



## **GUILD INVESTMENT MANAGEMENT INC.**

### **Monty Guild's Global Market Commentary**

Written: December 27, 2007

**PLEASE ACCEPT OUR WARMEST WISHES FOR A  
HEALTHY, HAPPY AND FULFILLING 2008**

**2008 WILL BE A YEAR WHERE FOOD INFLATION  
MAKES US PROFITS**

It is not yet widely in the news in the developed world, but in the developing world and in the energy producing countries of the Mid East, Asia, and Latin America; inflation is beginning to share the headlines with news about rapid economic growth.

Most of the western economic pundits dismiss inflation as a non-problem because it is their view that inflation has been caused by higher food prices, and food prices will move lower once good weather allows more crop production, or once high prices dilute demand as has been the case in the past.

**MAY WE RESPECTFULLY SUBMIT THAT THIS IS  
NOT THE PAST**

Presently, as well as in the future, the consumers of food are and will be much richer and more interested in upgrading their diets than they have been in the past. There are also other reasons to suggest that grain prices will rise, like the

### **About the Authors**



**Monty Guild  
CEO**

Mr. Guild founded Guild Investment Management in 1971. Mr. Guild is a recognized expert in the areas of international investing and economics. He has been a writer and speaker on economic issues for 30 plus years and has been widely quoted in the world media. Mr. Guild supervises the investment and research functions at Guild Investment Management. He holds a BA in economics and an MBA with highest honors.

focus on ethanol production. However, let us just keep it simple and look at how much richer the food consumers of Asia, Russia, Eastern Europe, and Latin America are now than they were just a few short years ago. As they become richer, these consumers demand more food and more animal products, which consume a lot more grain to produce. Grain prices are certainly going to move higher over the long-term. Meat and dairy prices will rise as well.

We strongly believe that demand for food and the products used to grow food including fertilizers, machinery, transportation and processing will be profitable industries in 2008.

This is a theme that we will be participating in more in 2008. Over the past few years, we have owned these types of stocks, and done well in them but they have not been a major theme of ours. We are now initiating them as a major theme.

Some will say that the fertilizer stocks have already risen, food prices have already risen, and grain prices have risen. This is of course true, but may I ask you a question?

After Gold had already risen from \$250 an ounce, was it a bad buy at \$400/ounce? No, because it is currently at \$831. Was oil a bad purchase at \$50/barrel because it had risen from \$20? No, it is currently at about \$96.

Corn and soybeans have not risen as much as oil and gold in the last 10-11 years, but they will.

Food has always been a bigger part of the total expenditures for people in poorer countries. If they keep their food expenditures flat as a percentage of their total expenditures, their food consumption grows a lot as their incomes rise.

## **OUR THEMES FOR 2008**

We are sticking with several of our old themes and adding two new ones.



**Anthony Danaher**  
**PRESIDENT**

Anthony Danaher joined Guild in 1990. Mr. Danaher supervises the client service, accounting, and administration function. Mr. Danaher holds a BA in Business Administration, with an emphasis in accounting and an MBA.

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We have reviewed all of our themes in the context of a more inflationary environment expected in 2008.

1. Precious metals and foreign currencies remain a theme, and we continue to believe that both inflation and a weak U.S. dollar will lead to higher gold prices in the coming year.
2. Energy remains a good theme. Energy, along with precious metals, India and China has been a theme of ours for 5 years. In our opinion, the price of oil will rise more slowly in 2008 and may only get to \$115. However, if one buys the companies with the good oil discoveries and low valuations, the energy theme can still provide good returns.
3. Brazil, India and China remain good themes. We believe some stocks in these countries are currently overpriced and we will be waiting for dips to add to current positions and initiate new positions. These countries are not monolithic. They have broadly diversified economies made up of many industries. Some industries will do better than others. We generally prefer infrastructure in India, and the consumers in China and Brazil. Once these markets turn up again we could see a big rally and higher prices for many sectors of their economies.
4. Base metals may be under pressure for a few more months due to fears of demand decline as a result of the recession in the developed world. We think that demand from the developing world will create big long term demand, so we will buy them on price weakness.
5. Russia is a new theme introduced in our last memo. We are primarily interested in consumer stocks, and we will buy if a correction develops before the March 2008 election.
6. Food and farm related industries mentioned above are a new theme.

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## **IN 2008 WE SEE GROWTH FOR SOME COUNTRIES STAGFLATION FOR OTHERS**

Countries which grow slowly in inflationary times suffer from stagflation. Those that grow fast attract capital as their returns exceed the rate of inflation. India, China, Russia, and Brazil will grow faster than inflation in the long term, so we will buy them when they decline in price.

### **SUMMARY**

Our themes for 2008 are about the same with 2 new additions; Food and Farm, and Russia. But the emphasis is different; everything is being viewed in terms of oncoming inflation.

Every theme stands up well in an inflationary environment. They are either beneficiaries of inflation such as food, energy and metals, or they may be countries which produce these products mainly Brazil and Russia, or lastly they are countries which are growing very fast and can easily adapt to higher inflation because their economic growth rate is strong [China and India].

We wish all of you a wonderful New Year, and we look forward to the opportunities we will find in 2008. Please contact us with your questions and suggestions.

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