ASTOR CAPITAL MANAGEMENT

An Alternative Investment Company

Willis Tower, 94th Floor, 233 S. Wacker Drive, Chicago, IL 60606 ● Toll-Free: 877-ASTOR 10 ● info@astorcm.com

# Astor Capital Management's Monthly Update – October 2011

**Written by Astor Capital Management**

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## Summary of Indices

| Index | Oct-11 | YTD |
|---|---|---|
| S&P 500 | 10.8% | -0.4% |
| DJIA | 9.5% | 3.3% |
| Nasdaq Composite | 11.1% | 1.2% |
| FTSE 100 | 8.1% | -6.0% |
| S&P GSCI Index | 9.8% | -0.5% |
| MSCI EAFE | 9.6% | -9.2% |
| 10 yr US Treasury | 13.0% | -34.4% |
| Barclay Hedge CTA* | -1.05%* | -1.86%* |

**=as of 11/15/11 (data is self-reporting. 55.34% of the CTAs reporting have reported)*

## Astor Capital Programs Offered to Investors

Astor Capital offers investors two professionally Managed Programs. Both of the Programs allow for one day liquidity and redemption and do not have lock-ups, gates or other requirements or penalties.

The ***Knox FX Program*** is actively involved in trading off-exchange traded currencies ("Forex") as an asset class with the goal of capital appreciation. The focus is on G-10 currencies, which are more actively traded.

The ***Martello Program*** is actively involved in trading exchange-traded asset classes that may include contracts of currencies (G-10), U.S. equity indexes and U.S. interest rates.
Astor Capital is excited about both of its investment offerings. If you would like more details on the Programs, including a Program Disclosure Document, please contact us at clientservices@astorcm.com or click here to receive more information.

## The 1% Explained

The populist "Occupy Wall Street" movement is putting responsibility for today's problems on the demonized 1% of U.S. wage earners. In breaking down the statistics, according to CNN, the income floor of the 1%'ers was an annual income of $343,927. Activist, anti-capitalist film director, and "Occupy" supporter Michael Moore took time from his protesting to admit that he is one of the 1%'ers. On his blog, "Open Mike", his posting titled, "Life Among the 1%", Moore recalled how he made his first million when he sold the distribution rights to his 1989 hit movie, "Roger & Me".

According to the Congressional Budget Office (CBO), incomes for the wealthiest 1% of Americans nearly tripled from 1979 to2007, far outpacing income growth for all other groups. The CBO stated that "for the 1% of the population with the highest income, average real after-tax household income grew by 275% between 1979 and 2007."

## Market Activity

The start of the fourth quarter began with global equity indexes around 15 month lows and the US dollar (USD) hitting nine month highs against the major currencies. By the end of the month, equities had recovered and the USD lost its luster.

October opened with continued negative headlines out of Europe. The ongoing woes of various EU members and the euro (EUR) itself continued to make headlines. From a global markets perspective, stock valuations fell in many countries, while U.S. interest rates up to 5 years were unchanged and 5 years and beyond rates rose (not very "Operation Twist-like"). By the end of the month, the 10 year U.S. Treasury (UST) yield was around 2.05% (from 1.75% at the beginning of the month), U.S. equities were higher, oil prices were higher, gold prices were higher, market volatility (VIX index) was lower and the U.S. dollar (USD) was weaker against most major currencies except the Japanese yen (JPY) thanks to a Bank of Japan intervention. At the end of the month, the world population hit seven Billion and MF Global filed Chapter 11.

For the year, major U.S. and European stock indexes are about flat, thanks to the strong October offsetting the first three quarters' performance.

Looking forward from a markets perspective, our focus remains on two sovereign entity events: the EU contagion crisis and the U.S. Joint Select Committee on Deficit Reduction, known as the "Super Committee" approaching deadline. The EU sovereign risk story continues with epic crazy events, yes part of a modern day Greek tragedy, in Greece and has the potential of spreading to Italy, Spain and Portugal quite quickly. The U.S. story is that of the 12 person appointed bipartisan "Super Committee" assigned the task of making recommendations on cutting $1.2 Trillion off the U.S. Budget Deficit over 10 years. The "Super Committee" is to make its recommendations to Congress on November 23, which will go to an up-or-down House and Senate vote in December. Cuts of entitlement programs will be required, but Standard & Poor's rating agency noted in its initial August downgrade of U.S. long term sovereign debt that it also requires some form of tax increase as well to keep them from it not downgrading the U.S. long term debt ratings even further. Failure by Congress to produce a measure would trigger across the board cuts to the Pentagon budget and a big slice of domestic programs, including Medicare, Medicaid and food stamps. The cuts would not take effect until the beginning of 2012, which is fueling speculation that Congress would simply revisit the issue after the elections next year. The populist movement of "Occupy Wall Street" has gained traction in over 1,000 cities globally in some form. Its message is one of frustration, but not one of action, as was the case with populist movements of the Arab Spring.

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

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

- **U.S.** Employment Report and Non-Farm / Private Payrolls for October were released on the first Friday of the month. The unemployment rate remained at 9.1%. Non-Farm Payrolls were up 103,000 new jobs, which was above the market expectations of up 60,000 new jobs created. The Non-Farm Payroll jobs figure was revised up 57,000 in August and an additional 42,000 in July. Immediately following the jobs release, values of U.S. equity indexes rose and longer term UST yields rose slightly;
- **U.S.** GDP for Q3 was 2.5%, which was in line with market expectations;
- **U.S.** Retail Sales for September rose 1.1%, which was stronger the 0.7% market expectations and represents the largest gain since February;
- **U.S.** core CPI for September rose 0.1%, which was below market expectations of 0.2%;
- **U.S.** Producer Price Index for September rose 0.8%, which was stronger than market expectations of 0.2%;
- **U.S.** Durable Goods Orders (ex-trans equip) for September rose 1.7%, which was stronger than market expectations of 0.4% and represents the largest rise in six months;

- **U.S.** Personal Spending for September rose 0.6%, which was in line with market expectations;
- **U.S.** Personal Consumption for September rose 2.4%, which was stronger than market expectations;
- **U.S.** Consumer Confidence for October fell to 39.8, which was less than market expectations and was the lowest reading since March 2009. The reading is above the 26.9 reading 2 ½ years ago;
- **U.S.** Case-Shiller Home Price Index for August fell 3.8% from the previous year of down 3.5%, which was slightly worse than market expectations. Larry Summers wrote an article (Reuters) stating that the only way to address the U.S. growth problem is to fix the U.S. housing market;
- **U.S.** Federal Reserve Bank Chair Bernanke told the Joint Economic Committee in a prepared speech that "the recovery is close to faltering". He went on to say that the Congressional brinkmanship over the debt ceiling over the summer was a negative for financial markets. Specifically, the perception in the minds of some investors that the U.S. might actively consider defaulting on its debt. "It was the reason that the downgrade occurred, S&P citied the political process more than the amount of debt outstanding. It's no way to run a railroad, if I may say so" said Bernanke;
- **Canada** Unemployment for September was 7.1%, which was less than market expectations of 7.3%;
- **Brazil** rejected the idea of purchasing European bonds to help ease the Eurozone's debt crisis;
- **Chile** introduced a new tax for FX derivatives aimed at helping companies protect themselves from FX market volatility. Separately, the Chilean peso (CLP) weakened to a one year low against the USD after trading near three year highs at the beginning of the year;

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

- **Eurozone**:
  - Outgoing European Central Bank (ECB) President Trichet labeled the European debt crisis "systemic" and said that risks to the European region's economy are increasing;
  - The ECB left the benchmark interest rate unchanged at 1.5%. This meeting was Trichet's last meeting as the President of the ECB;
  - The EU proposal of the European Financial Stability Facility (EFSF) guidelines were released. Points included:
    - The EFSF will be able to buy bonds on the secondary market if a Eurozone country makes a request,
    - The EFSF purchases are restricted to countries already receiving aid or precautionary credit and will be limited to 50% of total auction, and

        - The EFSF can sell sovereign debt back to the market, hold them to maturity, sell them back to the sovereign or use them for repos with commercial banks;
    - Standard & Poor's stated it will likely downgrade the long term sovereign debt ratings of five Eurozone nations by 1-2 notches if the region slips into recession and government borrowings increase;
    - Eurozone Manufacturing PMI for September was 48.5, which was slightly less than market expectations of 49.0;
- **United Kingdom**:
    - Bank of England (BoE), the nation's central bank, announced an unexpected British pound (GBP) 75 Billion increase in bond purchases that it will make in an attempt to stimulate the economy. This raises the ceiling for bond purchases to GBP 275 Billion, which is the highest level since March 2009. Immediately following the release, the GBP weakened against its major counterparts;
    - UK inflation rates hit a three year high;
    - UK Manufacturing PMI for September was 51.1, which was stronger than market expectations of 48.5;
    - UK Consumer Confidence in September fell to its lowest level since February 2009;
    - Prime Minister Cameron said that the 16 Commonwealth countries for which Queen Elizabeth II is monarch have agreed at a summit to 1) remove the gender discrimination in the order of succession to the throne and, 2) lift a ban on monarchs marrying Roman Catholics. PM Cameron is to introduce the legislation in the next session of Parliament;
- **France:**
    - Moody's credit rating agency stated that it will to assess its rating of "stable" on France's long term sovereign debt rating over the next three months;
- **Germany:**
    - Germany lowered its growth projections. Following the announcement, the EUR weakened against most of the other major currencies;
- **Greece:**
    - Greece announced that it would miss its deficit reduction targets this year and next, despite the extensive austerity measures only recently enacted;
    - French President Sakozy stated that "it was a mistake to let Greece join the euro single currency when it did because its economy was not ready to form a monetary union with others in the club";
    - German Finance Minister Schauble stated that "Greece is bankrupt", early in the month. The month ended with the Greek debtholders "volunteering " to take a 50% write-down (approximately EUR 100 Billion) on their holdings of Greek sovereign debt;
    - Greek unions staged 48 hour general strikes, which shut down government departments, businesses and public services;

    - Greece worked toward solidifying a sixth installment of EUR 8 Billion in incremental aid from the EU and IMF, which is scheduled to be payable in mid-November;
- **Italy:**
    - Fitch rating agency downgraded Italy's long term sovereign credit rating two notches to A+ from AA, with negative outlook and cited high debt and poor growth prospects;
    - Moody's rating agency downgraded Italy's long term sovereign credit rating three notches to A2 from Aa2, with a negative outlook. The Moody's downgrade is Italy's first in nearly two decades. The rating downgrade follows Standard & Poor's downgrade of Italy in September. Following Moody's downgrade, the EUR weakened against most of its peers;
- **Spain:**
    - Fitch rating agency downgraded Spain's long term sovereign credit rating two notches to AA- from AA+, with negative outlook and cited high debt and poor growth prospects;
    - Standard & Poor's downgraded Spain's long term sovereign credit rating one notch to AA- from AA, citing high unemployment and high private-sector debt;
    - Moody's downgraded Spain's long term sovereign credit rating A1 from Aa2, with negative outlook;
    - Unemployment for Q3 was 21.52%, which was greater than market expectations of 20.9%;
- **Slovakia:**
    - A member of the 17 nation Eurozone, initially rejected a plan calling for the EFSF to have more expansive powers to tackle the Eurozone crisis;

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

- The People's Bank of China (PBOC), the nation's central bank, accused U.S. lawmakers of "politicizing" currency issues and warned of a trade war. The PBOC comments followed the U.S. Democratic controlled Senate passing a bill designed to punish China for currency manipulation;
- China GDP for Q3 slowed to 9.1%, which was the third straight quarter of decelerating growth and the lowest number since early 2009;
- China inflation for September fell to 6.1%;
- China's non-Manufacturing PMI for September was 59.3, which was stronger than August of 57.6;

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

- **Australia:**
    - The Reserve Bank of Australia (RBA), the nation's central bank, stated it is open to an interest rate cut, citing improved inflation outlook;
    - Retail Sales for August rose 0.6%, which was stronger than market expectations of 0.2%;
- **Japan:**
    - The Japanese yen (JPY) continued to strengthen throughout the month. Some market observers speculated that the JPY strength was due to funds fleeing the Eurozone to Japan;
    - The Bank of Japan (BoJ), the nation's central bank, intervened in currency markets to weaken the souring JPY. The intervention, that occurred at the end of the month and ahead of a G20 meeting, is the second time in less than three months the BoJ attempted to weaken its currency;
- **India:**
    - India's Reserve Bank, the nation's central bank, raised its repo rate 25bp to 8.50%. This is the 13$^{th}$ hike since March 2010;

Some **commodity** news included**:**
- US CFTC member Sommers said that limits on speculation in the commodity markets could raise the costs for consumers.

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

## Follow the Money

According to the Investment Company Institute, investors pulled $30 Billion from U.S. stock mutual funds in the week ended August 10, the biggest flight since September 2008, when Lehman Brothers collapsed. For the first seven months of 2011, net equity mutual fund withdrawals totaled nearly $18 Billion, compared to 2008 through 2010 net equity mutual fund withdrawals totaled $280 Billion. In the hedge fund world, withdrawals (referred to as redemptions) in the prominent mangers were 5%-12%.

According to the Financial Times, "hedge fund managers say the turmoil in the equity markets has been exacerbated as investors have used the market to extract cash to tide them over while other less liquid markets – such as property and emerging market credit – have seized up."

According to a report by JPMorgan Chase, 47% of the 2,806 mutual funds the bank tracked have trailed their benchmarks by more than 2.5% in 2011, the highest proportion in 13 years. The report went on to say that the list of laggards includes some celebrated portfolios. The country's largest stock fund, American Funds' Growth Fund of America fell 8% in 2011, through September 6. The Fidelity Magellan Fund lost 12%. The Fairholme Fund, which was named

Morningstar's domestic stock fund manger of the decade in January 2010, fell 27%. By comparison, the S&P 500 stock index (including dividends) fell 6% over the same period.

Astor Capital's observation is that there is a lot of cash currently sitting on the sidelines, in part, due to fund withdrawals/redemptions. Further, the performances of some traditional funds have not kept up with their benchmark performance. If it's time for you to consider investment options, it is our opinion that looking at managed accounts is a smart idea. Astor Capital offers investors managed programs to get exposure to markets they have interest in. If you want to learn more about the investments Astor Capital offers, please contact us. With performance returns of traditional funds being where they are, we've been speaking with a lot of investors and investment advisors on the options available. We welcome the opportunity to speak with you as well.

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

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.