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Investors Watch Weather

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More than we may realize depends on which way the weather goes.

The United Nations' Agricultural Index of World Food Prices rose 32% in the second half of 2010, an all-time high, eclipsing the peak in 2008, which corresponded to food riots in dozens of countries.

Chronic water shortages, coupled with Russia's heat wave (shrinking the grain crop) and lower yields in other countries, are affecting crop prices. Floods of biblical proportions in Australia, massive mudslides in Brazil, and flooding in Venezuela left more than 100,000 people homeless.

One of the current risks is budding inflation, especially in the food sector. If South American crops do not come in as expected, food prices could accelerate again. Argentina has sweltered under 90 to 105 degree temperatures in recent weeks, making it difficult for farmers to plant a second soybean crop. Parts of Brazil already have declared a farming state of emergency.

Australia is also an important exporter of food, particularly grain. Record flooding has devastated the hard red winter wheat crop in southern Queensland. All this seems to point to a continuing inflation problem especially for emerging markets that import food.

And, what does it mean for investors? Russian heat affects wheat prices, and Australian floods interfere with both mining and crops.

This pattern of weather extremes is exactly what some in the scientific establishment predicted. A pre-eminent climatologist, Evelyn Browning Garriss, writes a monthly newsletter on the significant effects of Earth's climate on social and economic patterns. She said, "It's February, the month when Americans like to sit back, eat pizza, and watch an epic conflict. For most people, that means Superbowl Sunday football parties. For weather geeks, it's watching the La Niña and the Arctic Oscillation struggle for the control of North American water. As large as the Cowboys' stadium is, the arena for the weather battle is much greater and will produce a lot more losers. Just ask New York City, which has had the snowiest January since record-keeping began."

“Don't let the name La Niña (Spanish for "little girl") deceive you,” says Garriss. This powerful event cools several million square miles of the ocean. The impact spreads beyond the waters of the Pacific Basin, cooling the air above them. This alters the atmospheric pressure and changes wind patterns. A phenomenon this huge affects world and weather patterns all over the globe. In summary, Garriss believes the unusually strong La Niña and the extremely negative Arctic Oscillation have combined to create stormy, cold, mid-winter weather. They should continue through springtime, creating a cold, late winter and spring in North America.

Indeed, according to NASA's award-winning climatologist Bill Patzert, “This La Niña has strengthened for the past seven months, and is one of the most intense events of the past half century.”

It is important to consider the potential consequence of a La Niña spring and its potential impact on planting, livestock, and food consumption.

More than we may realize depends on which way the weather blows.

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