

# JWH MARKET COMMENTARY

OCTOBER 2009



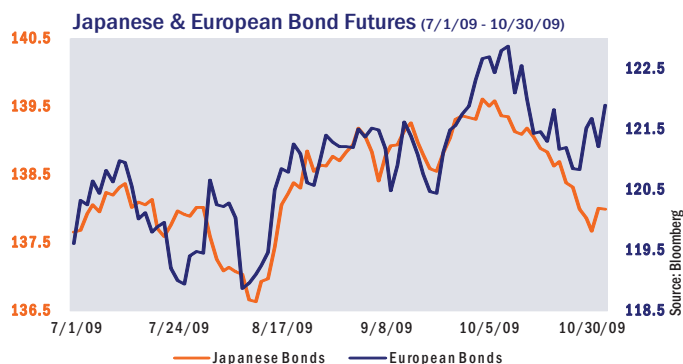
JOHN W  
HENRY &  
COMPANY

INC

# OCTOBER LACKS PAST DRAMA ALTHOUGH MANY TRENDS ENCOUNTER STRONG HEADWINDS

JWH's programs suffered losses in October as the rally in certain volatile assets, including equities, paused after seven consecutive months of positive returns. The more than 4 percent decline in the S&P 500 during the last week of trading notwithstanding, October was largely uneventful and lacked much of the high intensity often associated with the month of October. While there were trend extensions in a handful of markets, including high profile markets like gold and the European currencies, the preponderance of markets suffered from technical corrections in trend or continued to trade in an otherwise directionless pattern.

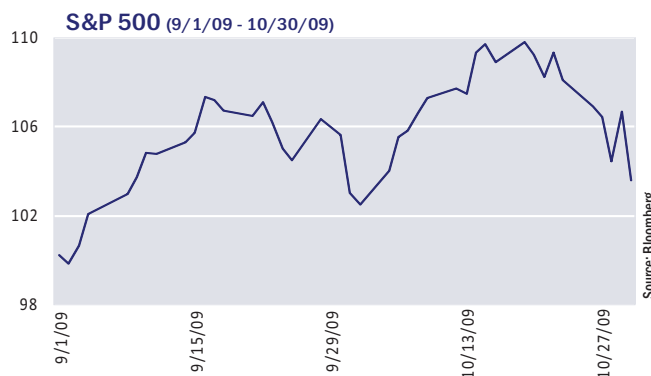
**INTEREST RATES** – The programs performance results were negative in the interest rate sector led by positions in European and Japanese bond futures.



Losses from bond positions came as central banks around the world began to publicly ponder how to exit existing dovish monetary policies. The central banks of Australia and Norway have made the first moves, electing to raise official interest rates, while the Federal Reserve Board announced that they were testing reverse repos in preparation for eventually removing some liquidity from the U.S. banking system. They were careful to communicate that these steps should not be construed as an indication that a policy change is imminent. The

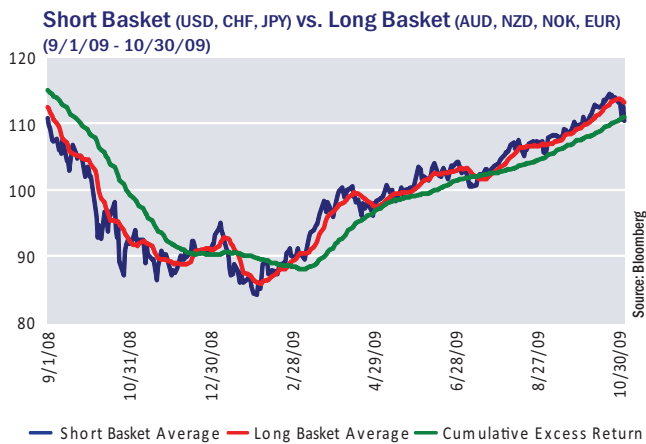
Japanese Government Bond future fell from its monthly high of 139.70 on October 2<sup>nd</sup> to close the month at 137.99. U.S. rates were pressured during the month as the Treasury prepared to sell a record \$123 billion in notes to fund government stimulus programs and record deficits.

**GLOBAL STOCK INDICES** – The S&P 500 fell 1.98 percent during the month, erasing monthly gains in the last week of October. This occurred despite a generally positive earning season where results were better than market expectations and the magnitude of positive surprises was higher-than-expected. The late month sell-off may have been influenced by a number of factors, including the looming possibility that monetary policy will be changing, slowing momentum in the improvement of certain economic indicators, or simple profit taking that is normal after the more than 60 percent rally from yearly lows. The correction in equity prices was global with MSCI EAFE and emerging market indices all posting losses for the month. The sector suffered small losses in October.

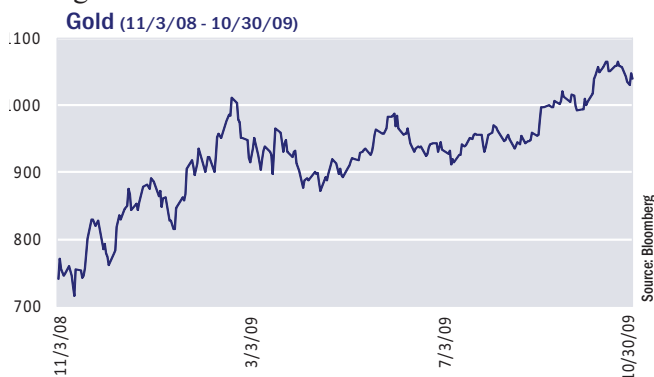


**CURRENCIES** – The currency sector was also down slightly for the month; however, performance within the sector was mixed. Positions in European and Australian currencies were profitable, gaining further

strength from market perceptions about actual and expected future interest differentials relative to the U.S. dollar. The Reserve Bank of Australia hiked interest rates by 25 basis points on October 6<sup>th</sup>, widening its already substantial interest rate advantage over most currencies. The Australian dollar moved from .8828 to .8997 during the month. The European currency followed a similar path during October as it advanced month on month versus the dollar. High yielding currencies continue to out-perform lower yielding currencies as seen in the chart below. The dollar did recoup some losses late in the month as equity prices swooned, suggesting that investor appetite for risk is still an important factor influencing the value of the U.S. currency. The possibility exists that the dollar will reassert itself should conditions in the equity market deteriorate.

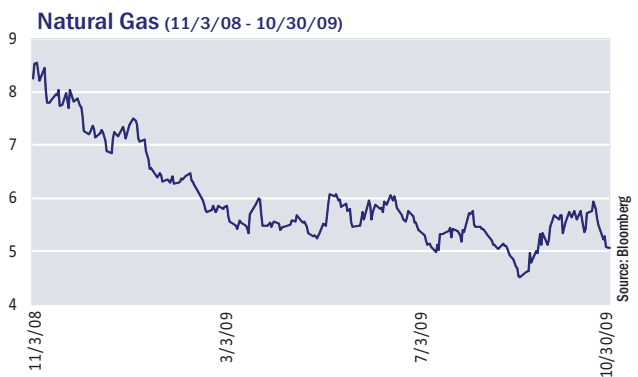


**METALS** – Gold was a bright spot for JWH’s programs in October as the precious metal convincingly eclipsed and held above the \$1000 per ounce level during the month.



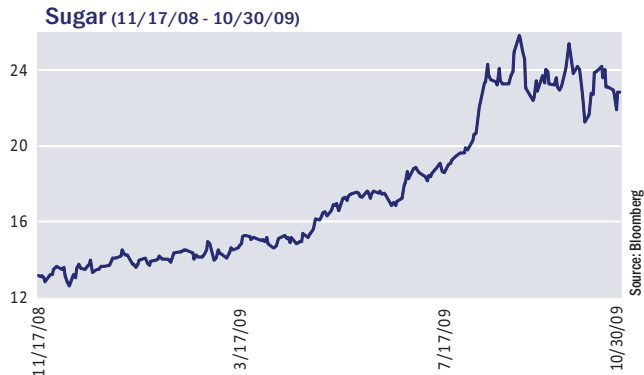
Gold continues to benefit from the weakness in the U.S. dollar and the perception that it represents a real store of value in times of crisis. Gold closed the month at \$1040 per ounce, up 3.27 percent from the previous month’s close. By contrast, industrial metals moved very little during the month. For example, 3-month aluminum prices trading on the London Metals Exchange opened the month at 1885 and closed the month at 1890.

**ENERGIES** – Performance from the energy sector was slightly negative as losses from trading in natural gas offset small gains from the petroleum sector. Crude oil broke new technical ground during the middle part of the month, in a subdued fashion, as it traded at yearly highs above \$80 per barrel as improvement in global demand underpinned prices. On the other hand, natural gas failed to extend last month’s big move to the upside and pulled back amidst projections that domestic inventories will hit all-time highs before the end of the seasonal injection cycle.



**AGRICULTURAL COMMODITIES** – Performance from the agricultural sector was negative, driven by the idiosyncratic fundamentals of the diverse set of markets that comprise the sector allocations. Cotton and coffee both contributed positively to performance but these gains were not enough to offset losses from grains and sugar prices. Grain prices reversed trend during the month as news from the USDA highlighted the fact that the U.S. grain harvest is delayed with crop yields coming in below market expectations.

Sugar continued to trade in a volatile fashion at lofty levels as it remains bolstered by demand for its use as a feedstock for ethanol.



**CONCLUSION** – October 2009 did not produce market fireworks the likes of last year or other big October markets throughout history. With some notable exceptions, the market price action during the month was subdued. In light of this price action, the small losses incurred by JWH’s programs during the month are understandable and to be expected. The programs overall performance volatility remained low, while the up-tick in market volatility near month-end may be a signal that things are beginning to shift in the marketplace. JWH’s programs stand ready to profit as new trends develop.

We thank you for your patience and continued support.

Kenneth S. Webster  
President and Chief Operating Officer

---

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS