

Lowly Analyst Newsletter

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Tax Law Changes and the Market Natural Resources Funds

Tax Law Changes and the Market

On the last day of this session Congress passed tax law changes. Unfortunately IRS forms were already been printed, so it is not clear yet how to fill out the forms. The IRS will need at least 6 weeks to reprogram its systems. This will result in delays of refunds. See www.house.gov/jct, Publication JCX-50-06, *Texnical Explanation of H.R. 6408*, the Tax Relief and Health Care Act of 2006.

1.Sales Tax deduction. The current law that was slated to expire was extended through 2007. You can deduct either the state tax or the sales tax if you itemize.

2.Educator Expenses. Elementary and secondary school education professionals can deduct up to \$250 for out of pocket expenses in 2006 and 2007 even if they take the standard deduction.

3.Higher Education Expenses. Congress reinstated the deduction for qualified higher education expenses up to \$4,000 even if you take the standard deduction. The amount depends on income.

Asset Classes: For the 6 months large value up 14%, mid value 11%, small value 11%, large growth 10%, micro 9%, mid growth 8%, small growth 7%.

Sectors: For the 6 months, Real Estate up 22%, Software 18%, Telecom 16%,Tech. 15%, Utilities 14%, Financial Srv.13%, Consumer Srv. 11%, Commodities 11%, Healthcare 10%, Biotech. 9%, Gold 9%, Networking 7%, Biotech. 7% Energy 6%, Natural Rsrc. 3%, Semiconductors 5%.

Foreign Investing: For the past 6 months Peru up 71%, Columbia 69%, Poland 55%, Philippines 51%, Mexico 50%, China 49%, Indonesia 42%, India 41%, Egypt 39%, Russia 39%, Turkey 38%, World 37%, Spain 35%, Latin America 34%, Austria 32%, Brazil 31%, Chile 31%, Argentina 30, Emerging Mrk. 29%, Germany 23%, Pacific Rim 23%, Europe 21%, Developed Mkts.18%, Britain 17%, Japan 14%, Canada 11%, South Africa 20%, Saudi Arabia -35%.

Natural Resources

1. Introduction

This discussion is a continuation of examining asset classes funds . See www.CurtFey.com.

There are two reasons for holding natural resources: they are excellent diversifiers since they have a low correlation with other asset classes. The common variance (see below) is as low as 18%, lower than REITs. Secondly as developing countries become more prosperous they will buy more cars and other assets using more oil and other natural resources.

Some of the funds are load funds. Any investment advisor, such as myself, can buy funds at net asset value (without load) if they so desire and give up payments from the fund.

Below we list some of the funds. We show 1 Yr. total return (**RTRN**), 3 Yr. Volatility (**Volat**), 3 Yr. Sharp Ratio, Return/Risk (**Sharp**) RiskGrade (Short term risk),3 Yr. We also show these measures for the US total market, In addition we list common variance with US stock market, % Energy (**Enrg**), and Expense Ratio (**E/R**)

The volatility measures long term risk; RiskGrade measures short term risk. The higher these measures are, the riskier the security. The common variance measures how much a security goes up when the market goes up. A common variance of 20% indicates that 20% of the variance is correlated with the total market; 80% is not. In portfolio construction one wants a common variance of 0 or a negative correlation. This is ideal but impossible. Negative correlations between asset classes can not be found. Natural resources have as low a correlation with the market than any major asset class.

2. US Natural Resources

T Rowe Price New Era, PRNEX

	RTRN	Volat	Sharp	RiskGrade
Fund	18%	18%	1.5	84
US Total Mkt	14%	8%	1.1	42
Common Variance	30%	Enrg. 65%	E/R 0.68%	

Rydex Basic Materials Inv RYBIX

	RTRN	Volat	Sharp	RiskGrade
Fund	23%	16%	0.9	65
Common Variance	62%	Engr. 3%	E/R 1.35%	

Fidelity Select Natural Resources, FNARX

	RTRN	Volat	Sharp	RiskGrade
Fund	19%	21%	1.4	102
Common Variance	21%	Enrg. 73%	E/R 0.99%	

Jennison Natural Resource, PNRZX

	RTRN	Volat	Sharp	RiskGrade
Fund	10%	22%	1.4	85
US Total Mkt	14%	8%	1.1	42
Common Variance	21%	Enrg. 62%	E/R 0.89%	

3. Global Natural Resources Funds

Global Funds hold both US and foreign stocks.

US Global Investors Global Resources, PSPFX

	RTRN	Volat	Sharp	RiskGrade
Fund	23%	24%	1.3	101
Common Variance	20%	Enrg. 68%	E/R 0.96%	

Van Eck Global Hard Assets, GHAAAX

	RTRN	Volat	Sharp	RiskGrade
Fund	25%	20%	1.5	94
US Total Mkt	14%	8%	1.1	42
Common Variance	22%	Enrg. 52%	E/R 1.56%	

ING Global Natural Resources, LEXMX

	RTRN	Volat	Sharp	RiskGrade
Fund	24%	30%	0.5	119
Common Variance	36%	Enrg. 6%	E/R 1.56%	

Vanguard Materials ETF, VAW

	RTRN	Volat	Sharp	RiskGrade
Fund	21%	Stated March 04		80%
Common Variance		Enrg. 2%	E/R 0.25%	

Vanguard Materials Index, VMIAX

	RTRN	Volat	Sharp	RiskGrade
Fund	18%	Started Feb 04		64
Common Variance		Enrg. 2%	E/R 0.28%	

Ivy Global Natural Resources, IGVVX

	RTRN	Volat	Sharp	RiskGrade
Fund	16%	30%	.05	79
Common Variance	21%	Enrg. 73%	E/R 0.99%	

4. Energy**iShares S&P Global Energy, IXC**

	RTRN	Volat	Sharp	RiskGrade
Fund	19%	19%	1.4	85
Common Variance	19%	Enrg. 99%	E/R 0.65%	

iShares Dow Jones US Energy, IYE

	RTRN	Volat	Sharp	RiskGrade
Fund	19%	20%	1.5	102
Common Variance	18%	Enrg. 99%	E/R 0.6%	

Vanguard Energy Index, VENAX

	RTRN	Volat	Sharp	RiskGrade
Fund	16%	Started Jan.05		102
Common Variance		Enrg. 98%	E/R 0.28%	

Rydex Energy, RYEIX

	RTRN	Volat	Sharp	RiskGrade
Fund	10%	20%	1.4	104
Common Variance	21%	Enrg. 73%	E/R 0.99%	

5. Precious Metals

Precious metal funds are not recommended. They had a high 1 year return but are extremely volatile. Some have lost 80% of their value in 5 years.

US Global Investors Gold Shares, UNWPX

	RTRN	Volat	Sharp	RiskGrade
Fund	60%	34%	0.7	126
Common Variance	46%	Enrg. 1%	E/R 1.13%	

Van Eck International Investors Gold, INIVX

	RTRN	Volat	Sharp	RiskGrade
Fund	51%	32%	0.7	137
US Total Mkt	14%	8%	1.1	42
Common Variance	35%	Enrg. 0%	E/R 1.71%	

Vanguard Precious Metals and Mining, VGPMX

	RTRN	Volat	Sharp	RiskGrade
Fund	37%	34%	1.2	87
Common Variance	45%	Enrg. 10%	E/R 0.40%	

iShares Comex Gold Trust, IAU

The fund owns gold bullion.

	RTRN	Volat	Sharp	RiskGrade
Fund	23%	Started Jan. 05		84
Common Variance		Enrg. 0%	E/R 0.40%	

Precious Metals and Mining, USAG

	RTRN	Volat	Sharp	RiskGrade
Fund	40%	30%	0.7	135
Common Variance	30%	Enrg. 65%	E/R 0.68%	

Franklin Gold and Precious Metals, FKRCX

	RTRN	Volat	Sharp	RiskGrade
Fund	30%	37%	0.7	121
Common Variance	30%	Enrg. 0%	E/R 0.92%	

Evergreen Precious Metals, EKWAX

	RTRN	Volat	Sharp	RiskGrade
Fund	35%	31%	0.7	84
Common Variance	37%	Enrg. 0%	E/R 1.30%	

Tocqueville Gold, TGOLD

	RTRN	Volat	Sharp	RiskGrade
Fund	29%	29%	0.6	117
Common Variance	37%	Enrg. 3%	E/R 1.59%	

Oppenheimer Gold & Special Minerals, OPGSX

	RTRN	Volat	Sharp	RiskGrade
Fund	28%	30%	0.7	129
Common Variance	38%	Enrg. 5%	E/R 1.18%	

6. Taxable Accounts

If possible, natural resources funds should be held in tax-free or tax-deferred accounts since they are tax inefficient.