

MAAP April Review

May 3, 2010

During April MAAP had positive returns as five of six asset groups contributed to the gain. Long positions in grains, which had created losses earlier in the year, contributed the most, and were followed closely by long positions in metals. The third sector contributing to gains were the stock index futures where we reversed positions late in the month. Throughout most of April MAAP had long positions in the S&P 500 and Nikkei 225. In the last week of April the long positions were closed and the fund purchased puts on the S&P 500 and then sold short a partial position in the index. Small gains were also achieved in the long positions in energy and in three currencies. Rounding out the six asset classes, the short position in U.S. Treasury bonds had a small loss in April. The systematic risk process for the commodity sectors remains in effect, thereby keeping long commodity positions at or below 50 percent of maximum. The risk point system, while showing improvement, remains below the level that would allow maximum leverage.

Since the beginning of 2010 most markets have been in a moderate corrective phase, digesting the gains of 2009. While the U.S. stock market has recently reached a new recovery high, many equity groups within the U.S. market, several foreign markets (most notably China) and many commodity sectors have been following erratic sideways patterns. It continues to be our conclusion that this corrective pattern is a pause in an ongoing secular bull market in commodities and a cyclical recovery in the U.S. equity market. However recent euphoric technical readings in the equity market have led us to take a short-term bearish stance on the U.S. stock market.

Also of concern to us on a short-term basis is the potential impact on markets from the Chinese government steps to rein in excessive housing speculation. The speculative excesses in China are those of a rapidly growing developing nation, unlike the recent speculative excesses in the U.S. housing market. For this, and other reasons, we do not view their situation as serious as that which occurred in the U.S. Although they are attempting to target a specific economic sector, it is likely to have temporary repercussions of a more general nature. Tighter restrictions on housing finance can have temporary unintended consequences on other sectors. However, we view any risks as temporary in an ongoing global economic expansion, led by the demands of the growing middle class of the developing world.

On a longer-term basis the expectation that the Chinese will once again allow the yuan to appreciate against the dollar will add further strength to commodity prices. Consumers of a country with an appreciating currency gain spending power in their purchase of foreign goods. As China is the fastest growing major economy and the largest importer of most basic commodities, an appreciating yuan will be a major driving force in commodity prices. Given that most major commodities will face increasing supply shortages in the years ahead, this should further support the continuation of the secular bull market for commodities.

Although Greece and the euro currency block have been garnering headlines, we fully expect that attention will once again return to the U.S. Federal and state deficits. While Greece is a small problem, it points out the eventual limitation to indefinite government deficits. If concerns about U.S. finances develop it is likely to increase interest in gold and other alternatives to the U.S. dollar. Therefore, MAAP with its multiple asset exposure is uniquely positioned to benefit from numerous investment opportunities.