

# JWH MARKET COMMENTARY

MAY 2010



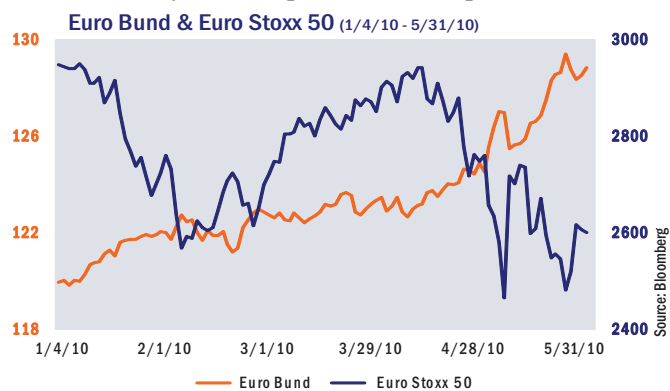
JOHN W  
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# GLOBAL CALAMITIES RATTLE INVESTOR CONFIDENCE

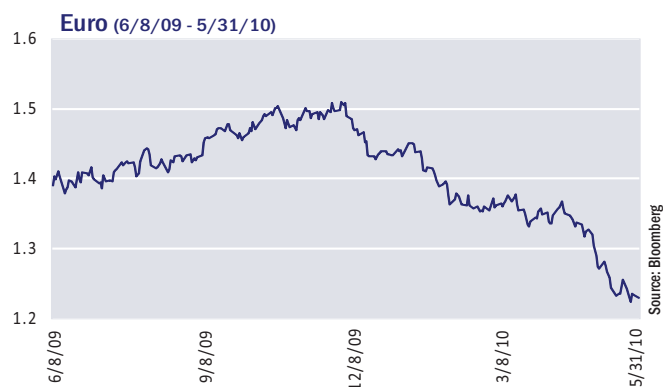
JWH programs turned in mixed performance in May in a trading environment that featured the best and the worst conditions for trend-followers. The turmoil in the global financial markets caused new trends to develop, nascent trends to extend further, and developed long-standing trends to reverse sharply. Equity markets fell, with the S&P 500 retreating more than 7 percent on the month as the deteriorating fiscal situation in Europe and the adverse impact it will have on global growth weighed on investor sentiment. While the decline in the euro/USD exchange rate and stress in the LIBOR markets are indications that the epicenter of the current market maelstrom may lie in Europe, the news out of the United States and Asia provided little solace to the markets. The VIX index (CBOE Volatility Index) and the so-called TED spread, two popular barometers of financial market conditions, had big moves in May -- underlying the stress in the markets. Against this backdrop, JWH's financial and broadly diversified programs performed well overall, providing some measure of diversification to investors during the month.

**INTEREST RATES** – The interest rate sector was the best-performing sector for JWH's programs with positions in European bonds leading the way. The benchmark European Bund contract rallied 400 ticks during the month as the market came to terms with the fact that the steps necessary to remedy the fiscal situation in Europe will be a significant drag on economic growth for the foreseeable future. As equity markets slid, government bonds benefited from their status as a safe haven. The yield on the U.S. 10-year note fell 3.28 percent by the end of the month. Trends in short-term interest products, like Eurodollars, were less clear as turmoil in the LIBOR market impacted prices. The widening spread

between the Fed funds rate and three-month LIBOR, which is set by a survey of major international banks, reflects the risk premium the market is demanding from banks that may have exposure to European credit.



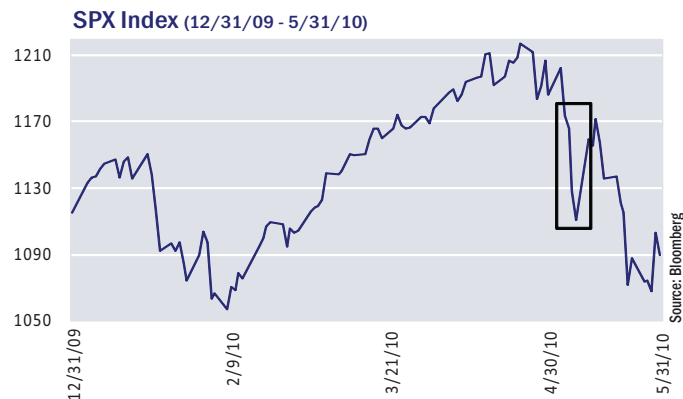
**CURRENCIES** – The currency markets were also a bright spot with the euro being the top performer in the sector as it declined from €1.3294 to €1.2306 to stand at a four-year low at the end of May.



In addition to mounting concerns about write-downs at Europe's banks and efforts to reduce budget deficits, the jobless rate in the European Union rose above 10 percent in May. While the Swiss franc did not move to the same degree, it followed the downward trend on the euro and made a positive contribution to performance. The British pound was also profitable. Trading in the Japanese yen was mixed with positive flows into the dollar being offset by demand for yen resulting from the

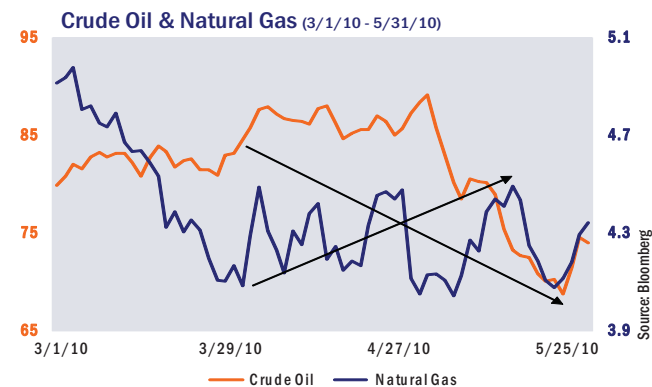
liquidation of carry-trades, which were unwound in large size during the market turmoil.

**GLOBAL STOCK INDICES** – While global equity markets declined during the month amidst higher volatility, the sector was unprofitable for most of JWH’s programs as small gains from positions in European equity futures were not enough to offset the losses from positions in U.S. and Asian futures. Trading in the equity markets was especially choppy during the month. On May 6<sup>th</sup>, U.S. stocks tumbled with the Dow Jones falling 1000 points late in the session and erasing \$1.25 trillion in market capitalization before recovering. Dubbed the “flash crash,” this wrought havoc on a number of market participants as the full down move was retraced in the second week of May. In the latter part of the month, the market traded at levels higher than those that preceded the crash, only to turn and head south at the end of the month. The long-term nature of JWH’s trading models and the disciplined, systematic manner in which they invest are traits which helped the programs avoid significant losses in this sector during this difficult and choppy period.

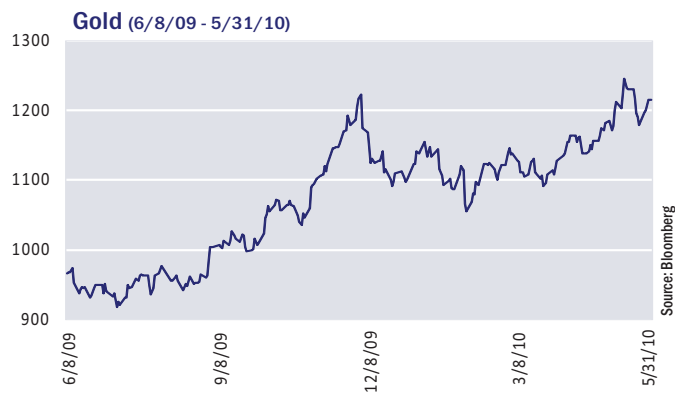


**ENERGIES** – The biggest losses for most of JWH’s programs came from the energy sector, where both crude and natural gas suffered from significant trend reversals. Crude oil fell more than 16 percent during May -- from a price of \$88.36 to \$73.97 in the July contract. The month-on-month decline was front loaded, with 75 percent of the decline coming during

the first week of May as speculators rushed to liquidate positions and reduce exposure to risky assets. The monthly net change in natural gas was more modest, but the intra-month price action was extremely choppy leading to some false signals for the programs. Natural gas rallied 13 percent from the start of the month to the middle of the month, only to give up all the gains by month end. Difficult trading conditions were exacerbated by uncertainty about the long-term fallout for the energy industry as a result of the oil spill in the Gulf of Mexico.



**METALS** – Trading metals was unprofitable for the majority of JWH’s programs as gains in gold were unable to offset losses from positions in silver and industrial metals. Gold set an all-time high during the middle of May -- above \$1250 per ounce, underscoring investor concerns about the markets and the global economy. The rally in gold was impressive, considering the gains were made at a time of strength for the U.S. dollar. Silver also rallied but suffered from a less directional trading pattern. Industrial metals traded lower in line with the less sanguine outlook for global growth.



**AGRICULTURAL COMMODITIES** – The agricultural sector was mixed for most programs. The price action across the sector was mostly to the downside as concern about a slowdown in global growth and its impact on demand for commodities pressured prices. Economic data from China, a great source of demand for commodities, was also weak.

**CONCLUSION** – May brought in mixed performance to JWH’s programs in a month filled with violent reversals that indicate that even though we may have come a long way from the depths of the economic meltdown in 2008, the deep seated panic linked to the emotional and financial trauma from those events lies dormant just below the surface for investors. The events unfolding in Europe bring endless debates by experts on the potential impact those events will have on the U.S. and global economies. This has left investors experiencing that “déjà vu” feeling and the realization that no one can predict the future.

The unrest across Europe, the “flash crash” in the U.S. and the unknowns from the environmental and financial implications from the Gulf Coast oil spill all contributed to the decline in investor confidence that weighed on some sectors of the programs portfolio during what was a very tumultuous month of May. We will continue to employ our disciplined, non-predictive, systematic approach to trend following during these uncertain times as the programs models continue to manage risk and look for additional opportunities to bring the long-term benefits of managed futures to our investors.

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