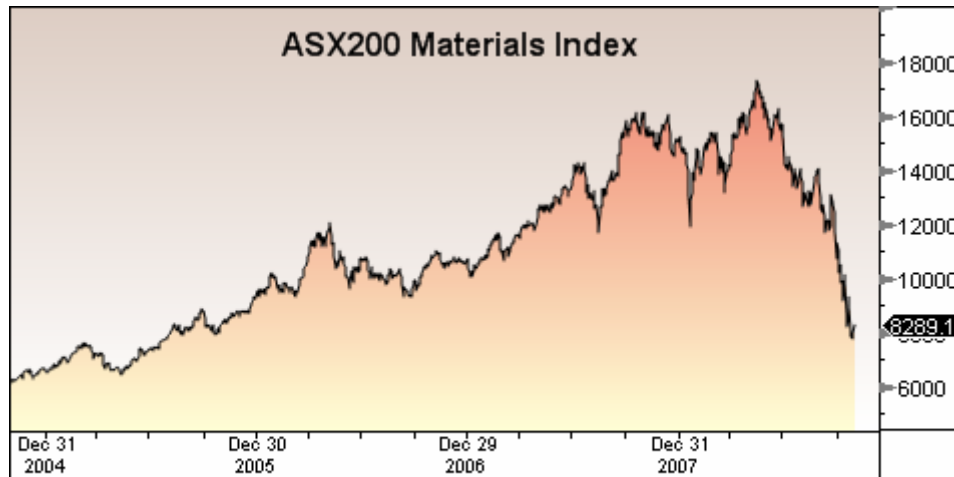




The Resources boom - done and dusted?

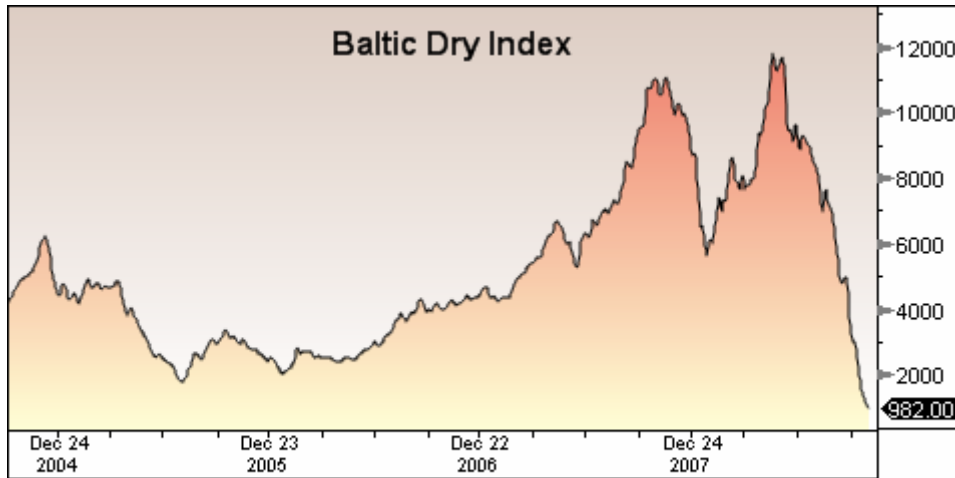
The resources sector has been sold down heavily, with sector flagships BHP Billiton (BHP) and Rio Tinto (RIO) dropping by more than 50% from their recent record highs. Even Fortescue Metals (FMG) and Incitec Pivot (IPL), which had attained 'darling' status because of their strong gains in recent years have not been immune, falling 80% and 67% respectively.



The rout in resources is reflected in the 50% fall in the Materials Index.
Source: wise-owl.com, Bloomberg.

Dealt the hardest blows have been the smaller resource companies, with many falling 90% from their all-time highs. Examples of companies in the sector trading below their per share cash backing are not uncommon. In light of this pillaging, investors must be concerned about whether the much vaunted resources boom could be "all over, red rover".

The fundamentals driving the sector have deteriorated sharply as shown in recent movements in the Baltic Dry Index (BDI). The BDI is a daily average of prices to ship raw materials. The index represents the cost paid by an end user to have a shipping company transport raw materials. It offers a real time glimpse at global raw material and infrastructure demand. In effect, the higher the BDI the better the prospects for resource companies, as underlying commodity prices often rise in correlation with this measure (as an input cost). From the graph below, it can be seen that the index has embarked on a significant downtrend and is now scraping levels not seen since mid 2005.



The Baltic Dry index shows that the cost of shipping 'bulk' commodities has dropped dramatically, and is a sign of falling demand. Source: wise-owl.com, Bloomberg.

So just how should these developments be interpreted - is it time to go bargain hunting or should investors steer clear of an industry that is looking bruised and battered?

Do potential value opportunities lie in a sector already down 50% from its highs?

What about those speculative stocks you're still holding? Down 90% from their highs, is there any point selling now?

On the other hand, will they ever bounce back?

Stay informed. Get a 'bird's eye view' of the market.