

John Pugsley's

JOURNAL

A COMMON SENSE PERSPECTIVE

The Promise of Tangibles

As Stocks Become Overvalued, A Successful Equities Fund Manager Switches to Hard Assets.

Finding undervalued assets in an overvalued world becomes increasingly difficult if you concentrate on stocks and bonds. However, natural resources have stood apart from the mania for at least the past decade.

A glance at the graphs of equities and commodities clearly shows the divergence in value over the past few years, but it seems that no matter how wide the lines grow, few investors are attracted to this class of assets. First, the average investor judges the value of an investment by its track record over the past few years. On average, commodities have a terrible performance record. Second, with the exception of the precious metals, actual purchase and storage of commodities varies between cumbersome and impossible, leaving the investor with one avenue for taking positions: futures and options. Both futures and options, however, have a reputation for being high-risk speculations. Third, investors have traditionally looked at tangibles as inflation hedges, so as inflation fears have subsided, investors have abandoned commodities.

I've recently become acquainted with Debra Diamond, one of the few analysts who sees the investment potential in commodities. More importantly, she has developed a strategy for using commodities futures to take long-term, conservative positions as she waits for the inevitable price increases. Her successful track record as an analyst and portfolio manager in both equities and commodities should

give her credibility in any investor's eyes. A brief biography is on page 6.

In a recent conversation, we explored the unique opportunities in hard assets and her investment techniques.

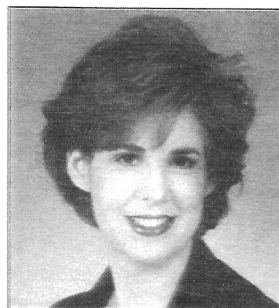
JP Debra, you had great success as an equities analyst. What led you away from stocks and into the commodities arena?

DD It grew out of a conversation that I had with a well-known portfolio strategist who had been a guest on my radio program. He felt that one of the next big investment trends was going to be in the commodities area. After our conversation it was one of these investment ideas that I couldn't forget about. It was like a good stock idea: it just kept coming back to me.

I became very intrigued with this concept of investing in hard assets because of the impact of the emerging economies on the consumption of raw commodities. Three quarters of the world's population has moved from centrally-planned economies to some semblance of a free market system, and they will have a major impact on the consumption of hard assets.

I determined I would devise a strategy that would allow me to invest in hard assets and spent the next two years developing one and testing it in my own portfolio.

JP Commodities have never been considered long term assets. Most players specu-



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IN THIS
ISSUE

- *A Conversation with Debra Diamond* 1
- *In Defense of Investment Letters* 7
- *Personal Reflections* 8

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