Talking to maverick investor Jim Rogers

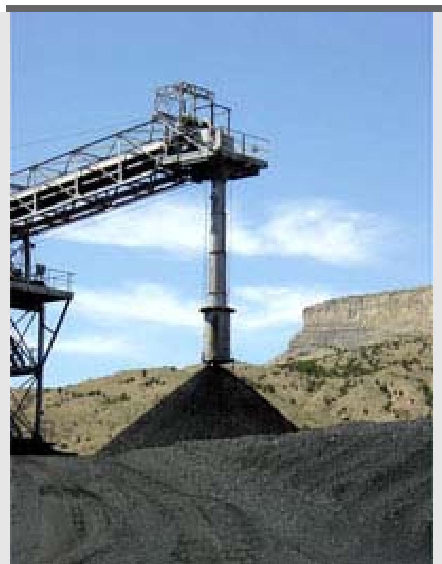
When the good news is that there's no news

You should hold your long positions in commodities.
But remember, markets do zigzag and corrections will come.
In Europe, defence stocks and mid-sized and small banks are still attractive.

The press usually presents Jim Rogers as the co-founder with George Soros of the Quantum Fund, as "the Indiana Jones of Finance" for his incredible around-the-world trips, or as the man who bet on the compelling opportunity which was blossoming in commodities in the late '90s when most people were going nuts over the New Economy and Nasdaq. But, above all, Jim Rogers has proved to be an accomplished form of man and an engaging personality able to use money more than being used.

He says of himself, "I am the worst trader on the Street", yet he created his commodity index - the Rogers International Commodity Index (RICI) - and his commodity-related funds exactly at the bottom of the bear market for basic resources in 1998.

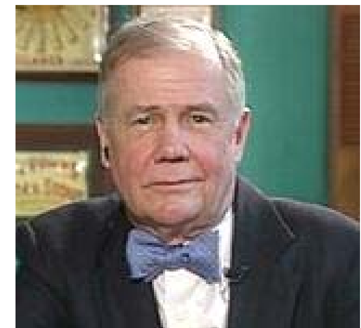
His considerations on the European financial markets have not changed significantly over the last few years. Back in 2003, this reporter received his first interview with Rogers. He was inclined to be pessimistic on the overall prospects for Western bourses, but did have some positions in the Old Continent: a few selected oil companies which could benefit from the up-trend in energy prices, defence stocks and small and mid-sized banks. His contention in favour of the banks was that the unification of Europe would lead to consolidation and a concentration of market share in fewer hands. As it happened, after a while, the banking sector started to experience a decisive merger and acquisition wave, also induced by the low level of interest rates. The argument for defensive stocks was also simple in its essence: military spending in Europe was a pale fraction of that in the US. So, if Europe really wanted to become a political entity, sooner or later it had to increase its military spending, at least to some extent. Now he says: "over the last two years I have not sold any positions on your side of the Atlantic." In other words – we think – there is still something left to go for.


Hard-working in a mine

It may be difficult to interview Mr. Rogers, as his responses often go the following way: "Well, I gave you my answer last year." Or "My basic stance is the same as in 2003." For instance, Mr. Rogers is a long-term bear on the dollar and has not changed his mind, "I own the Euro, I own the Swiss franc and a lot of other currencies; essentially the greenback is doomed. I am not a good market timer, not a good trader. But the one thing I do know is that I shall certainly continue to sell the dollar whenever it is strong. Whenever there is good news to set off a rebound."

Some readers have suggested a noteworthy similarity between the position of the yen today and in the first half of the 1980s. At the time, the interest rate differential in favour of the US currency was very great, running as high as 5-6%, and making the move into the dollar almost irresistible. Accordingly, the dollar shot up. Will it likely happen again in response to the large differential existing between the US and Japan? "Yes, there was a big rally," Rogers recalls "and of course it could happen again, who knows? However, it would be a temporary correction because the dollar is fundamentally in trouble."

"At due time, commodities will be much higher," says Rogers


Jim Rogers

One of the greatest investors of our time, Jim Rogers co-founded the Quantum Fund, a global investment partnership, whose portfolio gained 4,000% in the next 10 years. He retired at the age of 37 after amassing a small fortune. In 1998, Rogers started his commodities index – the Rogers International Commodity Index – and launched a few related funds and financial products. Between August 1998 and July 2006, the index gained 268%. Three best selling books are associated with his name: Investment Biker, Adventure Capitalist and Hot Commodities. Mr. Rogers holds three world records in the Guinness Book of Records, including a 3-year drive around the world covering 245,000 km through 116 countries.

Mr. Rogers is still firmly persuaded that commodities are in a long-term bull market, likely to persist for several years longer. The investment thesis has been widely recognized and amply discussed: low supplies, no investment for decades in basic resources, increasing demand especially from emerging economies, nothing in the pipeline. He assures that "corrections will occur, commodity prices will fall, and a

lot of investors will panic. You, and I, however, will be buying more." A few readers asked whether they should be seriously worried because industrial metals have been skyrocketing. His response was: "If you adjust the price of copper and other base metals for inflation they are still far below their own all time high. Thus, there may very well be a setback, even a deep one, because metals went up like a rocket, but the final top is likely to be much higher."

Oil is better then oil companies

Readers also asked for a comment on the wave of nationalizations affecting the oil and mining industry in South America. "That is extremely bullish for commodities", Rogers said. "You've never heard of a communist or a nationalized company producing more. They always produce less. Less, and less efficiently."

If it comes to a choice between commodity and commodity-related companies, Jim Rogers is definitely in favour of the direct investment in commodities. "With stocks you have to worry about the management, the government, the balance sheet, pension plans, the greens, the environmentalists, the unions etc., etc…and the problem with for instance oil companies is that most of them are losing their assets. Most of them have reserves which are in decline. If you buy an oil stock that has 10 years of reserves right now, you may find after a while that it only has 5 years of reserves. Thus if you can find an oil company which is increasing its reserves and will continue to increase it reserves, that's probably a good buy. However, most are not increasing their reserves. They are losing their reserves. And wasting their assets. They are not finding new reserves. And this is true for copper, zinc and any other kind of commodity company. I don't think oil companies are compelling in this moment compared to oil. Not for me…no."

Many thanks for our conversation, Mr. Rogers.

V.S.

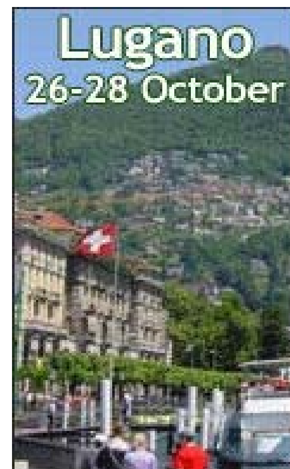
Inflation or not inflation: that is the question.

If history is any guide, we may be heading into an inflationary phase. By looking at secular charts, one notes that periods of rising commodities usually go hand in hand with rising prices. Jim Rogers belongs to this school of thought. "No, question", he says, "inflation is here. Prices have been going up. Governments have been lying about inflation, and inflation is going to worsen." Of course there's another influential school of thought. It argues that globalisation is keeping prices under control. Especially in core Europe, workers have to compete with their counterparts in Eastern Europe, under the menace of watching their jobs move eastward.

"Yes", is Mr. Rogers' answer, "but if the price of copper goes up, it does not matter. The pressure on wages is there because the cost of living is going up for everybody everywhere. All of us have to buy petroleum and copper and zinc and lead which, in turn, puts more pressure on wage gainers. Perhaps German or Italian or Belgian salaries are not running as fast as they used to run, but they are certainly going up."

Finally, it is Mr. Rogers' point of view, that if it comes to a choice between euro-zone bonds and US bonds, he favours euro-zone bonds for the currency and "for every other reason."

However, at least on a temporary basis, many analysts think inflation is turning down on account of lower commodity prices and a softening economy. The greatest worries regarding inflation were about US inflation. Morgan Stanley has written a few strong sentences about this. In a recent report we read, "Katrina happened 12 months ago, and as a result, with falling commodity prices and the positive base effect, our US economists forecast for headline consumer price index to fall from 4.3% last month to 2.4% next month. Gasoline prices have plummeted, adding US$ 80 billion to US consumer's spending power, not to mention the positive impact on sentiment." Not bad, one would say.



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