

ETF INSIGHTS WITH JOHN LOVE OF U.S. COMMODITY FUNDS

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Jeff McCarthy (JM): We're here at Inside ETFs. I'm joined by John Love, President and CEO of U.S. Commodity Funds. John, thanks for joining me today.

John Love (JL): Thank you for having me.

JM: So, John, running a firm focused on commodities and offering commodity investments to individual investors, can you tell us why should people hold commodities as part of their investment strategy?

JL: Well, commodities smooth out your investment return over time. The last 10 years has been a little different story than all of history where equities have gone almost straight up, and commodities have been flat to down with some interrupted periods where they've had some great performance, but it's been an unusual decade, but generally when you look back over history, and I'm talking going way back, commodities help you at times when equities get volatile or other asset classes get volatile. So, I think they're a critical asset class. I think it's something that – especially after this 10-year historic divergence between commodities and equities, it's something that people should look at and really consider at least some allocation to your portfolio.

JM: Great. When you talk about some allocation, what have you seen, or what do you recommend as how much should someone allocate into commodities exposure?

JL: Yes, it depends on what are the things I think that they're invested in, in terms of like the alternative space. So, I mean, obviously, people are going to start with stocks and bonds. I think the natural next asset class to look at is probably commodities. I've seen everything between five and probably 25% when people do make an allocation. If you put it in an optimizer, it's going to tell you to do 50% commodities, 50% equities. Nobody's going to do that, but it says at least it shouldn't be zero. There is some benefit to owning commodities, and I think starting at five is good. You want to really move the needle, maybe somewhere around 10 to 15.

JM: And commodities, some commodities are natural resources, there's macro events, geopolitical, they can affect commodities. How does that affect your products and your investors?

JL: Well, it's been a really interesting year for that, because if you just take crude oil as an example, in the past when you had geopolitical risks emerge in the Middle East, that put a risk premium on oil, and we've seen these massive events that people used to just be afraid would happen, like the attack on the Saudi oil infrastructure in September, shot the price up 16%. In the past, you would have expected that that would have stayed elevated, and you would have had a lot of... potentially a lot of spikes higher in the ensuing months. What was really interesting is that we dropped back down very quickly, within a couple of weeks, and then we've, of course, had some strife with other countries over the last couple of months, and every event, you get these spikes, but they recover very, very rapidly, and so that's kind of a... I think the reason for that is, one, we have so much U.S. supply that's come into the market that can meet the demand if something falls off somewhere else. You also have OPEC very committed on the other side of the equation to keeping the market balanced, so that risk premium that used to be there maybe isn't quite as volatile as it used to be, so I think that's actually probably a good thing, and that's just using oil as an example. Another example we have right now is the current virus outbreak, which is affecting markets and commodity markets deeply, but I think that things are getting into oversold territory, and just like with oil, things like industrial metals and all of those things, they're at an old oversold level where I think there's maybe some potential opportunity here. So, I think when you see risks, when you see things spiking up or spiking down, there may be opportunities on both sides of the equation to play commodities.

JM: Great, John. Well, thanks for joining us.

JL: You're welcome. Thank you very much.

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