Seeking Alpha: Cocktail Investing – Agricultural Commodities and the New Middle Class

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Lenore Hawkins and Chris Versace

Lenore: All this talk of trade wars and tariffs have prices gyrating … but what's the long-term outlook for the agricultural commodities? Well, we got that for you and so much more when we spoke with Sal Gilbertie on just that on this episode of the Cocktail Investing podcast.

Chris: Happy post 4th of July week everyone. Welcome back to the Cocktail Investing podcast where we look to distill everyday noise into clear investing signals. I'm one of your hosts, Chris Versace, Chief Investment Officer of Tematica Research and joining me as always is my cohost…

Lenore: Lenore Hawkins, Chief Macro Strategist

Chris: That is right. Lenore, I hope you had a great 4th.

Lenore: Yep. I was flying my flag high from the balcony in Italy

Chris: Alright, well, hopefully you had the American diet of hamburgers, hot dogs and you know, some type of beer or something like that and had a good 4th. We've got an extra special podcast. Last week's, we were talking about setting the stage for what listeners should be thinking about as we entered the second quarter earnings season and the risk that we see unfolding for earnings expectations for the back half of the year and a lot of that was due to the uncertainty around all this trade and tariff talk. We've noticed, amongst ourselves, that certain prices have skyrocketed, we've heard warnings from companies about what might happen, but we also saw some others come under some pressure, including some of the agricultural commodities, corn, wheat, soybeans and the like. That has some impact. I think you said, Lenore, if I remember correctly, that the US has something like 20/25%of the arable land in the world, if not more, and we've got one of the smaller populations which makes our agricultural commodities one of the more highly exported ones. So, we thought that…

Lenore: Yeah, when it comes to the agricultural products, we are actually the world's biggest exporter. We are a very blessed nation when it comes to geography to have that incredibly fertile great plains region.

Chris: Right, and when we look at our new middle class investing theme that focuses on rising disposable incomes in the emerging markets, they tend to be one of the greater consumers of these commodities, corn, wheat, soybeans again, as they trade up in diet, but, also, too, as you know, they consume other products because as we've learned over time, certain aspects of corn, soybeans they're in a whole host of things, corn in particular.

Lenore: In lots of the stuff that we like to consume.

Chris: I know, so, it's fascinating, but that's why we sat down and we had a repeat guest, Sal Gilbertie from Teucrium Trading. I have to say, I know you feel this way Lenore, but Sal is a great guest. He's passionate, he's enthusiastic and he is certainly informative. I think it's fascinating to talk to him because his perspective is kind of two-fold on these products and these commodities. One, and I didn't realize this until we talked to him this time around, but he is actually a farmer.

Lenore: Oh yeah, we talked to him this time from his farm.

Chris: I think he said he was out picking kale that morning.

Lenore: He was and there were different types of kale that he liked…

Chris: He likes the black kale, the real kale.

Lenore: It's not too often that you actually get to speak to somebody in agricultural investing who's actually on a farm. Usually, they're holed away in New York where they're not exactly in touch.

Chris: Right, right. Buy the great thing about that, too, is not only does he have that farmer sense about this, but he's also one of the folks at Teucrium behind their agricultural ETFs and as we've mentioned before, the last time we had him on, Lenore, his website is just chock-full of useful information when it comes to commodities and some other things. If I had to ask you, Lenore, what was the one kind of stand out thing that you learned this time around from talking to Sal?

Lenore: I think what's most interesting is to think about how you really have a floor in agricultural products and how when it starts getting below the cost of production, there's a limit to your downside risk. And that is something that is a little different than other industries. I think our listeners will find his insight into that and what it means for long term investing very useful.

Chris: I think that's a great call out. To me, it was a reminder that these goods are planted and harvested and then there's only a certain amount of inventory that goes around. Right?

Lenore: Yeah, and once they're planted, they're planted.

Chris: That's right. Once they're planted, they're planted, but in keeping with our new middle class investing theme, the amount of consumption just continues to climb. It's not just one year, two years, it's a long-term trend.

Lenore: Yeah

Chris: And it's hard to…

Lenore: Global affluence, right? As global affluence continues to rise, the amount that people want to consume keeps going up. As affluence goes up, your, what you consume becomes more and more expensive because you are looking for those more complex proteins and as you look for more complex proteins, that means more agricultural products…

Chris: Right

Lenore: …to feed those complex proteins.

Chris: And as we said a few minutes ago, the easy indicator is consumption of those proteins, but it's much more than that. Given the ripple effect of corn. So, I think it was a fascinating conversation with Sal and I think we should just get to it, Lenore, so everyone, here's our conversation with Sal Gilbertie of Teucrium Trading.

You know Sal, I can't believe this heat that we're getting. I don't know about you, but before you joined us, Lenore and I were talking and it's going to be 95 here outside of Washington, it is ridiculous!

Sal: Here in Connecticut, it's equally ridiculous! Everything you want to do outside, you do really early.

Chris: Or late.

Sal: Or you're just paralyzed here. Now, that said, the corn loves this. Corn loves the heat, you could practically hear it grow!

Chris: Wow! Lenore, I don't think I've ever seen such a smooth transition on this podcast, have you?

Lenore: No, I haven't actually. Normally, we're very awkward.

(Laughter)

Chris: So, Sal, that's a great point. We wanted to talk to you, at Teucrium, because we did so last year and it was such an educational, informative conversation about commodities, agricultural commodities in particular. And specifically the big three, which you know, Lenore know and I know, is corn, wheat and soybeans. We want to kind of figure out where we were this year with that, but also spend some time talking with you about the potential impact of trade and tariffs. Because we all know there's a lot going on, a lot of moving pieces.

Sal: There is a lot going on. In fact, seasonally, these things, when there's not a drought and we've had perfect weather and it looks like this will be the 6^{th} consecutive year of perfect weather, corn and soybeans, they grow in both the Northern and Southern Hemispheres. The vast majority of corn is grown in the Northern Hemisphere, so you traditionally have this seasonal harvest low right around the first week of October that people can count on when they're layering ags into their portfolio, which they should be considering, most people don't. More and more people do every year. This year, what happens is you have this uncertainly from that harvest point, the typical seasonal in corn is that you have this low in the Northern Hemisphere harvest when most of the world's corn is being harvested. Then there is a big pile of corn and no one's growing it and every day people are going and taking out of that pile. The market tends to get a little bit nervous, you have a rally into the winter and actually into the late spring. Traditionally, the smooth seasonal average rally, in spot corn anyway, goes from October 1^{st} until sometime around May, give or take a month. What happens there, at the end of June, like now, where we are looking into Independence Day weekend and the 4^{th} of July, you can see into July and see the weather. Once you can see the weather, you know if you're going to have proper pollination or not. That is the key. What happens is, most years, like we expect again this year, you will have proper pollination so, all this uncertainty that wow, we're going every day to take the pile, the pile's getting pretty small right now. It kind of goes away. So, you have this seasonal decline that tends to, there's a first seasonal low, sometime in August, generally, there's a major seasonal low in October. Now the tariff talk this year has panicked everyone. We've had, if you will, a perfect storm because the seeds are already in the ground. There's a lot of uncertainty before the seeds go in the ground, but the farmers have already planted, so they can't switch. No matter what the markets do in terms of how low prices go, below cost of production where they are now for soybeans and corn. Farmers can't un-plant what they've planted. We are actually seeing right now probably the lows we would expect in a perfect harvest with perfect weather, of course, we're still waiting for the perfect weather which looks like it will come, but it hasn't yet. There is no harvest yet. You have literally perfection priced in because of the panic over tariffs. Because the United States is the world's largest exporter of soybeans, well, Brazil actually took us over last year, but United States is the world's largest exporter of soybeans to China and we're talking about Chinese tariffs, obviously.

Chris: We're talking about Chinese tariffs, but we're talking about other ones, as well. We're getting some from the EU, we're getting some from Mexico, even our partners to the north, Canada. But I think you're talking about the bulk of the US exports, correct?

Sal: Correct. The number one US export to Canada is soybeans, sorry, to China is soybeans. Here's the story, the Chinese imported, last year, 64% of all the soybeans that were exported from all the soybean exporting countries. So, it's not possible for the Chinese to avoid buying soybeans from every country, including the United States, even if there's a tariff. What they'll do is buy from us last. That's all they'll do. They'll have to buy our beans. Or someone does. If China goes and buys all of Brazil's beans, whoever normally buys from Brazil is going to have to buy from us.

Chris: Right.

Sal: And the beans will get sold.

Chris: At some point, does this, I mean we're talking about these tariffs on these commodities, just given math that you're laying out, is it more rhetoric than anything else? Because it sounds like someone's going to have to bend.

Sal: Well, it's not rhetoric. They could put the tariffs in. What'll happen is what's already happened. The anticipation of the tariffs has driven the price of soybeans down below their cost of production to probably the lowest we could have imagined at a perfect harvest. We're sitting here at low prices, if they put a 25% tariff on, like they're talking, the only winner there is the Chinese government who collects the tariff. But in the end, all global consumers will lose because the price of soybeans is going to adjust to where it was pre-tariff, no matter what, because we need all these soybeans. There aren't these vast quantities of grain stocks just hanging around that we can draw from if there's an emergency, like the strategic petroleum reserve. There is no strategic grain reserve.

Chris: Right, I think you said last year, when we had you on the podcast, one of the most interesting things for these commodities is that they're consumed every day. And you might run the stockpile up, but at some point, as we eat in the mature markets and other people in the developing markets kind of trade up in their diet, you're going to see those stocks come down until the next harvest.

Sal: That's correct. And if there's no harvest, there are no more stocks. Trust me, no one is going to skip their Independence Day hot dog or hamburger, which by the way, the number one use of all these grains is to feed animals. So, if you're eating meat, you're helping promote the number one use of grain. The number two use of grain is ethanol. So, if you're driving your car or eating, you're using grains, particularly corn.

Chris: Now, you just hit upon something kind of interesting because I think a lot of people tend to get focused on the direct impact. So, of China and the tariffs, for example, on soybeans, but there's also the indirect impact. I was reading that Mexico is talking about limiting the amount of pork that they will bring in from the US which could impact feed demand and, therefore, affect those commodities, correct?

Sal: It could and the interesting part there is where it gets complicated. The Chinese bought Smithfield, as you probably know…

Chris: That's right.

Sal: …in order to gain, actually not stores of pork, but to gain the knowledge of how to raise pork really efficiently. That's why the Chinese have been investing in agriculture all around the country, all around the globe, in fact. They not only want to secure supplies, they want to buy this knowledge of how to improve their production of all these vital commodities.

(phone ringing in background)

Chris: Is that the Chinese calling you, Sal?

Sal: It might be!

(laughter)

Chris: I just figured they might want to understand a little on the commodity market, kind of get a jump on our listeners.

Sal: Yeah, we're on a farm here and people are supposed to be answering those phones, but people are busy.

Chris: They're probably collecting kale or something like that.

Sal: Could be, could be.

Chris: Yeah, but you were saying though about the reason the Chinese were buying up companies to become, to improve their understanding and knowledge of commodities and efficient farming.

Sal: Correct. And if we bring it back around, if Mexico restricts the amount of pork they can import from the United States, the natural next buyer would probably be China and now we're talking about the tariffs. Here's what tariffs do; tariffs benefit politicians and the government because they collect the money, they cause turmoil in the markets, they will cause temporary, and I stress temporary, price disruptions and that's where the opportunity is here. Because everything in the end, goes back to supply demand. The government can impose a tariff on something, any government can impose any tariff of any amount, but the underlying pricing is going to where it was before the tariff, no matter what. And then you add the tariff. That's going to be how this works out. I think there's an unbelievable opportunity here that's temporary because you've got again, this perfect storm where the seeds are already in the ground. The farmers couldn't, there's no rhetoric that could stop the price decline by people going on television saying, "I'm just not going to plant any soybeans this year," they're already planted. So, everybody panicked so, investors have this amazing opportunity, I believe, to buy a vital commodity, under the cost of production, that no one is going to stop using. It doesn't matter if there's a tariff or not, it doesn't matter what elections do, what the next iphone is. We've said this before, no one's going to skip their breakfast or driving their car or doing anything that uses these grains no matter what happens. That's just not what you do, you don't stop eating and doing your life.

Chris: Right and you didn't even touch upon the growing number of uses for these commodities across the globe.

Sal: I love when you say that, yes. It's amazing because as the middle class expands and people go beyond just adding complex, meat based, animal-based proteins to their diets, which use a lot of grain, then you just start using a lot of stuff. In today's world, especially where you're trying to be renewable and trying to be ecologically sensitive they use a lot of agricultural products in producing just about everything.

Chris: I think I saw a chart one time of the number of things that corn actually goes into and it's unbelievable. Everything, I mean, like batteries and things like that. It's just stuff that you don't even think about.

Sal: It's not possible, not matter who you are anywhere on the globe, to not use corn every day. It's literally not possible.

Chris: That's crazy.

Sal: Yeah.

Chris: So, when we look at what you're saying, we have, of course, our different investment themes and one of the ones we're talking about is the new middle class where we're really focused on the emerging markets, just like you are, China and India in particular, especially India, actually because the demographics there, I think, are more favorable over the longer term, and I think that by the end of the next decade, it's widely expected that India becomes the number one economic powerhouse on the planet. So, you've talked about what China is doing to improve its understanding of the grain markets and farming. Are you seeing anything like that in India, as well?

Sal: Well, it's not as overt. The Indians actually, I believe, they grow, and I will have to look this up and check it, but I believe they grow more wheat than anyone. But they don't export, they use it all. So, you know…

Lenore: The thing with China is it has very little fertile land. They cannot possibly feed themselves given their land at the moment.

Sal: Lenore, I just read something, I'll try and remember the source. But it says China has 20% of the world's population and 7% of the world's arable farm land. Something crazy like..

Lenore: Yeah, I've read the same thing, yeah. I've read that same kind of …

Sal: It's crazy. I mean it might be, whatever the numbers are they have more population than arable farmland on a percentage basis and that's actually pretty scary for the Chinese.

Lenore: Explains a lot of the geopolitical tensions, right? Because the US is in a completely inverted position where we feed the world. We are so blessed to have the Great Plains region that is incredibly fertile, the most fertile in the world, I believe.

Sal: There's no question and the expansion of farm land which is needed on a massive scale, just to feed the new bodies that are being born, the 75 to 78 million new people that come into the world each year, net, the net population increase. Most of the arable land that's to be developed and is being developed is in South America. So North and South America will feed the world. We really do and in fact, I just did the math out of the last USDA report. If you just take the United States, Brazil, Argentina, Paraguay and Uruguay, that's 92% of the world's exported soybeans. That's it, six countries. (Note: Mr. Gilbertie misspoke, he named 5 countries.)

Lenore: Wow!

Sal: And those are just in North and South America. So, the Chinese are making immense capital investments, apparently, in equatorial Africa which is the other spot where you can have a lot more farmland that can come online and South America. I don't believe that it's possible that the Chinese and the United States, China and the United States can't have a lasting trade war. Especially with food products, it's just impossible.

Lenore: Yeah, you have the largest importer in the world, the United States, and you have the largest exporter in the world, China, and China rapidly becoming the second largest economy. You just got to get along, at some point.

Sal: There's no question. And a very interesting thing you said there is in agriculture, it's flipped exactly around. We're the large exporter and they're the large importer. And in fact, soybeans, I believe contribute more to correcting the imbalance of trade than any other US product, that's exported to China. These tariffs, they may come in place, they may happen. But again, this is an investor opportunity. I had someone give an uneducated guess but this is a very educated person who raises soybeans in four different countries around the world and this person said to me it'll take three to six months, whether the tariffs kick in or not, and prices will readjust. Because, the other thing people don't understand is soybean, everything that's done by every ag company related to soybeans in South America is basically, goes back mathematically to the price of soybeans in Chicago. So, we're all going to balance out anyway. The correlations are staggering and everybody, everything's based upon the price of soybeans in Chicago, whether you're in North America or South America. This is a huge opportunity for investors.

Chris: So, Sal, what I'm hearing you, I just want to get this right and if I'm wrong, please tell me. You're sitting back and seeing all the impact of this trade and tariff talk, potentially going to get implemented, it's hitting these commodity prices and you're saying that, given the supply dynamics, supply demand dynamics, it's temporary, it will self-correct, it is just a matter of time. Maybe three to six months, could be shorter, could be longer.

Sal: Correct, because what vital commodity, that you can't store up for a long periods of time, will stay under its cost of production? When people use more of it every year. When you look at the combined use of soybeans, wheat and corn, together, every year, they're on an uptrend. It's constant, for decades and decades and decades. You have usage growing, usage steady on a bad year. Nobody is going to stop using all these things.

Chris: Right

Sal: You're below the cost of production.

Chris: So, over the next, let me see it's going to be July by the time this comes out, so in three to four months we'll be in the harvest season, correct?

Sal: That's correct.

Chris: So, as you look out over the next couple of months, tariff talk aside, what were some of the other big risks that could hit this whole, this notion, that perhaps prices go higher than expected?

Sal: Well, I think all the risks right now, virtually every risk is skewed toward the prices going higher. We've priced in perfect weather, we've priced in maximum tariff damage, we've, there isn't a whole lot out there that's left, that could be bearish, literally. So, there may be something but it's not major, no one's talking about it. We have perfection and disaster at the same time priced into markets. By disaster, I mean demand for US soybeans, well, it's not really a disaster because that demand won't go away. It might be pushed out a few months, but everybody else is going to run out of beans really, really quickly. And that leaves us. You're sitting with soybeans below their cost of production, soybeans between $7 and $10 is the cost of production. Corn is below $3.50. Look on monthly spot continuation chart of corn futures. You don't see more than 2 months in a row where they stay below $3.50, where the price stays below $3.50. You don't have to call an agronomist, or talk to a farmer even, to find out what the break-even price of these commodities is. Look at the futures equivalent price back up on the exchanges over long periods of time, there's a floor on these prices. Post-ethanol, so post 2006, 2007, there's a very clear floor. Corn, $3.50 to $4.00, soybeans, $7 to $10.00, wheat, call it $4.70 to $5.40, maybe $5.50, you're below all those numbers. I mean, I took Econ 101 like everybody else did, I think that those principles still hold true. If you have supply, we're having record harvests every single year, this will be the 6th year of a record, a best or second-best harvest and yield of corn, soybeans, corn and soybeans, in the United States. And yet our stock levels will go from last crop year to this crop year, where the seeds are in the ground but not harvested yet, our corn is projected, by the USDA, corn stocks in the United States to decline 25%, year on year. Soybean stocks to decline 23%. You've got record crop production, record demand and declining stocks. That is not a formula for prices to stay low. It's not possible.

Lenore: When you say stocks, you mean…

Sal: I mean ending stocks.

Lenore: Okay. The actual…

Sal: You harvest everything in the world, in a crop year, now nothing's growing, it's wintertime and there's a big pile and you figure out how much your usage is and how much is going to come out of that pile and what of that pile will be left over. Globally, that's about 3 months supply for soybeans and a little less than that for corn. It's actually pretty terrifying when you think about it, if there were, if something were to happen that actually were a major supply disrupture in ags. That's why agriculture, here's the trick in ag, this is the secret; farmers are crazy people. I'm a farmer, my family's farmers, I can say this. They're huge gamblers. They plant seeds, they plant seeds, they plant seeds, that's what they do. It's in their nature. But farmers will only plant so many years in a row losing money, then they have to stop. You have these break-even floor prices that farmers drive prices to. The norm in ag is trading at or near break-even. That's very normal, but demand doesn't abate. Once in a while, floods ,fire, pestilence, famine and that's real stuff, it's not just in the Bible, it's real stuff to a farmer every day, and once in a while, there’s a supply disruption and the price literally doubles. If you look back the last 11 years, at the spot price of corn, it has doubled twice in the last 11 years, from the exact same price where it’s trading now. $3.50 or below. In fact, the second time it doubled, it made a higher high. The first time it doubled it went $7 to $7.50 a bushel, the second time it went over $8. Why was that? Because people panic, because they say, ”well, wait a minute”. In the United States, on a good year, you have 50 to 60 days supply, just in the United States, of corn. If you have a drought year, that drops to about 40 or 30. If you have 2 drought years, in a row, that can drop below 30 to 20 days, the market panics. That’s why you have an instant doubling in agricultural prices when there’s a drought. Now, does it look like there’s a drought this year? No, the weather looks perfect, but..

Chris: But that’s today.

Sal: Yeah, that’s today. But you can see the 30 day forecast.

Chris: Do you really believe those? The weatherman that I listen to can’t even get the weather right in 3 days, come on!

Sal: I’m with you on that. They can’t get the weather right, you know, sitting in New England, you just wait and the weather changes. The issue becomes, you can tell if the, even if it stopped raining today, there’s been enough rain in the mid-west where the soil moisture content, it has been recharged enough where the corn will make it. The corn will make it. It will pollinate well enough for there to be a crop. But with the USDA projecting a trendline yield, they are still projecting that corn stocks will drop year on year 25% and soybean stocks will drop 23%....

Chris: And Sal, sorry to cut you off. The reason for that drop is because, we talked about earlier, the continued increase in global consumption of these commodities.

Sal: That is correct.

Chris: Okay.

Sal: That is correct. So, if you told any investor, I have an investment for you where it kind of trades at it’s break-even and every 5 to 7 years there’s a tiny little supply disruption somewhere around the globe and it doubles, and by the way, it’ll go back to that same price at break-even, and it’s done it twice in the last 11 years, I would think that most investors would say, “you know what? Let me know the next time it gets back there and I may layer a little bit of that into my portfolio”. How correlated is it? Guess what, it’s not correlated. Some of it’s even inversely correlated, like wheat over time. Depending on the time periods you look at, grains, no one’s going to stop using grains no matter what the stock market’s doing. So, you’ve got a noncorrelated asset or very low correlated asset that has a really limited downside, because you’re at or below your cost of production, why wouldn’t somebody layer a penny or two of that into a dollar of their portfolio.

Chris: Oh, absolutely. What about, if I’m hearing you right, too, it sounds as if the expectations for farmer income are probably very low or relatively low, and as these commodities creep up and correct in price, expectations for farmer income should rise as well? Does that make sense?

Sal: That’s absolutely correct. Yes, I just read a very interesting University of Illinois study that basically said going into the planting season, soybeans kind of made money and corn kind of lost money. Farmers were not having the best year by planting anyway, and with this recent tariff tiff that made the prices go down, farmers are going to lose a good amount of money. They're projecting farm income will be the lowest it's been, I think, in more than 4 years. They've had some pretty bad years, given that this is our 6^{th} year in a row of really good weather. Again, these prices, they'll go sideways for long periods of time. I don't want people to think, you're buying corn here and it's going to double. You're buying corn here and you're waiting. But what you're buying is a low correlated asset that has very limited downside, historically very limited downside. Rationally, very limited downside, because who's going to plant losing big money? You just have to wait because people are using it…

Chris: When we think about that, I think, given where the market is overall market valuations are not overly expensive, but I think that there's a lot of uncertainty coming into the back half of the year. Lenore, I know you've been talking about this we are seeing the economic data start to roll over, the **SZSE (Shenzhen Stock Exchange)** in particular, there's some new data out about the Eurozone in June, slipped, from an economic speed perspective, China the same way. People are saying, this could be the beginning of the impact from tariffs, maybe, maybe not, but I think as we go into the back half of the year, a lot of this tariff talk is going to force companies to kind of reset expectations which were very lofty coming into the beginning of the year. What I'm hearing you, Sal, say is people might be focused on small cap stocks that might be more domestically focused. They might be looking for other safe havens like dividend, large dividend paying companies or dividend dynamo paying companies. But investors should think about some of these investments, vehicles that center around corn, wheat, soybeans and potentially other commodities because they, too, appear to be a safe haven.

Sal: That is correct. I mean, I don't know how much safer you want something. Unless it's just gold in a vault somewhere. I think that buying soybeans in particular, you've got them depressed below any price level anyone could have imagined because of rhetoric, because, you know you hear people all the time saying you really shouldn't listen to the news because there's fake news, there's this excitement news, there's all kinds of crazy news out there. Well, guess what? That's what's happening in soybeans right now. If you look through it, soybeans are under their cost of production and everyone's still using them. That means the very worst is expected right now in the soybean industry. I think opportunistic investors look at things like that and say well, that's the time I want to be looking at this commodity. Well, there it is. Whether it's a company, a commodity or anything, things literally are at their bleakest right now for soybeans.

Chris: Yeah I think…

Lenore: Best time to buy

Chris: I think the key word you used there, Sal, was investors, not traders.

Sal: Correct

Chris: Because to us the investor is always somebody who is not looking out a couple days, a couple weeks, even a couple months. You're having a long-term perspective call it 6 to 12, 12 to 18,12 to 24 months.

Sal: I love when we talk because you think like investors, you are investors. Make no mistake, a trader could make a lot of money here, if they announce some kind of resolution to the trade dispute, the hedge funds are so short at such a dangerous vulnerable level, the price increase in soybeans and grains, in general, is going to be dramatic and pretty unbelievable. And it's going to be very quick. But in terms of investment, most people are looking to layer in at harvest, well you're below the numbers we expected at the best harvest we can imagine, right now, and we haven't harvested yet. The crops aren't even pollinated yet, for goodness sake! There's an opportunity here to layer in your portfolio, for an investor.

Chris: I think you're 100% correct. But Sal, I don't want to to just focus on those top three. They are extremely important, corn, wheat and soybeans, but what about some of the other commodities that are out there, from sugar to coffee to cocoa? What are you seeing there?

Sal: They're all depressed right now. Coffee and cocoa are coming down off of rallies that they had, but I see a lot of analysts kind of suggesting that it might be time to layer in, you know, dip your toe in the water for those. Sugar is back down about as low as it's gone in modern history. Sugar's been at 2 cents a pound, but I think, once you get to that…

Lenore: It's down about 20% so far this year.

Sal: Yeah, yeah, I'm reading a lot of other analysts who are basically saying you might want to start dipping your toe in the water. And again, chocolate, because cocoa, I guess because it only comes from a couple of different places, they had some issues. But those issues are over. Yet the usage, all the ags are the same, there are more people in the world, there's more affluence in the world, there's a growing middle class. If the population stopped growing tomorrow, as you two know better, you speak about it all the time, this growing global middle class continues to use more stuff. They continue to use things like Americans and we use more stuff than anyone else in the world. We just, per capita, we use a lot of stuff. While you can say upon, whether that's good or bad for the world, taking on those types of American values, the fact is its happening.

Chris: Yeah, you know Lenore, I hear him talking like that and I'm thinking, hmmm, maybe we need to think about waste management like companies, as well, as part of our new middle class investing theme.

Lenore: Yeah, because all that stuff we use, we end up tossing at some point.

Chris: Yeah, yup

Lenore: All that stuff we love to consume.

Sal: Absolutely true and I, read, totally off topic now, I read this article the other day that only 10% of the world has air conditioning. And that there's some massive growth projected just for regular people, after they add the animal-based protein in the diet, to just buy an air conditioner.

Chris: Yeah, yeah. If you look in the emerging markets and you listen to Whirlpool and some of the other companies like that, you are 100% correct that they are, without a doubt, buying more and more of those appliances, including air conditioning, dish washers and the like.

Sal: Yeah, and the air conditioning, you know, it's the global warming theme and that goes right back to ags. The instability created by climate change, whatever the cause doesn't matter, the fact is we have a different climate than we've had before.

Chris: Yup

Sal: And it’s a more intense climate, it’s a more threatening climate to crops, in general. Things like corn and soybeans, where they’re really only grown for export in a few really big countries that export all these things, that’s kind of, you know, concentrated exposure there. Wheat is a very interesting market because wheat, any one of ten different countries could have a weather event to cause the price of wheat to spike very significantly. Whereas, you really need a weather event in North or South America to move the price of soybeans, and you really need a weather event in the American Mid-West to cause…

Chris: for corn

Sal: to affect corn in a big way, yeah.

Chris: Okay, alright, well, Sal, this has been fascinating, as always and I have to say, highly, highly informative. This is why when we have questions about what’s going on with the commodities, that’s why we go to you.

Sal: I appreciate the opportunity because it’s so interesting. I really enjoy commodities because they are life. Commodities provide sustenance for what people need. The few ETFs that we have, we’ve made it easy for people with the tickers, you know CORN is corn, SOYB is soybeans, things like that, WEAT is wheat without the “h”, those are just our way to bring commodity exposure to ordinary investors because people need to start thinking more and more about commodities for the reasons we just spoke about in the last couple minutes.

Chris: I have to say, I love how you have a long-term perspective. I love how your products make it easy for the individual consumer, as well as RIAs and other institutions to layer this type of exposure into their portfolios. Sal, I want to say thanks for coming on again today, really appreciate it. Hopefully, we’ll have you back again. It’s always fascinating to talk to you, Sal.

Sal: Always a pleasure to speak to both you and Lenore.

Lenore: Thanks Sal.