

The Commodity Cycle

- Commodity prices have been booming for several years
- 200 Year chart shows the typical long-term cycle
- Commodities likely peaked earlier this year

Is this time different?

At no time in the last 200 years have commodity prices risen as fast and as high as in the last decade without a sharp decline

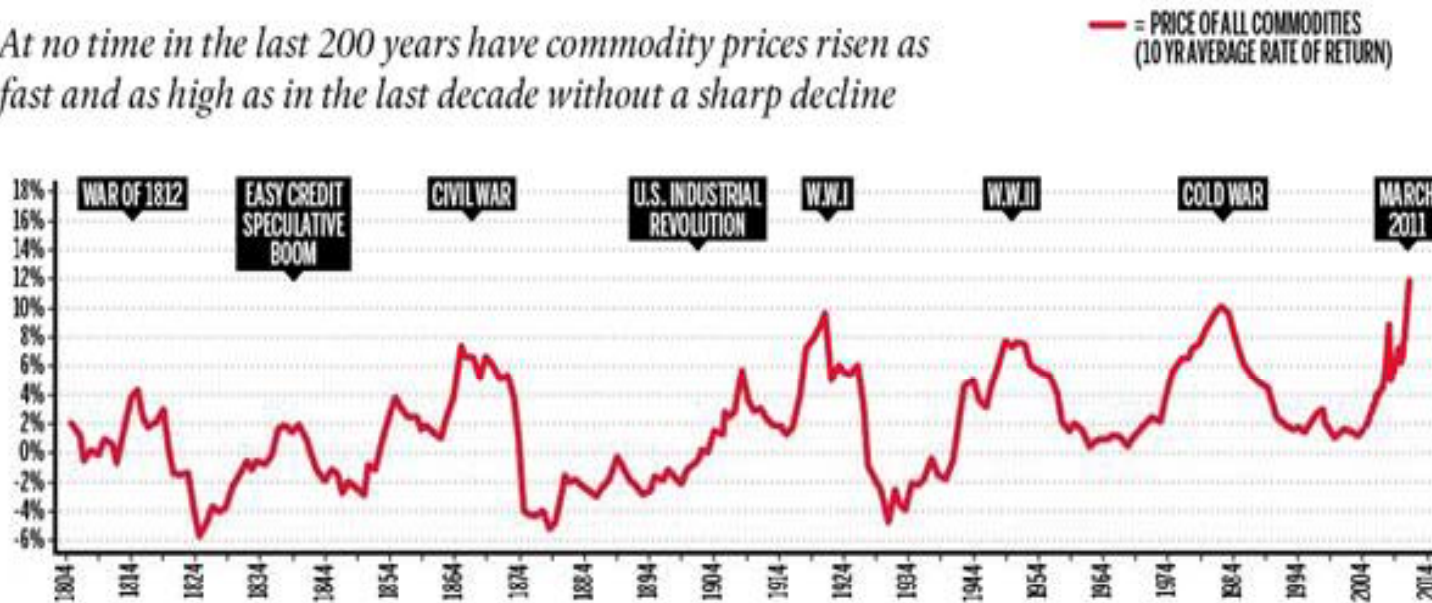


CHART SOURCE: HACKETT FINANCIAL ADVISORS, MACLEAN'S



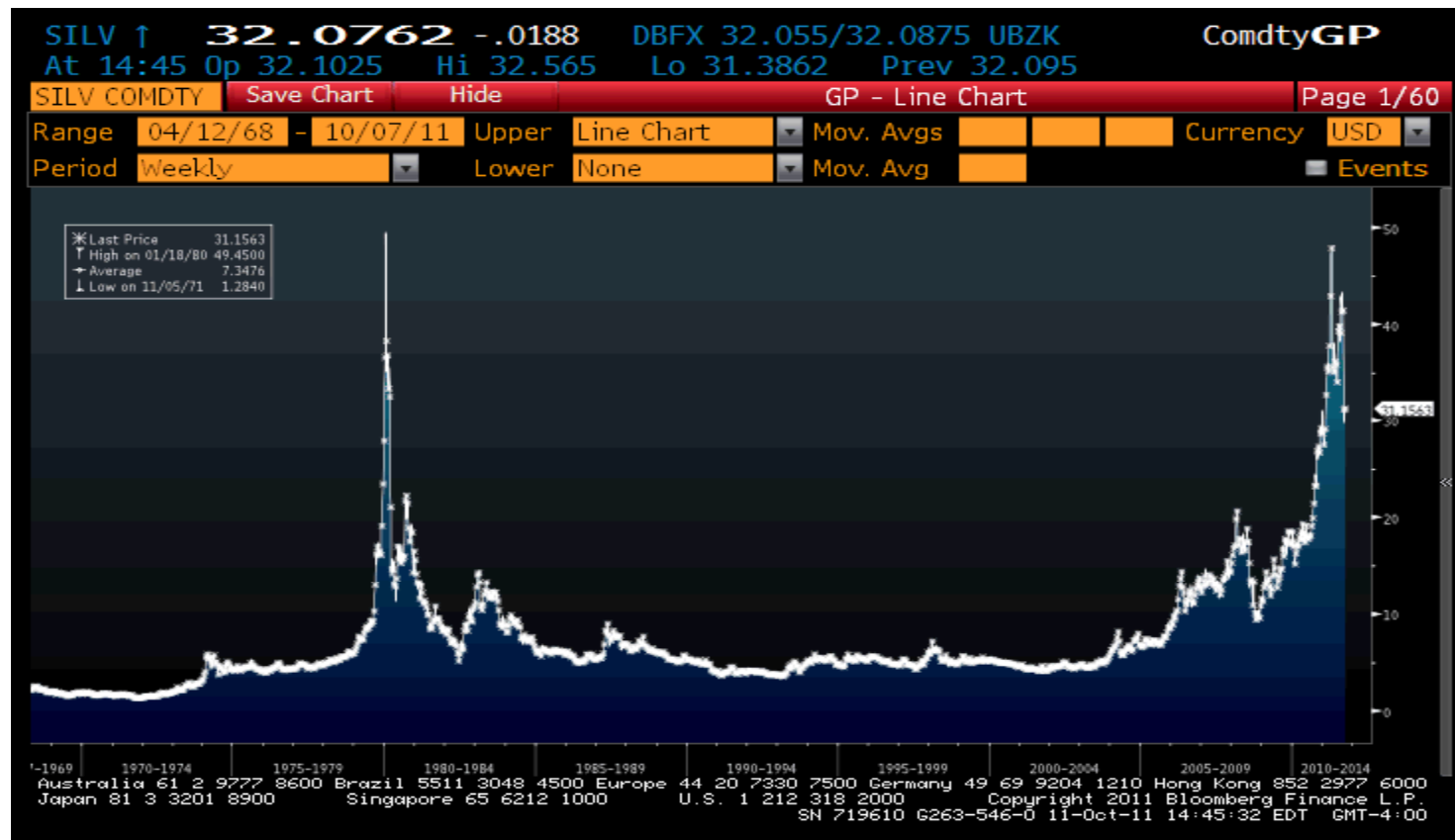
Commodity Fundamentals

- Weakening economy is hurting demand
- Supply continues to increase
- Hoarding of commodities is signaling significant speculation
- Low interest rates have been supporting markets by making commodities cheap to store
- Interest rates are now beginning to rise in many countries around the world
- Margin requirements were recently increased by commodity exchanges, in an attempt to curtail speculative behavior



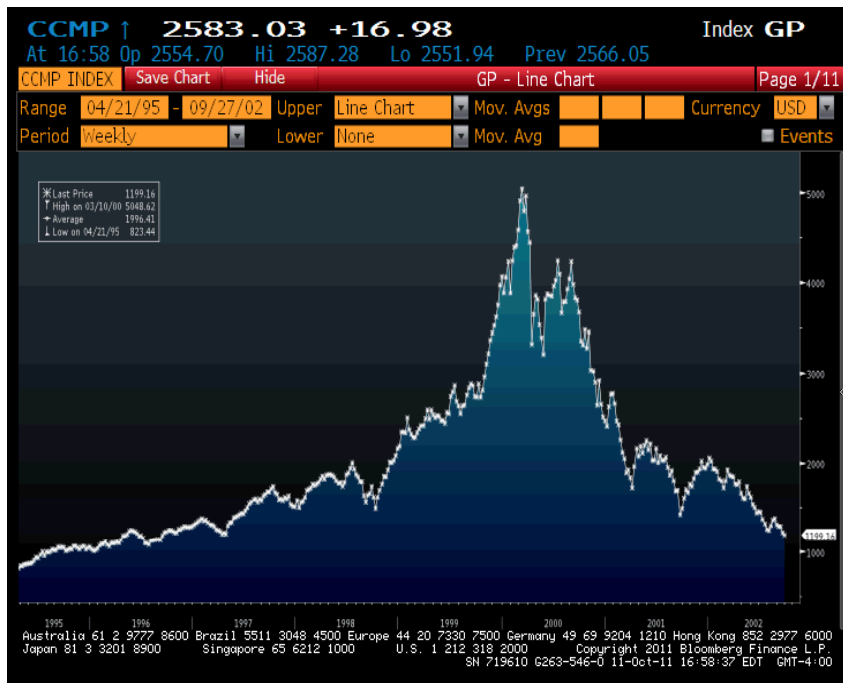
Silver as an Example

- 40+ Years of silver prices are shown below
- Silver prices peaked in May, and are down 35% already
- Still a long way to fall after a bubble bursts

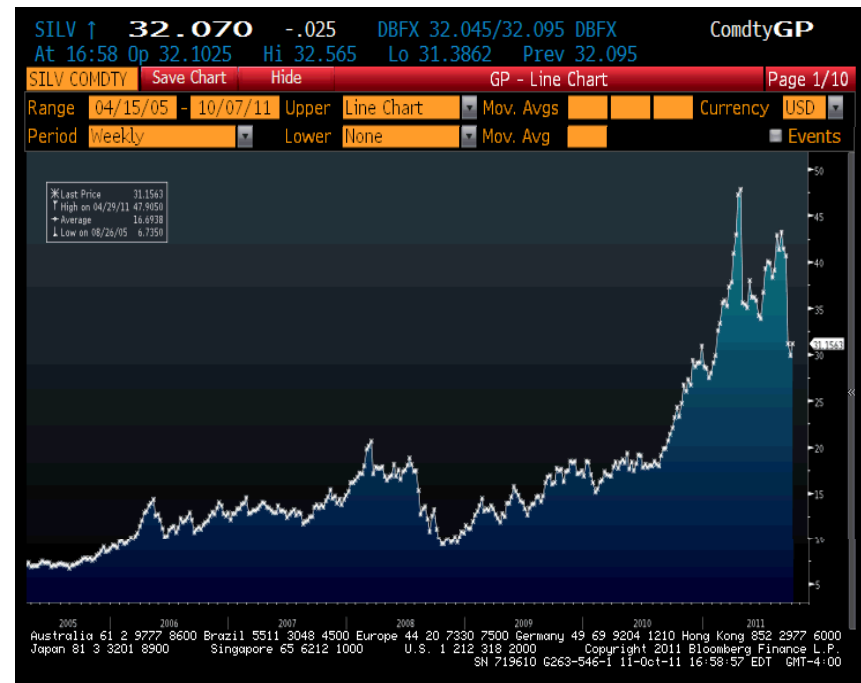


Tech Stocks and Silver – Looks Familiar?

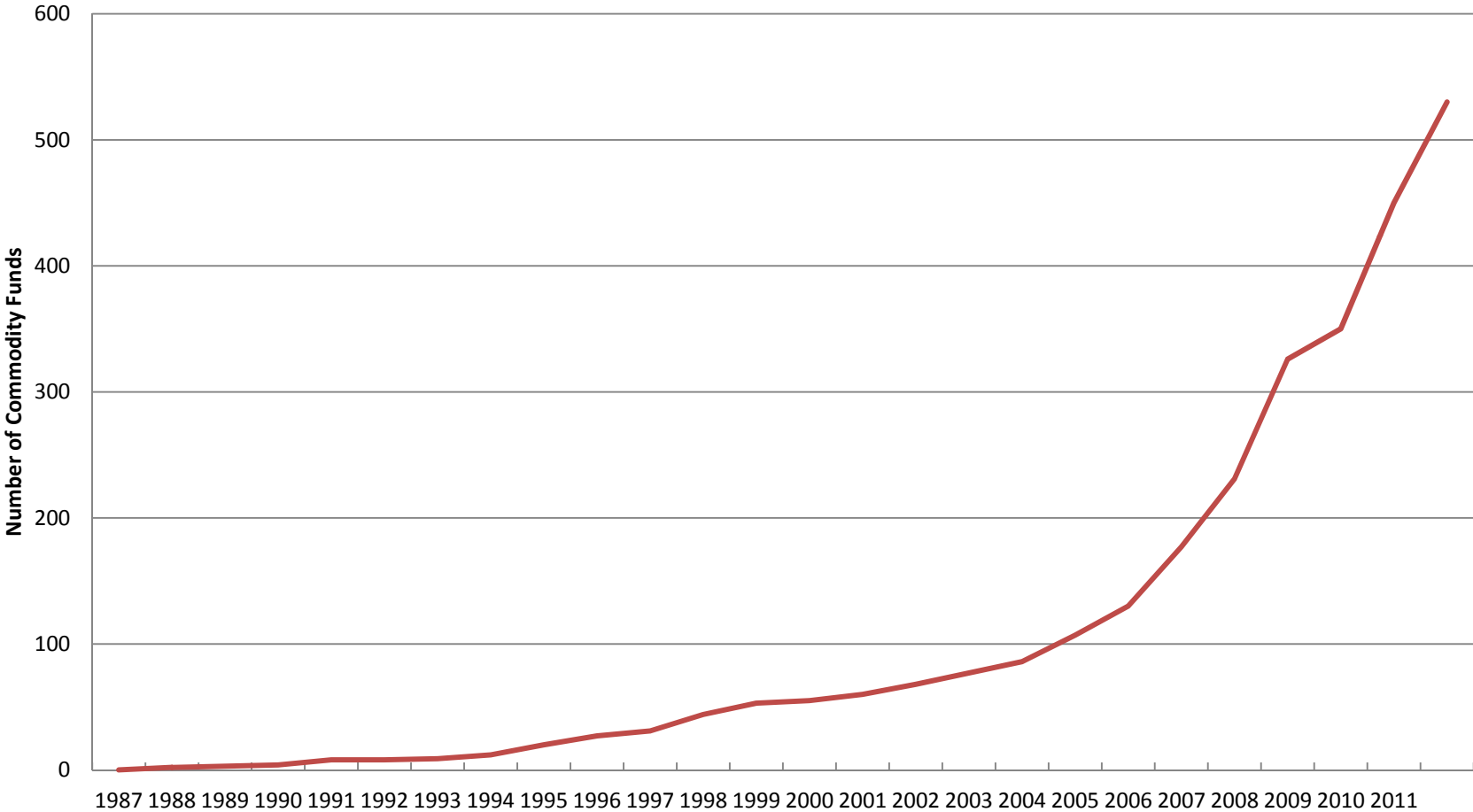
Nasdaq: 1995 - 2002



Silver: 2005 - Today



Commodity Investments have Followed Prices

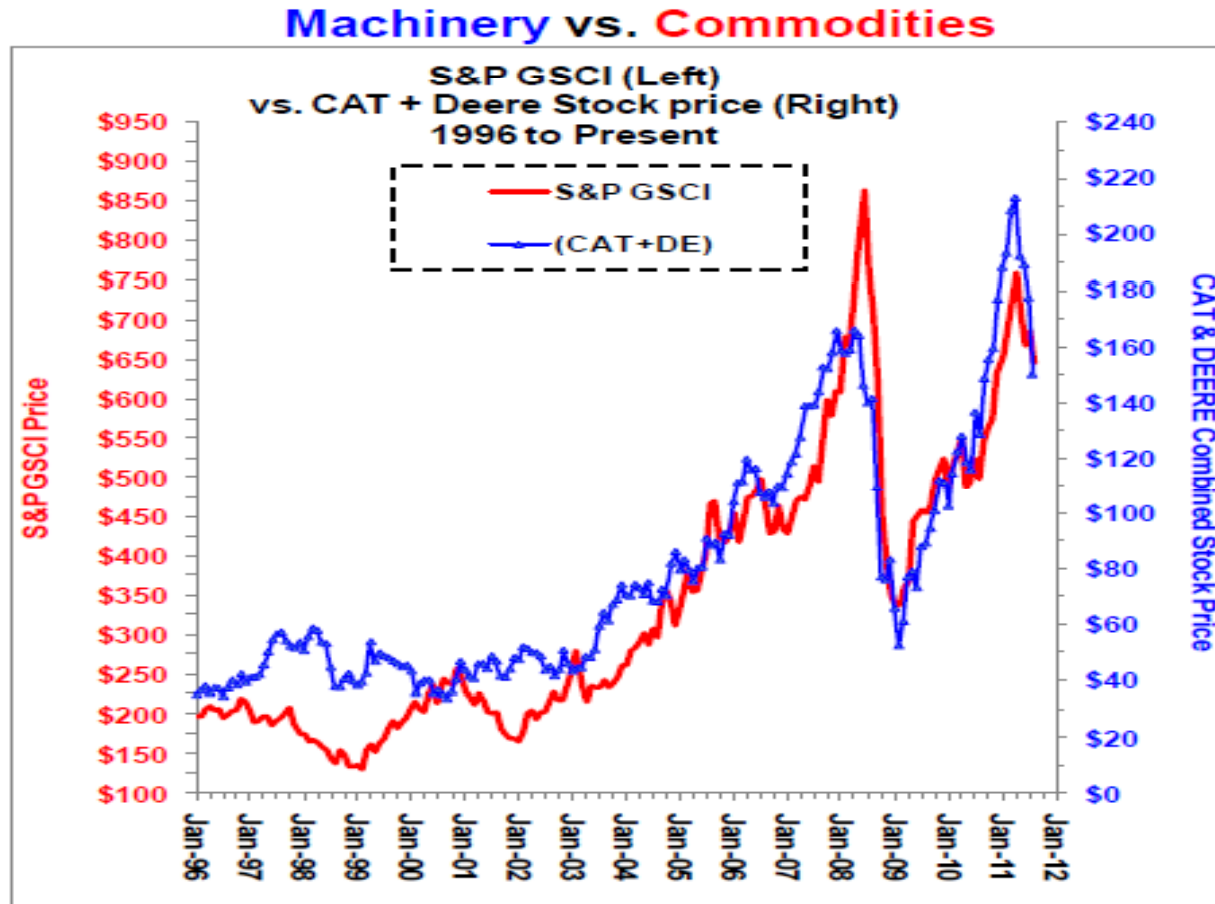


Impact of Declining Commodity Prices

- 14% of stocks in S&P 500 are in Basic Materials and Energy sectors
- International indices have higher exposure, with the EAFE Index at 18%
- Emerging markets, which are a key growth driver for the global economy, are more heavily exposed to commodities
- Paragon recently moved from a mutual fund portfolio that was overweight in these sectors with commodity exposure to one that is now underweight
- Investment vehicles are available to profit from declining commodity prices, or to hedge the equity portfolio
- US Dollar could likely rise as a result of declining commodity prices



Downside Risk: Machinery Stocks are Correlated with Commodity Prices



Source: Stifel Nicolaus & Co.



Paragon Capital Management

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