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# “ How do I invest in commodities, natural resources and other real assets? ”

By Jeffrey H. Thomasson, Robert W. Hauswirth and Charles L. Heekin

**In recent years, a great deal of attention has been focused on the issue of investing in commodities and other real assets.** Often, they are viewed as an alternative to investing in traditional financial assets, either by investors hoping to escape the volatility of stocks and bonds or by speculators hoping for some fast money. There are strong arguments, however, for investing in real assets as a long-term strategy, alongside traditional asset classes, in a well-diversified portfolio.


While financial assets often receive the most attention from investors, nonfinancial or real assets actually constitute the majority of the world's wealth. Real assets may be categorized as being either hard or soft. Nonperishable assets such as real estate and certain commodities—precious metals, oil and gas, timber, aluminum, copper, etc.—are generally considered hard assets. Perishable and consumable commodities, such as agricultural products and livestock, are soft assets.

Investment strategies for gaining access to real assets include commodity futures, publicly traded equities of companies that produce natural resources, energy master limited partnerships (MLPs), real estate investment trusts (REITs), and private equity-type funds focused on real assets. Each of these strategies has positives and negatives, but the common thread that binds them is

a positive relationship with inflation and diversification benefits when added to a more traditional portfolio.

As a hedge against inflation, real assets benefit from both supply and demand considerations. On the supply side, most real assets face a rising marginal cost of production, at least in the short term. Changes in technology can dramatically increase productivity (think food or natural gas), but these trends generally play out over years. On the demand side, rapid development in the emerging markets drives an ever greater appetite for real assets in general, and for food, energy and industrial commodities in particular.

Moreover, most trading in natural resources on world markets is denominated in U.S. dollars. Long-term structural issues regarding national savings, the fiscal deficit and the international balance of payments have put significant downward pressure on the dollar. To the extent that this pressure continues in the years ahead, natural resources are a hedge against further dollar weakness in foreign exchange markets.

From a portfolio perspective, the diversification benefits of investing in real assets come from the relatively weak correlation among the returns of the various strategies themselves, as well as with the broader stock and bond markets. Adding a combination of real-asset strategies can significantly improve risk-adjusted returns for a broader portfolio over time. 

## THE LONG AND SHORT OF COMMODITY INVESTING

Commodities can be purchased either on the spot market or the futures market. The spot market refers to the actual physical purchase and delivery of the commodity at today's prevailing market price.

Because commodities investors often have no interest in actually delivering or taking possession of a physical commodity, they typically conduct their transactions through the futures markets.

Futures markets are liquid exchanges in which contracts on individual commodities are traded. The price of each contract moves up or down daily based on the demand and outlook for the underlying commodity.

Futures contracts can be held in long or short positions, depending on an investor's outlook on the prices of the underlying commodity.

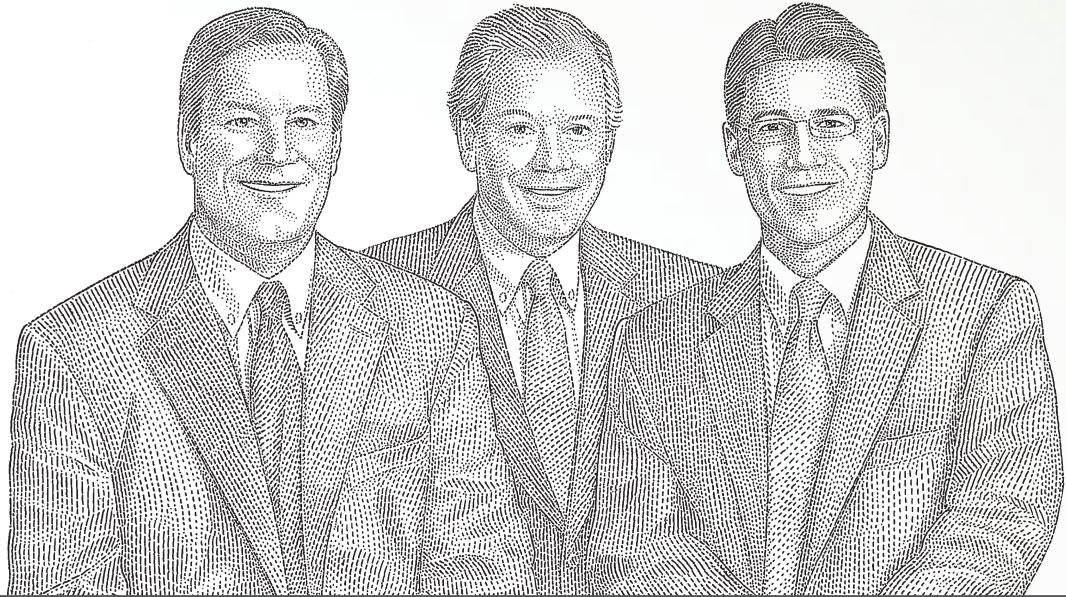
On the contract's expiration date, the holder of the contract is obligated to purchase and take delivery of the physical commodity, but, in reality, investors will sell their contract on the exchange prior to this occurring.

**“Adding a combination of real-asset strategies can significantly improve risk-adjusted returns.”**

– Jeffrey H. Thomasson, Robert W. Hauswirth and Charles L. Heekin

**How to reach Oxford Financial Group, Ltd.**

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Left to right: Charles L. Heekin, Jeffrey H. Thomasson and Robert W. Hauswirth

**About Oxford Financial Group, Ltd.**

Founder Jeffrey H. Thomasson is CEO and managing director of Oxford Financial Group, Ltd. He is committed to serving clients’ financial and investment planning needs and has been doing so for more than 25 years. He obtained the Certified Financial Planner designation through study in the fields of investment, insurance and retirement and estate planning. He received the Indiana University Kelley School of Business Distinguished Entrepreneur Award. Robert W. Hauswirth is a managing director in Oxford’s Chicago office, where his focus is providing clients with comprehensive investment and financial advice, which he has been doing for more than 15 years. He earned his MBA degree from Northwestern University’s Kellogg School of Management. Charles L. Heekin is a managing director in Oxford’s Chicago office, focusing on business development and advising clients. His experience includes 10 years on Wall Street working in capital markets, advising professional money managers, financial institutions, charities and endowments.

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Minimum Fee for Initial Meeting  
**None required**

Minimum Net Worth Requirement  
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