

5699 Getwell Road, Ste. E5-C
Southaven, MS 38672
662 404 3798 Mobile
662 562 6721 Senatobia
662 349 4888 Southaven
662 349 3798 Southaven
662 560 0456 Fax
frank.givens@lpl.com
www.lpl.com/frankgivens

Commodity Prices

In a free market, scarce resources are allocated (rationed) by the price system. The prices are set by speculators. Producers tend to transfer price risk onto the speculators, allowing producers to concentrate on production. Furthermore, in a free market, producers compete on volume, not price. Consequently, Exxon tries to produce more oil regardless of price. Farmers try to produce more rice regardless of price. It's really a great system!

Furthermore

Investors look to participate in the production of food, clothing, and shelter. The closer to that production, the riskier the investment. Just ask a farmer, speculative home builder, or gold miner. The further from the production, the less risky the investment, for instance, Wal-Mart stock!

Producers of commodities benefit from increased consumer or industrial demand for their products. So Exxon does best when oil consumption is on the rise, in a strong growing economy. It's really a great system.

Consumers benefit from lower oil prices. Producers benefit from a strengthening economy. For oil, the price can contract for 20 years, but Exxon can thrive because producers of commodities compete on volume, not price.

It takes ten years and a couple of billion dollars from inception to production for a big offshore oil project. In the profit driven free world, uneconomical oil & gas projects are being plugged and abandoned. In the command and control economies of the Middle East, Russia, South America, etc. the autocrats are increasing production to maintain the life style to which they've become accustomed.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.