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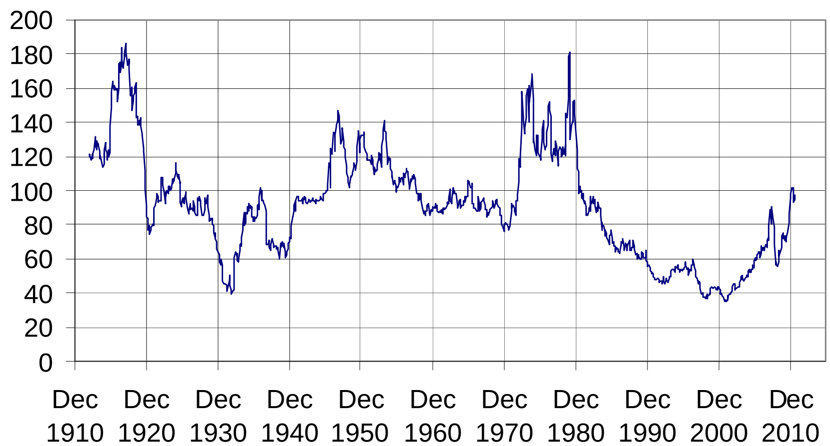
MAAP October Review November 3, 2011

Performance in October was positive as all four asset sectors contributed to the gain. The long positions in the Australian and Canadian dollars which remain full positions, contributed the most to October's performance. In the commodity sectors, which are now at half of full positions due to the leverage reductions system, energy contributed the largest gain followed by metals and then grains.

Looking back over the past two months, one can be frustrated with the value of the leverage reduction system. It was late triggering a reduction during the September-early October decline and reduced the gains achieved in October. However we remain convinced it will add value over time. During our back test in developing the system, signals to reduce leverage occurred seven times from 1992 through 2008. Three times it added significant value and four times it essentially added no value (two small losses and two insignificant gains). It added value when the commodity markets were to experience a deeper correction. The other four times were intermediate corrections in the stronger phases of the bull market. It was our goal to have a system that only triggered on infrequent occasions. We believe that commodity markets are in the midst of a major multi-year advance. It is possible that prices will march straight up from the October lows without further backing and filling, but it is more probable that some additional backing and filling will occur before a multi-month advance resumes. If the former scenario occurs we will give up some potential upside gain until full leverage is restored. If the latter occurs, it will most likely lead to another insignificant gain or loss similar to the four described in the back test. Regardless of which scenario occurs, we believe that the leverage reduction system will prove important when the multi-year bull market eventually ends.

Real (Inflation-Adjusted) Commodity Prices
Dec 1910 - August 2011



One of the reasons we remain extremely bullish about the long-term environment for commodities is illustrated in the above chart. The world is in the midst of the most massive expansion of middle class consumers in the developing world. Growth in developing economies leads to more intensive use of commodities of all types. Nonetheless real or inflation adjusted commodity prices remain closer to their all time lows in 2001 than previous all time highs. It is quite possible that before the current bull market in commodities ends a new all time high will occur given the unprecedented expansion of the world's middle class. In China alone the middle class is forecast to expand from 12 percent of their population in 2009 to 43 percent in 2020. This combined with the intensive infrastructure spending in these developing countries is a powerful force that can be expected to drive commodity prices to significantly higher levels in the years ahead.

The chart below plots the S&P 500 from 1980 through 1999. Overlaid on the S&P 500 is the Commodity Research Bureau (CRB) Index from the end of 2001 to the present. The stock market experienced a severe decline in 1987 and then spent the next three years recovering followed by another selloff in 1990. From 1990 onward, the stock market then entered an accelerated advance until 2000. Interestingly, the commodities experienced a powerful correction in 2008 similar to the stock market decline in 1987. For the past three years commodities have been working their way back to the 2008 peak. Now they have experienced another setback similar to stocks in 1990. One can argue that this is purely coincidental. However all bull markets involve human emotions, money, and supply and demand. Most long-term bull markets tend to experience their greatest acceleration in the later stages as confidence builds. Whether the commodity markets experience an accelerated advance remains to be seen. But we believe that the reasonable inflation adjusted valuation of commodities, combined with the unprecedented developing world demand, could well support an accelerated price move in the years ahead.

Comparison of Reuters/Jefferies CRB Index (Jan 2002 – December 31, 1999) with S&P 500