

# JWH MARKET COMMENTARY

DECEMBER 2011

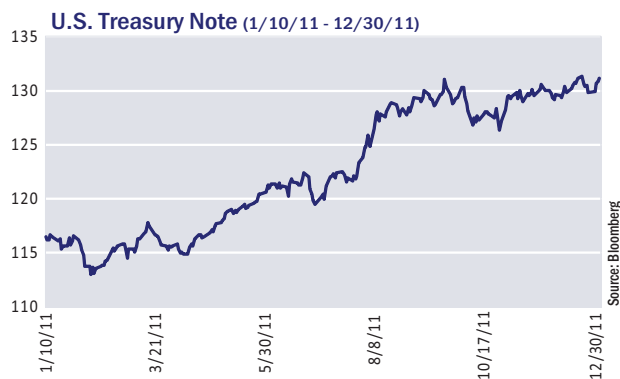


JOHN W  
HENRY &  
COMPANY  
INC

# DECEMBER BRINGS BOTH CALM AND STORM

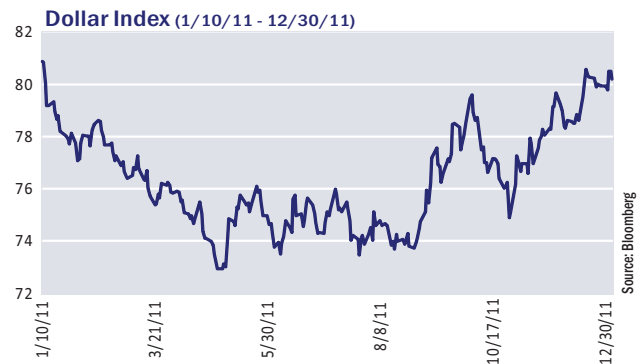
JWH ended December on a positive note. It was a constructive month for U.S. asset prices as stocks, bonds and the dollar all rallied amid signs that the U.S. economy continued to improve. For the financials, the market moves were modest as volatility declined, trading volumes were light, and without any significant new event or impetus, the markets seemed willing, after a tumultuous year, to settle into quiet seasonal trading patterns. The commodity markets on the other hand were filled with sharp reversals and an increase in volatility representative of the broad trading challenges faced throughout 2011. The majority of programs had winning positions in currencies, government bonds, energies and metals sectors.

**INTEREST RATES** – The longstanding uptrend in government bond prices remained intact during the month despite news that the U.S. economy continues to show signs of improvement. Even the housing sector showed signs of life. Data released from the Commerce Department during December indicated that housing grew 9.3 percent to a 685,000 annual rate, which exceeded market expectations. At the same time, yields on Treasury bonds fell during the month. The benchmark U.S. 10-year yield fell 19 basis points and ended the month back below 2 percent at 1.87 percent just below all-time lows.



The December bond market performance capped a strong year, making 2011 the best year for U.S. treasuries since 2008. The fact that bonds performed well in December despite good economic data, a strong stock market a downgrade by Standard and Poor's underscores how significant the impact of the credit crisis in Europe has been on investor risk appetite this year.

**CURRENCIES** – The U.S. dollar also finished the year on the positive side, which led to gains in the currency sector.

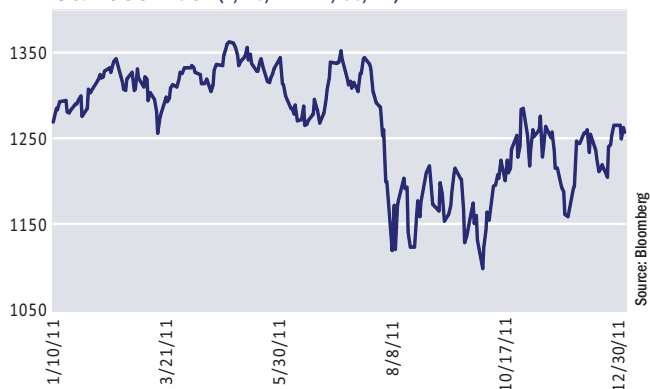


Overall the move was modest with the dollar index gaining just 1.02 percent; but it was nonetheless in the direction of the trend. The Swiss franc, which was one of the strongest currencies in the world earlier in the year, fell again in December further affirming a victory for the Swiss National Bank in its fight to weaken the franc through multiple and coordinated bouts of foreign exchange interventions conducted during the year. Trading in the Swiss franc, euro and British pound was profitable during the month, while the yen remains mired in a trading range, lacking any clear direction.

**GLOBAL STOCK INDICES** – Trading in equity index futures was mixed in December. In choppy trading, the S&P 500 recovered from an intra-month low to close the month with a gain of just under one percent. The MSCI

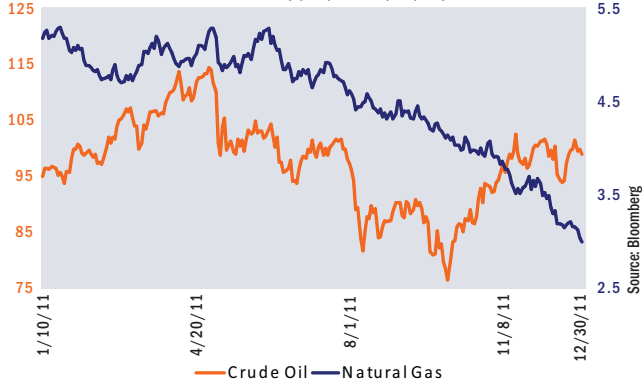
EAFE declined more than 2 percent as it was weighed down by certain European markets, including Germany and Italy. For much of 2011, trading in the equity market served as a proxy for investor risk appetite, which affected flows in other asset classes, including bonds and commodities. Trading in U.S. and Asian equity index futures were slightly unprofitable for the month.

**S&P 500 Index (1/10/11 - 12/30/11)**



**ENERGIES** – Energy was one sector where there were some relevant developments. On December 14<sup>th</sup> OPEC agreed to raise its production ceiling, purportedly in response to the difficulties Europe was having containing its credit crisis. OPEC’s decision marks the first change in its production target in three years. Crude oil and crude oil products sold off on the news. Energy prices reversed course in the second half of the month as data pointed to an improving economy and rhetoric from Iran reminded traders of the geo-political risk that comes with positions in the oil markets. In this choppy environment, trade positions in oil were unprofitable. Natural gas continues to trade lower and generated gains.

**Crude Oil & Natural Gas (1/10/11 - 12/30/11)**



**METALS** – The metals sector was varied between the programs as the price of metals declined month on month. Gold and Silver both fell more than 10 percent as the negative correlation between precious metals and the U.S. dollar reasserted itself during the month. Speculation that further quantitative easing from the U.S. Federal Reserve may not be forthcoming may have also weighed on the price of both gold and silver. Continued trends in industrial base metals, including aluminum and copper, produced small gains for JWH’s programs trading the sector.

**Gold (1/10/11 - 12/30/11)**



**AGRICULTURAL COMMODITIES** – The agricultural sector was unprofitable as performance from the grain markets weighed on returns. Grains, which have been under pressure recently, fell further early in the month as the U.S. Department of Agriculture pointed towards increasing stockpiles. Prices reversed sharply at mid-month due to ongoing dry weather conditions in growing regions in Argentina and Brazil. Holiday trading conditions and low levels of liquidity likely exacerbated the short covering move. Corn, wheat and soybeans all finished up on the month, resulting in negative performance.

**Corn, Wheat, Soybeans (6/30/11 - 12/30/11)**



The disruption of downtrends and violent reversals played out across the sector. The programs were able to gain from positions in coffee and sugar ,where fundamentals are particularly weak.

**CONCLUSION** – Performance in December and for much of the year was challenged by the tendency of the global markets to have violent short-term reversals. For this reason, examining the performance of the stock market for 2011 can be helpful in understanding why it was a difficult year for trend-followers. Price behavior in the global equity markets was representative of the price behavior experienced across the diversified markets and sectors traded by the programs, mired by what seemed like an endless number of significant price and direction changes and a sharp increase in volatility. Looking at the daily performance results of the Dow Jones Industrial Average, as a proxy for the U.S. equity returns, it is interesting to note that out of 252 trading sessions in the year, 192 (76%) had intraday price swings in excess of 100 points. In fact, the VIX Index, a popular measure of U.S. stock market volatility in the S&P 500 index, recorded a record high on October 31<sup>st</sup>, surpassing even the previous peak that occurred during the financial crisis in 2008. In the end, this all proved to be noise with little significance as the S&P 500 closed December 2011 at almost the exact spot it closed December 2010 -- just 4/10ths of an index point lower year over year. This type of trading environment is not conducive to trend followers as the frequent and significant directional changes do not provide the amplitude and duration needed in a price move to generate long-term profits.

History reveals that market behavior is not constant and every New Year brings new conditions and new market reactions. The “noise” experienced by market participants in 2011 is what makes adhering to a disciplined approach to investing extremely difficult for investors but is exactly the reason it is imperative to maintain a long-term focus to achieve your portfolio goals. We have weathered these storms for over three decades and are optimistic about our

prospects for 2012 and will continue to deploy our systematic and disciplined approach to investing in the global futures markets on behalf of our clients.

We thank you for your continued support.

Kenneth S. Webster  
President and Chief Operating Officer

---

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS