

MAAP August Review

September 1, 2011

MAAP's returns were positive in August as three of the six asset groups contributed to MAAP's gain. In order of contribution, were long positions in the grains, followed by long metals positions, and the short position in the S&P 500 which was closed out August 8th. Losses were incurred in long positions in energy, the long position in Australian and Canadian dollars, and a small loss from the short position in the U.S. Treasury bonds, which was closed out August 1st.

August was a very challenging month as several headwinds hit financial markets. In Europe financial contagion spread to Italian and Spanish bonds while rumors surfaced about the health of European banks. In the U.S. fears of a double dip recession surfaced and the Federal Reserve appears partially paralyzed by division over policy. In spite of all this, markets from equities, to foreign currencies, to commodities of various types appeared to experience selling climax conditions during the week of August 8th. The extreme bearishness led AIS to cover the short position in the S&P 500 on Monday August 8th. On Tuesday August 9th following the Federal Reserve meeting announcement, markets turned upward and lows have not been breached since that time.

Expectations remain that the Federal Reserve will announce further easing policies following their September meeting. There is insufficient space in this summary to debate policy correctness. However, we do expect expediency to rule and for further monetary easing to occur before yearend. Whether this occurs or whether it has the desired effects on the productive economy and employment is unknown. However, such policy initiatives would likely further weaken the dollar, and provide further strength to commodity markets. It is also interesting to note that industrial commodity prices have been strengthening in spite of evidence of economic weakness in the developed countries. This may be due to anticipation of further monetary easing or to a real pickup in demand in the developing countries.

As one analyzes supply and demand of commodities it is important to recognize that two simultaneous economic tracks are at work. While sluggish growth dominates the developed world, the developing world continues to grow at an impressive pace, even though their exports to the developed world are slow.

Another trend at work is the renewed role of gold as an alternative store of value. While we do not expect gold to return to a central part of countries' monetary systems, it is the only marketable asset owned by many countries with significant external debt. In the past four decades, foreign held debt of many countries and currency reserves of many countries have grown at double digit rates, while new gold produced has only increased at less than two percent a year. The world now appears to be in a phase where gold prices are in a significant revaluation to adjust for its scarcity in the face of excessive fiat currency and debt expansion. On the basis of past excessive debt and currency expansion, the price of gold may rise considerably higher in the next several years to reestablish old price relationships.