Commodities In Your Portfolio?

I have recently fielded a number of calls and emails from Clients asking me if they should have a commodity exposure in their portfolios. These clients have been reading about the growing demand for commodities from growth oriented Emerging Market countries like India, China and Brazil. These countries are responsible for some commodity scarcity because of their growing infrastructure demands. Clients have been reading and hearing on TV and the radio that a well diversified portfolio should have commodities in it. They have been hearing that commodities are less likely to follow the movement of the stock market or the bond market.

All of this does make sense. But what most clients don't know is that they already have a healthy exposure to commodities in their portfolio. How so?

Well, if you examine the S&P 500 stock index you will find that almost 22% of it is composed of energy, industrial and material sector companies. These companies have large commodity exposures such as aluminum, precious metals, oil and gas and minerals. What is more interesting is that fully 33% of Emerging Market indices also are composed of these same commodity exposures. And 25% of Developed International company indices have this same commodity investment exposure.

In fact, ADRE, an ETF in most of your portfolios which invests in the 50 largest companies in the Emerging Market worldwide, has almost a 41% holding in sectors that are impacted by the performance of commodities, including precious metals such as gold.

So, in and indirect way most of you hold exposures to commodities across a wide swath of your portfolio in some of the largest companies in the world. The average proportion of client portfolios invested in the Material and Energy sectors is between 21% and 28%.

If you would like to further discuss commodities and your personal portfolio's exposure to this asset class, please don't hesitate to call me.