

## MAAP September Review

October 2, 2009

MAAP finished with strong performance in September as four asset groups contributed to the gain. Long positions in the metals made the largest profit contribution, followed by long positions in energy, foreign currencies, and a partial long position in the S&P 500. A small loss occurred in the long grain positions. At month end we initiated a small (10% of maximum) short position in the long U.S. Treasury bond.

After a strong price rise into early June, commodity prices have moved sideways for approximately 16 weeks. It is quite normal for bull markets to take periodic pauses before resuming their uptrend. Once this consolidation is completed we anticipate a resumption of the commodity bull market. Precious metals, which were the first sector to bottom last fall, recently reached new highs for the year. Interestingly, gold, in particular, has provided leadership at significant turning points since the commodity bull market commenced in late 2001. Therefore the fact that gold recently moved to a new recovery high for 2009 (and is a few points from its all time high) suggests that commodity advance is likely to resume. In addition to precious metals, many foreign currencies have also continued to move higher against the U.S. dollar since the June pause. This provides an additional positive backdrop for a resumption of the uptrend in commodity prices.

Investors and business executives remain skittish and cash positions appear to be well above average as we enter the one year anniversary of the 2008 financial meltdown. However, the weight of the evidence at the present time points to higher prices for most asset classes and renewed economic expansion. Most importantly, the Federal Reserve will remain quite accommodative for at least another year, if not longer. Additionally, organic growth from the growing middle class in the developing world is providing the growth engine for a renewed global economic expansion. This organic, developing country growth should benefit U.S. exports, especially given the dollar's weakness against key foreign currencies. Although serious problems remain in the global economy, the aggressive monetary and fiscal stimulus from all governments should continue to stimulate economic growth. With a lag these stimulus efforts will have negative side effects, with inflation being the most likely outcome. However for the next year higher asset prices and economic growth should continue.

While most asset classes should benefit from this continued environment of loose monetary conditions and early stage economic growth, commodities appear to offer the strongest reward to risk combination. As discussed last month, global economic growth should quickly absorb the temporary supply overhang that developed in most commodities. Unlike significant oversupply of end stage assembly plants and labor, production of most commodities is much closer to full capacity. Once the slack of oversupply is taken up, the lack of new investment and the difficulty of locating new deposits or oil fields should quickly make itself apparent in rapidly rising prices. In summary we continue to believe that commodities offer significant upside potential. At the same time the new risk management process that we instituted July 1<sup>st</sup> of this year should provide much better downside protection during future intermediate corrections.



October 5, 2009

TAAP Investment Strategy  
(The Asset Allocation Portfolio)

Current Portfolio Weighting

Stocks	19.9%
Bonds	0.0%
Gold	79.1%
Cash	1.0 %

**Portfolio Review**

As the above weightings indicate the TAAP strategy continues to emphasize gold as the most attractive investment asset given its current price and value. Stocks have the second highest weighting, with no allocation to long-term bonds. Our tactical strategy has served investors well throughout this decade and in particular through the financial crisis that unfolded in the fall of 2008. For the Y-T-D 2009 TAAP had a gain of 16.23% vs. 19.26% for the S&P500. For the past twelve months TAAP returned 11.05% vs. -6.91% for the S&P500. For three years, five years and, since inception, TAAP's compound annual return was 15.65%, 16.23%, and 10.02% vs. the S&P500 return of -5.43%, 1.01%, and 7.77% respectively.

**Investment Outlook:**

Even though the TAAP strategy has achieved strong gains for the past year and for this past decade, we believe that gold is still in the early stages of a strong secular, multiyear advance. After touching an all time high of 1033 in March 2008, gold spent 78 weeks in a trading range below 1000 before decisively breaking above it and achieving multi-day closings above 1000. While there is nothing economically significant about the 1000 level, it does appear to have a strong psychological significance. It reminds us of the significance the 1000 level had for the Dow Jones Industrial Index until it decisively broke through that level in 1982 and continued climbing 1100 percent in the next 17 years.

We cannot, nor can anyone else, know with certainty what price level gold can ultimately achieve but the evidence appears to point to substantially higher prices in the years ahead. First from a technical perspective, gold has been outperforming virtually all asset classes since 2001. In addition it held up remarkably well during the 2008 financial bloodbath. While it corrected approximately 30 percent in the fall of 2008, it bottomed in mid-October and quickly climbed back to the 1000 level in early 2009. When other markets were selling off sharply in early 2009, it held at a much higher low and then remained in a trading range between 900 and 1000 before its recent upside breakout.

Our investment analysis continues to favor gold as the most attractive long-term asset class, among stocks bonds, and gold, for two basic reasons. First, gold has extremely attractive supply and demand fundamentals. In addition we are concerned about risks emanating from the dollar's potential replacement as the world's reserve currency and the lagged inflationary side effects of excessive monetary and fiscal stimulus.

First consider the favorable supply/demand conditions. The supplies of new gold remain limited. Peak production of newly mined gold occurred in 2001 and has declined moderately each year since then, even though prices have roughly quadrupled since 2001. New discoveries of gold ore deposits have continued to drop over the past decade, even though gold exploration spending continues to rise. Furthermore the discoveries that have been achieved have resulted in a continuing drop in the average grade of ore.



On the demand side, relative economic growth continues to shift to the developing countries, such as the Middle East, China, and India, where gold is culturally more highly esteemed. Furthermore, countries that have been achieving the fastest growth in foreign reserves, such as China, have extremely low percentages of their reserves in gold versus other foreign currencies. Prudent diversification argues that they will continue to increase the percentage of their reserves held in gold. Finally there appears to be an increasing tendency by investors to view gold as an alternative store of value within their portfolio holdings. This shift in investor attitudes is further strengthened by the limited increase in new supplies of gold each year versus the rapidly increasing percentage growth in financial liabilities.

Although economic indicators continue to give off mixed signals, the weight of the evidence suggests that both the U.S. and global economy have turned up once again. Uncertainty usually reigns at turning points and the current period is no exception. Our concern is not for the immediate future but a few years down the road. We are living in the midst of the most powerful federal government and central bank stimulus in modern history. This is occurring not just in the U.S. but globally. This will cause negative side effects but with a lag. However, before the negative side effects occur, stronger economic growth should develop. The combined effects of the organic, middle class growth in developing nations, the weak dollar, and the aggressive spending by developing countries (especially China) has the potential to surprise the world with faster growth in the next two years. It is for this reason that our equity positions emphasize companies that will benefit from this global developing country growth. These areas would include, energy, energy service, alternative energy, basic materials, infrastructure/engineering, agriculture and niche technology. With the world middle class estimated to grow by 70 million people a year, basic resources will be strained.

The massive government monetary and fiscal stimulus, the internal growth dynamics within developing countries, and the temporary, recession induced, surpluses of basic materials in the world, will likely allow a window of tranquil global growth. However, once these surpluses are absorbed, the excesses of government stimulus will begin to exert their unwanted side effects. The real estate finance hangover, and the high unemployment in the developed world, will make it politically impossible to remove this excessive stimulus on a timely basis. Officials will likely talk a good game but their actions will likely tell a different story. If the world enters an environment of resource shortages, combined with excessive credit, and especially one in which the dollar is depreciating and no longer desired as a store of value, investors will be seeking an alternative store of value. Since foreign central banks will likely engage in faster money growth and dollar support to protect their domestic export industries, global inflation is likely to accelerate. Should this scenario unfold, demand for gold can only increase.

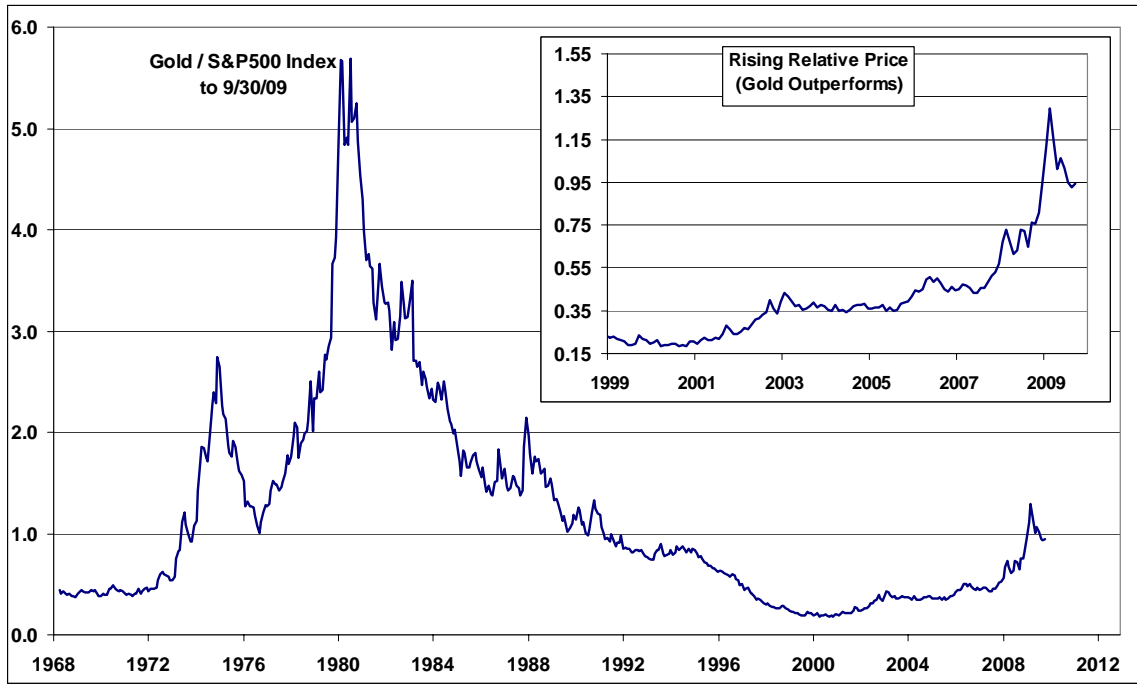
In summary, a period of tranquil growth is immediately ahead that will continue until the surpluses of this recession are absorbed by global growth. The period of tranquil growth will gradually morph into an environment of increasing strains caused by shortages of key raw materials. The excessive monetary and fiscal stimulus designed to fend off the recent recession will not be removed quickly enough, leading to rapidly rising raw material prices. Eventually the inflation in raw material prices will lead to a broad based inflation. Therefore while equities are attractive in the near term, gold is likely to continue providing both relative and absolute returns in the years ahead.



I.

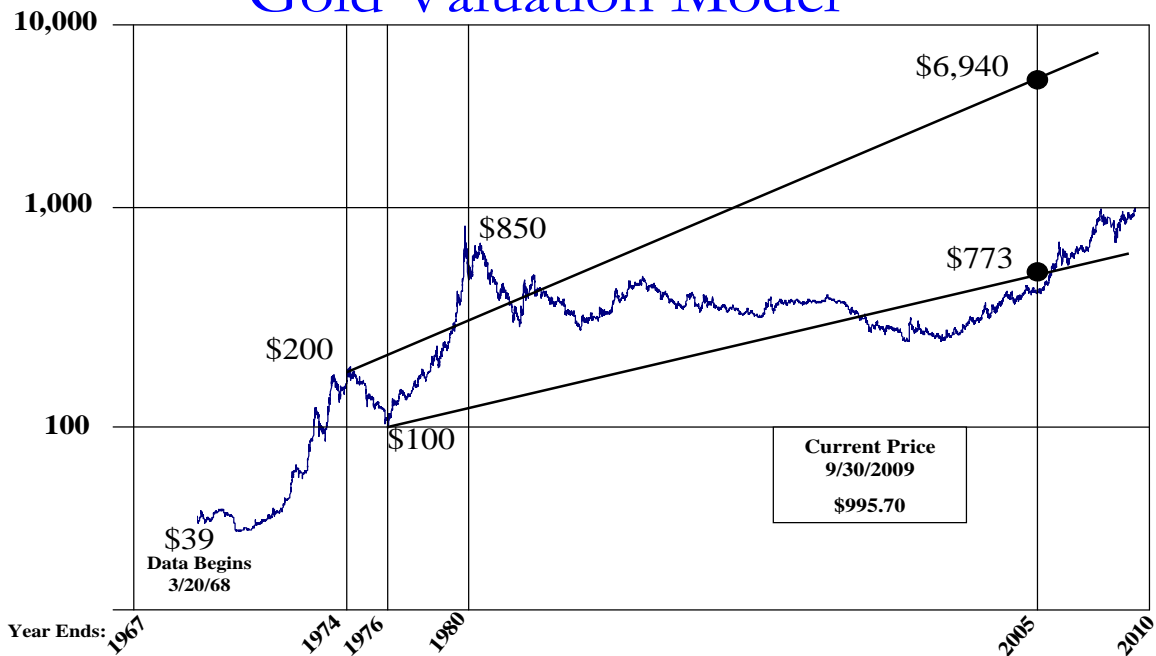
# Gold / S&P 500 Index

Through Sept 30, 2009



II.

# Gold Valuation Model



This gold valuation model compares the historical relationship of the market price of gold versus the growth in various monetary aggregates and debt statistics. In constructing the band December 1974 and December 1976 were selected since they represented key high and low points after U.S. citizens were once again permitted to own gold. The monetary/debt valuation model is not used in the TAAP investment decision process which relies on absolute and relative price movements for key buy and sell decisions.



# AIS

CAPITAL MANAGEMENT, LLC  
FUTURES MANAGEMENT, LLC

187 Danbury Road  
Wilton, CT 06897

t: 203.563.1180  
f: 203.563.1186

info@aisgroup.com  
www.aisgroup.com

## AIS Capital Growth Fund Quarterly Review

October 5, 2009

The AIS Capital Growth Fund achieved strong performance in the 3<sup>rd</sup> quarter of 2009 and for the Y-T-D with gains of 22.2% and 27.2% respectively. During the third quarter the fund added to several of the existing portfolio positions and added one new name, Anadarko Petroleum, near the end of the quarter, bringing to 41 the number of portfolio positions. Anadarko is the operator of a consortium that discovered a potentially large oil basin off the West Coast of Africa.

As discussed in previous quarterly commentaries, the fund investments are heavily concentrated in six sectors that we believe offer above average potential in the type of global economic environment most likely to develop in the next few years. The six sectors are infrastructure/energy service, energy, alternative energy, basic materials, agriculture, and niche technology. Furthermore, within these sectors we have added four companies based in Brazil and Chile, two countries we believe are uniquely positioned to benefit from growth in the developing world.

The fund's goal is to identify companies which have the potential to outperform the market on a 12 to 18 month time frame. Our global macro economic analysis is employed to identify sectors which could benefit from strong economic tailwinds. Favorable demand and pricing trends are significant factors, since no business operates in a vacuum. Next our weekly technical screens of over 2000 companies assist in identifying emerging market leadership. Finally, individual company fundamental analysis can identify important management, product and balance sheet issues that will impact a company's performance.

Although recent economic indicators have given some mixed signals, the weight of the evidence strongly suggests that global economic growth is unfolding. In this next economic expansion, organic, middle class growth in developing countries is likely to be the primary engine of growth in the world economy. This expanding middle class, combined with government stimulus throughout the world, will strain the supplies of raw materials, and other basic industrial materials. These trends, combined with monetary stimulus necessary to resuscitate the financial system, should lead to more rapid economic growth than current consensus estimates and ultimately to rapidly rising prices for scarce commodities.

Within another year renewed economic growth should eliminate the temporary surpluses of energy and other key commodities. This should lead to sharp price increases for energy, basic metals, agricultural products, fertilizers, and precious metals. Therefore companies producing these products, or engaged in infrastructure/engineering projects designed to modernize or expand production of these key factors of production, should be major beneficiaries. In addition companies capable of improving efficiencies or producing alternatives to scarce energy or other raw material supplies will receive increased investor interest.

The above factors combined with an expectation of excessively easy monetary policy for at least the next year should provide the underpinnings for strong stock market performance in these sectors. Therefore, equities should continue to climb a wall of worry until either monetary policy is forced to reverse course to tightening, or rising energy and other key commodity prices reach levels that stifle economic expansion. Since neither of these factors appears imminent we continue to believe a further price rise in equities is the most likely outcome.

Past results are not necessarily indicative of future performance. Actual trading for the AIS Capital Growth Fund L.P. commenced in January 1997. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. For a complete offering memorandum of AIS Capital Growth Fund L.P., contact AIS Capital Management LLC, Wilton, CT 06897 (203) 563-1180.



# AIS

CAPITAL MANAGEMENT, LLC  
FUTURES MANAGEMENT, LLC

187 Danbury Road  
Wilton, CT 06897

t: 203.563.1180  
f: 203.563.1186

info@aisgroup.com  
www.aisgroup.com

## AIS Gold Fund Quarterly Review

October 2, 2009

The AIS Gold Fund experienced strong gains in the 3<sup>rd</sup> Quarter of 2009 and for the 2009 Y-T-D with returns of 33.64% and 130.79% respectively. Even though the Fund has achieved strong gains in the last nine months, we believe that gold and gold mining stocks are still in the early stages of a strong secular, multiyear advance. After touching an all time high of 1033 in March 2008, gold spent 78 weeks in a trading range below 1000 before decisively breaking above and achieving multi-day closings above 1000. While there is nothing economically significant about the 1000 level, it does appear to have a strong psychological significance. It reminds us of the significance the 1000 level had for the Dow Jones Industrial Index until it decisively broke through that level in 1982 and continued climbing 1100 percent in the next 17 years.

We cannot, nor can anyone else, know with certainty what price level gold can ultimately achieve but the evidence appears to point to substantially higher prices in the years ahead. First from a technical perspective, gold has been outperforming virtually all asset classes since 2001. In addition it held up remarkably well during the 2008 financial bloodbath. While it corrected approximately 30 percent in the fall of 2008, it bottomed in mid-October and quickly climbed back to the 1000 level in early 2009. When other markets were selling off sharply in early 2009, it held at a much higher low and then remained in a trading range between 900 and 1000 before its recent upside breakout.

The supplies of new gold remain limited. Peak production of newly mined gold occurred in 2001 and has declined moderately each year since then, even though prices have roughly quadrupled since 2001. New discoveries of gold ore deposits have continued to drop over the past decade, even though gold exploration spending continues to rise. Furthermore the discoveries that have been achieved have resulted in a continuing drop in the average grade of ore. Finally the discoveries in what we would consider to be politically secure countries continue to diminish.

On the demand side, relative economic growth continues to shift to the developing countries, such as the Middle East, China, and India, where gold is culturally more highly esteemed. Furthermore, countries that have been achieving the fastest growth in foreign reserves, such as China, have extremely low percentages of their reserves in gold versus other foreign currencies. Prudent diversification argues that they will continue to increase the percentage of their reserves held in gold. Finally there appears to be an increasing tendency by investors to view gold as an alternative store of value within their portfolio holdings. This shift in investor attitudes is further strengthened by the limited increase in new supplies of gold each year versus the rapidly increasing percentage growth in financial liabilities.

Given that the weight of the evidence favors significantly higher gold prices, a unique opportunity exists among junior mining companies in politically secure countries. Stocks of junior mining companies experienced significant declines in late 2008. Although they have recovered moderately since their lows, they remain very cheap on a reserve valuation basis. Therefore our research continues to focus on identifying junior companies in Canada, the U.S. and Australia, where reserves can be purchased at a fraction of the current gold price. In the last three months we added six junior mining companies to the portfolio. We believe it is an extremely compelling time to be making these investments.

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