In the early years of the new millennium, investors largely ignored the possibility of investing in commodities, probably due to their moderate past performance and discouragingly high volatility. Today, this situation has changed drastically, and commodities are attracting a great deal of attention from private and institutional investors as well as from researchers. In a low interest rate environment, the strong performance of commodity investments over the last couple of years and the potential diversification benefits (due to the low correlation with more traditional asset classes such as stocks or bonds) are the main drivers behind their success. Even though the market is potentially profitable, it remains dominated by large price swings, and it is crucial to understand the underlying fundamentals to invest appropriately and steer clear of potential pitfalls. To this end, *The Handbook of Commodity Investing* brings together people with expert knowledge in the field and provides an overview of the basics and foundations of commodity investing.

The book is divided into seven parts, with each part subdivided into several chapters, for a total of 34 chapters. Part 1 introduces the reader to the mechanics of the commodity markets and provides insight into market participants, commodity sectors, return components, and risks. Differences between commodities and other investments are highlighted, and risk and performance characteristics are discussed. Part 2 deals with performance measurement issues that arise with commodities, namely, how to compare the performance of different commodity investments among themselves and to benchmarks (indices). In view of the remarkable volatility of commodity returns, Part 3 on risk management covers one of the key aspects for investors. With a focus on practical questions, this part aims at quantifying and managing the
various forms of risk involved in commodity investing, starting with qualitative ques-
tions and moving toward the more quantitatively-oriented tasks of risk management.
In Part 4, which is devoted to asset allocation, the question of how to create a portfo-
lio and derive trading strategies is addressed. Active and passive ways of investing in
commodities and the respective portfolio implications are treated, both for standard
investors and for investors that have considerable liabilities, such as retirement and
savings schemes. An overview of the range of products available in the commodity
markets is presented in Part 5, and essential characteristics of standard products as
well as derivatives and energy hedge funds are detailed, with one chapter devoted
to the pricing and securitization of commodity price risk. Several special classes of
commodities are investigated in Part 6. After a systematic classification of all com-
modities, a single chapter each is devoted to silver, soft metals, electricity, natural
gas, emissions trading, and sugar. In view of the recent developments on the gold
market, it is particularly appropriate that gold has two chapters devoted to it; one on
gold as an investment asset on its own and one on gold as an investment asset in a
portfolio context. Finally, Part 7 on technical analysis provides an overview of the
potential profit an investor can make when applying technical trading rules.

What is most appealing about the book is that the content adheres to the title: the
editors have prepared a handbook on commodity investing, not on commodities in
general. Even though the beginning chapters explain the necessary theoretical aspects
with which an investor needs to be familiar, special care is devoted to topics related to
the actual investing in commodities, especially in the excellent parts on products, as-
set allocation, and special classes. Along with being useful to academic researchers,
the book is also well-suited for practitioners without much prior exposure to alter-
native investments who are considering investing in commodities, since even in the
more academically-oriented chapters, results and intuition are emphasized in favor of
mathematical and econometrical details. Due to its very nature as a handbook, some
concepts and ideas are treated several times in various places, for instance, the con-
cepts of contango and backwardation or the papers by Erb and Harvey (2006) and
Gorton and Rouwenhorst (2006). However, this is not a failing, and instead, actually
a benefit, as it makes it possible to read and understand a single chapter of particular
interest without having to read the entire book, a good thing, since the book itself
consists of nearly 1,000 pages.

To go from grasping the fundamentals of commodity investing to being able to
successfully incorporate commodities in a portfolio is not an easy journey. This very
accessible book will undoubtedly be of great help on this challenging road and an
indispensable source of knowledge for investors considering allocating some of their
capital in commodities.

References

(2006)
(2006)