



**ASTOR**  
CAPITAL  
MANAGEMENT

An Alternative Investment Company

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## Astor Capital Management's Monthly Update – January 2011

Written by Astor Capital Management



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### Summary of Indices

Index	Jan 2011	YTD
S&P 500	2.3%	2.3%
Dow (DJI)	2.7%	2.7%
Nasdaq Composite	0.9%	0.9%
FTSE 100	-0.6%	-0.6%
SP GSCI	3.1%	3.1%
MSCI EAFE	2.2%	2.2%
10 year U.S. Treasury	0.0%	0.0%
BarclayHedge CTA Index*	-0.2%	-0.2%

*\*=as of 2/4/11 (data is self-reporting & <45% 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 Programs

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 a professionally managed currency program that has 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 receive more information.

## Market Activity

The first month of the new year started out with the new House of Representative Republicans planning to hold a vote to repeal the healthcare overhaul. Elsewhere, the WSJ reported that cash-flush companies were to begin deploying capital in 2011. In the U.S., 49 of the 50 states had snow on the ground (Florida being the exception). The month ended with the World Economic Forum taking place in Davos, Switzerland and folks making plans for the Chinese New Year (Feb 3) and the U.S. Superbowl (Feb 6).

For the month of January, U.S. equities ended higher, U.S. long term interest rates (30 year Bond) ended higher (i.e. the U.S. yield curve steepened), the U.S. dollar (USD) is weaker against the EUR, crude oil prices and gold prices ended lower and market volatility (VIX index) is higher. With investors' portfolios having changed with respect to weightings of various asset classes in 2010, investors are focusing on portfolio rebalancing for 2011. We have observed that gains in stocks and bonds over the year have left some investors' portfolios under-weighted to lower correlated asset classes. Investments including Astor Capital's managed currency program may fit into the lower correlated (to traditional investments) asset class and it is our opinion that it could be worth consideration. Below are some of the events that shaped the month.

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

- The **U.S.** Employment Report and Non-Farm Payroll for December were released. The unemployment rate fell 0.4% to 9.4%. Non-farm payrolls rose by a less than expected 103,000 in December. Importantly, upward revisions of 70,000 workers were added to the prior two months' non-farm figures. Following the release, yields on U.S. Treasuries actually fell around 10 basis points;
- **U.S.** Durable Goods for December were worse than expected, contracting 2.5%. Core Durables were +0.5%;
- **U.S.** CPI for December was announced at +0.5%, slightly higher than expected;
- **U.S.** Housing Starts for December fell 4.3%. This was the lowest annualized level since 2009;
- **U.S.** Federal Open Market Committee (FOMC) met and voted unanimously to hold interest rates at current levels. There are four regional Fed presidents that have become new voting members of the Fed's policymaking group. They include Richard Fisher (President of the

Federal Reserve Bank of Dallas), Charles Plosser (President of the Federal Reserve Bank of Philadelphia), Narayana Kocherlakota (President of the Federal Reserve Bank of Minneapolis) and Charles Evans (President of the Federal Bank of Chicago). Fisher, Plosser and to a lesser extent, Kocherlakota have reputations for being “inflation hawks” (i.e. they are more concerned about the prospects of rising inflation than they are about reducing high unemployment). Evans’ reputation puts him among the “doves” (i.e. more concerned about strengthening the economy than warding off inflation). The next scheduled FOMC meeting is March 15;

- U.S. Congressional Budget Office predicted that the U.S. federal budget deficit will hit nearly \$1.5 Trillion this budget year. That would mark the third year in a row of one Trillion-plus deficits;
- U.S. Q4 GDP was released showing 3.2% real growth, slightly less than the 3.5% forecast. Consumer Spending had its largest gain in four years;
- U.S. Personal Consumption was released at +4.4%, vs. +4.0% market expectations;
- U.S. President Obama delivered a State of The Union Address toward the end of the month.
- Near the end of the month, the Dow equity index broke 12,000 for the first time since summer 2008;
- U.S. Postal Service reported losses of roughly \$8.5 Billion for the 2010 fiscal year. As a result, the Postal Service plans to begin closing as many as 2,000 post offices and reviewing an additional 16,000 offices. Additionally, most postal rates will go up April 17. The cost of sending a basic letter will remain unchanged;
- U.S. Federal Reserve is turning over a record \$78.4 Billion to the U.S. Treasury Department. Increased interest income earned from securities holdings accounted for the big profits;
- U.S. Consumer Confidence Index rose in January to 60.6, its highest level in eight months (vs. 53.3 in December);
- U.S. government borrowing limit will be reached between March 31 and May 16, according to Treasury Secretary Geithner. The current outstanding debt stands around \$13.96 Trillion and has a limit of \$14.3 Trillion. Geithner has asked congressional leaders to increase the limit to avoid what he termed “catastrophic economic consequences that would last for decades”;
- U.S. government announced that AIG, the giant insurance company that was rescued with \$185 Billion in TARP funds, paid its \$21 Billion outstanding balance to Federal Reserve and that the Treasury Department plans to sell its holdings on common stock to the market over the next two years, beginning in March;
- U.S. equity index, the Dow Jones Industrial Average, rose above 12,000 for the first time since June 2008;

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

- **European Central Bank** (“ECB”) left interest rates unchanged at 1.0%;
- **Eurozone** Q3 GDP grew 0.3%;
- **United Kingdom:**
  - o The Bank of England (BOE) left interest rates unchanged at 0.5%;
  - o UK inflation came in greater than expectations. Market discussion was that higher than expected inflation may lead to a need to increase interest rates. Following the announcement, the British pound (GBP) strengthened against its major trading partners;
  - o Retail Sales for December was weaker than expected. Following the announcement, the GBP fell against its major trading partners;
  - o Q4 GDP fell 0.5%, vs. expectations of a modest +0.3% to +0.5% gain;
  - o BOE policymaker Weale joined the dissension in voting for a rate increase of 25 bp this month in the UK. The vote was 6 votes for unchanged policy, 2 votes for a rate hike and 12 for extra Quantitative Easing. Following the announcement, the GBP appreciated against the USD;
- **Germany:**
  - o Chancellor Merkel announced that Germany stands ready to do “whatever is needed” to save the Euro (EUR);
  - o Investor Sentiment jumped to its highest level since last July. Following the announcement, the EUR strengthened against the USD;
  - o Business Sentiment rose to a 20 year high. Following the announcement, the EUR strengthened to an eight week high;
  - o Unemployment in December rose to a seasonally-adjusted 3.152 million, while the jobless rate remained unchanged at 7.5%, as expected;
  - o Retail Sales for November were weaker than expected at -2.4% MoM and +2.0 YoY;
  - o The Trade Surplus for November was EUR 11.8 Bln, vs. market expectations of EUR 14.4 Bln;
  - o The German government expects that domestic GDP growth will slow to 2.3% in 2011, from 3.6% in 2010;
- **Portugal:**
  - o Market rumors early in the month that the ECB would buy Portuguese debt in an effort to stabilize the markets;
  - o Portugal’s Finance Minister announced that he would do everything in his power to resist a bailout. Following the announcement, Portuguese bond credit spreads remained at widened levels;

- **Ireland:**
  - o The Swiss National Bank refused Irish bonds as collateral at the beginning of the month;
  - o Prime Minister Cowen is to dissolve parliament. Following the announcement that the coalition failed, the GBP weakened against the USD;
  - o Prime Minister Cowen later resigned as head of his party prior to the March 11 election;
- **Spain:**
  - o China committed to purchasing EUR 6 Bln in Spanish debt;
  - o Spain stated it plans to inject billions of additional EUR into its savings banks, with the hope being to quell investor concerns
  - o Spain is considering a temporary nationalization of its savings banks
  - o Spain did successfully issue EUR 2.24 Bln in Bills. The expected sale was between EUR 2 -3 Bln;
  - o Spain's unemployment rate rose to the highest level in over 13 years to 20.3% in Q4. Following the announcement, the EUR weakened slightly;
- **Sweden's** currency, the krona ("SEK"), hit a two year high against the USD. The SEK also hit a 10 year high against the EUR;

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

- The People's Bank of China (PBOC) announced that Chinese bank lending for 2010 overshot government targets. Market participants believe that this data underscores the likelihood for additional Chinese interest rate tightening;
- The PBOC instructed banks to increase reserve ratios for the fourth time in only two months to tame inflation. This 50bp increase in required reserves follows six increases in 2010;
- A PBOC official stated that China should diversify away from the USD and Germany;
- China's GDP and consumer prices rose more than market participants expected;
- China's Trade Balance in December was USD 13.1 Billion, vs. market expectations of USD 20 Billion;
- China's GDP for Q4 grew at 9.8%, vs. market expectations of 9.4%. In part driven by a surge in industrial production and retail sales;
- China's President Hu Jintao, defending its currency policy, told a business audience in Washington, D.C. that the Chinese economy had helped create 14 million jobs around the world through its growing imports;
- China announced plans to purchase \$45 Billion in U.S. exports on the eve of President Hu arriving in Washington, D.C.;
- While in Chicago, the only U.S. stop made outside Washington, President Hu signed contracts to purchase USD 6.7 Billion of soy beans;
- General Motors announced that in 2010 it sold more cars and trucks in China (2.34 million) than it sold in the U.S. (about 136,000 fewer), for the first time in the company's 102 year history;

- China has lent more money to developing nations than the World Bank in the past two years, according to the Financial Times. China has over \$2 Trillion in foreign exchange reserves;

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

- **Australia**'s flooding is said to threaten steel prices, as steel making coal mines are shut down due to flooding. The Australian dollar (AUD) weakened on fears of economic slowdown;
- **Japan**'s sovereign debt rating was cut by S&P one notch to AA-. Following the announcement, the Japanese yen ("JPY") fell against the USD;

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

- The Trans Alaska Pipeline, which holds approximately 15% of the U.S. crude oil supply, was closed early in the month due to a leak. Following the announcement, Crude Oil prices rose;
- The International Energy Agency raised its 2011 demand forecast for oil. Following the announcement, oil prices hit a 27 month high;
- By month end, Crude prices top \$100/bbl, driven by concerns over potential contagion effects of Egypt in the rest of the Middle East;
- Copper prices hit a new record high in January.

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

### **What's Going On with Your Personal Finances?**

The current personal savings rate, the amount of disposable income unspent, is around 5.3%. That puts the average saver somewhere between 10% saved in 1985 and "negative saving" in 2006 and 2007. A bit like Goldilocks, "not too much, not too little – just about right". This condition has a catchy phrase, the "paradox of thrift". Consumer spending accounts for about 70% of the nation's GDP – so, although saving money is good on an individual level; it may have an entirely different effect for the overall economy (if we all stop spending).

Household debt levels are down, although the average household owes about \$43,000. That amount accounts for about 122% of disposable income, which is down from a peak of 135% in late 2007 (according to data from the Federal Reserve Bank).

The S&P 500 Index, since bottoming on March 9, 2009 has generally gone up. According to the Employee Benefit Research Institute, 88% of 401(k) accounts holders now have larger balances than at the equity market peak, thanks in part to their continuing contributions. Average household wealth has increased to about \$425,000 in Q3, 2010. That's up 8% from early 2009, but 23% below the peak of almost \$554,000 five years ago.

And then there is Social Security. According to the Congressional Budget Office, Social Security is projected to collect \$45 Billion less in payroll taxes than it pays out in retirement, disability and survivor benefits. At this pace, it is expected that the Social Security fund of roughly \$2.5 Trillion currently, will be drained by 2037.

It appears to be a scenario that requires investors to continue to remain diligent and disciplined in having a well diversified investment portfolio to weather today's financial tsunamis and importantly, the market dislocations we don't yet see, but know will occur. We haven't yet seen an easy "app" for this and the press's current villain/saint, Yale Professor Amy Chua, author of, Battle Hymn of the Tiger Mother, hasn't laid out a road map for investors to follow. It is our opinion that long term; diversified investment portfolios allow investors the best long term prospects for survival in uncertain investment climates. Further it is our opinion that Astor Capital's managed currency program offers investors a tool for investment diversification.

### **Test Your Cents – and Dollars – And Now, the Answers**

Below are the questions asked in last month's Update. As advertised, this month's Update provides you the answers will be with the answers to the questions.

- 1) What is the highest denomination paper note the United States has ever printed?
  - a. \$10,000
  - b. \$100,000
  - c. \$500,000
  - d. \$1,000,000

Answer: b - \$100,000. For clarification, it was only used between banks. The largest denomination to be put in general circulation is \$10,000.

- 2) In only one portrait on U.S. currency now in circulation does the subject face left instead of right. It is the:
  - a. \$1 bill featuring George Washington
  - b. \$5 bill featuring Abraham Lincoln
  - c. \$10 bill featuring Alexander Hamilton
  - d. \$20 bill featuring Andrew Jackson

Answer: c – the \$10 bill featuring Alexander Hamilton.

- 3) Using the coins now in circulation, how many ways can you make change for a dollar?
  - a. 28
  - b. 97
  - c. 113
  - d. 293

Answer: d – yup, 293 different ways to make change

- 4) What is the most change you can carry yet still not be able to make change for a dollar?
- a. 99 cents
  - b. \$1.19
  - c. \$1.29
  - d. \$1.50

Answer: b – 3 quarters, 4 dimes and 4 cents.

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

#### 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 U.S. stock market index containing the stocks of Large-Cap corporations. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. The Index is owned and maintained by Standard & Poor's, a division of McGraw-Hill.

**DJIA Index** - The Dow Jones Industrial Average ("DJIA") is a U.S. stock market index containing stocks of the U.S. industrial sector. Roughly two-thirds of the DJIA's 30 component companies are manufacturers of industrial and consumer goods. The average is price-weighted, which gives higher priced stocks more influence over the value of the index.

**Nasdaq Composite Index** - A U.S. stock market index containing of all of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market. It is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. Most listings are technology and Internet-related, but there are financial, consumer, bio-tech and industrial companies as well. If a stock trades on the Nasdaq, it is included in the index. 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.

**FTSE 100 Index** – A British stock market index containing the stocks the 100 most highly capitalized companies listed on the London Stock Exchange. The Financial Times Stock Exchange Index ("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.

**S&P Goldman Sachs Commodity Index** – A world-production weighted commodity market index that contains 24 commodity futures contracts. The GSCI 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 foreign stock market index from the perspective of a North American investor. The Morgan Stanley Capital International ("MSCI") Europe, Australasia, Far East ("EAFE") index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom\*. \* = As of May 30, 2011.

**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.

**BarclayHedge CTA Index** – The BarclayHedge CTA Index is an industry benchmark of representative performance of Commodity Trading Advisors. There are currently 565 programs (for 2011) included in the calculation of the BarclayHedge CTA Index, which is unweighted and rebalanced at the beginning of each year. Additionally, the program returns are self-reporting by the contributing Commodity Trading Advisors and the program returns are not audited by

