Question
SERVING WHISTLER AND PEMBERTON

YOUR MONEY

MAY 15, 2008

Kim Inglis, BCom

Agriculture Stocks, Funds Take Off

For most Canadians, reaching into the fridge and grabbing something to eat, pouring some cereal or munching on an apple doesn't merit a second thought. But for many people around the world, it is a daily struggle just to eat.

Global food prices have risen an astounding 83% over the last three years with the most direct impact on the poorer nations of the world. For many families, up to three quarters of their income is spent on food - just getting the staples. Food price inflation has caused deadly rioting and social upheaval.

The rise of the emerging markets has played a key role in this trend. As countries like China and India grow in population and wealth, so too does their middle class. Rising incomes tend to change spending habits and these developing countries have seen an increased demand for meat and dairy; ultimately translating into more land allocated to raising animals while reducing available arable land.

Mounting energy costs have also taken a toll on the global food markets. As peak oil theories come into fruition, researchers have been seeking alternative fuel sources like ethanol and other biofuels. Since most biofuels are corn-based, the competition for arable land has increased further.

This is a complicated and multi-faceted issue but the bottom line is that we need to produce sufficient food to feed everyone. Among others, both the U.N. Food and Agriculture Organization and the International Food Policy Research Institute have pointed to investment in food processing and agricultural technology as ways to improve food security. I believe we can find ways to increase the supply of food, but it is neither simple nor inexpensive. Substantial investment in agricultural inputs such as research and technology requires input of capital.

For investors, providing this capital through your investments can also help your portfolio. Some of the larger fertilizer stocks, Potash (TSX: POT) and Mosaic (NYSE: MOS), have seen increases of approximately 700% and 400% in the past two years. While there have been small corrections within the agriculture sector, the trend seems to be ploughing ahead full steam (pardon the pun).

Those of you who prefer direct exposure will invest in individual stocks such as fertilizer producers, construction and farming equipment manufacturers or agricultural products. For some of you, many of these stocks can be pricey to buy outright and you may not wish to acquire a diversified basket of agricultural stocks through direct exposure. As an alternative, exchange-traded funds (ETF) can be a nice way to expand your portfolios.

An agriculture-specific ETF provides access to a wide variety of agriculture stocks. While you won't own the underlying securities directly, you will own shares of the ETF which trade on the exchange and track the performance of a basket of stocks. For instance, it might hold Potash, Agrium, Deere, Kubota, et cetera. As those stocks rise in price, so too does the ETF. Two examples of agriculture-specific ETFs are the Claymore Global Agriculture (TSX: COW) or the Market Vectors Agribusiness (ASE: MOO).

For those of you who have been in the sector from the start and have already experienced significant gains, it may be time to crystallize some of your profits. You might consider taking a portion off the table and investing the proceeds in other agriculture holdings, further diversifying your exposure to the sector.

Kim Inglis is an Investment Advisor. The views in this column are solely those of the author. www.kiminglis.ca