Should Corn be in Your Allocation Mix?

By Sal Gilbertie – 2018

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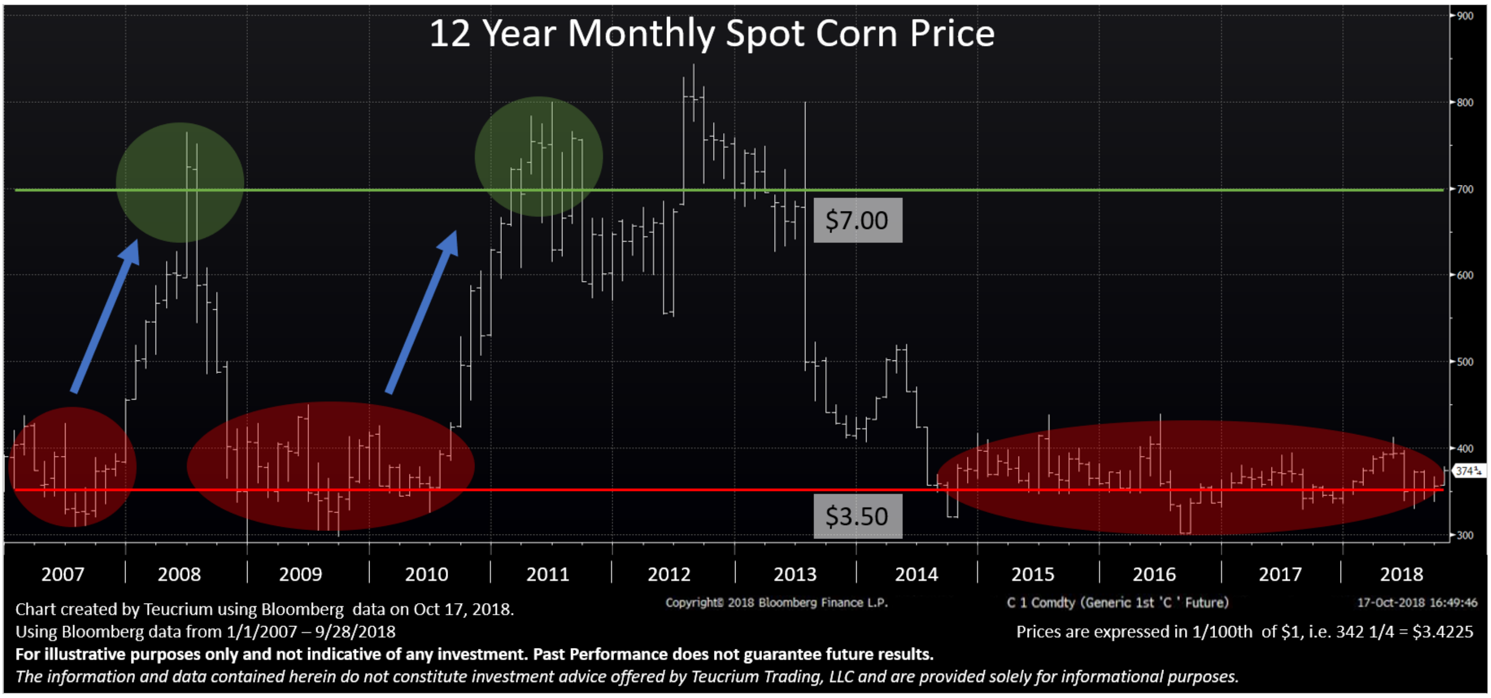
- Corn is currently trading with-in the same price range from which it has previously doubled two separate times in the past twelve years
- Corn has a multi-decade long history of rising demand
- Corn is pervasive and widely used throughout the global economy
- Current price levels have been holding at or slightly below corn's cost-of-production
- Consider giving corn a place in your allocation model

Steady demand coupled with uncertain supply is an Econ 101 Professor's dream – it's a simple, easy to understand recipe for given a disruption in supply. Weather related supply disruptions have occurred in agricultural markets more frequently than one might suspect. In fact, the past twelve years have seen three separate weather events – all of which drove corn prices significantly higher – two of which began while corn prices were trading in the very same range they trade in now.

The chart below shows the spot price of corn doubling twice in the past 12 years (2007 and 2010) from the same approximate price range: spot prices moved from about $3.50 per bushel to about $7.00 a bushel both times.

Another rally in 2012 saw the spot price of corn rise approximately 45% to $8.065 per bushel. a price Corn prices have since fallen back to the approximate breakeven price range of around $3.50 per bushel. It's worth reiterating that all three of these price appreciation events occurred because of weather related events - and that the only prediction anyone can reliably make about the weather is that it will be unpredictable.

History clearly shows us that corn sits around its cost of production, sometimes for lengthy periods of time (like now), until it is propelled higher by a weather event. A long-term investor using prudent asset allocation strategies could potentially benefit



handsomely from corn’s unique long-term pricing patterns.

It is unlikely that someone can accurately predict the next drought. Therefore, it is equally unlikely that anyone will be able to predict with certainty the next time corn prices will double or significantly appreciate due to a weather event. **But if the twelve-year spot corn price history and the current multi-decades long corn demand patterns are any guide, the clock appears to be ticking toward a time when the next possible doubling of corn prices might occur.**

Corn is something just about every person on the planet uses every day. Corn’s top four uses, in order, are: (1) as feed to the herds and flocks that supply the animal proteins we humans (and our pets) consume, (2) as a major component of motor fuel, (3) as a sweetener for food and beverages, and, (4) it is used in a myriad of things needing to be held together with starch (think paper). Source data from the USDA[1].

Because of global demographics and the pervasiveness of corn, private and government forecasts predict that corn demand will continue to rise. In each of the past six decades demand for corn has grown. No matter what the status of the economy, no matter what stock or bond markets are doing, no matter what the latest technological breakthroughs might be, no matter what the political climate, no matter the weather brings, forecasters believe corn demand will likely be steady and, continue to rise to new annual usage records.

We have yet to find a government or private grain analyst who believes that anyone will decrease their use of corn due to the lack of rain in some far away field in future growing seasons. **Corn's pervasiveness in our lives ranks right up there with oil; both are in an astonishing number of things we use every day,** but oil is probably far more likely to be a component of your investment portfolio than corn.

Excluding corn from your allocation mix could be a mistake because **corn is a lot like oil: over time it has shown steady/rising demand, it has a cost of production below which it may not go or stay for long (farmers can simply stop planting), and it has historically experienced significant upside price movements due to supply interruptions** – interruptions that history tells us inevitably occur due to drought in one place or another.

As of this writing, prices are both at their cost-of-production baseline lows as well as at a historically seasonally favorable time on the calendar, which leads us to believe this could be an advantageous time to consider an investment allocation to such a vital commodity as corn. Speak to your financial advisor seriously about risks and advantages of establishing, and rebalancing over time, a corn allocation in your portfolio.

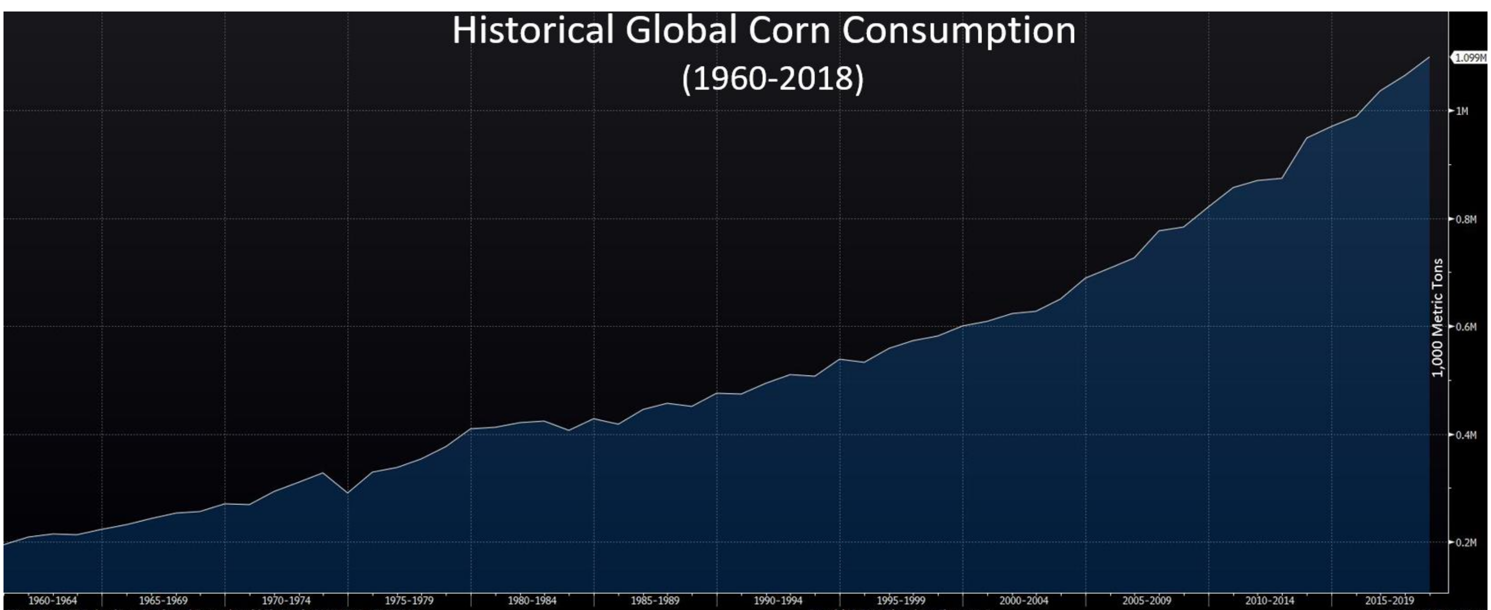


Chart created by Teucrium via Bloomberg on Oct 17, 2018.
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1 https://www.ers.usda.gov/topics/crops/corn/background.aspx

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