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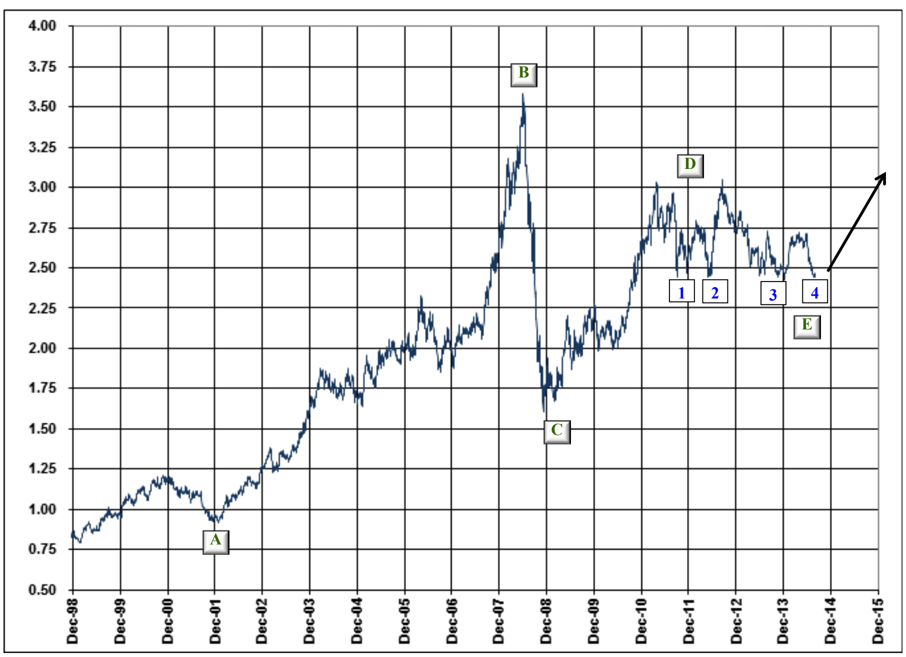
MAAP August Review September 2, 2014

MAAP experienced a second consecutive negative month in August. Contributing to the decline were the short position in the S&P500, long positions in the grains, short position in the U.S. Treasury bond, and long positions in the metals, and energy. The one profitable sector was the long positions in the Australian and Canadian dollars. During August the short position in the S&P500 was reduced, the short position in the bonds was closed, and the positions in energy and soybeans were reduced, with corn reduced in early September. At the end of August, the energy position was restored to a full long position, on indications that energy is in the process of bottoming.

Accompanying this commentary are two charts. The first is a commodity price index of the commodity markets traded by MAAP. It extends from the end of 1998 through August 2014. The initial phase of the secular (e.g. multiple business cycles, multiple decade) bull market extended from 1998 (A) to mid-2008 (B). A severe correction occurred in 2008 (C), followed by a strong rally into April 2011 (D). For the past three and a half years commodities have been in an irregular trading range correction indicated by points 1-4. This has been a long and frustrating period for commodity investors and even short-term traders, as the moves have been irregular and relatively short in duration.

Commodity Index



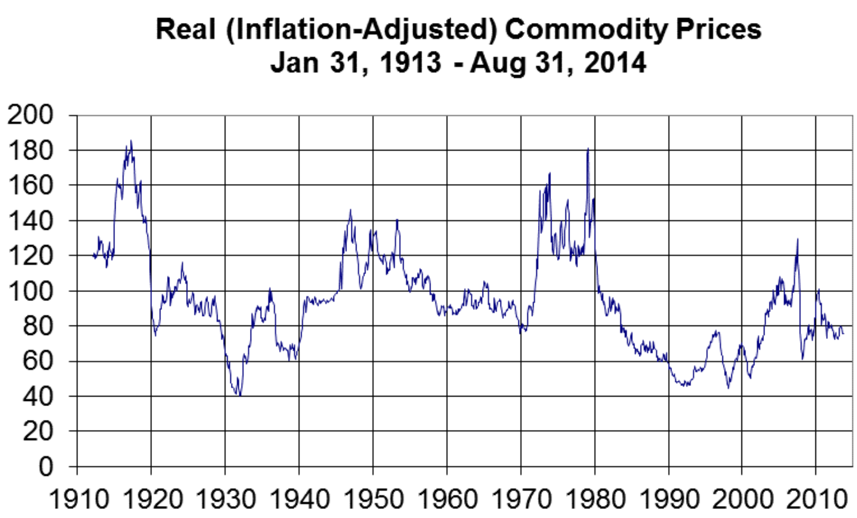
Some argue that the bull market in commodity markets has ended; however, the fundamentals continue to argue that we remain in the middle of a secular bull market. The one bright spot in the global economic climate is the continuing strength of economic growth in the emerging economies. As we stated last month: “The primary driver in these emerging economies is the migration of rural workers to more productive urban employment. History demonstrates that the transformation of these emerging economies lasts for five to thirteen decades. China is now in its fourth decade of transformation, with many other countries in earlier stages of development. Emerging country growth is very commodity intensive and will put significant upward pressure on prices globally."

At the same time commodity supplies are becoming more tenuous. For example, global oil production, not including the U.S. has essentially been flat since 2005. Only tight oil production in the U.S. has provided a temporary respite. However, many knowledgeable experts predict that U.S. tight oil production will peak in the 2015-2016 time period due to the rapid depletion rates of this source of oil. Oil, in turn, impacts production costs of all other commodities.

Another reason supporting the secular bull market case for commodities is the undervalued price level of commodities in real or inflation adjusted terms. The second chart is an inflation adjusted price chart of commodities from 1910 to the present. This chart illustrates two significant price peaks and two extreme price lows. When rising commodity prices commenced in early 1999, real prices were similar to the depression low of the 1930s. Furthermore at the 2008 price peak, the level was only slightly more than half way back to their two prior real price peaks. Currently in real price terms, they are much closer to their historical low points than they are to their historical peaks. The much broader demand level for commodities today, from the unprecedented middle class explosion of the emerging economies compared to other times in history, argues for at least a return to historical peaks if not new historical highs.

Appreciation Opportunities

Real (Inflation-Adjusted) Commodity Prices Dec 31, 1913 – Aug 31, 2014



The last three and a half years has been a very frustrating experience for investors in the commodity space, especially when compared to the powerful rise in financial markets in the past two years to, what we define as, extremely overvalued levels. Nonetheless, absolute and relative valuation factors will eventually overtake unrealistic crowd emotions to restore proper valuations. We believe that the point where the commodity bull market reasserts itself is close at hand and worth waiting for. MAAP is uniquely structured to benefit once that occurs.