

Press Release



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Analyzing Inventory Patterns and Actively Controlling Risk Can Help Enhance Returns From Commodities, According to Mellon Capital Management

BNY Mellon Investment Boutique Sees Benefits of Diversification, Inflation Hedging

SAN FRANCISCO, April 12, 2010 -- Analyzing inventory patterns and actively controlling risk can help enhance returns for commodities investors, according to a recent white paper by Mellon Capital Management Corporation. The analysis also concluded that commodities can act as a hedge against inflation and provide diversification in a properly designed strategy for those investing in traditional securities portfolios such as stocks and bonds.

“We believe active investors can improve portfolio performance by taking advantage of the factors affecting commodity prices, such as the length of time required for producers and consumers to react to and correct physical inventory shortages,” said Kenton K. Yee PhD, senior research analyst, Mellon Capital. “In addition, investors potentially can benefit by trading in the same markets as participants who have goals other than profit maximization. This could include merchants seeking to hedge operating and inventory risks.”

Analyzing fundamental characteristics of each commodity, such as inventory patterns, within a disciplined economics framework is a key ingredient of Mellon Capital’s approach. This approach contrasts against commodity trading advisors that employ technically oriented strategies based on momentum, Yee added. The Mellon Capital approach assigns attractiveness scores based on fundamental economic analysis of each commodity. The approach builds diversified portfolios from the bottom up after taking into account factors such as inventory shortages, hedging pressure, speculative money flows, price trends, and the shapes and dynamics of futures curves.

To reduce trading costs and control risks, Mellon Capital’s framework also emphasizes diversification across a broad basket of commodity futures. Mellon Capital’s strategy seeks to avoid the most popularly traded future contracts, which often are overbought by indexers and speculators.

Yee noted that drawbacks to commodity investing historically have included sharp and prolonged downturns. He said, “Commodities can be highly volatile, and traditional long-only passive investing in the asset class over time has produced poor risk-adjusted returns for many investors, even as recently as 2008. Mellon Capital has developed an approach designed to mitigate volatility and potentially enhance returns without surrendering the appealing features of this asset class – diversification and inflation hedging – that attract investors in the first place.”

Further details of the analysis can be found in a white paper now available at bnymellonam.com:

<http://us.bnymellonam.com/core/library/documents/knowledge/AlphaTrends/CommoditiesMCM.pdf>

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Notes to Editors:

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