Even if you are wrong about your thesis, I still want to have this diversification." But he kept saying there is something wrong because you are only charging 65 basis points. "Everybody who comes in to see me charges 2% of assets, 20% of the profits and in good years, 30% of the profits. How can you be charging 65 basis points?" I said, "No, look, it is a simple index fund. There is nothing wrong. It doesn't cost anything to run an index fund. We don't have to gouge you. We have our own money in this thing." Finally he accepted that and put his money in. I guess he would have been happy if we charged him an arm and a leg. But one reason it has probably done so well is that we don't have the huge takeout from the high fees. And actually, we are working on a more retail-oriented fund, which will have higher fees, just because they do cost more to administer–but nothing like many of these funds'. There was a study recently by Barclays Trading Group that recognized the Rogers International Commodities Index as the single best-performing index in the world. Better than bonds, Korea, Japan, better than anything–

So what? What it's done is history. What is it *going to do*?
The bull market in commodities is not only continuing now, it has years to go, because supply and demand are terribly out of whack in the commodities business. If I had told you in 1982 to put all your money into a stock mutual fund, an S&P index fund, you would have thought I was totally mad because *Business Week* was running a cover saying stocks are dead. Everybody knew that stocks were *not* the place to be.

Actually, I recall putting a big bull on *Barron's* cover in August 1982. But I also recall that you couldn't pay people to invest in a mutual fund then.
"You should have your money in commodities," everybody said. Everybody *knew* that oil was going to $100.

Just like the Nasdaq could *only* go to the moon in 1999-2000.
Oh sure. The gigantic amounts of money that went into the mutual fund business went in in the last three years of the '90s. More money went in '97-2000 than in the whole history of the mutual fund business. It is not magic. This is not something that falls out of the sky. This is just supply and demand. It is simple economics. It is history.

Okay. Markets are cyclical. But why should commodities prices rise when most of the world's major economies are, at best, grinding their gears in neutral?
Well, remember the '70s, when commodities went to the moon? There was no strong economy then, except maybe Japan.

But the commodities boom of the '70s was in the midst of runaway inflation, which isn't in evidence here.
You may think it's not, but let me repeat: my commodities index fund is up 100%. Something *is* up. The Bureau of Labor Statistics *tells us* inflation isn't up. I don't know about your life, but in my life prices *are* up. A whole lot. We were gone for three years so we had a unique window. When we came back, I noticed immediately how much things were up. Most people don't notice because prices just go up a tiny bit at a time. But I compiled a whole list of things that are up well into double digits percentage-wise: movies, popcorn at the movies, dry cleaning, heating, education, lawyers, accountants, postage, electricians, plumbers, candy, medical care, housing, sporting events, tolls, phone bills, suits, insurance, restaurants, real estate taxes, groceries. The BLS can't change the real numbers. They can fudge the numbers they report, but in the real world prices are higher. On top of that, they are now printing money. And wars have always been good for commodities markets. So the commodities bull is here and is going to continue because supply and demand are out of whack. In the 1980s and '90s nobody invested in productive capacity for commodities because it was a bear market. There were hot mutual funds and hot hedge funds but nobody came to you with a sure thing in a lead mine or a sugar plantation. There have been virtually no offshore drilling rigs built since 1981.

Well, there was one purportedly hot gold mining stock, that total fraud, Bre-X...
Yes. Actually I am less bullish on gold than on other metals. Gold is one place where people *did* continue to explore and bring on mines, so production has

continued to rise and inventories are huge. But nobody has been looking for zinc or tin or lead. Don't get me wrong, I own some gold, and it's in the index fund, obviously.

Full disclosure: So do I, albeit *very* little. But you don't need much of those cold, hard substances in the digital economy.

Tell the Chinese that. Tell the Indians that. Tell the South Americans that. I know that is what we all hear but you have to make stuff out of something. Demand continues to grow. China is now one of the largest importing nations in the world. Supply has flattened. For a while, inventories took up the slack. Everybody had built up huge inventories during the commodities bull market in the '70s. But those have been liquidated. The Cold War is over. The Russians have dumped all their stuff. The Americans have dumped a lot. Supply and demand and inventories are now out of whack again. This is so simple. People think I'm a madman for talking about a bull market in commodities, but I'm just looking at what always has happened. If you and I decided today that there is going to be a bull market in lead, we'd have to find a lead deposit, raise money, bring the mine on stream, then get the lead to market. Every step of that process takes time.

Don't forget the environmental permits—

Exactly right. That is going to take forever, whether we are talking about a cotton plantation or a lead mine. So the bull in commodities will go on for several years. Not until Hillary Clinton starts speculating in commodities again will it be getting close to a top. When they are drilling for oil on the White House lawn, when they are planting cotton in Central Park, it will be time for the bear to come again. That time will come, I'm quite sure. But for now, commodities are found money. Nobody believes me, so I know I am right.

Suppose I *do* believe you. Which commodities look best here and now?

Well, natural gas has doubled in the last few years. Oil has more than doubled. You want to buy something that hasn't doubled. Sugar hasn't doubled. Coffee hasn't doubled. Orange juice hasn't doubled. Buy breakfast. Zinc hasn't moved. There are plenty of things that haven't moved very much yet, but will.

Investing in commodities really isn't socially acceptable in institutional circles—and not without reason, given little issues like leverage and volatility—

When I say "commodities" everybody is horrified because someone's brother-in-law went broke speculating in soybeans. But you don't have to buy commodities on 5% or 10% margin. If you buy $1 million worth of IBM you put up $1 million. You can buy soybeans the same way. You don't have to leverage yourself. If you look at the history, you will see that soybeans have been a lot less volatile than Cisco, say—certainly in the last few years. And actually, investing in commodities is simpler than investing in stocks. I don't want to imply that it is easy. But if you buy a stock you've got to worry about the market because it is not going to do anything if the market is not doing anything. Then you have got to worry about management, about the balance sheet, about earnings and dozens of other things. Fake accounting. With copper, all you have to worry about is whether there is too much or too little copper. Another thing about copper is that while it may go down a lot, it is not going to go to zero. But an Enron can go to zero.

What's your favorite metal here?

Zinc I like at the moment. Lead is cheap. Copper has moved up a fair amount recently. For centuries, people have been trying to figure out a way to turn lead into gold. But if you really want to get rich, figure out a way to turn your gold into lead. You are going to make a whole lot more, percentage-wise, in lead in the next few years than you will in gold.

Is that a lead-pipe cinch?

Absolutely. I am glad *you* put it that way.

But it just seems so *base*.

You are good aren't you? Well yes, people don't want to be seen with a commodities investor, you are right. But that is where the bull market is. You'll see. There will be magazines devoted to commodities and mutual funds devoted to commodities. It's not that I like it. But I have to invest for reality. And the reality is that official Fed policy is to debase the currency. That has never meant anything but inflation. Then again, Greenspan has never been very smart or very successful. Remember 1974, when he was head of the Council of Economic Advisors?

Do you still have a WIN button?

You bet. "Whip Inflation Now!" That was Greenspan's solution, and that's when inflation really took off. The guy is a disaster. Everybody here criticizes the Japanese for carrying their zombie companies for 14 years; not letting them go bankrupt and cleaning out the system. Well, Greenspan is doing the same thing here, trying to put off the recession. He is not letting companies fail. In the early '90s scores of S&Ls and lots of banks failed in this country. In the recent unpleasantness, banks haven't failed, companies—even the biggest frauds—have continued to operate.

What really is different this time is that we haven't had a major banking fatality. Then again, Greenspan practices no-fault capitalism.

By keeping interest rates at 1%. What he should do is *raise* interest rates. Not even that. Just let the market take rates higher. Bring on the creative destruction that the system needs to regenerate. Everybody is afraid to say the emperor has no clothes because they are afraid the whole thing will fall down. It will fall down but it is better for it to fall down now than five years from now.

And as it does, take refuge in *things*. What about currencies?

I own 12-15 currencies around the world. The problem is I cannot find a sound currency anymore. But currency debasement is good for commodities—and if you can figure out which currencies are less bad, they are another way to protect yourself.

Thanks, Jim.

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