



# The Commodities Asset Class



## Commodities Brief: The Recovery is Not Over



In our May 2016 Investment Commentary, we stated our opinion that the price action of all three major commodity sectors (energy, metals, and agriculture) was signaling a trend reversal in commodities, and that it was a good time to reexamine commodity allocations. Crude oil, in particular, had just made a dramatic move from the lows in late January and early February, and was up over 75% from that point. That sizable a move in what is arguably the world's largest "market cap" physical asset was, we concluded, indicative of a cyclical change in direction, sentiment and likely subsequent performance expectations for the commodities asset class as a whole. Now that we have seen a full calendar year of positive price action (+13.35% in 2016, and +1.34% YTD\*\*), an even stronger case can be made that we have entered a period of commodity price recoveries that is unlikely to be temporary.

The most compelling evidence is simply the historical cycle of commodity prices. Commodity prices move up and down primarily due to the very normal process of supply (production) and demand (consumption) price equilibration. Over a full cycle, increasing demand leads to higher prices, which is then met with higher and more profitable production as a response. The combination of increased production and higher prices leads to a corresponding decline in demand, and possible over-production, which is eventually followed by a decline in prices. Lower prices, in turn, lead to production destruction at the same time that demand may again be building, and the cycle begins again. Although the macroeconomic environment is certainly also a driver, this cyclical movement of commodity prices over time can be thought of as mean reverting, many times independent of economic influences (2016's commodity performance is an example of this, having occurred without the benefit of significant positive revisions to GDP or CPI).

For this reason, when commodity investments experience a protracted price decline, *this has always been followed by a period of protracted price increases*. This is a normal characteristic of almost every investment class, but what we're really interested in is the *persistence* of the recovery. In the case of commodities, positive performance following a trend reversal has been *predominantly multi-year in duration*, so consistently that for the 46 year period from 1970 to 2016 (the longest available benchmark data\*), there was only *one year* in which a previous period of benchmark price decline was not followed by *multiple years* of increasing prices. While that lone year (1992) was followed by a decline in 1993, it also preceded a significant rally in the years from 1994-1996.

Another important point is that when recoveries begin, despite the initial very positive performance, commodities may still be closer to cyclical low prices than previous highs. Currently, they still average over 50% off of previous highs (see pg.4). This means that significant upside potential still exists, especially given the asymmetrical nature of return percentages in a back to break even scenario.

When an asset class returns to outperformance following multiple years of underperformance, there may be a natural tendency for some investors to either be wary of a possible false rally or think that it's too late to reallocate because they've missed a genuine rally with limited further momentum. Investors should gain confidence from the fact that it is historically anomalous for commodities to exhibit a single year of positive price performance and then suddenly stop.

**John Reese, Chief Executive Officer**

\*Commodities data represented by the S&P GSCI Total Return from January 1970 to July 1998 and the Bloomberg Commodity Index Total Return from August 1998 through December 31, 2016 \*\*Rogers International Commodity Index® data through January 13, 2017



# Price Asset Management

## Commodity Solutions

Mean Reversion is Normal  
...and provides higher-confidence entry points

	Stocks <sup>^</sup>	Commodities*
1970	4.03%	15.10%
1971	14.32%	21.08%
1972	18.98%	42.43%
1973	-14.67%	74.96%
1974	-26.45%	39.51%
1975	37.21%	-17.22%
1976	23.85%	-11.92%
1977	-7.18%	10.37%
1978	6.57%	31.61%
1979	18.44%	33.81%
1980	32.42%	11.08% +115%
1981	-4.91%	-23.01%
1982	21.41%	11.56%
1983	22.51%	16.26%
1984	6.27%	1.06%
1985	32.16%	10.02%
1986	18.47%	2.06%
1987	5.23%	23.77%
1988	16.81%	27.93%
1989	31.49%	38.29%
1990	-3.17%	29.07% +315%
1991	30.55%	-6.14%
1992	7.67%	4.44%
1993	9.99%	-12.33%

	Stocks <sup>^</sup>	Commodities*
1994	1.31%	5.31%
1995	37.43%	20.35%
1996	23.07%	33.91%
1997	33.37%	-14.06%
1998	28.58%	-33.12%
1999	21.04%	41.82%
2000	-9.10%	26.13%
2001	-11.89%	-18.78%
2002	-22.10%	34.09%
2003	28.68%	31.99%
2004	10.88%	20.83%
2005	4.91%	19.55%
2006	15.79%	3.05%
2007	5.49%	30.01% +242%
2008	-37.00%	-41.35%
2009	26.46%	26.23%
2010	15.06%	19.01%
2011	2.11%	-6.93%
2012	16.00%	2.03% (BCOM -1.05%)
2013	32.39%	-4.49%
2014	13.69%	-22.21%
2015	1.38%	-26.08%
2016	11.96%	13.35%

\*Commodities are represented by the S&P GSCI TR from January 1970 to July 1998 and the Rogers International Commodity Index Total Return from August 1998 through December 31, 2016. ^Stocks are represented by the S&P 500 Total Return Index. The indices above are not investable products and their returns do not reflect the fees and charges inherent in investing in a vehicle designed to replicate a particular commodity index.

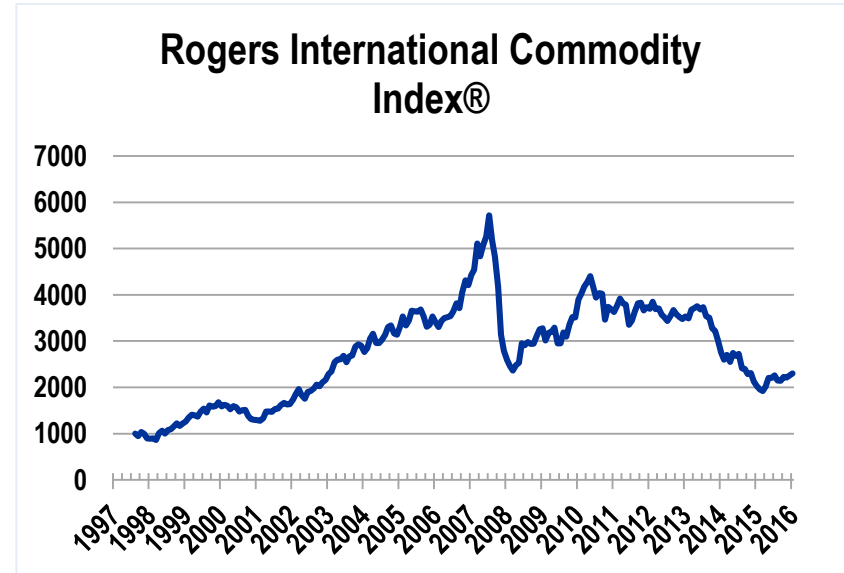
Source: Bloomberg LP



Rogers International Commodity Index®

RICI® - Component Historical Price History Since Inception (August 1, 1998)

Commodity	Tickers	RICI® Weighting	Nominal Price (USD)			
			High		As of 12/31/16	
			Price	Date	Last Price	% from High*
Aluminum	LMAHDY	4.00%	\$3,271.25	7/11/2008	\$1,690.00	-48.34%
Brent Oil	CO1	13.00%	\$146.08	7/3/2008	\$56.82	-61.10%
Copper	LMCADY	4.00%	\$10,179.50	2/14/2011	\$5,530.25	-45.67%
Corn	C 1	4.75%	\$8.31	8/21/2012	\$3.52	-57.65%
Cotton	CT1	4.20%	\$2.15	3/4/2011	\$0.71	-67.00%
WTI Crude Oil	CL1	16.00%	\$145.29	7/3/2008	\$53.72	-63.03%
Gas Oil	QS1	1.20%	\$1,325.25	7/11/2008	\$504.75	-61.91%
Gold	XAU	5.00%	\$1,900.20	9/5/2011	\$1,151.70	-39.39%
Heating Oil	HO1	1.80%	\$410.60	7/3/2008	\$172.82	-57.91%
Kansas Wheat	KW1	1.00%	\$1,337.00	2/27/2008	\$418.50	-68.70%
Lead	LMPBDY	2.00%	\$3,989.00	10/10/2007	\$2,007.50	-49.67%
Lean Hogs	LH1	1.00%	\$133.88	7/15/2014	\$66.15	-50.59%
Live Cattle	LC1	2.00%	\$171.00	11/17/2014	\$116.05	-32.13%
London Cocoa	QC1	1.00%	\$2,713.00	7/15/2010	\$1,732.00	-36.16%
Lumber	LB1	1.00%	\$455.60	5/13/2004	\$329.40	-27.70%
Milk Class III	DA1	0.10%	\$24.58	9/15/2014	\$16.47	-32.99%
Milling Wheat	CA1	1.00%	\$292.75	3/3/2008	\$168.00	-42.61%
Natural Gas	NG1	5.00%	\$15.38	12/13/2005	\$3.72	-75.81%
Nickel	LMNIDY	1.00%	\$54,050.00	5/15/2007	\$9,993.00	-81.51%
Oats	O 1	0.50%	\$5.58	3/12/2014	\$2.29	-58.94%
Orange Juice	JO1	0.60%	\$2.20	1/23/2012	\$1.94	-11.80%
Palladium	XPD	0.30%	\$1,110.50	1/26/2001	\$683.25	-38.47%
Platinum	XPT	1.80%	\$2,250.50	3/5/2008	\$905.70	-59.76%
Rapeseed	IJ1	1.00%	\$782.03	3/3/2008	\$408.50	-47.76%
RBOB Gasoline†	XB1	3.00%	\$3.57	7/3/2008	\$1.67	-53.23%
Rice	RR1	0.75%	\$24.46	4/23/2008	\$9.61	-60.71%
Robusta Coffee‡	DF1	2.00%	\$2,751.00	3/5/2008	\$2,138.00	-22.28%
Rubber	JN1	1.00%	\$6.54	2/18/2011	\$2.62	-59.97%
Silver	XAG	4.00%	\$48.44	4/25/2011	\$15.99	-66.99%
Soybean Meal	SM1	0.75%	\$548.10	8/30/2012	\$316.60	-42.24%
Soybean Oil	BO1	2.00%	\$0.70	3/3/2008	\$0.35	-50.28%
Soybeans	S 1	3.50%	\$17.71	9/4/2012	\$10.04	-43.31%
Sugar	SB1	1.00%	\$0.35	2/2/2011	\$0.19	-46.19%
Tin	LMSNDY	1.00%	\$33,265.00	4/11/2011	\$21,185.00	-36.31%
Wheat (CME)	W 1	4.75%	\$12.80	2/27/2008	\$4.08	-68.13%
White Sugar	QW1	1.00%	\$876.30	7/13/2011	\$524.20	-40.18%
Zinc	LMZSDY	2.00%	\$4,603.00	11/24/2006	\$2,568.25	-44.20%



**AVERAGE = -50.02%**

\*The high since inception of the RICI® on August 1st, 1998.

Source: Bloomberg LP (Historical Price Data in USD)

† RBOB Gasoline (Begins 10/03/2005)

‡ Robusta Coffee (Begins 01/14/2008)

For all commodities, excluding metals, the 1st Generic Future was used. Otherwise, cash prices were used for all metals (Aluminum, Copper, Gold, Lead, Nickel, Palladium, Platinum, Silver, Tin, Zinc). The 1st Generic Future represents the nearest front month of the corresponding commodity as set by Bloomberg LP.



An investment in commodities, managed futures or other alternative investments, including, without limitation, the RIC<sup>®</sup> Linked – PAM Advisors Fund, LLC (the LLC) or any other fund or separate account advised or managed by Price Asset Management, LLC (PAM), is speculative, involves a high degree of risk and is suitable only for persons who are able to assume the risk of losing their entire investment. This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any interest in such a product. Only potential investors which qualify as “accredited investors” will be entitled to receive the Private Placement Memorandum (PPM) of the LLC or other program documentation. Prospective investors are expected to be aware of the substantial risks of investing in the highly speculative field of commodities and futures trading. Those who are not generally familiar with such risks are not suitable investors and should not consider investing in commodities, managed futures or other alternative investments. No one should consider or recommend an investment in the LLC or other investment program prior to a complete and thorough review of the PPM or other applicable documentation, including the sections on risk and expenses associated with such an investment. Uhlmann Price Securities, LLC, FINRA member, acts as selling agent with respect to funds and pools offered and managed by Price Asset Management, LLC. PAM cannot provide any assurance that investors will not lose all or substantially all of their investment. The past performance of the LLC or any other product managed by PAM is not necessarily indicative of future results. No representation is made that any returns indicated herein will actually be achieved.

PAM is registered with the Commodity Futures Trading Commission (CFTC) as a commodity pool operator and commodity trading advisor and is a member of the National Futures Association (“NFA”). PAM is registered as an investment adviser with the U.S. Securities And Exchange Commission (SEC). Neither the CFTC nor the SEC have passed upon the merits of participating in any trading programs or funds promoted by PAM. Consequently, neither the CFTC nor the SEC have reviewed or approved this report.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

This report, including the information and opinions contained herein, was prepared by PAM. The information in this document does not constitute investment, accounting, tax, regulatory or legal advice. Potential investors are urged to consult a personal tax advisor with respect to the taxation questions. It is solely for information purposes and is subject to change without notice or prior notification, and PAM makes no express or implied warranties concerning these materials. This document and all of the information contained in it are the proprietary information of PAM and under no circumstances may it be reproduced or disseminated, in whole or in part, without the prior written permission of PAM.

Neither RIC<sup>®</sup> Linked - PAM Advisors Fund, LLC nor any separate account managed by Price Asset Management, LLC that tracks the RIC<sup>®</sup> is sponsored, endorsed, sold or promoted by Beeland Interests, Inc. (“Beeland Interests”) or James Beeland Rogers, Jr. Neither Beeland Interests nor James Beeland Rogers, Jr. makes any representation or warranty, express or implied, nor accepts any responsibility, regarding the accuracy or completeness of this presentation, or the advisability of investing in securities or commodities generally, or in the RIC<sup>®</sup> Linked - PAM Advisors Fund, LLC, a separate account managed by Price Asset Management, LLC or in futures particularly.

BEELAND INTERESTS DOES NOT, NOR DOES ANY OF ITS AFFILIATES OR AGENTS, GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE ROGERS INTERNATIONAL COMMODITY INDEX (“RICI”), ANY SUB-INDEX THEREOF OR ANY DATA INCLUDED THEREIN. SUCH PERSON SHALL NOT HAVE ANY LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN AND MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY OWNERS OF AN INTEREST IN RIC<sup>®</sup> LINKED – PAM ADVISORS FUND, LLC OR ANY SEPARATE ACCOUNT MANAGED BY PRICE ASSET MANAGEMENT, LLC, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE RIC<sup>®</sup>, ANY SUB-INDEX THEREOF, ANY DATA INCLUDED THEREIN OR RIC<sup>®</sup> LINKED – PAM ADVISORS FUND, LLC OR ANY SEPARATE ACCOUNT MANAGED BY PRICE ASSET MANAGEMENT, LLC. BEELAND INTERESTS DOES NOT, NOR DOES ANY OF ITS AFFILIATES OR AGENTS, MAKE ANY EXPRESS OR IMPLIED WARRANTIES, AND EACH EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE RIC<sup>®</sup>, ANY SUB-INDEX THEREOF, AND ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL BEELAND INTERESTS OR ANY OF ITS AFFILIATES OR AGENTS HAVE ANY LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES OR LOSSES, EVEN IF NOTIFIED OF THE POSSIBILITY THEREOF.