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MAAP November Review

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MAAP experienced a small loss in November as markets reversed following the October advances. The energy sector was profitable as a result of crude oil's continued rally. However small losses occurred in the long grain positions, long Australian and Canadian dollar positions, and a minimal loss occurred in the long metals positions.

We continue to believe that commodity and precious metals markets are in the middle of a major long-term bull market. Within this bull market, we are currently experiencing an intermediate correction that commenced in early May. There are two important factors at work driving this bull market and its periodic corrective interruptions. The secular growth in commodity demand is driven by the growth in the developing world which is unprecedented in world history. It is unprecedented in terms of the widespread expansion of entrepreneurialism in so many developing countries, the rapid growth of the middle class in these countries, and the financial ability of these countries to commit capital to infrastructure projects. The demand for commodities is most intense when countries are in the developing stage as opposed to more developed countries. Given where these developing countries are in their potential long-term growth curve, this expanding commodity demand may continue for another couple of decades, if scarce supplies and rapidly rising prices do not restrain the demand. Because the developing world has reached such a significant total size, its growth will continue to power total global growth in spite of problems in the developed world.

The second relevant factor is the financial state of the developed world. Markets are currently focused on Europe, but the same basic problems exist in Japan and the U.S. as well. The developed world is facing aging populations. For decades these countries have created entitlement safety nets that their economies could only support if population growth was sufficient to expand the working age population and if economic growth rates remained faster than has been occurring in the past couple of decades. Declining working age populations combined with wage rate competition from globalization trends have strained both private sector income and balance sheets and are now straining government balance sheets. Political pressure is likely in three areas. First developed country governments will pay lip service to debt reduction, but since entitlements are such a rapidly growing factor, balanced budgets are unlikely to occur. Second, central banks of developing countries will continue to expand fiat money in order to lower unemployment. Even the European Central Bank (ECB) is likely to evolve into a policy approach more similar to the Federal Reserve and Bank of Japan. Third developed country currencies will depreciate against developing country currencies in order to expand exports. This will continue to be a source of global political tensions, will lower developed country living standards, but will stimulate exports to the developing world. In this environment gold will continue to gain in its role as an alternative store of value, both for individuals and for governments and central banks.

In the environment we have described, commodities, precious metals, and currencies of countries exporting these essential products will continue to provide positive relative returns.