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The Goldman Guide

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Buy Facebook

Everything is Just Corny

I try to keep the topics in *The Goldman Guide* exclusively business/ market related and stay away from topics for fear of alienating you, the subscriber. Aw hell, who am I kidding? I like to stir the pot.

Truth be told, we stick to equities in these pages, but I have to weigh in on the corn situation. Unless you have been wholly unaware of your surroundings, the Midwest has undergone what is being called the worst drought in 50 years. As a result, we are already seeing higher prices in corn, soybean, and price increases from 50-200% in a number of fruits and vegetables.

The dire situation prompted the USDA to reduce its corn forecast for the year on Friday by 13% which drove its forecast for a bushel of corn to $8.90, which is a 39% increase from a month ago. The bottom line is that this is the lowest-yielding crop since 2006, even though the acreage planted with corn is the highest since 1937.

Still, there are hidden stories here. Corn is damn important. It not only feeds us via foods but is a primary feedstock for livestock. Moreover, due to the Federal Renewable Fuels Standard, 13.2 billion gallons of ethanol will be blended with gasoline in the U.S. this year. To put this in perspective, that figure is greater than corn consumed by livestock. Hence, the drought/price hike panic.

When the USDA forecast news came out on Friday, corn futures sky-rocketed—again, hitting another new 52-week high. Yet, the futures price was down for the day. Why the disconnect? (cont'd)

Key Takeaways

- ⇒ Corn prices have skyrocketed
- ⇒ Monitor the way politicians play with prices
- ⇒ Consider buying CORN ETF
- ⇒ Midwest growing in importance
- ⇒ Love this market.
- ⇒ Buy Facebook?

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Everything is Just Corny (cont'd)

For starters, due to this ethanol fuel mandate, the price of corn has been artificially high in recent years. How do we know this? Export demand for our corn has been on the decline. The power of the Federal mandate can be seen in the futures pricing on Friday. The September corn futures hit a new high on the USDA news which sent everyone into a tizzy. But, it closed *down* after the White House suggested (gasp!) that it would consider temporarily suspending the mandate to reduce the big jump in corn that was bound to affect consumer and wholesale spending. After all, the high cost of the feedstock will prompt not just higher agriculture prices, but lower amounts of beef and chicken on shelves, driving prices higher.

This is a real, politically charged issue and one that needs to be addressed. Midwestern states do carry important votes so while suspending the mandate would make the rest of the country happy (from the financial perspective) it could influence the Midwest as well.

Our take? Normally we would scream buy the corn ETF, which is appropriately symbolled CORN, but it is only up 13% in the past month versus the futures' 39% rise. It might not be a bad idea to have exposure here as it is really unlikely that the Obama Administration will pull the trigger. Don't expect to make a fortune, but you too can feed well off corn. Just don't be a pig.

The market is up for 5 weeks in a row, with this the last week for most earnings reports, but we will probably see a decline this week or next week, as volumes hit their usual August volume swoon. Do NOT let it deter you. Things are looking great technically.

I never thought I would say this, but this week may be the time to buy Facebook (NASDAQ—FB—$21.81). The investor share lockup for key investors ends on August 16th, and there has been a suspicion that wholesale selling might occur. At the least, the public float will substantially increase. Nonetheless, it does not appear that major holders such as Microsoft (NASDAQ—MSFT) and Goldman Sachs (NYSE—GS) will sell stock. Moreover, Netflix (NASDAQ—NFLX) CEO and FB board member bought $1M worth of FB last week. If it drops, take a flyer and be a buyer.

Until next week...

Key Statistics

Index	Close	YTD
DJIA	13208	8.1%
S&P 500	1406	11.8%
NASDAQ	3021	16.0%
Russell 2K	802	8.2%

(figures are rounded)

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