

## Commodities Bulls and Bears win Pigs get slaughtered

Middle of December gas prices at the pump were at \$1.63 per gallon and on December 11, 2015 a barrel of oil was \$35.62 the last time oil was this low was in 2004. In 2008 it reached \$140 a barrel by 2009 it dropped to around \$40 a barrel. Commodities like oil, gold, corn and mass production items will go through some dramatic price swings. Gold in 2011 reached over \$1800 an ounce, today it is around \$1100 a 40% drop in value. Why is that? It is because of opportunity to make more money at higher prices allows for more competitors to enter the market. It allows for inefficient production to be profitable and more people entering the business in order to make money.

Many stocks in oil production, shipping and other fuel sources have dropped in value of up to 80% since November. So what happens next? Will oil go down more or will it start gaining value? In the short term no one really knows. Several analysis forecast oil to be around \$20 a barrel they are the same ones that never thought a year ago it would drop so low. In hind sight it was overpriced because of several things that stand out today. The production and drilling for oil when it was \$140 a barrel increased fracking and other means of getting oil from the ground. It was a very profitable time. We heard of North Dakota boom towns where populations doubled as well as income. McDonald's was paying \$13 to \$15 an hour due to the shortage of labor. We also heard of the inability to ship or store the oil because it was being drilled faster than the ability to ship it. And finally we started to hear how some of the stock prices and dividends in that sector were booming so individual investors were buying up these stocks. Earlier this year the U.S. was self-sufficient in oil which allowed us to export the product.

Now Saudi Arabia announced it will pump oil at full capacity and with Iran now entering this sector looks as though for now gas prices may stay low for a while, well until something happens. Weak companies that are not well managed will close and there will be less competition. Expensive drilling operations will cease, or some global event such as war in the Middle East may cause restrictions in shipment of oil. What we do know in the future we will need more energy (oil, solar, nuclear, wood or other forms) to support the increasing global demand.

Commodities have major BOOMS and BUSTS and realizing this and its cycles may help ease the pain of lower values. A saying I use is "Bulls and Bears win Pigs get slaughtered". When we get greedy and chase returns instead of investing in the strength of the underlying investment people usually lose money.