# Market Commentary


## Year in Review 2009

John W Henry & Company
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# 2009: WHERE DO WE GO FROM HERE?

2009 can be characterized as a year filled with so much in the way of change or proposed change -- from a presidential inauguration, ongoing government intervention and stimulus, global regulatory overhaul, massive corporate bankruptcies, continued historic financial scandals, record double-digit unemployment, wars and new terrorist threats at home and abroad -- that it is hard to imagine a future without this extensive daily chaotic stimulus. Investors have never been confronted with a more persistent barrage of high frequency input from so many directions that carry with them endless possible consequences for the U.S. and global economic landscape. Forecasts are espoused by networks overflowing with experts analyzing this data and then telling us how the future will unfold. Scholars have spent much of the past two years combing through history to compare our current economic situation to those that have come before to gain comfort in predicting what is likely to occur in the future. One major difference is that in past crises, like the Great Depression, the ability to deliver a message simultaneously through endless mediums including print, television, radio and the internet did not exist and therefore real actions resulting in jobs and relief were needed to address and quell the panic. Change had to be seen and felt not just "discussed".

What we have seen in 2009 is that at some point the overrun of information and predictions becomes more than investors can absorb. Regardless of the fundamentals and indicators that are signaling to investors that the outlook is better than 2008, but by no means good, we saw global equity rallies from their lows in early March of close to 80 percent. A few questions to ask ourselves as investors: Have we seen change in 2009 that supports an economic recovery the magnitude of what has been reflected in the global stock markets? Do we today have a clearer picture of why a sustained gold rally to over $1,000 makes sense? What are the long-term implications of the massive infusion of cash into the financial markets? Have we seen a bottom to the housing market and what will be the impact of the eventual rise in interest rates on its recovery?

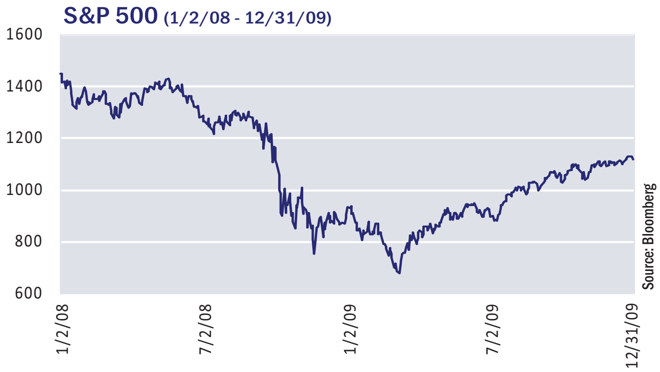
We at JWH do not pretend to have the answers to these questions. The basis of our investment philosophy is that we do not believe anyone has the ability to accurately predict the future. While 2009 was not a banner performance year for JWH investment programs, we see an even more compelling case for investors to be cautious, assess the benefits of portfolio diversification and understand why an allocation to managed futures and JWH continues to make sense. No strategy makes money every year. JWH programs returned a range of positive performance between 40 percent and 91 percent in 2008, marking one of our best years on record. 2009 was a difficult year for systematic trend-followers and produced losses in our programs ranging from 0.3 percent to 24 percent. While it is disappointing that we were unable to provide positive returns in 2009, we offer the following commentary to provide some perspective on last year's returns.

### Violent Reversals and Directionaless Markets

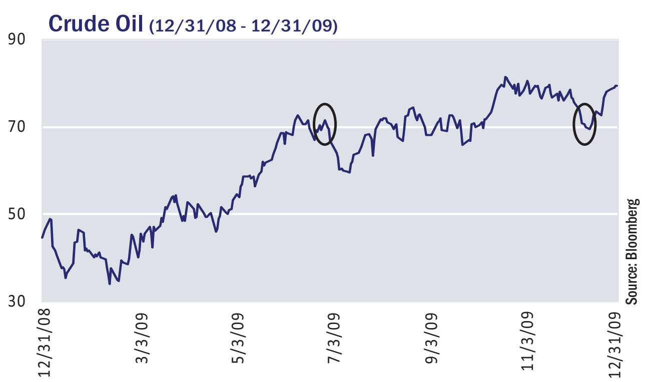
The transition in the global economy and financial markets from the brink of collapse early in the year to frothy heights by year-end was truly stunning. Aided by coordinated, extraordinary policy measures by both governments and central banks around the world, the markets rallied sharply from early losses. With major global interest rates near zero for most of the year, the S&P 500 advanced almost 70 percent from the lows of early March to close the year at a new 52-week high. It is understandable that clients may have difficulty discerning why JWH investment returns were not better given the financial advances that marked the past year. As is often the case, there is rarely a simple answer; but we believe a review of 2009 from a micro, macro and relative perspective will offer clients insight and reaffirm the investment logic that first led them to managed futures and JWH in particular.

A look back at the 2009 calendar year return cycle for JWH reveals an instructive dichotomy. The year can be broken up into two distinct periods; when these are reviewed separately, they help explain program performance. The first part of the year from January to May was marked by the violent fall and rise of a number of markets. For example, the stock market fell nearly

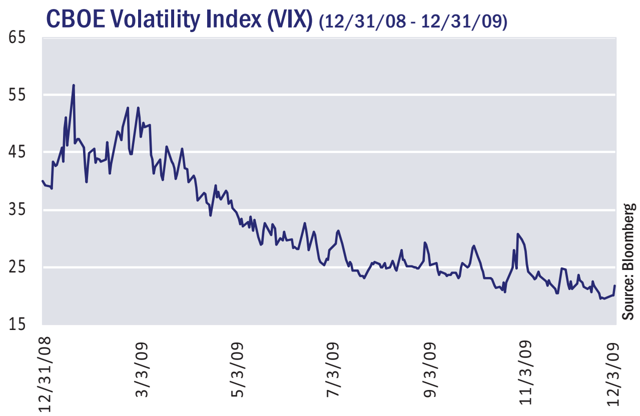
27 percent from the start of the year to the March 6th low; however, by early May, the market had recovered the entire year-to-date loss.




To one degree or another, this trading pattern was evident across JWH's programs during the early part of the year. Markets characterized by abrupt violent reversals pose difficult challenges for managers such as JWH. Unfortunately, the second-half of the year was dominated by an equally debilitating malady for trend-followers – markets that lacked both volatility and direction. While there were exceptions, with a notable one being gold, many of the markets in our programs lacked both direction and volatility during the last half of the year. For example, front month crude oil was trading at $73 per barrel on the last day of the second quarter and traded at the same price in late December as the markets began to close for the holidays.



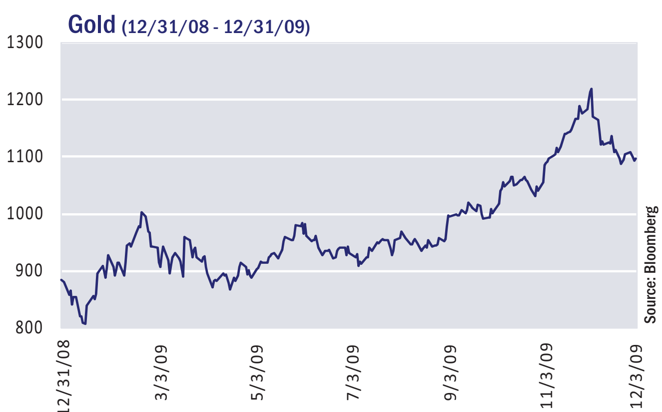

The same statement could be made for markets in the currency and interest rate sectors. U.S. 10-year yields traded 3.50 percent at the end of the second quarter, and also in late December. During the second half of the year, volatility declined precipitously across multiple asset classes. The VIX (a popular measure of stock market volatility) declined in almost a straight line, finishing the year on its low, down more than 60 percent from the beginning of the year.




The sharp reversals of early 2009, combined with the directionless markets, and widespread volatility compression that dominated the latter part of 2009, made for a difficult year of trading.

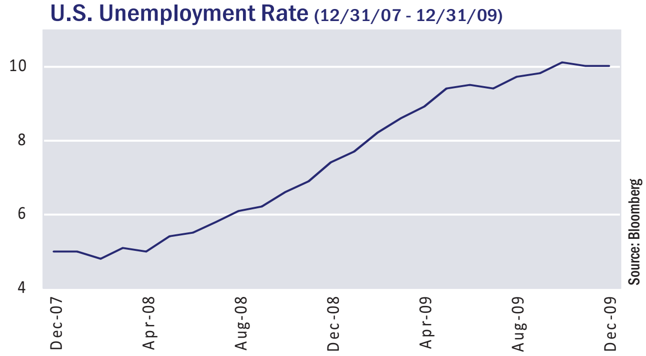
## Mixed Signals Abound

While we have been reminded in recent years that the markets seemed to be influenced by animal spirits, the somewhat haphazard manner in which they traded is understandable in light of the opposing economic forces that weighed on them for much of the year. Chief among these was the constant push and pull of both inflationary and deflationary forces. In order to stave off financial calamity authorities were forced to flood the markets and economy with liquidity. Interest rates were kept near zero. At the same time, the U.S. Federal Reserve Board employed unprecedented measures, which included purchasing $1.45 trillion of government bonds. Inflation was bound to be a side effect of these actions. There was increasing demand for gold, which traded over $1,000 per ounce during the year.




At the same time, though the employment picture in the U.S. was persistently weak with the unemployment rate exceeding 10 percent for much of the year.

U.S. Unemployment Rate (12/31/07 - 12/31/09)




Bank lending contracted during 2009 and consumers and businesses reduced leverage. The fiscal positions of governments across the world deteriorated. The end of the year saw the downgrade of Greek sovereign bonds and the failure of Dubai to meet its credit obligations. For every bit of optimism that emerged during the year, there appeared to be an almost equal number of reasons to be pessimistic. This push and pull played out in many markets, but not the equity markets, where many traditional investors and commentators focus their attention.

A certain amount of perspective is needed when looking back at 2009. First of all, the down year followed one of the best years in JWH history, when most programs out-performed their peer groups by a significant margin. While JWH did not generate positive performance in 2009, most managed futures industry benchmarks also finished down for the year. For example, the Barclays BTOP 50 recorded a loss of 4.7 percent for 2009, while The Altegris 40 Index had a loss of 8.2 percent in 2009. The down year for JWH also coincided with stabilization in the housing market and one of the best years on record for the stock market.

## In Conclusion

JWH enters every year expecting to make money for clients. All asset classes and every investment strategy will face market conditions that are not conducive to a particular style of trading. This was the case for JWH in 2009. The lessons of the recent past have taught us that investors should be skeptical of things that appear too good to be true. We believe that JWH programs will continue to provide investors excellent long term returns as they have for over three decades. These are unprecedented times in the financial markets with unending possibilities based upon decisions and actions not only made here in the US but the world over. The balance of government intervention and private sector recovery is fragile and the successes and failures throughout the world will have a rippling effect through the global markets. It is encouraging to see strength in the recovery through a rise in the global equity markets, but there is much to be learned from a broader view of the market results of last year. 2009 provides us much context to make comparisons to the past but one thing is certain -- no one can predict the future. This belief has been at the heart of the JWH investment philosophy since our founding over thirty years ago and is why we will continue to stay true to our disciplined systematic approach to investing in these diverse world markets providing our investors returns that have been historically uncorrelated to equity, fixed income and most other alternative investments.

We thank you for your continued support and offer our best wishes for a happy and healthy 2010.

KS Webster

Kenneth S. Webster
President and Chief Operating Officer

*Past performance is not indicative of future results.*