

# JWH MARKET COMMENTARY

FEBRUARY 2007

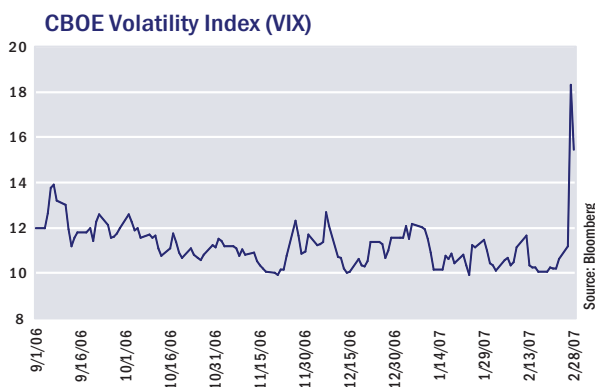


JOHN W  
HENRY &  
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INC

# EXPLOSION IN VOLATILITY HURTS PERFORMANCE

JWH program performance for the month of February was negative. This negative performance was a direct result of the explosion in volatility accompanying the last week of the month. Trading through that point was mostly positive for the month, but the events of the week reverberated throughout global markets and reversed what few trends that had been evident earlier in the month.

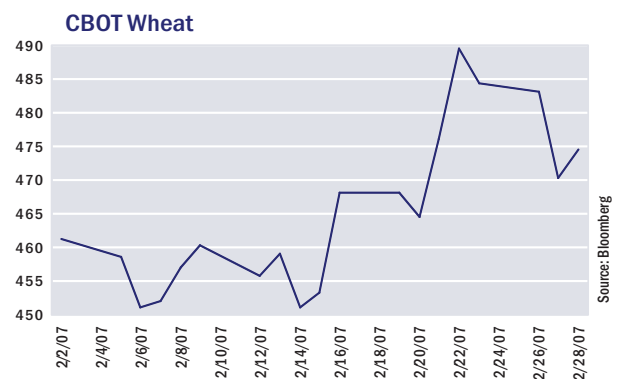


**MORE THAN JUST AN EQUITY SELL-OFF** – The market disturbance that affected JWH performance during the last week of the month was primarily portrayed as a stock market decline in the US media, but the issues were far broader than that. Whether pundits cared to lay the blame at the feet of the Chinese stock market or the trouble in the sub-prime loan market sector, global markets awoke to a dose of short-term volatility not seen for many months which was not confined simply to the equities markets. The chart above depicts recent trading in the CBOE Volatility Index (VIX) and is one indication of just how dramatic this shift in volatility was. The VIX index is a traded estimate of future stock market volatility based off the price of S&P options. The rise in volatility prompted a broad based reduction in risk across many markets which were manifested in price reversals. Part of our strategy rests in investing in markets that behave differently from each other. In the

unusual circumstances that markets reverse in lockstep, our systematic approach will be susceptible to setbacks.

## SPECULATION HURTS AGRICULTURAL COMMODITIES –

Prior to the global plunge in equities, corn had risen to a 10-year high in Chicago and soybeans reached \$8.0775, their highest level since June 2004, as wet weather threatened to prevent U.S. farmers from planting enough crops to meet surging demand for crop-based fuels. CBOT wheat prices had reached \$5.09, the highest since December 26th, before dropping in excess of 2 percent as investors bailed out of the commodity on speculation that the sell-off would cause a global economic slowdown. As a result all of these markets suffered sharp declines at the end of the month, as shown below, which translated to losses for some of the JWH programs.



**METAL MARKETS SUFFER** – Both precious and base metals also suffered strong reversals. Copper, which had been weakening prior to February on reports of rising stockpiles that signaled production was exceeding demand, rallied for the majority of the month on speculation that China, its largest user, would accelerate its buying. However, the month end slump in equities prices, led by China, drove the metal lower once again as markets speculated that demand would decline as economic expansion in China

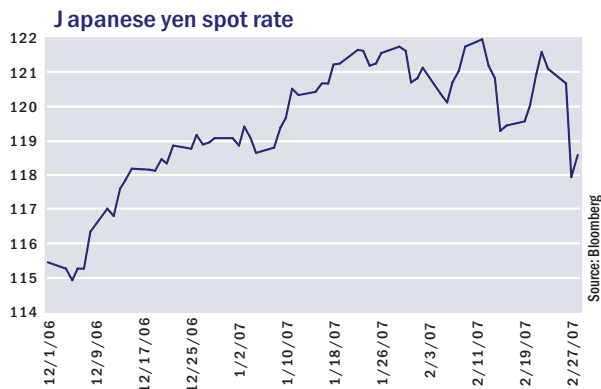
and the U.S. slowed. Prior to the drop in equities the gold futures contract for April had also been rallying and hovered around the high \$690s, a level not seen since May of last year, before falling and giving up much of the earlier gains as gold ended the month in the low \$670s, see chart below.

**THE CARRY TRADE BEGINS TO UNWIND** – The Japanese



yen was at its yearly low, but strengthened over 2 percent against the dollar in the last three trading sessions of February. The yen rallied against the dollar to its highest level in more than 19 months on February 27th as investors avoided emerging market assets, triggering an unwinding of trades betting on a decline in the Japanese currency. Japan's yen also gained against the British pound and euro as the carry trade was taken off by investors. Carry trading is a term used to describe a strategy where investors borrow money in low yielding currencies, like the Japanese yen, and invest those funds in higher yielding instruments.

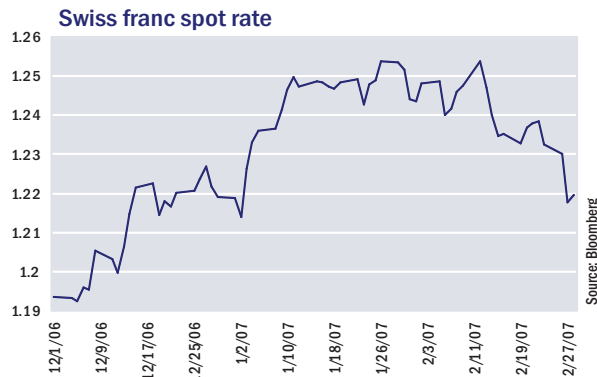
The Swiss franc, another funding currency for the carry



trade, also reacted to the drop in equities by reversing its

weakening trend and rallied to three month highs against the dollar.

**CONCLUSION** – The firm's programs finished negative for



the month as the weakness in global equity markets increased volatility in financial markets around the world.

What does this sudden burst of volatility across markets mean? No one can be sure. Sometimes it is unexpected turbulence along the current path. Other times it is a harbinger of a major shift in direction. In the latter case, while the short-term performance is uncomfortable, the long-term trends which come from the change can more than make up for the discomfort. We look to the markets for our signals, and continue to apply our disciplined systematic trading approach. The firm's programs were not positioned for this sudden turn of events. However, an element of turmoil has been injected into the markets, which if it persists, has the potential to be a positive development for our style of trading. The firm remains poised to potentially take advantage of new opportunities as they present themselves.

We thank you for your continued support.

Kenneth S. Webster

President and Chief Operating Officer

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS