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Commodities as an Asset Class

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Propositions

belonging to the PhD thesis

Commodities as an Asset Class

by Meng Han

1. The payoff of a commodity as an asset class, the net convenience yield, is latent and might be positive or negative, which makes commodities distinct from other asset classes (This thesis).
2. The net convenience yield implicitly measures the net economic benefit of physically holding a commodity and therefore should be included into the commodity return definition in order to make economic sense (This thesis).
3. Different from the pervasive pattern of prices forecasting future discount rates in various other asset markets, e.g., stocks, bonds, and housing, commodity prices have a much bigger role in forecasting future cash flows (the net convenience yields), making commodities much closer to the classical textbook view of price changes representing news about cash flows (Chapter 2).
4. The price of a commodity (e.g., crude oil) now is high because investors expect a low discount rate as well as a high future payoff for this commodity (Chapter 2).
5. The cross-sectional variation in commodity returns can be explained by common asset pricing and commodity-specific risk factors, such as the value factor, commodity momentum factor, and yield factor (Chapter 3).
6. The ability of the successful risk factors to explain the cross-section of individual commodity returns stems from the return accrued to the percentage yield, while the ability of those risk factors to explain the cross-section of portfolio returns results from both capital gains and percentage yields (Chapter 3).
7. Different from the well accepted momentum and reversal effects in equity markets, the momentum and reversal pattern in commodity markets is a momentum effect first, followed by a reversal effect, and then a momentum effect again (Chapter 4).

8. The distinct momentum and reversal pattern in commodity markets can be jointly explained by traditional asset pricing factors, e.g., the size, value and equity momentum factors, in combination with a yield factor related to the net convenience yield (Chapter 4).
9. Do not regret for wasted time, because learning is like climbing a mountain: you can see the fastest way to get to the top only after you arrive at the top.
10. Be patient in research. You might think you started with a simple idea, but it often turns out to be much more complicated in the end.