



FLASH REPORT: GLOBAL RESOURCES

Portfolio Update

Commodity prices and commodity related equities added to gains in November. The global economy continues to show signs of growth, fairly anemic in the developed world but much more robust in emerging markets. The continued decline of the US dollar also provides an extra boost to commodity prices, especially gold. The current situation is ironic. Good economic news is typically associated with rising commodity prices, as increased activity results in greater demand for commodities. With interest rates in the developed world effectively at zero, the opposite may end up being true. A strengthening economy may lead to rising interest rates in the US, and therefore a rising dollar, which would generally be negative for commodities. It is impossible to know which side would win should this “tug of war” scenario develop.

Returns were generally positive for most commodity indices. The Dow Jones-UBS Commodity Index rose 3.5% in November and is now up 16.6% year to date. Commodity related equities have generally outperformed futures, with the S&P Natural Resources Index up 5% for the month and 35.4% year to date.

Crude oil ended the month flat. Inventories continue to be well above average, but the oil market has been focused on the dollar and longer term supply/demand issues. Perhaps most important, demand has started to increase, especially from Asia (including Japan) but also from the US and Europe. The natural gas market continues to confound, spiking up sharply mid month only to close November lower than it started. Natural gas inventories and storage capacity in the US are near record levels. Some production cuts have been announced, with many more expected.

Energy stocks did well this month, with major energy equity indices (the XOJ and OSX) up just over 2%. Energy stocks comprise 41% of the Portfolio, with a bias to natural gas exploration companies and the land based drillers and servicing companies that support them. Our allocation to integrated oil companies

is now over 6.5%. Refining margins are very low; the market is pricing in this situation for the near future. We believe that refining margins are likely to expand, an event not priced into these stocks.

Gold has been unspectacular for most of the year, with sharp advances and retreats, breaking sharply higher in November, up 12.9%. As usual, the weak dollar was a primary cause, but so was the news that India had purchased 200 metric tons of gold from the International Monetary Fund. Asian central banks have a modest, if not minimal, amount of foreign currency reserves in gold. They typically hold other currencies, especially the US dollar, as the core of their reserves. Advocates for higher gold prices (“gold bugs”) have noted for years that even a modest shift toward gold by Asian central banks would result in sharply higher prices. Gold prices spiked on India’s announcement. However, this may have been premature. What is the real impact of one central bank selling gold to another? Not as great as if the purchase had been done on the open market or directly from a private company. We believe that the primary driver of gold has been and will continue to be the dollar. We are wary the dollar might rise as the US economy recovers. Gold and silver have had a beneficial impact on the Portfolio (the XAU index of gold stocks rose 17.4% in November). These stocks represent 10% of our holdings.

The base metals sector of the commodities market is the most highly correlated to global growth. These companies have been the best performing this year, with the HSBC Global Mining Index up 10.8% this month and over 130% year to date. Related to this sector are steel stocks. Unlike copper, iron, zinc and other metals, steel is a manufactured material using iron, coal and other metals to customize the final product depending on its use. Steel is coated in zinc (galvanized) to resist rust, mixed with chromium to produce stainless steel and many similar applications. Because it is fabricated from base metals, demand for steel, and therefore returns from steel companies, lag base metals. Steel stocks have started

to rally, with the S&P 500 Steel Index up 13.7% this month, but only up 11.2% this year, underperforming not only most natural resource investments but also broad equity indices. Given their underperformance, we believe steel related investments are attractively valued. We added slightly to our 5% steel allocation this month. In addition, we have a 4% allocation to zinc, a position we have been building for the past few months. Our coal holdings are focused on metallurgical coal, used in steel production, not the thermal coal used for power generation. Collectively, steel related assets now comprise almost 10% of the Portfolio.

Agriculture represents almost 20% of the Portfolio, focused primarily on fertilizer companies, though

we do hold livestock Exchange Traded Notes (ETNs) and a sugar company. We have been steadily reducing allocations to transportation companies for the past few months and eliminated them by the end of November.

Despite an extraordinary year in terms of performance and market activity, we continue to find areas of real value. There are still sectors of the natural resource markets that have not fully factored in even a tepid economic recovery. These include steel and aspects of the energy and agricultural markets. We are expanding our investments in these areas as the nature of the economic recovery becomes more apparent. ♦

Any opinions expressed are subject to change without notice, and any statements of fact have been obtained from, or are based on, sources considered reliable, but no representation is made by Newgate as to their completeness or accuracy. There is no assurance that estimates/forecasts will be realized. The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. This material does not constitute investment advice and should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing involving foreign economic, political, monetary and/or legal factors. International investing may not be for everyone. These risks may be magnified in emerging markets. © 2009 Newgate Capital Management LLC