



**ASTOR**  
CAPITAL  
MANAGEMENT

An Alternative Investment Company

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## Astor Capital Management's Monthly Update - August 2011

Written by Astor Capital Management



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### Summary of Indices

Index	Aug-11	YTD
S&P 500	-5.7%	-3.1%
DJIA	-4.4%	†0.3%
Nasdaq Composite	-6.4%	-2.8%
FTSE 100	-7.2%	-8.6%
MSCI EAFE	-9.3%	-8.1%
10 yr US Treasury	-21.0%	-32.9%
Barclay Hedge CTA*	†0.2%*	-0.47%*

*\*= as of 9/8/11 (data is self-reporting. 66.35% of the CTAs reporting have reported)*

Past performance is not necessarily indicative of future results. An investment in alternative investments, including Managed Forex and Futures is subject to a substantial risk of loss and may not be suitable for all investors. This CTA is prohibited by law from accepting funds in the trading advisor's name from a client for trading. You must place all funds for trading in this trading program directly with a FCM or retail Forex dealer, as applicable. The material contained herein is for informational purposes only and is not a solicitation for investing. Investors should consult financial advisors and carefully review the information contained in the risk disclosure statement of the FCM or retail Forex dealer that you select to carry your account and in the CTA's disclosure document before investing.

## **Astor Capital's Program**

Astor Capital, through its managed program, the *Knox FX Program* is actively involved in trading off-exchange traded currency pairs (“Forex”) as an asset class with the goal of capital appreciation. Astor Capital offers investors professionally managed programs that have one day liquidity and redemption. Astor Capital offers investors a program with exposure to the currency markets that does NOT have lock-ups, gates or other requirements or penalties to get your funds. If you would like more details on the program, including a Program Disclosure Document, please contact us at [clientservices@astorcm.com](mailto:clientservices@astorcm.com) or [click here](#) to request more information.

## **Market Activity**

August turned out to be “not quite the vacation month” many were planning on. In the U.S., markets focused on a debt ceiling/budget deficit crisis, an earthquake and a hurricane within a week of each other, a sovereign credit downgrade of the largest economy in the world, concerns of a “double-dip”, a commitment by the U.S. Fed to keep short-term interest rates extremely low until mid-2013 and massive gyrations in equity values. Globally, markets focused on a resurgence of contagion fears in the Eurozone where Germany may need to leverage to bail out the periphery, record high gold prices and the battle by central banks to see who can debase their currency more.

Although August was a trying month, with many investors getting out of stocks, there are signs for optimism. It is our opinion that:

- bigger U.S. companies are in better shape with better financial ratios;
- borrowing costs – interest rates are at record lows and many bigger companies have stockpiled cash;
- bigger companies are less dependent on a single economy - S&P 500 Index firms get nearly half of their earnings from overseas;
- the U.S. stock market is down for both the month and the year, but is still up 80% from the market low of March 2009; and
- the deleveraging process is underway – at least from the household side.
- 

August began with the markets unsettled. The 10 year U.S. Treasury (UST) yield was around 2.80% and the S&P 500 was around 1,287. By the end of the first week, U.S. equity markets gyrated and ended down 13% from mid-July levels, the volatility index, VIX, which is often termed, “the Wall Street fear gauge” was up 90% and global stock markets combined to lose \$2.5 Trillion in market capitalization. In the second week of August, U.S. equity markets witnessed four consecutive days of 400-point swings, the first time that has happened in the stock exchange’s 115 year history. By the end of the month, the 10 year UST yield was around 2.20%, U.S. equities were lower-the worst August performance since 2001 (S&P500 around 1,217 and the DJIA around 11,600), U.S. interest rates were lower across the curve, oil prices were lower, gold prices were higher, market volatility (VIX index) was higher and the U.S. dollar (USD) was weaker against the Swiss franc (CHF), the Euro (EUR) and the Japanese yen (JPY).

For the year, most major U.S. and European stock indexes have turned negative and U.S. bond yields are much lower. Astor Capital has observed a number of investors that are deeply concerned by the month’s market activity and as a result are reassessing their market exposures.

At Astor Capital, we are focused on working with investors (directly and with their financial advisors) on providing them with a method to invest in programs which strive to provide a low correlation to traditional assets such as stocks and bonds.

From a markets perspective, our focus remains on EU contagion issues. Our focus also remains on the U.S. politicians' ability to come up with meaningful debt reduction measures to satisfy the rating agencies and to begin tackling larger fiscal issues – all in the context that debt reduction in the intermediate- and long-term is critical, while in the short-term it is balanced with capital flowing to job growth.

Below are some of the events that shaped the month of August.

Some market related events from **The Americas** included:

- **U.S.** Employment Report and Non-Farm / Private Payrolls for August were released on the first Friday of the month. The unemployment rate fell 0.1% to 9.1% - the unemployment rate has exceeded 9% in all but two months since the recession officially ended in June 2009. Non-Farm Payrolls rose by 117,000, which was above market expectations of 85,000 new jobs created, while Private Payrolls rose by 154,000, which was above market expectations of 113,000. Immediately following the jobs release, values of U.S. equity indexes fell and the 10 year UST yield fell to 2.46%;
- **U.S.** politicians managed to approve a debt ceiling / budget deficit compromise. Last minute theatrics were in high gear, but the approved plan wasn't enough for what S&P had required for the U.S. to maintain its AAA long-term credit rating;
- **U.S.** long-term sovereign debt (i.e. U.S. Treasuries) related news included:
  - o Standard & Poor's downgraded the U.S. sovereign debt credit rating from AAA to AA+ after trading hours on the first Friday of the month (Aug 5). Additionally, S&P placed U.S. debt on negative credit watch. To explain its downgrade, the rating agency cited, in part, that the deficit was not reduced by the \$4 Trillion figure it had called for. Importantly, S&P provided its guidance on what the U.S. needs to do to recover its AAA rating. First, federal government debt as a percentage of GDP must decrease from its current level of 74%. Second, the Congressional Joint Select Committee on Deficit Reduction, which is charged to come up with deficit reductions of an additional \$1.5 Trillion by this November, spread out over the next decade, would have to make major cuts in the largest entitlement programs. Third, budget cuts alone are not sufficient - taxes must be increased in order for the U.S. to regain its credit rating. S&P's Managing Director John Chambers said on "This Week", there is a one in three chance of a further U.S. credit rating downgrade over the next six months to two years;
  - o Moody's rating agency affirmed its AAA rating of long-term U.S. debt, though the debt is on negative watch for possible downgrade. Moody's has stated that it will look

- for further measures that would result in reducing the ratio of federal government debt to GDP;
- Fitch rating agency affirmed its AAA rating of long-term U.S. debt, with a stable outlook;
  - U.S. Treasury Secretary Geithner said: “I think S&P’s shown terrible judgment and they’ve handled themselves very poorly and they’ve shown a stunning lack of knowledge about basic U.S. fiscal budget math.”;
  - Former U.S. Fed Chair Greenspan observed that the downgrade “hit a nerve that there’s something basically bad going on and it is having a much profounder effect than I conceived could happen”;
  - Chinese Vice President Xi Jinping stated his belief in the resilience of the U.S. economy;
  - It was reported that the U.S. sovereign debt credit downgrade would not impact the risk weightings for UST’s held by banks under Basel rules;
  - In the trading session following the U.S. credit downgrade, equities globally were lower (Asian stocks down 2-4+%, European stocks 4% and US stocks down 4.5-6%), U.S. interest rates were lower, the U.S. dollar (USD) weakened, gold hit a then record high \$1,720/oz and crude oil fell nearly 4%;
  - The U.S. is the world’s largest economy, with a GDP of nearly \$15 Trillion, making it about two and a half times as large as China, the world’s second largest economy;
  - U.S. Securities and Exchange Commission (SEC) is examining potential insider trading. The SEC has asked S&P to disclose which employees knew of its decision to downgrade U.S. debt rating before it was announced;
  - U.S. Senate Banking Committee began looking into S&P’s decision to downgrade U.S. debt rating;
  - U.S. Justice Department (DOJ) launched an investigation into actions by S&P and Moody’s during the financial crisis. The probe surrounds claims of improper mortgage securities ratings in the years leading up to 2008;
  - S&P President Shama announced he will step down. His announcement was made two weeks after the rating agency downgraded U.S. sovereign debt rating;
- **U.S. Federal Reserve Bank** announced that it will maintain record low interest rates through at least mid-2013 at its August 9 FOMC meeting. The move is said to counter economic growth this year that “has been considerably slower than the committee had expected”, and an environment going forward that the FOMC sees as potentially “slower” in the coming quarters, with increased “downside risks to the economic outlook”. The move drew dissent from three voting members, who were reluctant to apply a tangible date to the “lower for longer” language. The statement also mentioned that the FOMC has discussed other options to support growth and will administer as appropriate going forward. Immediately following the release, interest rates moved sharply lower – the 10 year UST yield traded under 2.04% - an all time low at the time, and U.S. stocks fell sharply;

- **U.S.** GDP for July rose 1.1%, vs. market expectations of 1.0%. Following the announcement, U.S. stocks rose;
- **U.S.** Retail Sales for July rose 0.5%, which was in line with market expectations. Additionally, June had an upward revision;
- **U.S.** CPI for July rose 0.5%, which was above market expectations of 0.2%;
- **U.S.** Producer Price Index for July rose 0.2%, higher than market expectations of 0.1%;
- **U.S.** Durable Goods Orders for July rose 4.0%, which was double market expectations;
- **U.S.** Consumer Spending for June fell 0.2%, which was lower than the -0.1% market expectations and up 0.1% in May. This was the first fall in Spending in 20 months;
- **U.S.** Consumer Confidence for August fell to 44.5, from a downwardly revised 59.2 in July;
- **U.S.** Personal Income for July rose 0.3%, which was in line with market expectations;
- **U.S.** Personal Spending for July rose 0.8%, which was stronger than market expectations of 0.5%;
- **U.S.** Construction Spending for June rose 0.2% to a six month high. May's Spending was revised to a 0.3% increase rather than the previously reported 0.6% decline;
- **U.S.** Housing Starts for July fell 1.5%, which was less than market expectations;
- **U.S.** Existing Home Sales for July fell 3.5% (MoM), which was worse than market expectations;
- **U.S.** Consumer Bankruptcy filings fell 18% in July, marking the seventh (YoY) decline since 2001;
- **Canadian** dollar (CAD) weakened following drops in crude oil prices over the course of the month;

Some market related events from **Europe** included:

- **Eurozone:**
  - o European Central Bank (ECB) President Trichet acknowledged the central bank's activity directing the European Financial Stability Facility (EFSF) to purchase sovereign bonds of Spain and Italy in the secondary market. In defending the ECB's decision to help stabilize the bonds of Spain and Italy, he said, "it is the worst crisis since World War II and it could have been the worst crisis since World War I if leaders hadn't taken the important decisions". A Reuter's poll estimated that EUR 100 Billion in Spanish and Italian bond purchases will be necessary in the near-term to shore up the market. Following the announcement in the second week of the month, market participants estimated that the ECB directed purchases of around EUR 700 Billion. In 2010, the ECB purchased around EUR 76 Billion in Portuguese, Irish and Greek bonds. One economist (at RBS) noted that "over time, we believe that ongoing pressure will force the ECB/EFSF to eventually hold close to half of the traded Spanish and Italian debt, or around EUR 850 Billion;
  - o The ECB announced it abandoned its tightening bias;

- The European Union Markets Supervisor (ESMA) announced that France, Belgium, Spain and Italy have banned short-selling on select stocks, mainly financials;
- Eurozone Manufacturing PMI fell in July. The export orders index contracted for the first time in two years;
- The EUR weakened against the CHF to record lows over the course of the month;
- The month began with renewed EU debt concerns. Following the market's concerns, equities globally fell and gold prices hit new highs;
- The International Monetary Fund (IMF) revised down 2011 GDP forecasts for the Eurozone and U.S.;
- **United Kingdom:**
  - Bank of England (BOE), the nation's central bank, voted to keep the benchmark interest rate unchanged. Immediately following the release, the British pound (GBP) weakened;
  - BOE lowered its U.K. growth forecast for 2011 GDP to 1.4% from 1.8%;
  - U.K. Consumer Confidence in July fell to a three month low. Immediately following the announcement, the GBP weakened;
- **Switzerland:**
  - The Swiss National Bank (SNB), the country's central bank, unexpectedly cut interest rates early in the month in an effort to weaken its currency, the CHF;
  - SNB Vice President Jordan hinted that a peg against the EUR would be possible. Later in the month, the peg was announced at 1.2 CHF/EUR;
- **France:**
  - President Sarkozy gave his cabinet a one week timeframe to re-write deficit reduction plans. The plan calls for the government to reduce the budget deficit from last year's 7.1% to 3.0% by 2013;
  - French GDP for Q2 was 0.0%. The main culprit was a drop in household spending;
- **Germany:**
  - Chancellor Merkel stated "Eurobonds are exactly the wrong answer to the current crisis";
  - German GDP for Q2 rose 0.3%, making it the lowest growth rate since 2009;
- **Finland:**
  - Finish politicians threatened to pull out of the Greek bailout process if its demands were not met for a transfer of Greek assets to a holding company as security for new loans;
- **Russia:**
  - Russian Prime Minister Putin speaking to a group of young Russians stated, "Americans are living like parasites off the global economy and their monopoly of the dollar". He went on to say, "Countries like Russia and China hold a significant part of their reserves in American securities... there should be other reserve currencies";

- **Italy:**
  - o Spreads between Italian and German sovereign debt reached a new record high of 385 bps in the CDS market. In the cash bond market, yields hit 14 year highs (along with Spanish yields). Following the spread widening, the EUR weakened against the CHF and USD;

Some market related events from **China** included:

- China's Manufacturing PMI for August slowed to 0.5%, making it the weakest data in over two years;
- China's industrial output for July was weaker than market expectations;
- China's exports for July hit a record high;
- The People's Bank of China (PBOC), the nation's central bank, set the reference midpoint exchange rate all time high Chinese yuan (CNY) against the USD;

Some market related events from the **Pacific Rim / Asia Region (ex-China)** included:

- **Japan:**
  - o The Bank of Japan (BOJ), the nation's central bank, unexpectedly cut its benchmark interest rates in an effort to weaken the JPY. Additionally, it is believed that the BOJ sold 1 Trillion JPY in an additional effort to weaken its currency. Following the announcement and currency intervention, the JPY weakened and Japanese equities rose;
  - o Japan's GDP for Q2 fell 0.3%, which was less than market expectations of a 0.7% drop. Immediately following the release, the JPY strengthened;
  - o Moody's downgraded the sovereign debt of Japan one notch to Aa3. Moody's cited large budget deficits, debt levels and slow growth as the major reasons for the downgrade. Immediately following the announcement, Asian equity prices fell;
  - o Yoshihiko Noda was elected as Japan's new Prime Minister;
- **Australia:**
  - o Market discussions continue that the Reserve Bank of Australia (RBA), the nation's central bank, will cut benchmark interest rates this fall. The Australian dollar (AUD) weakened against its major trading partners over the course of the month;
- **South Korea:**
  - o South Korea's jobless rate for July fell to its lowest level since November. Following the release, the South Korean won (KRW) strengthened against some of its trading partners;
- **Thailand:**
  - o Yinluck Shinawatra was elected by the 500 member parliament as Thailand's new Prime Minister. Yinluck, the first female PM of Thailand, is a sibling of Thaksin the billionaire former PM, now living in Dubai;

Some **commodity** news included:

- Gold prices traded to a record high of over \$1,920/oz in August. Gold prices fell immediately following the CME Group announcement it was raising margin requirements on gold futures contracts;
- Crude oil (WTI & Bent) prices fell following announcements that the Libyan conflict is to soon end and that oil output will increase.

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

### **Death, Taxes, Retirement and Money - According to ...**

According to a new study published in the American Journal of Epidemiology, being married has at least some benefit. The study's researchers concluded that single men could die eight to 17 years earlier than their married male friends, while single women could die seven to 15 years earlier than their married female friends.

According to a 24/7 Wall St. review on the recently released Census Bureau report, "Marital Events of Americans: 2009", people living in Northeastern states have lower marriage and divorce rates. Additionally, while Southern states are more likely to get married, they are also more likely to have higher divorce rates.

<i>States with the Highest Divorce rates</i>
Oklahoma
Arkansas
Alaska
Alabama
Kentucky
Nevada
Mississippi
Georgia
Tennessee
Arizona

According to Gallup, Americans earning more than \$90,000 per year continued to increase their consumer spending in July while middle- and lower-income Americans remained stalled, even as the upper classes argue that they can't pay any more taxes. Meanwhile, the gap between the wealthiest and the least fortunate continues to grow wider, with over 80% of the nation's financial wealth controlled by about 20% of the people.

According to Warren Buffet, the U.S. Congress is "coddling" the super-rich Americans like him. Buffet, with a personal net worth of \$50 Billion, who ranks as the world's third-richest person according to Forbes, wrote an opinion in the New York Times stating that his federal

taxes were 17.4% of his taxable income last year. Buffet urged Congress, including the “supercommittee” which is charged with coming up with around \$1.5 Trillion in measures to trim the U.S. federal budget deficit, to raise tax rates on the taxable income in excess of \$1 Million annually and to raise tax rates on dividends and capital gains.

According to the Tax Policy Center, a project of the Urban Institute and Brookings Institution, it is estimated that 46% of American households will pay no federal income tax this year. The report states that about half of the 46% of households are basically exempt from federal income taxes because they are low income and may also have large families.

According to the Tax Foundation report, “State-Local Tax Burdens Fall in 2009 as Tax Revenues Shrink Faster than Income”, there are big differences in the states’ income taxes. Highlights from the report include:

<i>States where residents pay the most in taxes</i>		<i>States where residents pay the least in taxes</i>	
<i>(as a % of Income)</i>		<i>(as a % of Income)</i>	
New Jersey:	12.2%	Alaska:	6.3%
New York:	12.1%	Nevada:	7.5%
Connecticut:	12.0%	South Dakota:	7.6%
Wisconsin:	11.0%	Tennessee:	7.8%
Rhode Island:	10.7%	Wyoming:	7.8%
California:	10.6%	Texas:	7.9%
Minnesota:	10.3%	New Hampshire:	8.0%
Vermont:	10.2%	South Carolina:	8.1%
Maine:	10.1%	Louisiana:	8.2%
Pennsylvania:	10.1%	New Mexico:	8.4%

According to Fred Reish, an attorney specializing in retirement issues at Drinker Biddle, “Americans just plain are not saving enough”. He says that a rule of thumb is that you can spend 4% of your initial savings per year, adjusted for inflation and it will last for 30 years. For example, if you have \$1,000,000 saved, 4% of that is \$40,000 per year.

According to Jack Bogle, founder of Vanguard Group, “These are terrible times to make decisions based on panic”. Bogle, on CNBC urged investors to wait out the market downturn or at least keep any changes small and incremental.

According to Aon Hewitt, a consultant to 401(k) programs, many investors got out of stocks in their 401(k)’s on Monday, following S&P’s downgrading of U.S. debt. Transfers in the 4.7 million 401(k) accounts monitored by Aon Hewitt exceeded \$1.6 billion, which is more than three times the normal level of activity. Funds were taken out of stock funds and invested primarily in bond funds. Data compiled by the Employee Benefits Research Institute (EBRI) indicated that 401(k) accounts that have a mix of stocks, bonds and other investments typically fare better than the broad market in a downturn. The EBRI says that this highlights the importance of having a diversified portfolio that reflects your years to retirement and your personal risk tolerance.

Based on the input above, you can ask yourself a number of questions. For example, from a longevity standpoint, should I be married? From a divorce standpoint, should I be living in the Northeast? How about from a tax standpoint? If you're earning over a million dollars annually, are you siding with Buffet on taxes? And a topic dear to all of us at Astor Capital, is your investment portfolio diversified to weather the financial market storms we have been in? If you're only holding stocks and bonds, you may be exposed. If you want to learn more about investments that tend to have a lower correlation to the broader market, contact us. We've been speaking with a lot of investors and investment advisors and we'd appreciate the opportunity to speak with you.

*If you are considering reviewing a Forex program or simply wish to discuss the markets, we welcome the opportunity to speak with all potential investors.*

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#### RISK DISCLOSURE STATEMENT

THE RISK OF LOSS IN TRADING COMMODITY INTERESTS CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. IN CONSIDERING WHETHER TO TRADE OR TO AUTHORIZE SOMEONE ELSE TO TRADE FOR YOU, YOU SHOULD BE AWARE OF THE FOLLOWING:

IF YOU PURCHASE A COMMODITY OPTION YOU MAY SUSTAIN A TOTAL LOSS OF THE PREMIUM AND OF ALL TRANSACTION COSTS.

IF YOU PURCHASE OR SELL A COMMODITY FUTURES CONTRACT OR SELL A COMMODITY OPTION OR ENGAGE IN OFF-EXCHANGE FOREIGN CURRENCY TRADING YOU MAY SUSTAIN A TOTAL LOSS OF THE INITIAL MARGIN FUNDS OR SECURITY DEPOSIT AND ANY ADDITIONAL FUNDS THAT YOU DEPOSIT WITH YOUR BROKER TO ESTABLISH OR MAINTAIN YOUR POSITION. IF THE MARKET MOVES AGAINST YOUR POSITION, YOU MAY BE CALLED UPON BY YOUR BROKER TO DEPOSIT A SUBSTANTIAL AMOUNT OF ADDITIONAL MARGIN FUNDS, ON SHORT NOTICE, IN ORDER TO MAINTAIN YOUR POSITION. IF YOU DO NOT PROVIDE THE REQUESTED FUNDS WITHIN THE PRESCRIBED TIME, YOUR POSITION MAY BE LIQUIDATED AT A LOSS, AND YOU WILL BE LIABLE FOR ANY RESULTING DEFICIT IN YOUR ACCOUNT.

UNDER CERTAIN MARKET CONDITIONS, YOU MAY FIND IT DIFFICULT OR IMPOSSIBLE TO LIQUIDATE A POSITION. THIS CAN OCCUR, FOR EXAMPLE, WHEN THE MARKET MAKES A "LIMIT MOVE."

THE PLACEMENT OF CONTINGENT ORDERS BY YOU OR YOUR TRADING ADVISOR, SUCH AS A "STOP-LOSS" OR "STOP-LIMIT" ORDER, WILL NOT

NECESSARILY LIMIT YOUR LOSSES TO THE INTENDED AMOUNTS, SINCE MARKET CONDITIONS MAY MAKE IT IMPOSSIBLE TO EXECUTE SUCH ORDERS.

A "SPREAD" POSITION MAY NOT BE LESS RISKY THAN A SIMPLE "LONG" OR "SHORT" POSITION.

THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY INTEREST TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS.

IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. A DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY INTEREST MARKETS. YOU SHOULD THEREFORE CAREFULLY STUDY A PROGRAM'S DISCLOSURE DOCUMENT AND COMMODITY INTEREST TRADING BEFORE YOU TRADE, INCLUDING THE DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT.

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY TRADING ADVISOR MAY ENGAGE IN OFF-EXCHANGE FOREIGN CURRENCY TRADING. SUCH TRADING IS NOT CONDUCTED IN THE INTERBANK MARKET. THE FUNDS DEPOSITED WITH A COUNTERPARTY FOR SUCH TRANSACTIONS WILL NOT RECEIVE THE SAME PROTECTIONS AS FUNDS USED TO MARGIN OR GUARANTEE EXCHANGE-TRADED FUTURES AND OPTION CONTRACTS. IF THE COUNTERPARTY BECOMES INSOLVENT AND YOU HAVE A CLAIM FOR AMOUNTS DEPOSITED OR PROFITS EARNED ON TRANSACTIONS WITH THE COUNTERPARTY, YOUR CLAIM MAY NOT BE TREATED AS A COMMODITY CUSTOMER CLAIM FOR PURPOSES OF SUBCHAPTER IV OF CHAPTER 7 OF THE BANKRUPTCY CODE AND REGULATIONS THEREUNDER. YOU MAY BE A GENERAL CREDITOR AND YOUR CLAIM MAY BE PAID, ALONG WITH THE CLAIMS OF OTHER GENERAL CREDITORS, FROM ANY MONIES STILL AVAILABLE AFTER PRIORITY CLAIMS ARE PAID. EVEN FUNDS THAT THE COUNTERPARTY KEEPS SEPARATE FROM ITS OWN FUNDS MAY NOT BE SAFE FROM THE CLAIMS OF PRIORITY AND OTHER GENERAL CREDITORS.

FURTHER, YOU SHOULD CAREFULLY REVIEW THE INFORMATION CONTAINED IN THE RISK DISCLOSURE STATEMENT OF THE FUTURES COMMISSION MERCHANT OR RETAIL FOREIGN EXCHANGE DEALER THAT YOU SELECT TO CARRY YOUR ACCOUNT.

COMMODITY TRADING ADVISORS ARE PROHIBITED BY LAW FROM ACCEPTING FUNDS IN THE TRADING ADVISOR'S NAME FROM A CLIENT FOR TRADING COMMODITY INTERESTS. YOU MUST PLACE ALL FUNDS FOR TRADING IN A TRADING PROGRAM DIRECTLY WITH A FUTURES COMMISSION MERCHANT OR RETAIL FOREIGN EXCHANGE DEALER, AS APPLICABLE.

### 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.