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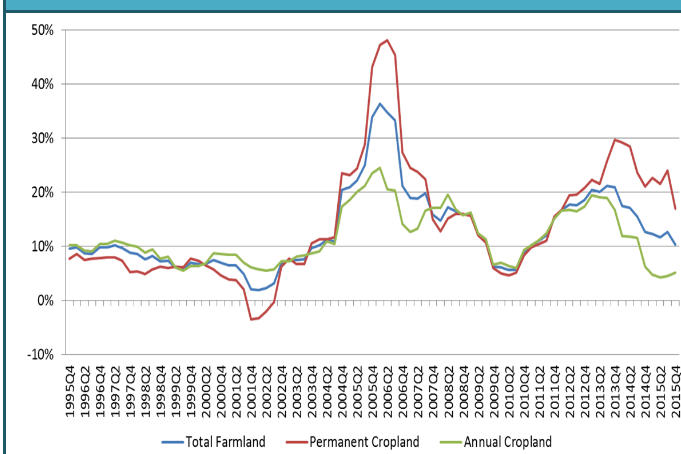
More ideas on investing in real assets in 2016

Summary	Investment Conclusions
In Econote No.45 of 25/1/2016 entitled "An alternative to panic: Investing in real assets in 2016", we explored some ideas of investment in real assets, even if indirectly via paper claims on real assets. The events since then, and especially market trends and central bank policy decisions (See Fact Box) have reinforced the attractiveness of this "class" of investment. With G3 Govies yields in near zero to deepening negative territory, and staying there for a long time, and equities very volatile, turning to "bricks and mortar" type of assets as percentage of a portfolio makes sense. This is not about buying real estate nor "buying anything cheap at the bottom" and ,hence, is a timing-free but "sector-type" dependent approach.	In Econote No. 45 we had pointed out to the opportunities of property investment but within a highly differentiated and niche area approach. More risky areas were opportunities in the second hand market for dry cargo ships. In this Econote we cover investment in agricultural land, in real estate with mobile telephony antennas on it and also property usedfor rental storage facilities.We also look at funds backed by diamonds or by rare whiskeys and, finally in metals used in mobile telephony. The privatization drive of hard pressed oil-producers such as Saudi Arabia, UAE, Russia and Colombia could also offer openings for real assets investment.

A little repetition and a look forward

The premise of these suggestions involving actual real assets is simple and is based on the continuing uncertainties in equities plus the complex interplay of Japan and the EU having a totally different monetary policy from that of the US, the surreal state of yields in most Govies and the obsession (unjustified in our view) of the markets with China's economic and policy cycles. When it comes to investing in real assets, the difference between holding, say, shares in mining companies or in major commodities traders rather than actual mines or actual commodities, is that shares represent claims on, potentially, very differentiated portfolios of assets or even derivatives-based claims rather than the actual physical assets themselves. This has nothing to do with the naïve preoccupation that paper claims are somehow immoral, dangerous and shady whereas actual goods are honest and direct, but simply represents another form of investment approach in an extremely volatile world. Clearly we exclude gold as that is held not because of its own use-value but as financial asset. Markets are not "wrong", thereby implying that I am "right", markets simply "are" thereby implying that I am looking at something different than the "markets" are! We start here with **farmland**, or as a popular expression has it, "the answer lies in the soil, good solid muck." According to the FT, in 2015 17 agro funds raised USD 3.9 bl versus the USD 0.5 bl raised in 2009, with global farmland investment estimated at USD 42-45 bl. These funds invest in farmland in use for actual production, including soyabeens in Illinois and Uruguay, almonds and cattle in Australia and sugar beets and wheat in Poland. The price of farmland reflects the soft commodities cycle but also the fact that the land varies in quality and by the infrastrcture investment on it. Returns, however, can be high as the NCRREIF index shows with 10% or more achieved.(Nat.Council of Real Estate Invst Fiduciaries)

Fig.1: NCREIF US farmland index 2004-2015 yoy%



Source: NCREIF, the Index is a composite return measure of investment performance of a large pool of US investment farmlands

ECONOTE No.47

Move on to more exotics

The continuous expansion of mobile telephony will be always dependent on the availability of **transmission antenas and the mastheads** to which these are attached. There are numerous companies across the world which own antena networks which are then rented to mobile providers. Even more interesting for investors, existing mobile companies are continuously rearranging their own portfolio of antena properties (the physical location and the equipment erected therein) several of which are being or will be spun off in IPOs. The returns are similar to FI with the owners of the antenas renting them out on a usage basis to mobile providers. Similar "real estate" related opportunities exist in companies offering **self-storage units**, some in REIT form, now benefiting, at least in the US, from the slow recovery in real estate and limited additional construction. Metals, especially iron, have been hit hard, but some metals have special enough uses to make them attractive. Any activity using batteries intensively uses now **lithium**, the demand for which will rise even more with the expected boom in electric or hybrid cars. Its price managed to rise by 15% during 2015. **Cobalt** is also in demand as it is, too, a component of batteries. **Graphite**, too, is an essential ingredient of batteries and also in steel production. Last but not least **Titanium** is more familiar from its use from aerospace to eyewear frames and now, more promising, as a key ingredient in 3D printing. The prices of most of these metals have not escaped the general fall, (Fig.2) but the suggestions here are based on longer term demand than bottoming cycles. D**iamond** prices,ingeneral, have fallen too (Fig.2) but polished diamonds have fared worse than rough diamonds reflecting excess inventories and relatively stronger prices of rough diamonds.

FACT BOX: The EU and Japan HAVE achieved high inflation!

The recent ECB initiative on negative rates and including the novel policy of the ECB paying banks to borrow from it, is a classical example of pushing on a string. The idea is to increase "money stock" so as to accelerate inflation. This is basic Quantity Theory of Money, which never worked and will not work now. There is no systematic, long-term link between money stock growth and inflation of goods and services. There is plenty of evidence of links with asset prices such as the negative returns on EU and Japanese Govies and of the S&P index since 2009. Accelerating asset price inflation has been achieved in the EU and Japan, but not for bread and shoes inflation, as there is no credible link between higher asset prices and that of the prices of goods and of services.

Fig 2: Prices of diamonds (blue), Titanium (black) and Lithium (red), 2008-2016

Source : Bloomberg. Lithium contracts information is irregular

Final ideas but also being compliance practical

However, diamond funds do exist (especially for the more rare colored stones) thus giving a diversified and physically safe access to diamonds.Not surprisingly other physically desirable goods such as **rare whiskeys** have attracted attention from fund managers and investors by creating porfolios of cases of the drink and selling them off at appropriate stages. If nothing else, should the market really fail, the real asset here could be drank !

At this stage we need to reiterate and draw attention to our disclaimer in our masthead, that Econotes do not offer investment suggestions on named or specific shares, bonds or structured products, nor do they make specific and named buy or sell calls. Hence our "theme" on real assets investment for 2016 is, by necessity, broad. While it calls for real asset investment, it does not offer specific suggestions as to the actual instruments to execute it. Although this limits the immediate practicality of our suggestions, it equally avoids the more dire suggestions of "sell everything" or "go short on equities". Even more specifically, our call is not necessarily based on expectations that the local and global real and financial cycles have bottomed and, hence, now is the time to buy cheap. We have always had serious doubts on the familiar call "buy on weakness" because, like other similar calls, it is hardly ever defined or quantified !

Andrew Freris (writing completed 13 /3/2016)