



Astor Capital Management's Monthly Update - May 2010

Written by Astor Capital Management

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Summary

Index	May 2010	YTD
S&P 500	-8.2%	-2.3%
DJIA	-7.9%	-2.8%
Nasdaq Composite	-8.3%	-0.5%
FTSE 100	-6.6%	-4.2%
GSCI Index	-1.5%	-12.9%
MSCI EAFE	-12.1%	-13.7%
CMT 10 yr US Treasury	+10.3%	+14.0%
BarclayHedge CTA	-0.4%	-0.6%

Past performance is not necessarily indicative of future results. An investment in alternative investments, including Managed Futures or Forex is subject to a substantial risk of loss and may not be suitable for all investors. The material contained herein is for informational purposes only and is not a solicitation for investing. Investors should consult financial advisors before investing.

Trading Activity of the *Hudson FX Program**

Trading activity on the *Hudson FX Program* was up approximately 2.50% (net of all fees) for the month. The focus was on USD/EUR currency pair trading during European trading hours. If you would like more details, please contact us.

**= Astor Capital Management is the designer and Advisor of Hudson FX Program. It is traded in conjunction with CIML, the Advisor's appointed Sub-Advisor. See the Disclosure Document for details.*

Astor Capital, through its managed FX programs, is actively involved in trading off-exchange spot foreign exchange ('forex') currency pairs as an asset class with the goal of capital appreciation. Astor Capital offers investors professionally managed accounts that offer one day liquidity and redemption. There are no lock-ups, gates or other requirements or penalties to get your funds.

Market Activity

The month of May was indeed an active month in many respects. Below are some of the events

that shaped the month that witnessed substantial losses in most equity markets.

- Following the traditional May Day celebrations to start the month, The **European Union** (“EU”) and International Monetary Fund (“IMF”) formally announced their bailout package for Greece. The EUR 110 Billion package over three years was met with some market skepticism, as the EUR continued to weaken following the announcement, falling to one year lows against the U.S. dollar (USD);
- Market concerns over potential **pan-European** contagion continued;
 - Yields on government debt in Spain and Portugal increased (15bp and 35bp respectively in the 2 year sector) as a result of investors selling bonds, which pushed prices lower,
 - European Central Bank (“ECB”) member Axel Weber stated that Greece poses “grave contagion effects” for the Eurozone,
 - Moody’s, the credit rating agency, placed Portugal’s government bond ratings on review for possible downgrade,
 - Fitch Ratings, the credit rating agency, cut Spain’s government bond rating to AA+ from AAA. Following that, a government austerity package was announced (including cutting spending by EUR 15 Billion this year),
 - The ECB left interest rates unchanged at its May meeting. Some market participants had looked for a rate cut or bond purchasing program to calm market concerns,
 - Although oil prices and several other USD denominated commodities have tracked the USD (e.g., USD stronger, WTI price lower), gold is being viewed by investors as a flight to safety asset. Concerns about European growth and inflation have lead to gold prices to trade around \$1,200/oz,
 - In an effort to stem market concerns, the EU unveiled a loan package worth nearly USD 1 Trillion for European nations under pressure from speculators, in addition to implementing a bond purchasing program to stabilize rising interest rates. The market took the surprise announcement quite favorably – European equities surged 8-11% higher and the EUR strengthened against most currencies (about 2% stronger against the USD, making it the largest single day move in the last 18 months),
 - Four Spanish banks announced they will merge with regulators, pushing lenders to combine with stronger partners. Hitting the contagion fear button, European equities fell and the EUR weakened following the announcement,
 - Italy announced a USD 30 Billion deficit reduction plan,
 - The EUR is near four year lows against the USD (around \$1.23/EUR) and 8 ½ year lows against the Japanese yen (“JPY”). Crude oil is near five month lows (around \$70/bbl),
- **China** announced a drop in manufacturing output, which many market participants attribute to the previous fiscal tightening undertaken;
 - Concern that a slowdown in China may dampen global demand, commodity prices fell,
 - Stock prices in China fell to a one year low on concerns China will further act to fiscally tighten and curb lending,
 - Chinese President Hu pledged to reform the yuan ahead of a two day talk with the U.S. Chinese equity prices rose slightly on this announcement,
 - Chinese Commerce Minister Chen Deming, who told reporters while visiting Austria, that China intends to keep the yuan stable,
 - Chinese Academy of Social Science economist, Yi Xianrong stated, “A revaluation would not bring any good to our economy, as our exporters already are under heavy cost pressures. It would be dangerous to revalue”,
 - And, away from the comments from various Chinese officials, Fred Bergsten of the Peterson Institute for International Economics estimated that bringing the yuan, that is considered to be undervalued by up to 40% against the USD, up to market value, could generate some 1.2 million U.S. jobs,
- The **U.K.** election failed to elect a new Prime Minister, creating the first hung Parliament since 1974. The Great British pound (“GBP”) weakened against its major trading partners off the prospect that the U.K. may become internally focused,
 - David Cameron was in discussions with potential collation parties until PM Gordon Brown resigned,

- The Bank of England left stimulus and interest rates unchanged at its meeting, which followed the PM election,
- Some **U.S.** market related events included:
 - Early in the month the market witnessed the equity market's "Flash Crash". The blame is going to a trader's "fat finger". The true genesis of the selloff may never be fully explained,
 - Nonfarm Payrolls ("NFP") for April surged to 290,000 new jobs created (vs. the market expectation of rising by 190,000). The Unemployment Rate for April actually rose to 9.9% from 9.7%. The market viewed the increase in the unemployment rate as positive, as those without jobs started looking for work again. The USD strengthened following the announcement,
 - Near the end of the month, the Wall Street Journal reported that mortgage rates hit 50 year lows (UST 10 year yield, generally used to price 30 year fixed rate mortgages - plus a spread, fell under 3.20%),
 - Durable Goods Indicator for April was up 2.9%, beating market estimates of 1.3%,
 - Consumer Confidence Index for May was up (this month greater than expected) for the third month in a row,
 - So far this year, the Federal Deposit Insurance Corporation (FDIC) has closed on 76 failed banks in the U.S. The current rate of failures is more than double that of 2009, which was already a brisk year for shutdowns,
- **Dubai** World reached an agreement with its creditors to restructure USD 23.5 Billion of debt. Although this was big news around New Year's (see January Monthly Update), Dubai's debt problems have faded behind the current "European story";
- Following the sinking of a **South Korean** naval ship in March, North Korea reiterated the threat of war if South Korea were to retaliate. Secretary of State Clinton announced that North Korean actions "cannot go unanswered";
- A moment of **reflection** for this month's passing of several notable people and events. They include;
 - Kama Chinen, the world's oldest person, who lived in Okinawa, Japan, passed away a week before her 115 birthday. The oldest human is now 114 year old Eugenie Blanchard of France, according to the Gerontology Research Group. The Group has validated 75 "supercentenarians" worldwide who are at least 110 years old. So, the question of, "Is your investment portfolio diversified for the long term?" may be a question investors need to ask themselves again,
 - Art Linkletter, the gently mischievous TV host, passed away at age 97, while Dennis Hopper, the much more mischievous actor ("Rebel Without a Cause", "Easy Rider" and "Blue Velvet"), passed away at age 74,
 - Nicolaus Copernicus, the 16th century astronomer whose work was condemned by the Roman Catholic Church as heretical, was reburied by Polish as a hero in May, nearly 500 years after he was laid to rest in an unmarked grave. Copernicus claimed that Earth was not at the center on the universe, rather it was the sun. This is referred to as the heliocentric theory,
 - And finally, the U.S. lost its #1 rating for global competitiveness. The IMD World Competitiveness Center at the IMD business school in Lausanne, Switzerland, announced that for the first time in 17 years, the U.S. lost the top spot, falling behind Singapore and Hong Kong, respectively.

Please note: all known news has already been factored in the price of underlying foreign currency valuations.

Is there Strength in Weakness?

The EUR is currently around four year lows against the USD. Sounds bad for the 16 nations who use the EUR as their currency and it sounds good for those who use the USD. This summer's vacationers from the U.S. can travel in Europe cheaper this summer than last summer, from an exchange rate standpoint. A U.S. buyer of Eurozone made goods or services denominated in EUR can buy the products cheaper, from an exchange rate perspective as well. The EUR peaked against the USD in July 2008 around \$1.60/EUR, while the current exchange rate is

around \$1.23/EUR. For example, a German car priced around EUR 50,000 two years ago – worth USD 80,000 at the time, would cost the equivalent of slightly over USD 60,000 today, strictly based on currency effects. That's also good for the holder of USD buying the EUR denominated goods. That's also good for the manufacturer producing the EUR denominated product for USD holders to buy. A weak EUR helps the Eurozone's exporters. Additionally, the consumers in the Eurozone that had purchased USD denominated imports now face a higher EUR equivalent purchase price. The Eurozone consumer may substitute the imported product with a Eurozone produced product.

German exports jumped 10.7% in the month of March. A weaker EUR allows Eurozone produced goods that are exported to become a driving force of economic recovery. Of course, Eurozone imports become more expensive. U.S. exports to the entire Eurozone account for about 15% of total goods outflows from the U.S.

G is for Graduate

In addition to May followers, this month starts the annual graduation ceremonies. The time honored tradition of speeches given at the podium and beach balls hit around among the graduates (with some graduates posting "Job Needed" signs on the mortarboards) can cause listeners to pause and reflect on the speech or on the famous quotes recited. High school graduates are being told to push the limits and to explore. The college graduates are additionally being told it's a tough market to land a job and to "think outside the box" in looking for that job. Equally sobering is information provided by the Collage Board in its "Trends in Student Aid Study". The study notes that 10% of people who graduated in 2007-8 with student loans had borrowed \$40,000 or more. The median debt for bachelor's degree recipients who borrowed while attending private, nonprofit colleges was \$22,380. The Project on Student Debt, a research and advocacy organization in Oakland, CA used federal data to estimate that 206,000 people graduated from college (including many from non-profit universities) with more than \$40,000 in student loan debt in that same period. That's a nine fold increase over the number of people in 1996, using 2008 dollars.

We will leave you with a few quotes our team heard and took note of:

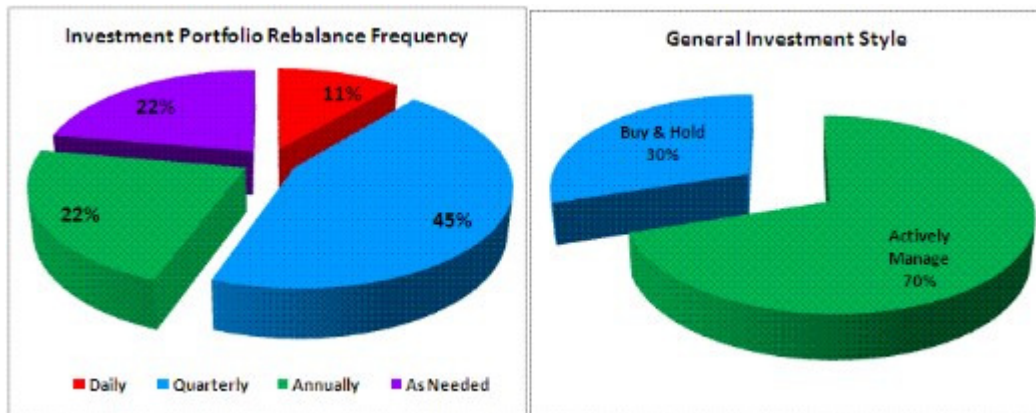
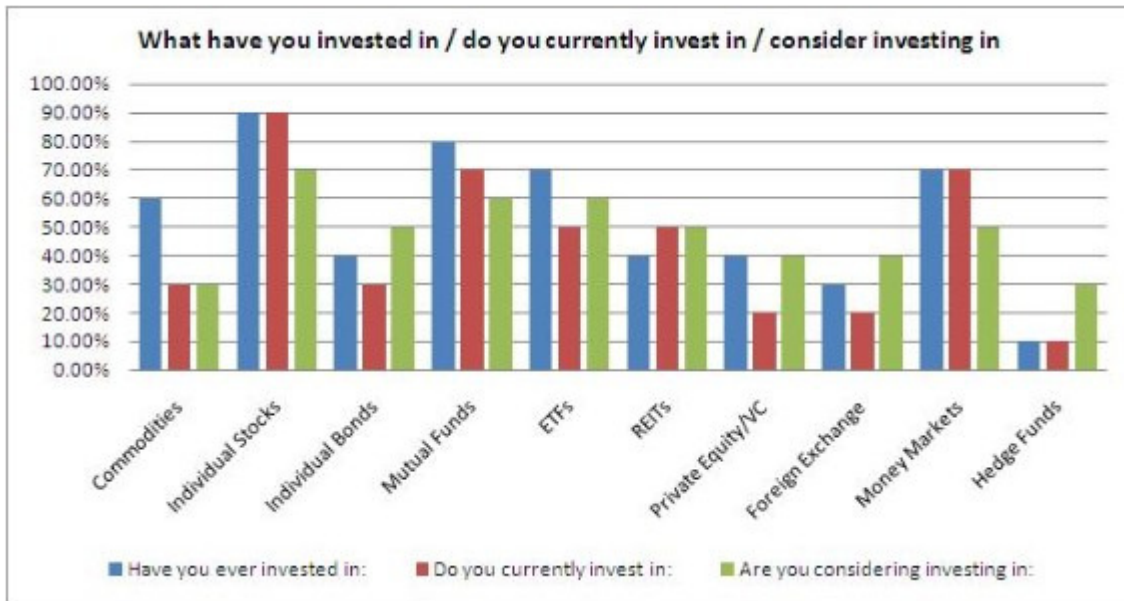
"Twenty years from now you will be more disappointed by the things you didn't do than the ones you did." – Mark Twain

"Imagination is more important than knowledge. Knowledge is limited. Imagination encircles the world." - Albert Einstein

"In the end, it's not the years in your life that count. It's the life in your years." - Abraham Lincoln

Reader Survey Results

Last month, readers responded to our short investing survey. The information detailed below represents the responses. The responses come only from some of those who are on our email distribution list; this sample group is not necessarily representative of the overall general investing population. In addition to several comments and suggestions, the Monthly Update format has been changed slightly. Thanks for your responses. For those interested in providing your opinions what you'd like to see more of, or less of, please email us at clientservices@astorcm.com.



Observations:

- Investors are considering an increase of 10% more choices than they currently are invested in,
- Individual stocks represent the highest percentage in all three time periods,
- Investors are considering an increase of 100% for FX over their current FX investments. In fact, investors are considering an increase of 36% in alternative asset classes over what they invest in today in alternative asset classes.
- Investors are considering decreasing their traditional asset classes by 12% over what they invest in today in traditional asset classes.

Astor Capital's New Managed Futures Program is Open to Investors

Astor Capital is extremely pleased to announce it has officially launched its managed futures account program, the *Martello Equity Index Program*. Investors give Limited Power of Attorney for Astor Capital to trade the Program in their account(s). The NFA has reviewed and accepted the Disclosure Document, which details all aspects of this Program, which is mainly a technical system driven program with some trader discretion that attempts to capture profit opportunities of equity indexes listed on U.S. futures exchanges.

The *Martello Equity Index Program* utilizes multiple trading strategies that currently incorporate the trading of U.S. equity indexes on U.S. futures exchanges including the E-mini S&P 500 (ES), the E-mini Nasdaq-100 (NQ), the E-mini Dow (YM) and the Russell 2000 Index Mini (TF).

We are very excited about the *Martello Equity Index Program* and would welcome the opportunity to discuss it with you in greater detail. You can contact us by calling **877-ASTOR 10** (877-278-6710), emailing us at info@astorcm.com or making an online request at <http://www.astorcm.com/ddoc.php> requesting a disclosure document, which will provide detailed information on the *Martello Equity Index Program*.

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Index Definitions

S&P 500 Index - A stock market index containing the stocks of 500 Large-Cap corporations, most of which are American U.S. domiciled. The Index is owned and maintained by Standard & Poor's, a division of McGraw-Hill.

DJIA Index - The Dow Jones Industrial Average is a stock market index, to gauge the performance of the industrial sector of the U.S. stock market. The average consists of 30 of the largest and most widely held public companies in the U.S. The average is price-weighted, which gives higher priced stocks more influence over the value of the index.

Nasdaq Composite Index - A stock market index of all of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market, meaning that it has over 3,000 components. It is highly followed in the U.S. as an indicator of the performance of stocks of technology companies and growth companies. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not an exclusively U.S. index. It is a broad based index which is calculated under a market capitalization weighted methodology.

FTSE 100 Index - The Financial Times Stock Exchange Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. FTSE 100 companies represent about 80% of the market capitalization of the whole London Stock Exchange. Even though the FTSE All-Share Index is more comprehensive, the FTSE 100 is the most widely used UK stock market indicator.

Goldman Sachs Commodity Index - The GSCI is a world-production weighted index composed of 24 commodity futures contracts. The index is a composite index of commodity sector returns and represents an unleveraged investment through broadly diversified long positions in commodity futures. The GSCI primarily serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time.

MSCI EAFE Index - A stock market index of foreign stocks, from the perspective of a North American investor. The index is market capitalization weighted (meaning that the weight of securities is determined based on their respective market capitalizations.) It first ranks each stock in the investable universe from largest to smallest by market capitalization. It is maintained by Morgan Stanley Capital International; the EAFE acronym stands for "Europe, Australasia, and Far East". The index includes a selection of stocks from 21 developed markets, but excludes those from the U.S. and Canada.

The 10 year US Treasury Constant Maturity Treasury Index ("CMT") - An index published by the Federal Reserve Board based on the average yield of a range of US Treasury securities, all

adjusted to the equivalent of a 10-year maturity. Yields on US Treasury securities at constant maturity are determined by the US Treasury from the daily yield curve. That is based on the closing market-bid yields on actively traded US Treasury securities in the over-the-counter market. This figure is used as a reference point to establish the price of other securities such as corporate bonds. US Treasury securities are considered risk-free since they are backed by the US government. This figure, and an added margin based upon the risk involved, is used in pricing various debt securities.

BarclayHedge CTA Index - A measure of the average return of CTA's providing BarclayHedge with their unaudited returns. There are currently over 400 CTA's reporting. It is unweighted and rebalanced at the end of the year.

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