China & Commodities - the First Major Trend Reversal of the 21st Century

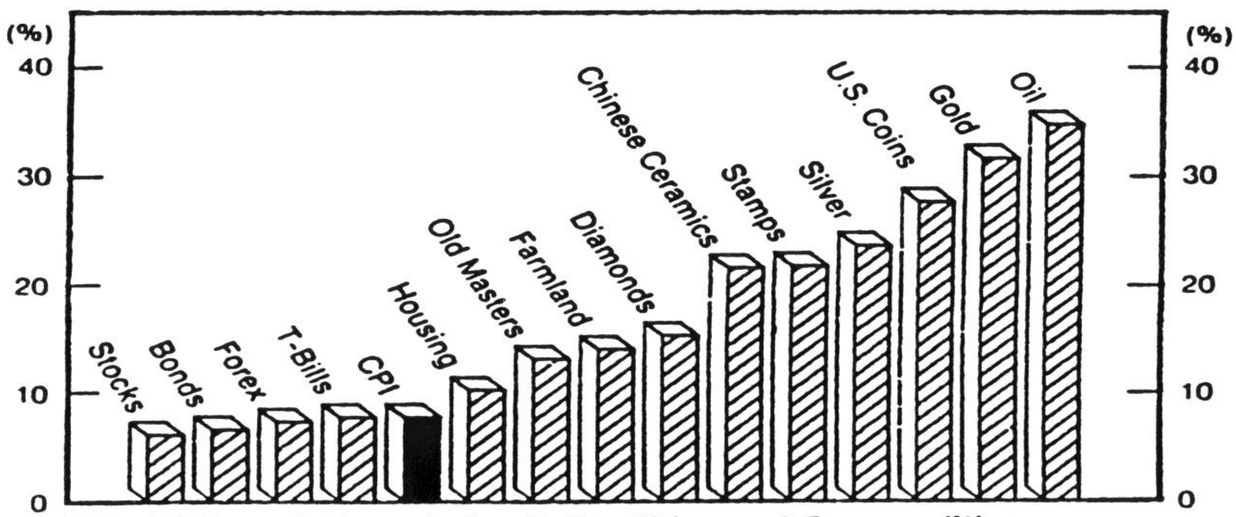
There are major economic and investment trends that happen about every 10 years. In 2013, I wrote the reversal of a major trend, the growth in China. Click here for the link to the article.

Below are excerpts from the article:

Here in Southern California (think Jan & Dean's hit Surf City, also known as Huntington Beach), it's fun to watch surfers as they try to identify the perfect wave and ride it all the way to shore.

As investors this is what we try to do, identify a major trend/wave and ride it as long as it runs its course. See the gold and oil charts where we caught most of the wave/trend.

In the 1970s the major investment trend was real assets:



The 1970s — A Decade for Collectibles and Commodities
(Compound Annual Rate of Return, 1970-80)

As the chart shows, stocks and bonds did poorly and real assets like gold and oil did extremely well. The oil embargo and oil supply disruptions caused high inflation and investors invested in inflation hedges, real assets.

The investment trends changed in the 1980s and 1990s:

Biggest Gainers of the '80s*

By total percent price gain from 12/31/1979 to 12/29/1989

COMPANY NAME (SYMBOL)	% GAIN
1. **Circuit City Strs-Carmax Grp** (CC)	8,252
2. **Limited Inc** (LTD)	6,100
3. **Hasbro Inc** (HAS)	5,582
4. **Home Depot Inc** (HD)	4,997
5. **Wal Mart Stores Inc** (WMT)	4,032

* Only companies included in the S&P 500

Biggest Gainers of the '90s

By total percent price gain from 12/29/1989 or first trade date

COMPANY NAME (SYMBOL)	% GAIN
1. **America Online Inc** (AOL)	79,629
2. **Dell Computer Corp** (DELL)	72,445
3. **EMC Corp** (EMC)	69,638
4. **Cisco Systems Inc** (CSCO)	64,498
5. **CMGI Inc** (CMGI)	61,189

Source: Ned Davis Resource

In the 1980s, the major investment trend was consumer stocks as baby boomers started their families and became a major economic force. Before 1970, hardly anybody had heard of Wal Mart or Home Depot.

Of course, in the 1990s it was the technology boom. Many technology stocks had spectacular gains.

In the 2000s, the major economic trends were China and the global financial crisis.

China's growth and global central bank money printing as a remedy to the global financial crisis caused a repeat of the 1970s inflation hedges and real assets as the preferred investments. There are many signs that these two trends are reversing.

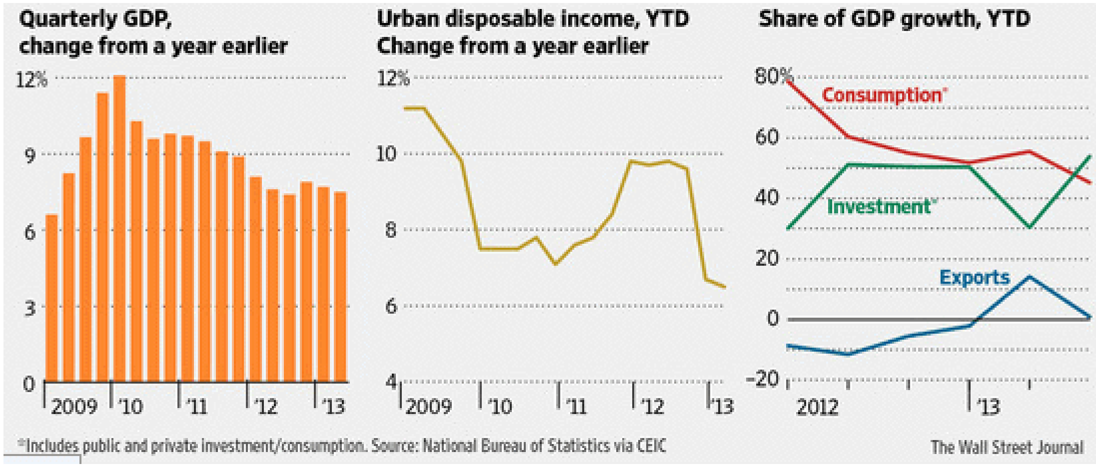
China

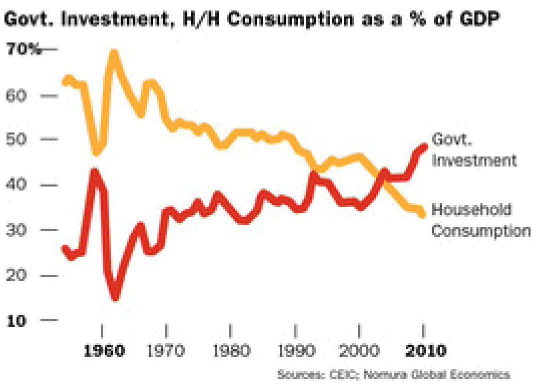
China has been a major trend for the 21st century. The economic growth of China has been unprecedented.

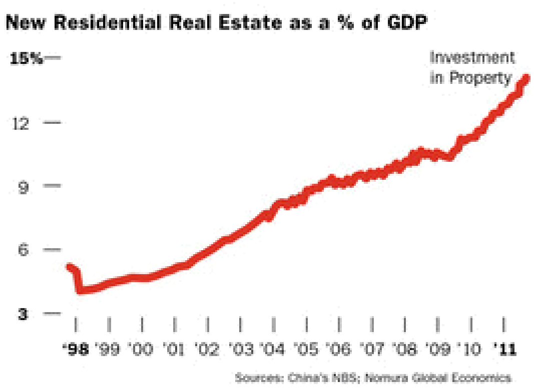
China has grown from near zero to about half the GDP of the U.S.

China's growth has basically been driven by manufacturing, government spending in infrastructure, and real estate development.

China's economic story is in transition: it's slowing and the government is trying to shift it from a manufacturing and export driven economy to a consumer driven economy like the U.S. and Japan. The U.S.'s economy is about 70% consumer. Below are the current trends for China:







China's growth is slowing. It's going to be harder for China to grow at its past pace because of the law of large numbers.

The charts show that the transition to a consumer driven economy is not going well. China does not have the safety nets that the U.S. has, so the Chinese save a lot more, and they tend to want to invest their savings into real estate.

The slowdown in the Chinese economy, and also the transition to a consumption economy has caused a reversal in commodity prices. China is not buying the quantity of iron ore, copper, lumber…. as it has in the past.

Below is a 15-year chart of the Dow Jones Commodity Futures Index:

Let's review the chart:

- *As China's voracious appetite for most commodities grew in the early part of the century, commodity prices more than tripled during the period.*

- *Prices collapsed during the financial crisis, and the long-term bullish trend line was broken.*

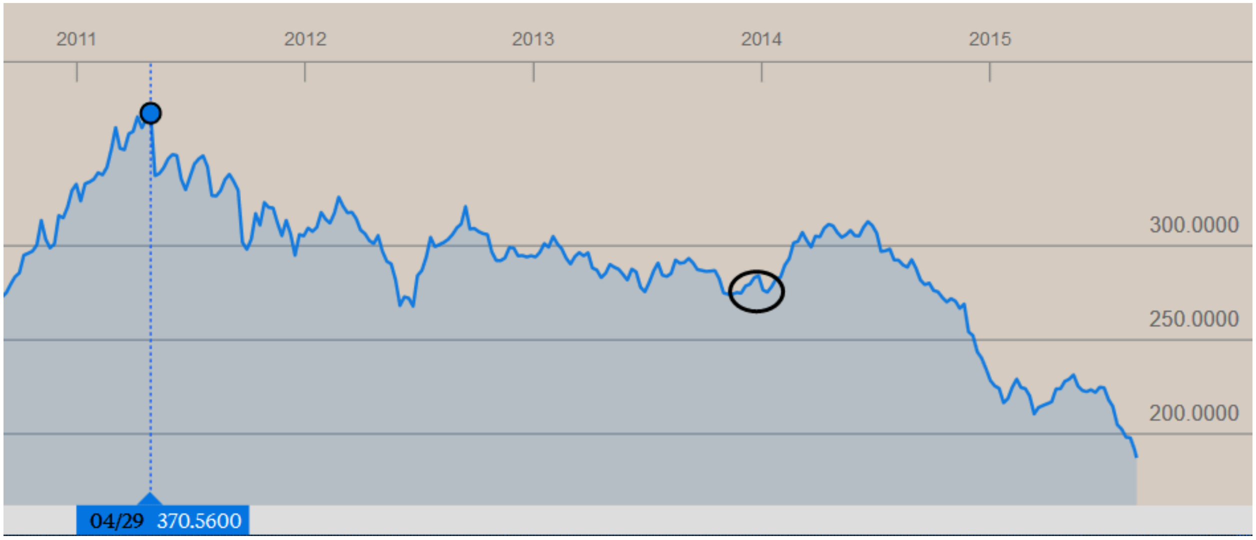
- *Prices did recover.*

- *As China's growth is showing signs of slowing, and as it tries to make its transition to consumption, commodity prices resumed its bearish trend. The index and many commodity prices are down about 50% from its peak. Most commodities are in bear markets.*

- *Commodity prices need to find a bottom and then consolidate, similar to what prices did in 2009, 2010.*

Update on Reversal of China, Commodity Trend

The Chinese transition, trend reversal continues to play itself out in 2015. Below is a current chart of the CRB



This is a different CRB index than the 2013 CRB index. The trend is the same, commodity prices have accelerated their downturn as China's economy continues to show signs of slowing.

The circled area is the end of the same time period as the 2013 CRB chart.

If the Chinese economy continues to decelerate, then the impact on commodities and resource economies, countries (Canada, Australia, Russia, Middle East, Africa, Latin America…) could cause more economic and market stress, especially those countries that have high debt.

China is now having to deal with the massive debt (282% of GDP), and their bad capital allocation decisions by its centrally planned economy. This is what normally happens at the end of a cycle, trend: too much debt and bad capital allocation decisions.

China does have about a $3 trillion foreign reserve surplus, so this could help them, but they could continue to make bad economic and capital allocation decisions.

China will continue to play a major role in the global economy, but it won't be similar to its economic boom in the first decade of the 21st century.

The question is, will this major economic trend reversal impact the U.S.? Nobody knows for sure.

The commodity crash is certainly impacting the U.S. energy, mining, natural resources industries.

Caution is suggested due to the problems in China, and the many resourced based economies around the world.

Also because this bull market and economic recovery is aging, it is best to stay short-term.

Consider investing/subscribing to our Gold and Energy Option Trader. It should be ideal for this type of trading environment. Click here to read about its excellent eight year track record and special offer.

Who knows what will be the next big economic, investment trend? You can be sure, we'll be watching for it, and helping our subscribers profit for it.

By the way, I did identify the dividend equity investment trend in 2008, 2009 with our Baby Boomer service, portfolio. It's part of our SuperStock Trader service. Click here to learn more about SuperStock Trader. This important investment trend is being driven by a hungry investors looking for income in a low interest rate environment. This investment trend has legs to continue.