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Coffee Anyone?

I read an article recently talking about the relationship between certain stocks and commodity prices. There is nothing really new here on the surface, coffee company stocks fall when the price of coffee beans increase, automobile stocks rise when the cost of steel drops. What got me thinking though is how much stocks are beginning to look and feel like commodities.

The commodities markets began many years ago as a way for farmers to ensure that crops in the ground would have value many months ahead. The farmer could "sell forward" his crop at a determined price and deliver the crop for that price months later. This contract reduced the price risk for both the farmer and the end user of the crop. Since its beginning though, the commodities markets have been a place of raw speculation for some. Most who trade commodities have no intention of taking delivery on a contract for crude oil or soybeans. These folks are merely along for the ride hoping that Juan Valdez either strokes out or produces a bumper crop, depending on which side of the contract they're on.

Up until recently, stock ownership meant just that – ownership. Owning a company meant doing research. What were its long-term prospects? What competitive advantages does it possess? What are the barriers to entry for new companies? What kind of profit will it generate? It is apparent that very little of this analysis is going on these days. How else can you explain Yahoo, a "real" internet company, that last week reported better than expected earnings for the quarter, only to see its stock drop by seven percent the same day. 3Com spun off the wildly successful Palm unit in the first quarter and watched as Palm stock hit $160 on the first day of trading only to settle back into the low 40's since then. What is particularly puzzling is that 3Com, a successful company in its own right, <u>still owns 94% of Palm</u> and for quite a while Palm stock was trading at prices higher than 3Com – huh?

What does all this mean? It means that the no money down real estate infomercial pitchmen are all but out of business. Folks who had been eagerly charging 6 easy payments of $29.95 are now *trading* stocks. Forget company and industry fundamentals, momentum is the new mantra. Get on when its hot, get off when its not. Most often though jumping out is deceptively difficult. Remember, someone <u>bought</u> shares of Palm at $160 (currently $41) and Yahoo at $250 (currently $148) within the past 90 days. In this environment, stocks drop much faster than they rise.

The stock market has become and will continue to be a place for raw speculation (Vegas without the umbrella drink). This speculation fueled by borrowed money (stock margin debt is at an all time high) will exacerbate price swings. This does not, however, mean its time to head for the sidelines. Markets like these create opportunities for *investors* who are patient, do their homework, and keep their coffee in a cup where it belongs.