

# JWH MARKET COMMENTARY

OCTOBER 2008



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COMPANY

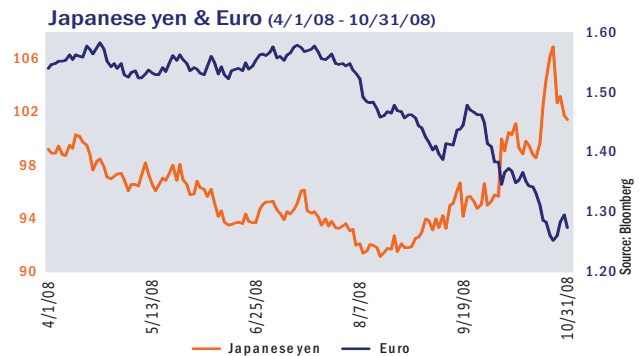
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# DISCIPLINED INVESTING THROUGH DIFFICULT TIMES

JWH's performance was exceptionally strong in October. JWH's four offered programs produced gains of between 16 and 32 percent for the month and were able to navigate through extreme volatility and capitalize on market moves of historic proportions. Continued weakness in the credit markets and a global decline in equity prices were themes that have been in place for much of the summer. These trends expanded and intensified in October, turning into a rout that threatened the stability of the world's financial system. Growing pessimism and an increased aversion to risk coupled with forced liquidations by investors and funds of all kinds exacerbated the moves. The global policy response to this economic challenge was significant and more coordinated than at any other time since the tragedy of September 11, 2001. However, the financial future and the path of the markets are uncertain as volatility remains high. The true cost of this financial crisis in terms of its impact on investor confidence, the real global economy and the fiscal position of governments and government agencies remains unclear.

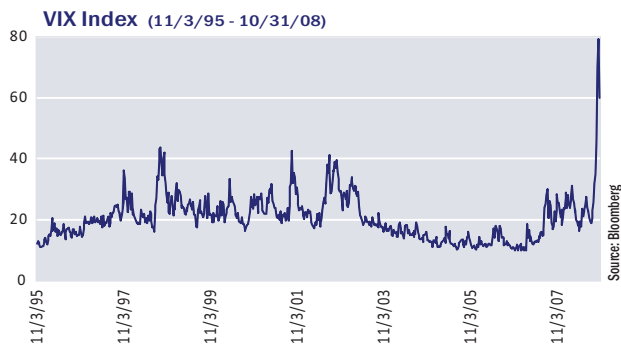
**CURRENCIES** – Currency trading was the best performing sector during the month as the foreign exchange markets were roiled by the worldwide financial crisis. The dollar, reasserting its status as the world's reserve currency, strengthened appreciably as investors sought a haven from plunging emerging market stocks, bonds and currencies. The MSCI Emerging Markets Index fell to a five-year low during the month as the effects of investor de-leveraging and risk reduction spread to the developing world. This demand for dollars showed up in the Federal Reserve Board (the Fed) statistics, which revealed that the Fed's holding of U.S. government debt on behalf of foreign central banks increased by more than \$60 billion during the month, the largest increase on record. In addition to the dollar, the Japanese yen also benefited from a state of heightened fear as investors unwound so-called carry

trades by (in part) buying back the Japanese currency that was used to finance these trades. The programs benefited from the strength of the dollar against European currencies as well as the weakness of the dollar against the yen. The divergent paths of the euro and the Japanese yen created excellent opportunities for the programs' non-dollar cross-rate trading, which made a positive contribution to the month's performance.



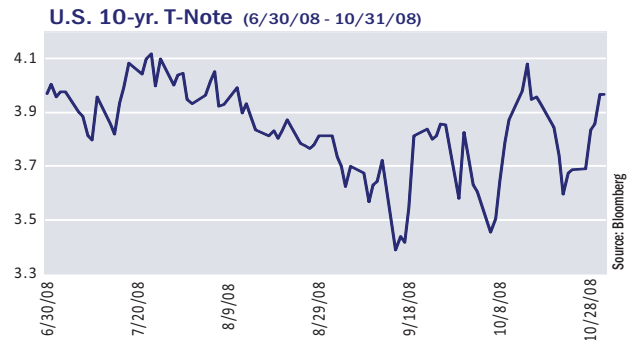
**GLOBAL STOCK INDICES** – Arguably, the center of the storm shifted from the credit markets to the equity markets during October as stock prices across the globe reeled amidst unprecedented volatility. For example, the VIX index, which is a widely followed measure of the implied volatility of S&P stocks, rose to a record level of almost 90 percent, which far surpassed the peaks witnessed during the bursting of the dot.com bubble. Another measure of the advancing uncertainty can be seen in the Dow Industrials average where every trading session in October had a triple digit range and seven straight sessions had moves in excess of 500-points. While some developing countries were able to avoid the brunt of the sell-off afflicting the U.S. for much of the year, the carnage spared few during October. The S&P 500, the MSCI EAFE and the MSCI Emerging Market indices were all down more than 40 percent at different points during the month. A search for safety and reported large-scale selling by hedge funds played a role in the markets' decline. JWH positions in European,

Japanese and U.S. equity index futures were all profitable in October.

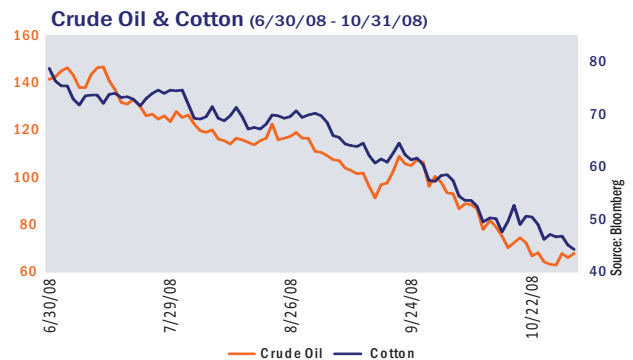


**INTEREST RATES** – While trading in interest rates was profitable overall in October the multitude of cross currents that passed through the markets during the month affected interest rate trends and led to mixed performance in specific markets across this sector. Global economic authorities provided an aggressive response to the market turmoil. On the monetary front, the U.S. Federal Reserve brought the Fed Funds rate down to 1 percent by month end by cutting rates 50 basis points on two occasions during October. The first rate cut was part of a global effort earlier in the month whereby the U.S., Europe, England, Canada, Sweden, Switzerland and China all cut rates in a coordinated action to deal with the ongoing crisis. The actual reductions in official rates, as well as the expectation that further cuts would be forthcoming, were important forces, along with the flight to quality flows that pushed short-term interest rate futures higher during the month. JWH trading at the short end of the interest rate curve was profitable for October. While the Fed was reducing interest rates, the U.S. Congress and the Department of Treasury were providing further support for the markets. The Emergency Economic Stabilization Act of 2008 was signed by the President on October 3rd. While there are numerous provisions in the bill, at its heart is a plan to provide the Treasury with \$700 billion to buy troubled assets from financial institutions – an effort that proponents say will ease the credit crunch by allowing banks to clear their balance sheets and lend money. The aggressive monetary policy and the additional borrowing requirement needed to fund the new Treasury program were two

factors that weighed on the long end of the market. In a month where Treasuries enjoyed a safe haven status, yields actually rose 14 basis points in an uneven path throughout the month. JWH trading at the long end of the curve was modestly unprofitable.



**ENERGIES** – JWH trading in commodities in general was profitable in October as many markets suffered record declines. The Reuters/Jefferies commodity index had its worst month in history as it fell by more than 24 percent during the period. In addition to poor returns and credit concerns, investors in long-only commodity indices may be further disheartened by the rise in commodity correlation with other assets and their failure to provide much needed diversification. The energy markets in particular made significant contributions to the programs performance for the second month running as the prices of energy of all kinds continue to freefall.



The benchmark crude oil contract dropped 36 percent during the month surpassing the previous record fall of 30 percent in February of 1986. The fundamental drivers of the trend lower in energy prices were reinforced in October. The dollar continued to rise in value. The global economy continued to weaken while risk reduction and position liq-

uidations prevailed. The decision by the Organization of the Petroleum Exporting Countries (OPEC) on October 24th to cut production by 1.5 million barrels per day did little to upset the trend as oil finished the month very close to the recent low. Natural gas prices fell more than 15 percent during the month despite colder than normal temperatures in certain parts of the country. All energy positions for JWH's programs were profitable in October.

**METALS** – Trading in metals was profitable, and largely attributable to the sharp decline in the price of industrial metals. The decline of the metals markets and their high degree of volatility was primarily a symptom of the turmoil in the financial markets and concerns over the economic growth outlook. The price of copper declined a staggering 35.5 percent during October. Trading in both copper and aluminum were profitable for the month. Gold's status as a store of value and a safe haven meant the path lower during the month was uneven with positive and negative rallies throughout the month depending on the data released. Ultimately, gold finished lower on the month as it was unable to overcome the overwhelming movement of money out of the commodity markets and the strength of the U.S. dollar. JWH trading in gold and silver was profitable during October.

**AGRICULTURAL COMMODITIES** – Agricultural markets, like most commodities, also declined in October while generating profits for JWH's programs. The grain markets fell capping their fourth straight monthly decline, reflecting the deteriorating prospects for the global economy and the future demand for food, animal feed and bio-fuels. Positions in the cotton fiber market were profitable as prices declined on expectations that Chinese imports will decline due to decreased demand for clothes and bedding. Positions in soft commodities, including coffee and sugar, were also profitable.

**CONCLUSION** – JWH is very pleased with the performance of our programs in October. We have never looked to “sell” our way of investing as the only way but have focused on educating our investors and potential investors about the benefits provided by systematic trend following.

It is estimated that as many as 50% of the current Hedge funds in existence will go under from the effects of this current crisis. Many of their strategies will come under pressure; some observers forecast that they will no longer provide future benefit regardless of their performance history. The statement will be made, as it always is during times of stress and uncertainty that “this time the world has really changed”. Many investment managers will react and try to reinvent themselves in light of their own predictions for the future. We understand that the only constant in life is change and that belief has always been an integral part of our philosophy and modeling. We will continue to provide our clients, as we have for over twenty five years, with access to a portfolio of exchange traded futures contracts and over the counter forward contracts in an investment vehicle that has historically been non-correlated to traditional stock and bond portfolios and also to other alternative investments. JWH programs are not dependent on access to credit facilities to execute its strategies, which has been a serious complication for many hedge funds. JWH's programs trade markets that we have determined contain sufficient liquidity; therefore, we can take immediate action if it becomes necessary. JWH provides daily position transparency to investors through their Fund's general partner, and all portfolios are valued in real time with a mark to the market at the close of every day. We are glad that we can reward the patience and understanding of JWH's investors with significant returns and protection during this period of crisis – just as we have done in previous periods of crisis in our nation's financial history.

We look forward to a long future as an investment manager that has dedicated itself to a disciplined investing philosophy and a standard of excellence in customer service.

Kenneth S. Webster



President and Chief Operating Officer

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS