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MAAP July Review August 2, 2010

MAAP achieved strong returns in July led by the grains, but also included profits from currency, stock index, and energy positions. Only metals produced a small loss for the month.

In the past four weeks an interesting dichotomy has emerged. Commodity prices have strengthened, just as the chorus has become louder from those forecasting a severe economic slowdown or double dip recession. Commodity prices have been in a mild correction for six months and therefore may have already discounted any economic softness. Current commodity strength may be a reflection of rising demand in other parts of the global economy, such as the developing world. One of the challenges facing U.S. investors is to become less U.S. centric. Just as European investors over the past century had to adjust to the fact that global growth leadership had shifted to the U.S., now U.S. investors need to recognize that growth leadership has shifted to China and the other developing world economies. As we have stated in the past, the developing world is the engine of growth in this cycle and the developed world is the caboose. According to the U.S. Commerce Dept. half of current U.S. growth is from exports and 40 percent of our exports are to the developing world and this number is expected to increase over time.

The developing world is where the majority of incremental demand growth for most basic commodities is emanating from. Recent price strength suggests demand is picking up globally. This renewed strength may represent the commencement of a new intermediate advance in the ongoing commodity bull market. Moderate further strength should trigger our systematic leverage risk system back to a green light for full leverage in the commodity sectors once again.

In addition to strength in industrial commodities, the recent severe heat wave in Russia has altered potential supply conditions in the international grain markets. For over a decade the world has benefited from exceptional growing conditions, with only mild problems. This has been an unusually long stretch of ideal growing conditions which has allowed supply to keep up with strong demand growth from the developing world's middle class. Only the recent recession has curbed demand growth as meat consumption was suppressed. If world economic growth continues and any weather problems persist, grain prices could see sharp price increases. It was the poor Russian grain harvest in the mid-1970s that set off the last major price explosion in agricultural products.

An interesting debate has developed within the Federal Reserve Board over whether a Japanese style deflation could develop here. Some are now suggesting additional quantitative easing through further purchases of long-term Treasury bonds. Whether this occurs or not, we believe that conditions are in place for a renewed uptrend in commodities, precious metals and certain foreign currencies. If additional quantitative easing does occur, it will further support these unfolding trends. For these reasons MAAP's participation in multiple asset classes should offer broader profit opportunities than traditional portfolios.