



### ***Inflation on Commodities***

There is one universal truth about the markets...they always zig (go up) and zag (go down).

The markets are currently debating, at the time of this writing, whether the commodity rally is over. Commodity moves are directly correlated to the inflation rate of our country, so knowing what commodities are doing is very important. It provides us insight on the stock market and interest rates.

So, is the commodity market on a “zig” or a “zag” long-term? My conclusion is that commodities are coming to an end of a short-term downward trend and are ready to begin an even more powerful upward trend. This, unfortunately, will have negative implications for the stock and bond markets. This fits into my concept that the stock market is in a short-term bull market and a long-term bear market.

China and India have convinced me that commodities are in a long-term bull move. Oil production is clearly peaking worldwide. Metal mining and agriculture production is limited and it will take years to increase production rapidly. Despite this, there are over four billion people on the planet who have the same desire as you for cars, TV's, cell phones, cleaning detergents, clothes, electricity, etc. All these items require fuel and agriculture products.

We are entering a watershed moment when the world population is demanding more, but the world is not ready to supply the resources. This is contrary to the last 20 years when supply far surpassed demand. In the 1970's massive supplies were brought online to provide materials while technology and free trade turned them into very cost-effective goods. Now in 2007, demand is growing and it is devouring supply. This is very bullish for commodities.

Expect to see \$100/barrel for oil and \$3-4/gallon for gas by 2010. Expect to see markets swing up and down, while commodities will be going up and stock and bond markets will be flat to down. I still anticipate a record point drop in the stock market in 2007, which will seriously scare baby boomers who are desperately trying to retire.

With these thoughts in mind, consider the following:

1. I could be wrong and the worst that will happen is the market will under-perform
2. I could be right putting us in a good situation as our investments are designed to benefit from this scenario

No matter if there is a zig or a zag, The Financial Consulate will continue to work hard to turn lemons into lemonade and grape juice into wine.