

# JWH MARKET COMMENTARY

JANUARY 2010

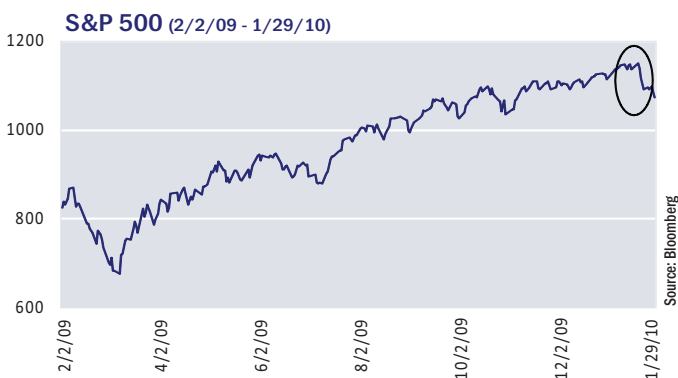


JOHN W  
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# “DOUBT” IN THE GLOBAL RECOVERY EMERGES

JWH's programs declined in January as positions in both newly-established and long-held trends corrected or reversed course during the month. Financial authorities in China took substantive steps in recent weeks to slow loan demand and cool the Chinese economy, which reportedly grew 10.7 percent in the fourth quarter of 2009. The prospects for a slowdown in the Chinese economy impacted a number of long-standing, pro-cyclical price trends as China has been a major engine of growth and demand for the larger global economy. This tightening in global financial conditions, the bleak employment picture in the U.S. and political rancor in Washington were just some of the factors that weighed on stock prices in January as the S&P 500 fell 3.6 percent during the month. The disruption of what has been a long-term trend toward higher equity values upset price trends across multiple asset classes which led to the losses for JWH programs.

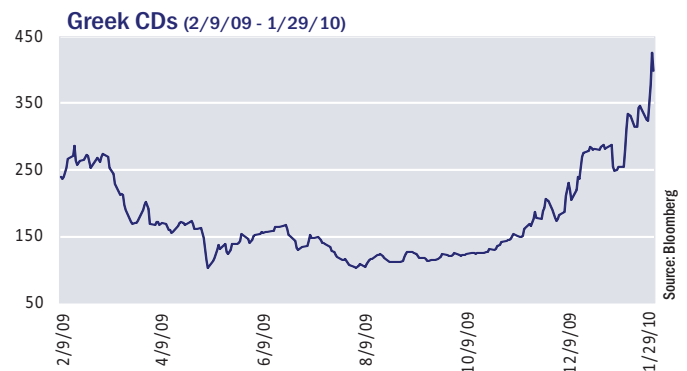
**GLOBAL STOCK INDICES** – JWH trading in equity indices was unprofitable in January. Global stock prices entered the New Year firmly in an uptrend. In fact, the 3.6 percent decline in the S&P 500 was only the second down month for the benchmark in 10 months.



The declines were paced by the cyclical sectors, with energy, basic materials and technology leading the mar-

ket lower, while defensive sectors, such as healthcare, consumer staples and utilities performed relatively better. Global equity prices were not immune to the sell-off as the MSCI All World Index and the MSCI Emerging Market index both fell by more than 2.5 percent. Interestingly, this was the third year in a row that the market started the year on a down note. The often touted “January Effect” suggests that the performance of the stock market in January is a good barometer for how it will perform for the balance of the calendar year.

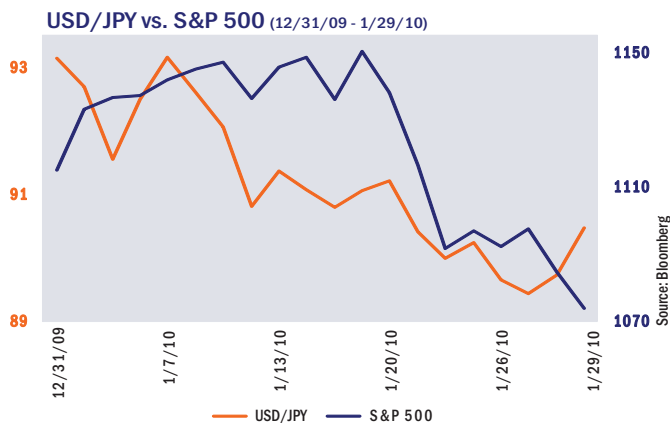
**INTEREST RATES** – The declines in the stock market led investors to seek the safety of U.S. government securities causing abrupt reversals across the fixed income sector. The benchmark U.S. 10-year yield closed December at its highest level in almost five months at 3.83 percent. During January, yields reversed course as they traded in almost a straight line down to 3.6 percent. While equity market weakness was certainly a theme, bond flows were influenced by heightened concerns about sovereign credit risk as governments worldwide are in difficult fiscal positions. Greek debt was particularly hard hit as Greece grapples with difficult funding issues.



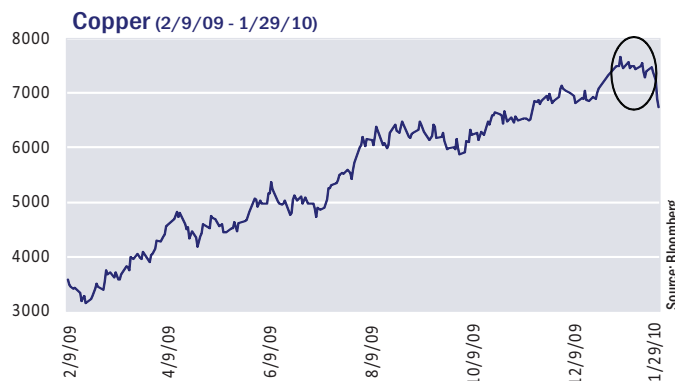
In addition to the weakness in the stock market, the credit markets, and the moves by the financial authori-

ties in China, the bond market had to contend with a number of important U.S. political issues in January, including the special Senate election in Massachusetts, the State of the Union address and the appointment of Ben Bernanke to a second term as Chairman of the Federal Reserve Board. Profits from trading in European interest rate futures were not enough to offset losses from trading in U.S. and Japanese interest rate futures.

**CURRENCIES** – Trading in the currency market was also affected by the overall decline in market risk appetite. While the dollar appears to be starting to trend against the euro, trading in the Japanese yen remains difficult and accounted for a large percentage of the losses that came from the currency sector. The Japanese yen, due to its low yield, is often borrowed to fund investments that may be more risky and offer the potential for greater return. When volatility increases and the investment landscape becomes more uncertain, these so-called carry trades are unwound, which creates demand for the Japanese yen. This was the case in January as the currency rallied 3 percent against the U.S. dollar. The monthly decline in the dollar versus the yen came close to matching the decline in the U.S. stock market. Small net profits from trading in European currencies were not enough to offset losses from trading in the Japanese yen.



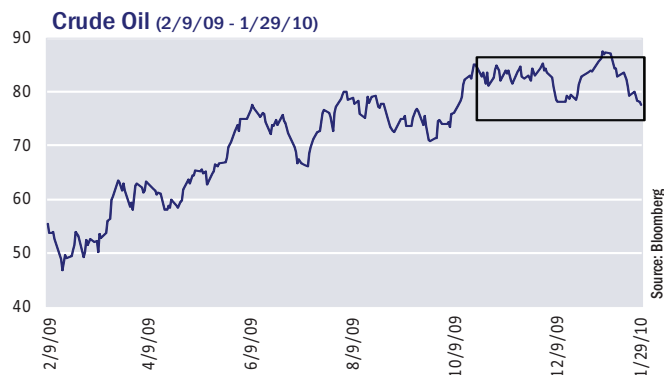
**METALS** – Trading in the metals sector was also unprofitable. Like the stock market, industrial metals were pricing in a continued improvement in the global economy. As doubt began to emerge about the prospects for such an outcome, the metals reversed direction in January. The tightening of credit conditions in China is particularly important to the metals market as China has been an important source of demand for much of the past decade. London Copper was trading at a 16-month high at the end of December, only to fall 8.5 percent during January.



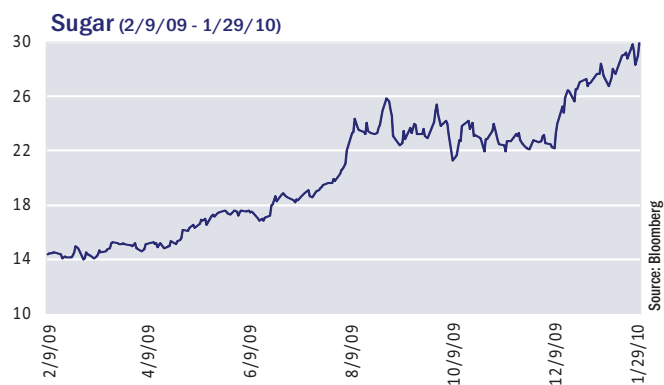
Overall trading in the industrial metals has been profitable in recent periods and the give back in January is a natural cost that is necessary in order to capture such long-term trends. After a tumultuous end of 2009 that saw gold run up more than \$100 per ounce in November only to fall more than \$100 per ounce during December, trading in January was relatively subdued. The programs incurred small losses as precious metals struggle to find a new direction.

**ENERGIES** – Energy prices continue to trade in a wide, directionless range. Petroleum-based products were dragged higher in December and through the turn of the year by a wave of cold weather that gripped much of the U.S. and Europe during the early stage of winter. The increase in demand has drawn down supplies of heating fuels. Prices ultimately retreated and finished lower on the month as investors' concerns about risk resulted in the liquidation of general commodity exposure. The benchmark

crude oil contract, which had been up in December and was trading at a 14-month high in January, reversed course in the second half and finished the month down 7.9 percent.



**AGRICULTURAL COMMODITIES** – The trading results in the agricultural sector were flat in January as most markets were unprofitable. One bright spot in the sector was the sugar market. The bull market in sugar continues as it advanced more than 10 percent in January, hitting a 29-year high fueled by an imbalance in the supply/demand dynamic as weather negatively affected yields in India and Brazil.



**CONCLUSION** – January performance was disappointing with a continuation of the sharp market reversals and directionless patterns seen in late December. Time will tell if the January Effect will play out and weakness in the financial markets will threaten the nascent recovery in the developed economies. While trading these markets with a long-term trend-following approach has been difficult these past two months, we believe the underlying trading models are performing as expected under the

circumstances. We believe the programs style discipline will reward clients as trends ultimately emerge from the currently cloudy and uncertain world markets.

We thank you for your patience and continued support.

Kenneth S. Webster  
President and Chief Operating Officer

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS