



Diamond Foods May See Boost From Drought

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BY ALAN R. ELLIOTT INVESTOR'S BUSINESS DAILY

A global recession may become the lesser challenge for farmers in California this year.

The state's drought worsened with a lack of rain in January, leading officials to warn farmers of further cutbacks in water allotments.

Agricultural economist Richard Davis with the University of California at Davis sees as much as half the Central Valley's 600,000 acres of farmland idled, with a possible \$1.5 billion drop in revenue and 40,000 jobs lost.

California is, by a wide margin, the largest U.S. producer of agricultural goods. Smaller crops mean higher prices for everything from cotton and wheat to tomatoes and walnuts.

But what could be a backbreaking loss for many farmers may spell opportunity for others.

The Food-Miscellaneous Preparation industry group, ranked No. 20 in Wednesday's IBD, is home to several possibilities. One of the group's leaders, Diamond Foods DMND, has advanced for six straight weeks.

Diamond processes, packages, markets and distributes various nuts and grains for food ingredients and snack foods.

It buys only almonds grown in the U.S., and takes all of its walnuts specifically from California. The state's drought is likely to take a big bite out of California's walnut and almond crops, driving prices higher throughout 2009.

Shawn Hackett, president of Florida-based commodities specialists Hackett Financial Advisors, said crop shortages allow processors and distributors such as Diamond to not only pass on the higher costs but also increase margins.

"If they play the market right, with that kind of scarcity, they tend to do pretty well," he said.