



MAAP February Review

March 4, 2009

Although returns were down for February, the MAAP portfolio value continues to be above the lows reached in the first week of December. Individual commodity and currency markets traded in MAAP made their lows from late October through late December. This strongly suggests that a base is being completed. The most frustrating time for investors (and for this portfolio manager) can be the late stages of an important base building period. We believe very strongly that commodities are forming important bases. Significant positive divergences have been taking place as several popular indexes have made new lows in early 2009, while most commodities and many individual equities made their lows in late 2008. This type of divergence often occurs at important turning points.

It is our conclusion that markets began the base building process in late October. Gold, silver, and most currencies made their lows around October 27th. While gold and silver have rallied by respectable amounts from those lows, most currencies have backed and filled and have essentially gone sideways for the past 20 weeks. Grains made preliminary lows in mid-October and final lows on December 5th. Since that time they rallied into the first week of January and then have drifted lethargically down for the past eight weeks, holding above the important December 5th lows. Most energy markets and copper made their lows on December 24th. They also rallied into the first week of January and have then drifted down and sideways while also holding above their late December lows. Recent strength in copper, a key industrial metal, gasoline, and oil is especially encouraging suggesting that the current supply/demand balance is improving.

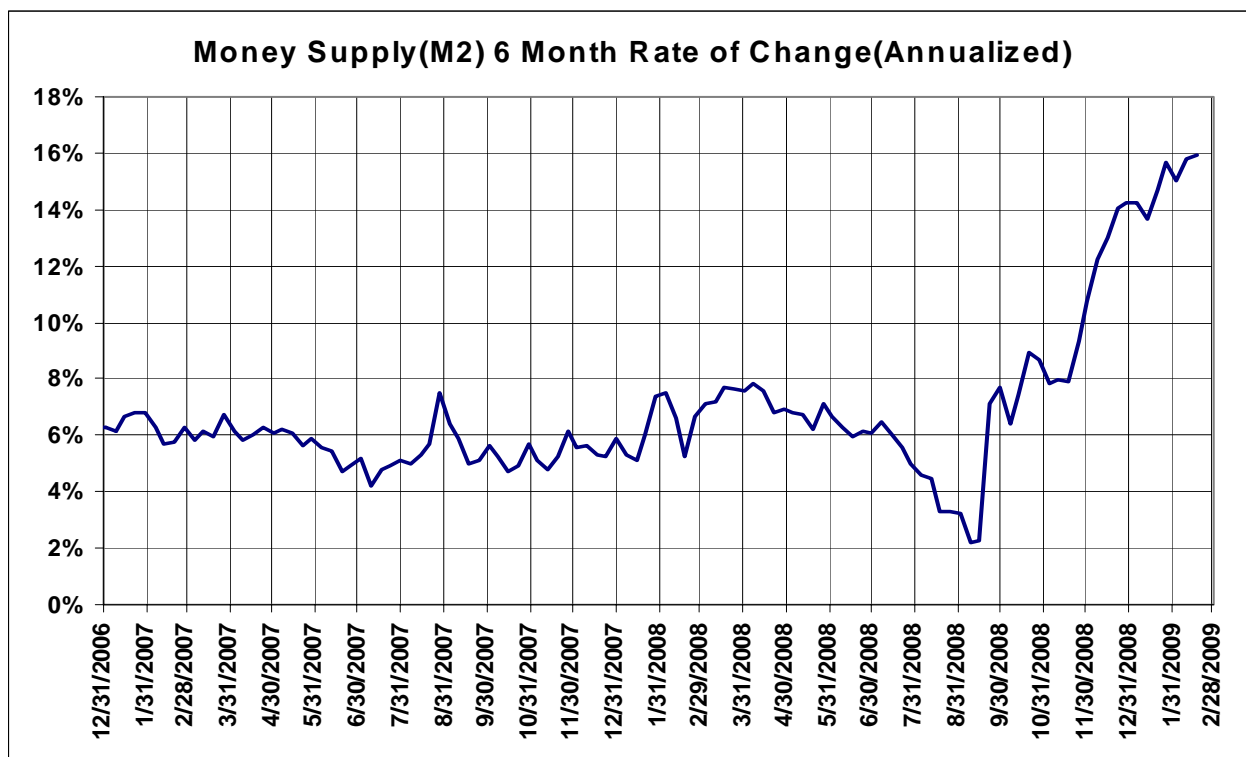
Our conclusion that the current trading ranges in individual commodity markets are part of an important base building process is based on global developments, not just U.S. domestic considerations. First, commodities represent the most undervalued investment class available to investors. Second, demand growth during this decade has been driven by the entrepreneurial phenomenon unleashed in much of the developing world. While we recognize that strength in these countries has been dependent on exports to the currently economically depressed developed world, many of these developing economies have now reached a stage where growing domestic demand is becoming more important, as is trade among the developing countries. Furthermore, countries such as China have significant financial strength, due to their huge foreign currency reserves and the high domestic savings rates. They are in a position to induce domestic stimulus without being dependent on skittish foreign investment flows. Third, the commodity bull cycle from 2002 through 2008 did not last long enough to enable significant new supplies to be brought into production. Typically it requires 10 to 12 years from discovery to major new production. Fourth, the future supply of many key commodities (e.g. oil and grains due to water scarcity), appears to be limited, regardless of price levels. Fifth, the price declines and financial squeeze in the second half of 2008 have taken a significant toll on planned expansion developments of known commodity deposits. In many markets it will take prices twice current levels to encourage reconsideration of postponed development plans. In summary, it will take a very short time period of restored economic growth before the current supply excesses will be absorbed and renewed shortages develop.

In the U.S. we are witnessing the evolution to a new financial era similar to August of 1971, when the dollar's gold backing was removed. The moves by the Federal Reserve to a zero interest rate policy combined with quantitative easing programs and the Federal government's massive spending programs are ushering us into new, uncharted waters. These programs increase the probability that the U.S. economy will begin to witness positive GDP numbers by the third quarter of this year. However, they also have the potential to distort capital flows, and increase the possibility of rapidly rising inflation within a few years. Although policy makers recognize these facts, circumstances, such

as sluggish economic growth and unacceptably high unemployment in 2010 may make it politically impossible to rein in the current excessive monetary stimulation.

The chart accompanying this commentary is one that reinforces our belief that commodities are forming important bases. It is a chart of the six month rate of change of money supply growth. In the past 28 years there is only one other time when growth slightly exceeded the current rate and that was 1982 when the country was emerging from another severe recession. Given that the inflation rate was higher in 1982, the current rate of real money growth exceeds the previous peak in 1982. There is a natural progression, with time lags, from Federal Reserve credit easing moves, to money supply growth, and then to economic expansion. We are still in that period when the propensity to hoard cash and save versus spend is predominant. However, this attitude has always shifted to a more aggressive posture as cash balances build, confidence returns, and bargains in both consumer items and investments draw buyers back in. While there is always the fear that this time is different, in many respects, the current recession is not as serious as that of 1973-74 or 1980-82. Furthermore, while the economy is more leveraged than in those previous periods, the monetary and fiscal response at the present time far exceeds those previous periods. So while we do not expect strong domestic economic growth, the excess money creation will stabilize the most serious sectors of the economy, while also directing money flows to the areas of relative scarcity, such as gold and key commodities.

Further evidence of the potential for higher commodity prices is China's aggressive program to invest in foreign commodity producers and loan funds to secure long-term supplies of energy and other key commodities. They not only recognize their need for additional supplies but are in the unique financial position to lend and invest at a time of depressed prices and when private producers are severely stretched financially. Although commodity prices have suffered a severe correction, we continue to believe that it is equivalent to the stock market decline in 1987, that proved to be an interruption prior to many years of significantly higher stock prices. Likewise we expect a strong increase in commodity prices in the next several years accompanied by a weaker dollar.



Past results are not necessarily indicative of future performance. Actual trading for 3X-6X commenced on 7/8/92 and 2X-4X commenced on 10/15/92. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. For a complete disclosure document of AIS Futures Management LLC's MAAP Program, contact AIS Futures Management LLC, 187 Danbury Rd. Wilton, CT 06897 (203) 563-1180.