



## Legendary Investor Stan Druckenmiller Is Increasing Commodity Exposure: Here's Why You Should Too

### Description

If the investing community's track record is ultimately the only thing that matters, and Stan Druckenmiller has one (since 1986, he has averaged returns of 30%) without posting a single down year (he returned 11% during the market meltdown in 2008). Druckenmiller closed down his \$12 billion fund, Duquesne Capital Management, in 2010 and currently manages his own fortune via Duquesne Family Office.

With Druckenmiller's track record, it is wise to watch his moves, and recent disclosures from Duquesne Family Office indicate that Druckenmiller has taken positions in several Canadian names, and these names are largely in the commodity space. Specifically, Druckenmiller has increased his exposure to gold, agriculture, and oil via oil services firm **Halliburton Inc.**

On the agriculture front, Druckenmiller initiated positions (about 2% of his portfolio each) in both **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **Agrium Inc.** (TSX:AGU)(NYSE:AGU). He also added exposure to other U.S.-based agriculture-based names, indicating a bullishness on the sector as a whole.

Druckenmiller also increased his exposure to gold and currently owns a fairly large position in **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX), which is his seventh-largest position (his fifth-largest position is in gold miner **Freeport-McMoRan Inc.**, which he just added).

Here's why Druckenmiller is likely bullish on these commodity sectors

### Gold

Druckenmiller fairly clearly laid out the case for gold during a presentation at the Sohn Conference in May. Citing the proliferation of negative interest rates around the world (giving gold a positive carry), as well as the fact that stocks were trading at 18 times earnings despite declining margins, productivity, and near-record levels of corporate debt, Druckenmiller stated that he sees gold as a currency and the ideal asset for the current market.

Druckenmiller's bullishness on gold is well founded. A few key factors move gold prices, but according to a recent report by **National Bank**, the two main factors are volatility and interest rates (with the U.S. dollar and inflation being the others). When volatility spikes, gold prices typically spike, and when interest rates fall, gold typically rises.

Volatility simply refers to the degree in which stock prices move, and dramatic swings imply high volatility. With the S&P 500 essentially sitting still for 40 days and volatility falling to record lows, the S&P broke the spell last Friday by plunging 2% in a day. Downward-moving markets result in higher volatility, and there seems to be more pressure to the downside than to the upside.

Currently, U.S. stocks are trading in the 84th percentile of their historical value (higher than 84% of the time), and this is despite the fact that that U.S. GDP growth estimates for 2016 are the lowest they've been since the crisis and have been revised down steadily since 2014. At the same time, S&P 500 companies are set to see their earnings decline for the fourth straight quarter.

Druckenmiller is fairly bearish on stocks and thinks a bearish turn in the market combined with low interest rates should improve gold names. Barrick is an excellent way to gain exposure, and the company is significantly de-leveraging its balance sheet with a clear plan to reduce debt from US\$9 billion currently to US\$5 billion in 2017.

## Agriculture

Druckenmiller also initiated positions in several major agriculture names—a contrarian move given the fact that mid-west potash prices are currently trading at less than half of their average between 2010 and 2014, and corn prices for August 2016 were trading at only 54% of their 2010-2014 average.

Farmer incomes are also the lowest they've been since 2009. Despite this, a growing global population and the need for more crops per acre makes this sector attractive, and both Potash Corp. and Agrium are trading at reasonable valuations compared to the overall market.

With Agrium and Potash Corp. in the midst of merger talks, both Agrium and Potash Corp. shareholders stand to benefit from a combined entity that will not only have more leverage to a recovery (with more production capacity and more ability to control costs), but also better diversification and more control over global pricing.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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