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MAAP May Review June 2, 2010

During May MAAP experienced a loss as risk aversion swept through global markets emanating from the Greek debt crisis. While we correctly anticipated a declining equity market by timely shorts in the S&P500, the flight to the dollar negatively impacted several other portfolio positions. Profits were achieved by the short position in the S&P500 and to a lesser extent from long positions in the metals. However these gains were more than offset by partial long positions in energy and foreign currencies, a short position in U.S. Treasury bonds, and a partial long position in the grains. The systematic risk leverage limitation for the commodity sectors remains in effect thereby limiting commodity long positions well below maximum. Although the risk system point composite has shown improvement since late January it has not reached a level which would indicate a new intermediate uptrend is in place. It remains our view that the four month correction in commodity prices is a temporary interruption in an ongoing bull market that will reassert itself in the second half of 2010.

The Greek debt crisis and the European response placed a glaring spotlight on the limitations of sovereign debt and the limitations of a currency union lacking full political union. While some question the future existence of the euro, we continue to believe that the economic efficiencies of the currency are too great to allow it to disintegrate. Nonetheless the recent crisis does point out the lack of alternatives facing those wishing to reduce their exposure to the dollar. By default it increases the potential role of gold as an alternative store of wealth. After over two decades of net liquidation of gold by central banks, they appear to be returning as net buyers. This buying combined with private sector net investment accumulation suggests that gold's bull market may still be in its early stages. The other change emanating from the euro crisis is the potential politicizing of the European Central Bank. Unlike the U.S. and U.K. central banks, the ECB was much less willing to engage in quantitative easing during the 2008 financial crisis. It is too early to tell how far the ECB will go in its acquisition of government debt or how it will offset its purchases but this may be another watershed on the road to excessive world fiat money creation.

While the global headlines have been dominated by the euro crisis and the horrific gulf oil spill, the global economy continues to expand. There appears to be a powerful momentum of growth in the developing world led by both infrastructure development and a growing middle class that has acquired a taste for the lifestyle long dominant in the developed world. This developing country growth momentum is the engine of growth in this business cycle. The developed world is the caboose in this economic train, pulled along by developing country demands for capital goods, basic industrial raw materials, agricultural products, and certain luxury goods. Sectors of the developed countries' economies that benefit from these demands will experience growth. Scarcity of basic raw materials will be a constraining force on the global economy in the next several years as full capacity in these areas is reached. Price increases will begin with the scarcest materials and inflation will emanate out first to all sectors of the developing world economies and then to the developed world, where central banks will, in all likelihood, overstay their monetary easing policies as they attempt to bring down unemployment. In this environment commodities and precious metals should continue to be market leaders reflecting their relative scarcity versus the relative abundance of fiat currency and sovereign debt expansion. MAAP's ability to invest in these various areas should offer multiple investment opportunities as well as diversification to traditional portfolios.