

# JWH MARKET COMMENTARY

MARCH 2009



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COMPANY

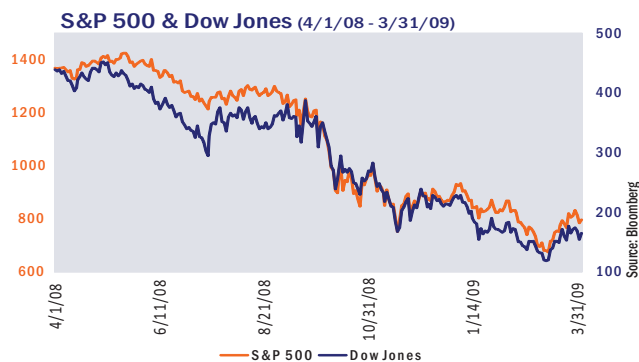
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# INVESTOR SENTIMENT SWINGS ON AGGRESSIVE POLICY ACTIONS

The performance of JWH's programs declined in March ranging from negative 1.8 to 6.8 percent. These declines marked the first meaningful correction since the programs' incredibly strong 2008 rally which yield annual results ranging from positive 40.1 to 97.5 percent. The decline in performance coincided with the S&P 500's best monthly return since 1987. Aggressive action by central banks and government policy makers appeared to have had some success in improving investor sentiment during the month. The near 9 percent rally in the S&P 500 was fueled in part by the flow of funds out of cash into riskier assets. Statistics from the Investment Company Institute released at mid-month showed that investors were pouring money into stock funds at the fastest pace this year. Surprisingly, the flood of money into stocks did not come at the expense of the bond market as the Bloomberg 7+ government bond index rallied more than 4 percent on the month. Bond prices were underpinned by the FOMC's announcement on March 18<sup>th</sup> that they would be significantly increasing the U.S. Federal Reserve Board's (the Fed) balance sheet while buying \$300 billion in Treasury securities and purchasing as much as \$750 billion in agency mortgage-backed securities.

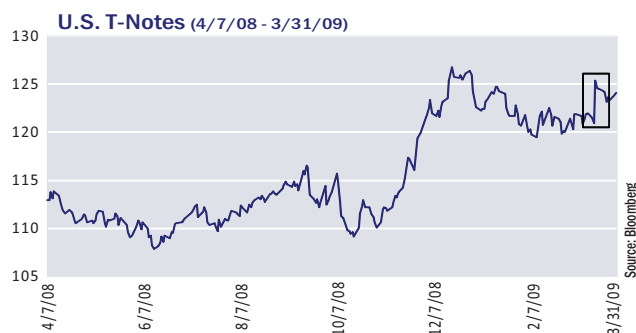
**GLOBAL STOCK INDICES** – The stock market enjoyed an extraordinary month of performance as equity prices around the world rebounded sharply from multi-year lows during the month. For example, the S&P 500 was down 25 percent for the year through March 9th before surging 18 percent into the end of the month and end of the quarter. Time will tell if the price action was simply a technical short squeeze or one that marked the low of this bear market and the early stage of a meaningful recovery in prices. The banking sector responded positively to all forms of government intervention this month with the Dow Jones U.S. financial sector return-

ing 12.75 percent for the month and up more than 41 percent from the intra-month lows.



These types of sharp reversals can be problematic for long-term trend-followers. Equity performance was also strong outside the U.S. For example, the MSCI EAFE returned 8.39 percent for the month, while Chinese shares continue to outperform with the Shanghai composite returning 13.94 percent. JWH's trading models adapted to these abrupt movements in prices, which kept losses in the sector to a minimum.

**INTEREST RATES** – Trading in the interest rate sector also suffered from abrupt reversals in prices with the turning point coming near the middle of March as the Fed ushered in a new era of monetary policy by pledging to expand their balance sheet by as much as \$1.15 trillion.



The unconventional policy steps they announced

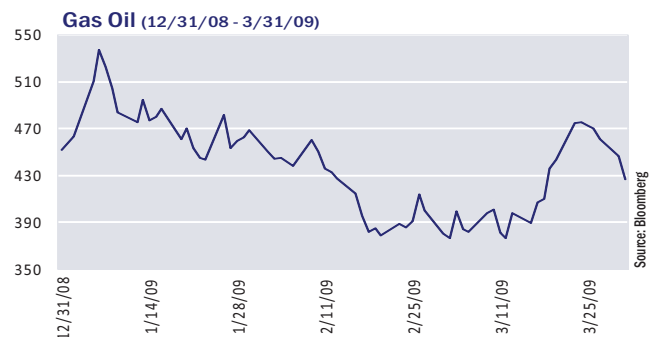
include stepping up their purchase of agency mortgage-backed securities and buying as much as \$300 billion in U.S. Treasuries. These actions are aimed at bringing down borrowing costs and lending support to the housing and financial markets. Monetary policy outside the U.S. was also dovish. The Bank of England and European Central Bank both cut interest rates by 50 basis points early in the month while the Bank of Japan announced plans to purchase government bonds. Not all trading in the sector was unprofitable. Positions at the short-end of the European yield curve were profitable on balance as the clear trend lower in Libor rates supported a number of positions. However, these gains were not enough to offset losses from positions in U.S. interest rate futures.

**CURRENCIES** – The currency sector has been afflicted by sharp reversals in price for much of the year. The U.S. dollar entered the month trending higher as it benefited from flight-to-quality flows. Investors, possibly encouraged by aggressive policy steps, began shifting money into riskier assets during the month. These flows ended the dollar rally and prompted yet another sharp reversal in exchange rates. For example, the Euro opened the month trading at 1.2640, and then rallied 5 percent in March to close the month at 1.3250. The Japanese yen offered little opportunity to offset losses in European currencies as it closed the month virtually where it started around 98.50 yen per dollar.

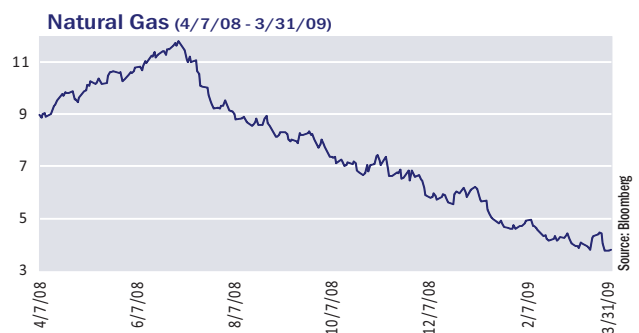


**ENERGIES** – Energy trading had its string of good performance interrupted in March. JWH programs came into the month benefiting from the bearish

supply/demand picture for crude oil, petroleum-based products and natural gas. While the pace of the decline in energy price was moderating heading into the month, it took a step towards recovery in March.



Crude and crude oil products rose during the month, buoyed in part by an improving macro-economic climate and expectations that inventories would begin to draw down in the future. This change in expectation was evident along the crude forward curve as the difference in the price between nearby and deferred crude oil contracts began to shrink from historic levels. At the same time, the front month benchmark crude oil price rallied almost \$5 (or more than 10 percent) during the month. Profits in natural gas trading were not large enough to offset losses incurred in the crude oil and London gas oil markets.



**METALS** – Trading precious metals was unprofitable, as JWH programs incurred losses in both gold and silver trading. Gold prices declined during the month, with gold losing its appeal as a safe haven as investor fears began to subside. Price action in the silver market was choppy and directionless for most of the month. Trading in industrial metals was mixed.



**AGRICULTURAL COMMODITIES** – Trading in other commodity markets was generally unprofitable. While we have detected in previous months greater diversity across the commodity complex with the macro-economic environment being less of a driver of return, price action in March was mostly to the upside. A shift in investor sentiment from fear to possible concerns about inflation and the value of the dollar resulting from the monetary policy of quantitative easing might explain the movement. Flooding along the Red River in the United States certainly played a part in the rally of certain commodity prices. However, the price action across markets was not in lock step as it was in the fourth quarter of last year. As we head into critical months for agricultural commodities, it remains to be seen whether the coherence in the agricultural markets will persist.

**CONCLUSION** – As "Trend Followers" we always hold positive performing positions within a portfolio until our programs provide a clear signal that a market trend has ended. That signal can result in either a direction change or possibly a neutral phase due to a lack of clarity or strength. In either case the result is a "give-back" of a portion of the previously accrued profits in a long trending market.

While it is never comforting to incur losses during these reversal periods it is a natural component of trend following and we believe necessary to ensure that a change in "trend" has occurred and not just a short-term market aberration that will soon revert to support the established long-term trend.

JWH's programs experienced significant profits last year from a broad diversity of markets and market sectors. It is not unusual or unexpected that we will experience a period of give-back in some of these markets as new trends emerge.

While we do not make predictions, it is certainly possible that the strong dosage of stimuli that the authorities have administered to the global economy, which was in part a reason for this month's losses, will lead to unintended consequences that have the potential to drive significant price trends in the months to come.

*KS Webster*

Kenneth S. Webster  
President and Chief Operating Officer

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS