CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

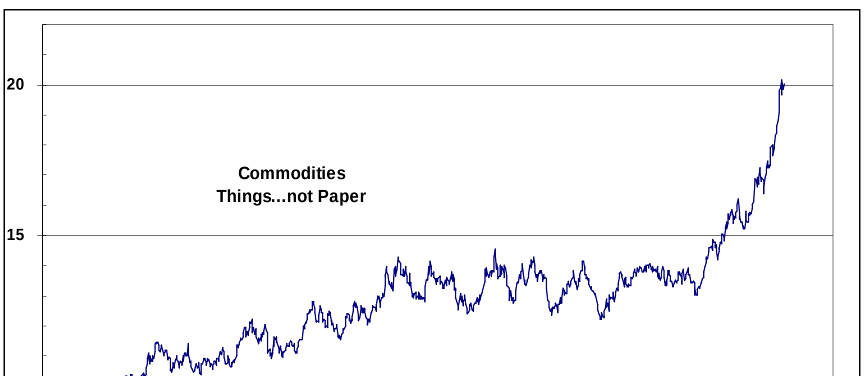
March 11, 2008

Commodities

The credit system is in disarray. Investors prefer tangible assets instead of paper assets. The dollar has continued to fall and commodities to rise.

Since last we wrote ten days ago, credit conditions have worsened, and most stock markets have fallen below their January levels, to prices not seen since 2006. The mood is worsening and fear is rising. We sold a small equity position. We also purchased a position in physical commodities. This is not new for us: in January 2004, we invested in commodities and enjoyed good results through the middle of 2007, when we sold these. In recent weeks, however, as credit markets crumbled and equity markets fell, oil, gold, agricultural products and industrial commodities rose sharply. We have also added to our positions in foreign currency money market funds with our growing level of cash reserves. The dollar has continued its unrelenting decline and our foreign currency holdings appreciate as the dollar falls.

In my letter at the end of February, I remarked on rising commodities prices in the context of a clear economic slow down in the United States. Surely demand for materials and commodities is adversely affected by the slow down here, but other factors have come into play. Here are a few:



First is the realization that increasingly urgent actions by Federal Reserve Board, designed to free up the credit markets and fight recession, have the inescapable effect of causing inflation. Although the European Central Bank, the Bank of England, and Japan's central bank have been more restrained than the Fed, there have been coordinated actions by central banks. Today's action, involving the Fed, the ECB, and the central banks of Switzerland and Canada, is not the first. It is not far-fetched to imagine the credit problems in the United States afflicting these economies. As this happens, it is quite likely that those central banks will also engage in inflationary policies to relieve the stress. In these circumstances, many will turn to things (commodities) rather than paper (money) as a store of value.

By

Jack Mayberry

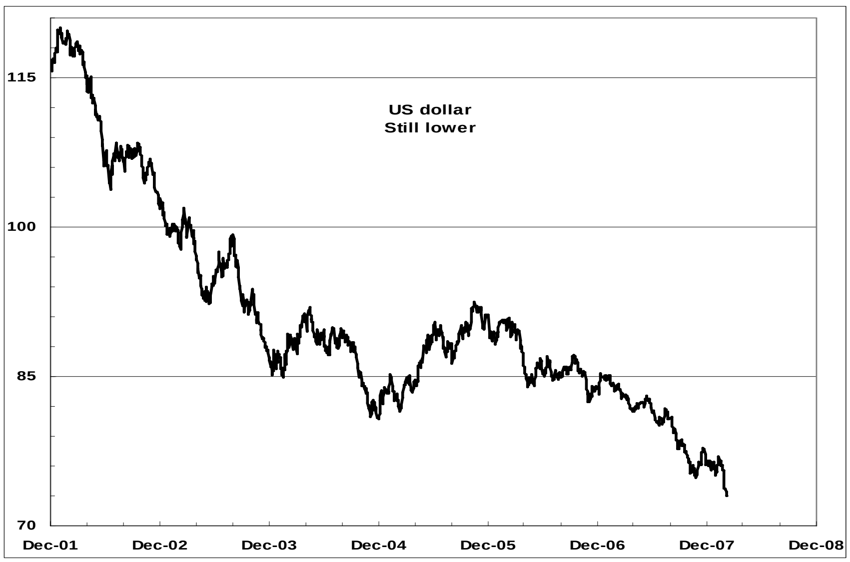
Second is the notion that rapid economic growth in Asia increases demand for commodities. We have written about this for several years and everyone knows this is occurring. To the extent that the US economic slowdown is confined to US shores--a big if--then Asian growth should continue rapidly and maintain pressure on commodity supplies and prices.

The revulsion against financial assets is temporary. While is persists, we will retain conservative structures in your portfolios.

A third matter, which is also rather well known, concerns the unintended consequences of US policy to increase the use of ethanol in gasoline. Ethanol in the United States is a corn product--in Brazil it is produced from sugar. As demand for ethanol has grown, in part because of government policies encouraging its use, corn production has increased. Farmlands previously used for grains and soybeans have been given over to corn production. Meanwhile, as the ranks of the middle class increase in Asia, demand for meat in human diets has increased and with it, demand for those agricultural products that are under pressure from corn production. Prices of agricultural commodities have risen sharply in the last couple of years, in part because of these dynamics.

Past performance is not a guarantee of future returns.

For the time being, as this credit crisis continues to unfold, the likelihood of continued falls of the dollar and continued commodity price increases is quite high. We will build our non-dollar money market positions, lessen our exposure to equities, avoid the perilous credit markets, and seek opportunity in 'things' instead of 'paper.'



When this episode of falling home prices and frozen credit markets comes to an end, there will be exceptional values in 'paper.' Bargains in stocks and bonds will abound. We have plenty of ammunition, in the form of US and non-dollar cash reserves, and will be able to invest in these opportunities. The present environment is grim, but it will not last.

Conference call. We plan to set up periodic conference calls, open to Core's clients, as another way to stay in touch. We might set up calls every couple of weeks, at least while the markets are as lively as they have been. If you are interested in joining one or more of these calls, please contact Margo Leardini at 415 332 2000 or mleardini@coreasset.com, and we will arrange the first call. Of course, you are more than welcome to call or email me whenever you wish. No need to wait for our new-fangled conference call.

Each year Core Asset Management files with the SEC a form ADV with information about our company. If you would like a copy of Part II of Form ADV, please contact us.

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