

## Market Research

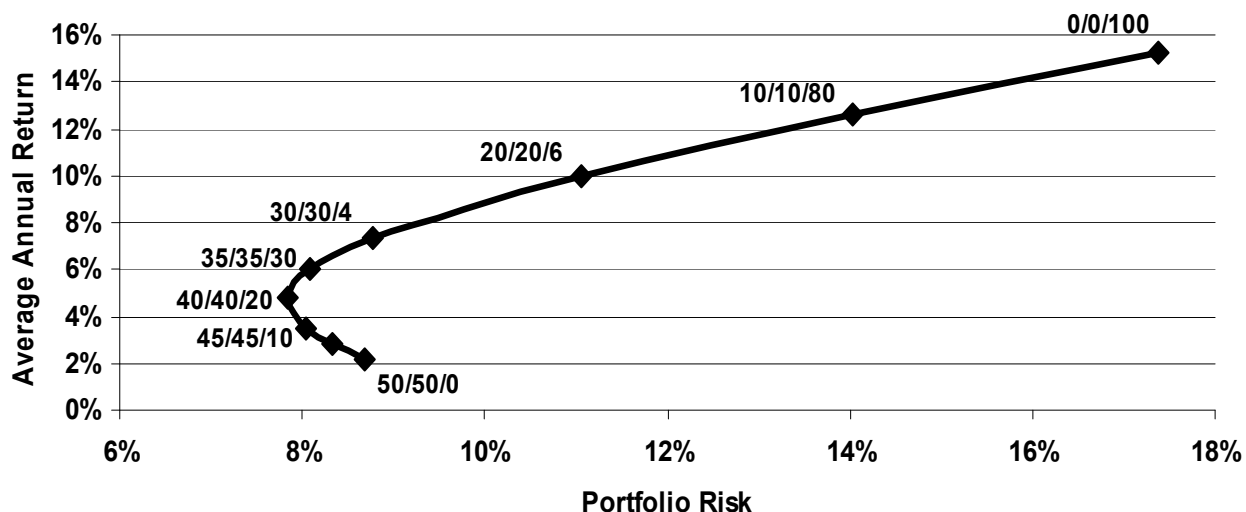
### *Commodities as a Recognized Asset Class*

Modern portfolio theory expounds on the importance of diversification. Traditional asset classes such as equities, bonds, currencies and real estate have been utilized for years to provide diversification for wealthy individuals. Further diversification has been achieved through international and emerging marketplaces. The success of capitalism on a global basis is providing yet another avenue for diversification—the commodity markets. The energy, metals, and agricultural sectors are maturing as a recognized financial sector worthy of portfolio allocation. This is clearly evidenced by the growth in exchange traded and over the counter futures, forwards and options activity in the base commodities, as well as in the growth of exchange traded funds (ETFs) which provide the risk profile of the underlying commodity with the execution simplicity of an equity.

Research confirms the addition of commodity exposure to a balanced portfolio improves the return/risk ratio of the portfolio. The study looked at the daily returns of a portfolio with varying concentrations of commodity exposure over the period Jan01 through Aug07. The commodity asset class was composed of equal weightings of crude oil, gold and corn. All returns were calculated utilizing prompt month futures contracts. As a futures contract expired, the investment was rolled to the next contract month. Returns exclude transaction costs. Although the 6+ year chart is provided below, portfolios analyzed over shorter and longer time frames revealed similar results.

The study suggests a 20% allocation to the commodity asset class maximizes a portfolio's return for a given level of risk. Of course, results will vary as the analysis is applied to a specific portfolio. As commodity markets provide buy opportunities, we expect portfolio managers around the globe will increase allocations to the commodity sector. A rising tide raises all boats.

**Optimum Allocation Among Bond, Equity and Commodity Asset Classes \***  
(Period Jan01 - Aug07)



\* Commodity Asset Class composed of equal weightings of crude oil, gold, and corn prompt month futures.

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