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MENTOR
C A P I T A L

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Mentor Monthly Missive

The stock market has performed poorly since the latter part of last year, while prices of oil and other commodities have increased substantially. Some experts believe that the world is running out of these resources and that production in the future will not keep up with the growing demand from emerging countries, such as China.

These predictions and the recent increases in commodity prices lead many to believe that they should invest some of their money in these assets. Should you invest in commodities yourself?

When we talk about investing in commodities, we mean investing in a commodity fund (such as a mutual fund or ETF) instead of individual commodities. For obvious reasons, it's not practical for an investor to buy a barrel of oil or a bushel of grain.

Despite the recent substantial increase in commodity prices, we recommend that you avoid investing in commodity funds, for a variety of reasons:

- (1) Commodity funds own a portfolio of commodity futures contracts. With futures contracts, there is always a winner and a loser because the contract is really just a bet, where one party believes that the commodity price will rise while the other believes that the price will fall. This is significantly different from asset classes with real returns, such as stocks and bonds.
- (2) While commodity prices tend to zig when stock prices zag – which can reduce the volatility of a portfolio that owns stocks – the long-term performance of commodities has trailed the long-term performance of stocks.
- (3) There are better inflation hedges than commodities. The best way to beat inflation is to invest in stocks, and the well-diversified portfolios that we recommend for our clients offer plenty of exposure to energy, basic material, and emerging market stocks that should benefit directly from commodity inflation.

Yes, commodity funds have done well over the past few years, especially in the past year. However, this happens all the time with various investments. There is always a “flavor of the month” when it comes to investing – technology stocks a few years ago, gold during part of the 1970's, and now oil and other commodities. As mentioned in last month's newsletter, boom follows bust follows boom, and this applies to oil and other commodities.

The best investment strategy is to diversify your portfolio among a broad range of asset classes, based on factors such as your tolerance for risk. Sticking to such a strategy over the long run has proven to be a winning formula.



With gas prices at an all-time high and the possibility of seeing \$5-per-gallon prices in the foreseeable future, you might be wondering if it's time to trade in your automobile for something more economical. While some people are opting for motorcycles or even bicycles to get around, many are looking at purchasing a hybrid vehicle, such as the Toyota Prius.

If you are considering whether to purchase a hybrid vehicle or a non-hybrid, a simple calculator at www.orlandosentinel.com/news/traffic/orl-hybridcalculator-fl,0,3692297.flash can help you determine how long it will take for the hybrid's gas savings to pay for the hybrid's higher purchase price.

The calculator is based on certain assumptions that you can read by clicking on the "Assumptions" link at the bottom-right of the calculator window.



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