

# Inside ETFs University

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## ETFs 303:

Commodity ETFs--  
Profit, Diversification & Choice

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**Drew Voros**  
Editor-in Chief  
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## SPEAKER



**Sumit Roy**  
Analyst  
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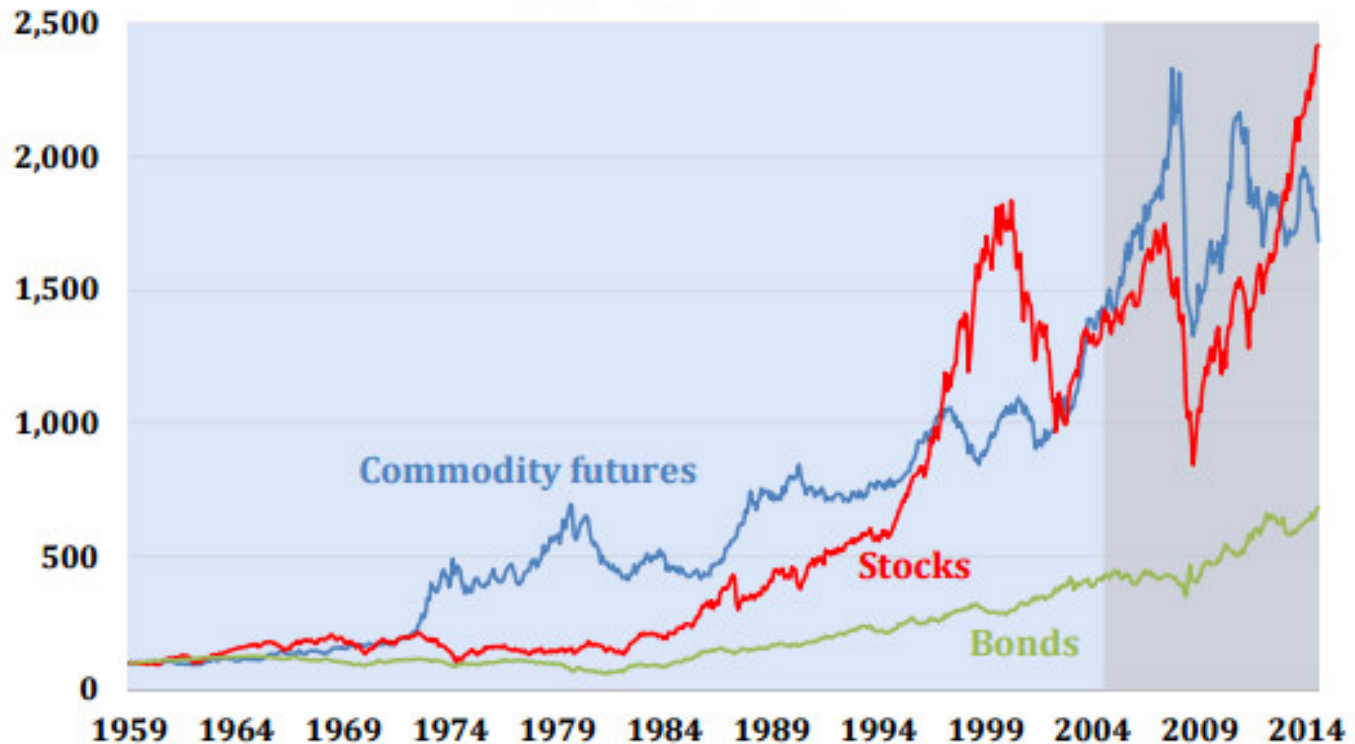
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- Why Invest In Commodities
- What are Commodities?
- Physical vs Futures
- Choosing the right ETF
- Commodity vs Producer
- Questions

# The Case For Commodities

- Inflation Hedge
- Diversification

**Figure 3: Inflation-Adjusted Performance of Stocks, Bonds, and Commodity Futures, July 1959-December 2014**



# The Case For Commodities

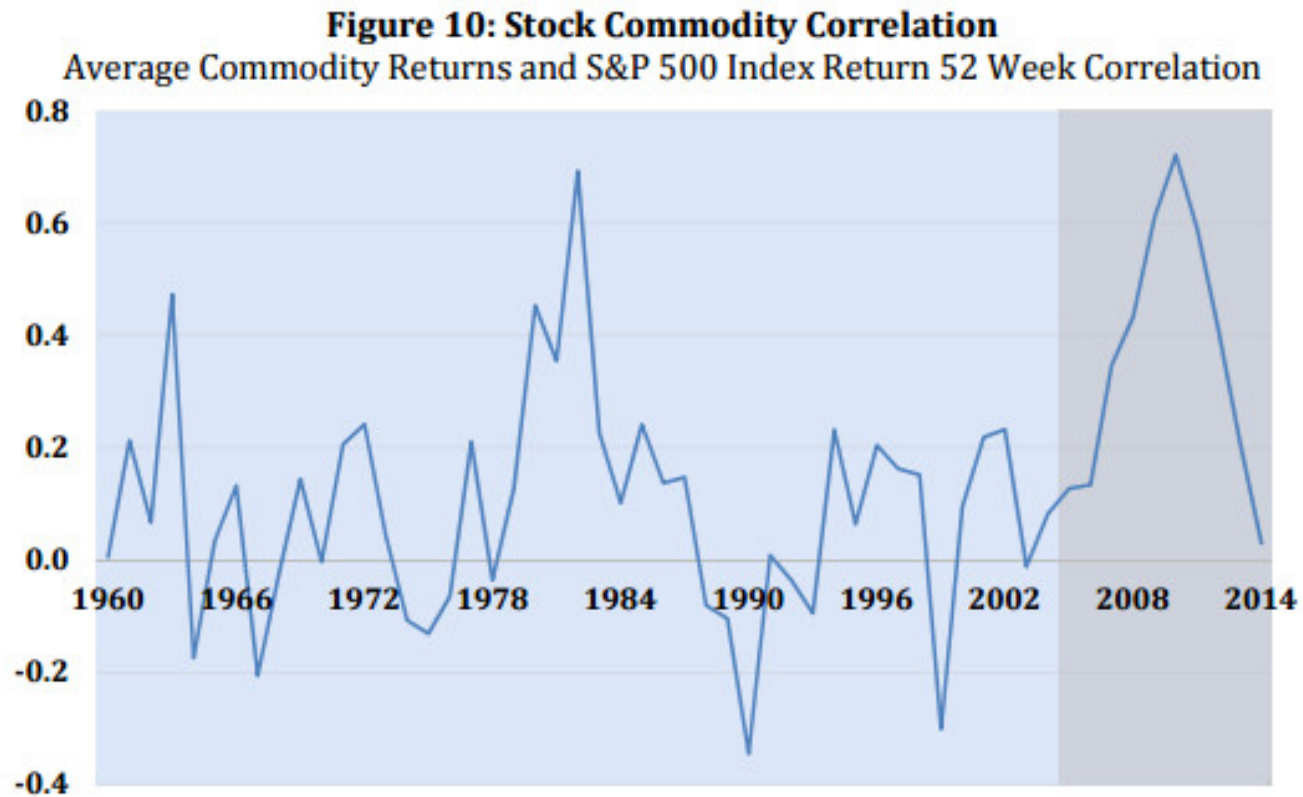
- Inflation Hedge
- Diversification

	Stocks	Bonds	Commodity Futures
Monthly	-0.08	-0.18	0.09
Quarterly	-0.08	-0.23	0.24
One Year	-0.13	-0.29	0.33
Five Year	-0.10	-0.20	0.47



# The Case For Commodities

- Inflation Hedge
- Diversification



# Excellent Access Via ETFs...

<b>Broad vs Single</b>	<b>ETFs</b>	<b>AUM</b>
<b>Commodities - Broad</b>	<b>19</b>	<b>\$6.9B</b>
<b>Energy - Sector</b>	<b>5</b>	<b>\$174M</b>
<b>Agriculture - Sector</b>	<b>9</b>	<b>\$1.0B</b>
<b>Industrial Metals - Sector</b>	<b>5</b>	<b>\$192M</b>
<b>Precious Metals - Sector</b>	<b>4</b>	<b>\$582M</b>
<b>Energy - Single</b>	<b>18</b>	<b>\$5.4B</b>
<b>Agriculture - Single</b>	<b>21</b>	<b>\$575M</b>
<b>Industrial Metals - Single</b>	<b>10</b>	<b>\$65M</b>
<b>Precious Metals - Single</b>	<b>18</b>	<b>\$60.5B</b>

# What Are Commodities?

- Fungible
- Supply & Demand
- Soft Commodities
- Hard Commodities
- Main sectors

# What's Really In The Basket?

Physicals



Futures

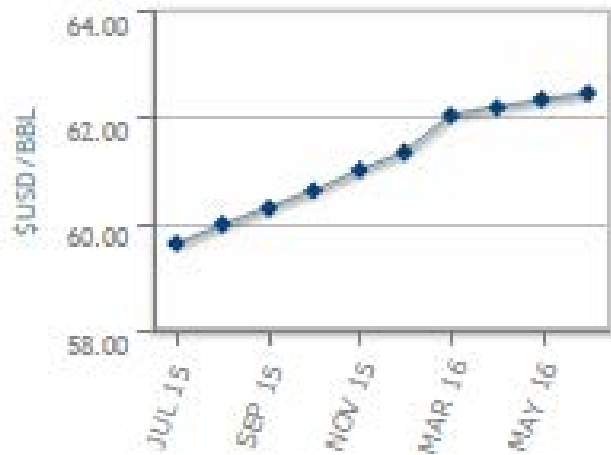


# The Problem With Futures



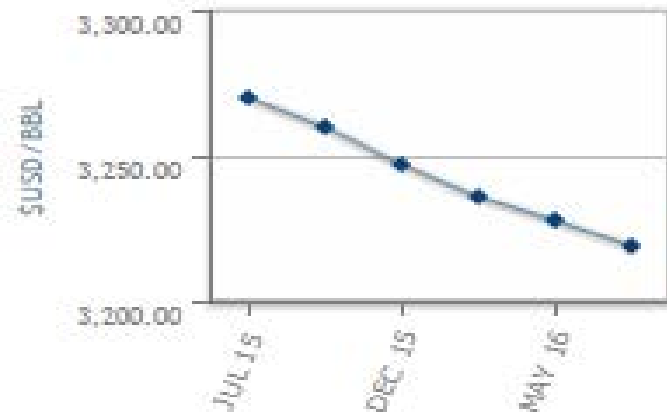
## Contango

### WTI Crude Curve



## Backwardation

### Cocoa Curve

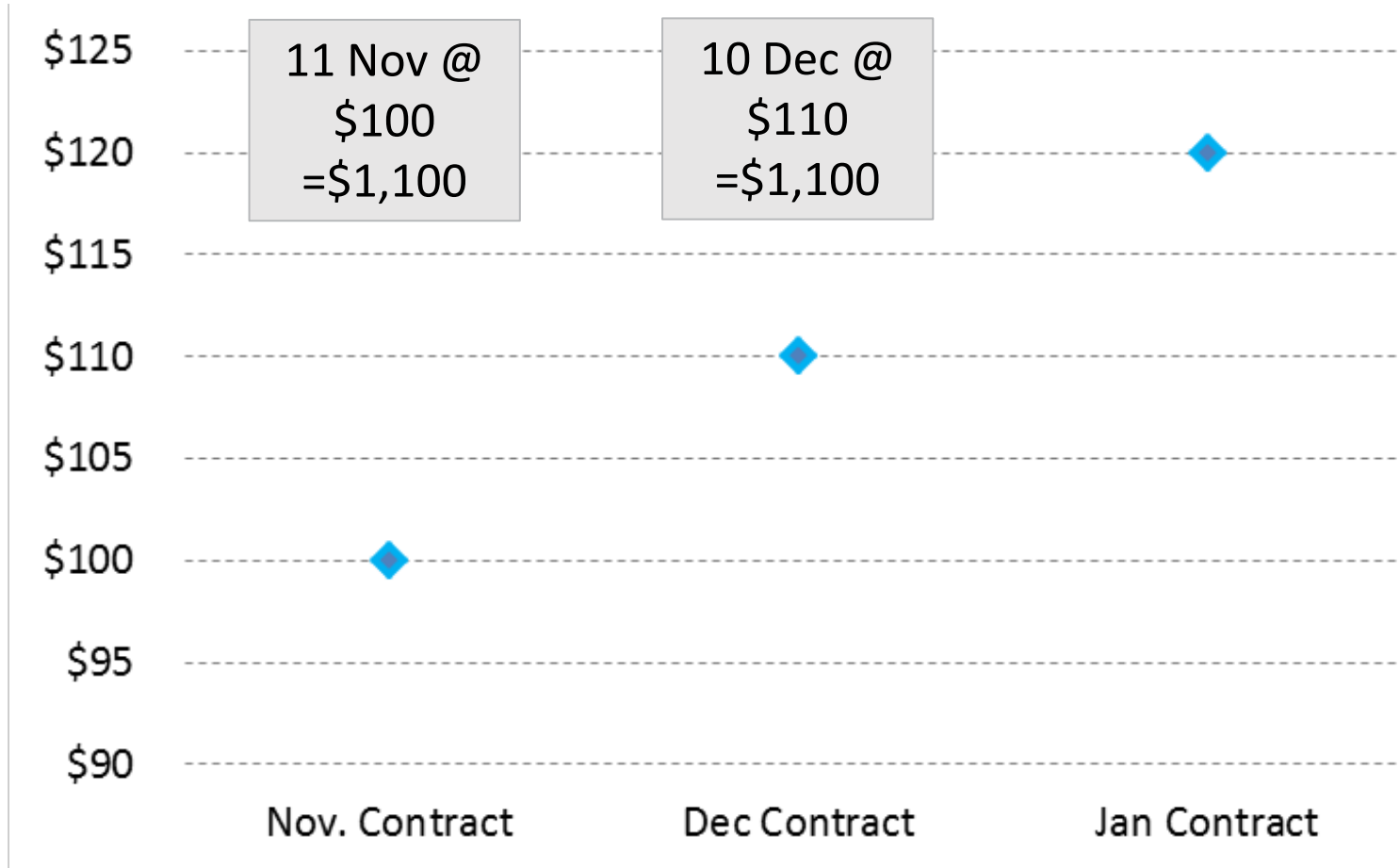


# How Contango Eats Your Lunch



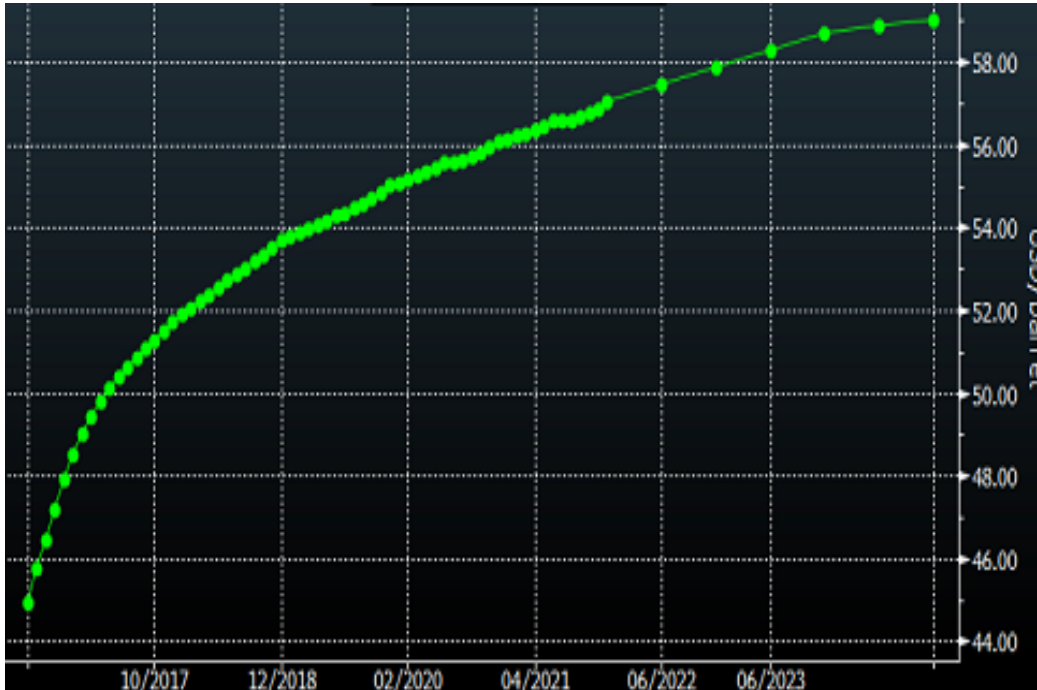
What Happens Now?

# How Contango Eats Your Lunch





# The Problem With Futures



Current annualized roll costs for Front-month WTI crude oil futures contracts: 20%

- Alternatives to Front Month
  - Laddered
    - USL – 12 months, contracts equally weighted
  - Optimized
    - GCS – GSCI commodity weights; contracts optimized

“3<sup>rd</sup> Gen” uses two

vectors:

- Pick different commodities, more actively.
- Pick different contracts, more actively.



1. Broad, Sector, or Single Commodity?
2. Spot, Front-Month or Optimized?

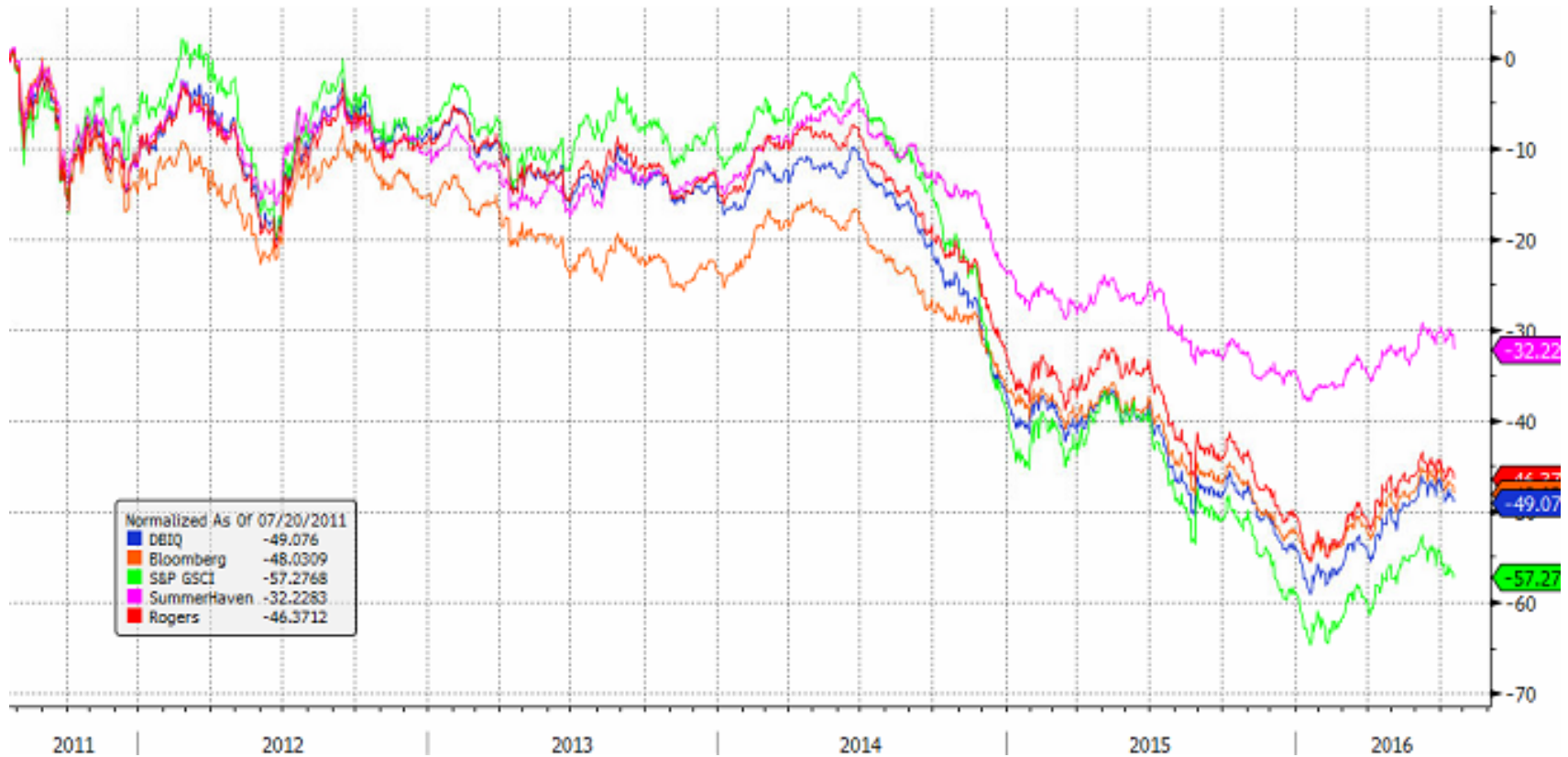
# Broad, Sector, or Single?

<b>Broad vs Single</b>	<b>ETFs</b>
<b>Commodities - Broad</b>	<b>19</b>
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# What's In Your Index?

	S&P GSCI	DBIQ Optimum	Bloomberg (DJ-UBS)	Summer Haven	Rogers Int'l
WTI	23	10	24	0	16
Brent	20	11	24	0	13
Gas Oil	6	0	0	0	1
Gasoline	5	12	6	0	3
Heating Oil	5	11	6	0	2
Natural Gas	3	5	5	7	5
Corn	4	6	4	7	5
Wheat	4	6	2	0	5
Copper	4	5	4	7	4
Gold	3	10	8	7	5

# The Major Indexes



# Commodity vs Producer

- Correlations with stock market
- Company-specific risks
- Leverage
- ETFs provide the exposure investors' want





# Takeaways

- For most commodities, returns from “spot” prices are simply unobtainable
- Returns from futures can be very different from returns of the underlying commodity
- ETFs can offer investors the exposure they want

# SPEAKERS

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