

# Harvesting Returns

*Investing in Agriculture Could Be a Sound Long-Term Strategy to Boost Portfolio Returns, and Help to Solve the Food Crisis*

By **ANGELA HENSHALL**

The recent spikes in the price of food, which have acted as a catalyst to protests across the developing world, are a short-term manifestation of a long-term trend: That of high and rising agricultural commodity prices. But getting investment exposure to this long-term upswing in prices, without falling foul of the inevitable short-term volatility, is a conundrum that is proving hard to unravel.

Against a backdrop of tightening supply, investors have started to think about agriculture and food-commodity stocks in the same way they once considered energy investments. Jim Rogers, co-founder of the Quantum Fund with [George Soros](#), says the world is on a knife edge. "Some governments have started hoarding stocks which will drive up prices. But will be blaming it on speculators like me," he says.

Mr. Rogers, who is credited with predicting the start of the global commodities rally in 1999, believes a crisis point will be reached within the next 20 years but that the answer lies in boosting investment to the sector. "If I'm right, agriculture is going to be one of the greatest industries in the next 20 years and longer . . . [it] will become more profitable than it has ever been," he says.

The case for long-term investment is sound. The world's population is expected to grow from 6.7 billion today to 9.1 billion by 2050. To put that into perspective, an extra three mouths will need to be fed every second in 40 years time. The supply problem is compounded yet further by an emerging middle class in China and India whose growing wealth is being reflected in changing dietary habits. Predominantly grain-based diets are being replaced by meat-based diets.

This has huge implications on demand for soft commodities when you consider that it takes 10 kilos of plant protein to produce just one kilo of animal protein. In other words, it is many times more energy intensive to grow a field of cows than a field of barley or maize.

The rising popularity of biofuels as an alternative to fossil fuels is only adding to these supply pressures. More and more land is being taken out of agricultural production and set aside to grow plants that are used to fuel cars, and not to feed people.

## ***Investment Potential***

For those seeking exposure to the agriculture story in the short-to-medium term there are several products that follow commodity indices. These enable investors to gain exposure to commodities without trading futures or taking physical delivery. The indices themselves closely track spot and futures contracts of agricultural commodities. One of these is the [ETFs Agriculture Fund](#), an exchange traded commodities product designed to track the DJ-UBS Agriculture Sub-Index. Daniel Wills, senior analyst at ETF Securities, says crop failures in Russia in 2009 and 2010 highlighted the potential for short-to-medium term volatility. This sparked investor interest. In 2009, about \$1 billion flowed into the ETFs Agriculture fund but by the end of 2010, \$500 million had flowed out as investors booked their profits. Mr. Wills expects to see volatility increase and says that 2011 will be a year of depleted exports and stock levels in a number of countries. "There's a lot of pressure on governments this year to rebuild the coffers, and it leaves the market vulnerable to price shocks," he says. Building of strategic stockpiles and hoarding goes to the very heart of food security. Soft commodities in particular are thought to be very vulnerable to price shocks this year.

Source: *The Wall Street Journal*.

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