



## MCAG Strategy: Settling Into Slower Growth

July 29, 2010

We've had a mixed bag in terms of data since we kicked off the week with a strong new home sales number, which came in up 23% in June. Since then, we missed expectations on July Consumer Confidence, down 3.9 points to 50.4 from a revised 54.3 in June, saw a 1.3% increase in the May S&P Case Schiller Home Price Index, then were surprised by a 1.0% drop in Durable Goods Orders for the month of June. Yesterday we received the latest edition of the Fed's Beige Book. As expected, the perceptions reported from the 12 Fed Districts show a slowing of growth in some areas over the past two months, yet economic growth overall has continued to increase since the previous survey. All eyes are turning now toward next week's employment numbers.

There are some analysts in the camp that hold onto suspicion of a double-dip, took Bernanke's testimony as hawkish, and when compounded with last month's mostly weak data, continue to support their concerns. The market absorbed the information last week as deflationary with a sell-off in equities and a bull-flattening of the yield curve. I stand by the notion that we are right where we are supposed to be, with risks of inflation vs. deflation balanced with opportunity for growth. Sure, the momentum of recovery is less robust that some had hoped but that creates opportunities for those of us who believe we are out of the woods concerning a double-dip. Those of us who put our steepeners or short long-end trades after last Wednesday's flattening are happy but could still be happier. There is still richness in the contracts, however, and plenty of room to still benefit from the unwinding of deflation trades.

Stress tests of European banks are a topic for analyst disagreement as well. Although the market reaction was relatively positive as only 7 out of 91 banks failed, there are a number of weaknesses in the tests themselves. It's worth mentioning because it perpetuates the situation in Europe being the center of attention. It also increases the opportunity to profit from U.S. vs. European rate products.

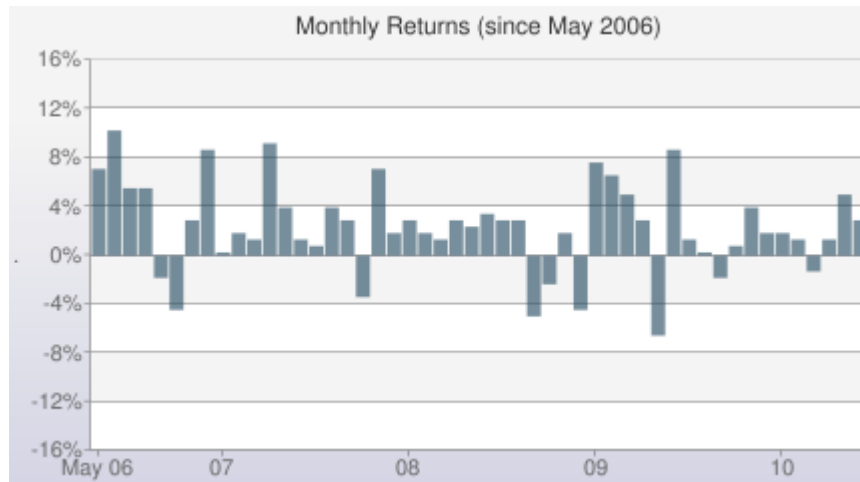
The activity resulting from the relapse of pessimism and the loss of momentum is reviving opportunity in programs that perform best in markets without a definitive direction. In spite of confusion, the Vix had its lowest weekly close since April 30<sup>th</sup>. Among many other reasons, this encourages me to look at both option writers and short-term arbitrage programs.

The first trading program of note in the current environment is Financial Commodity Investment's Credit Premium Program, a diversified option writer. FCI-CPP has shown consistent, low-volatility returns while navigating irregular market conditions in the recent past. They are currently up 9.37% for the year after posting a 2.51% gain in June. What sets this program apart from other option writing programs is their risk management strategy. Volatility

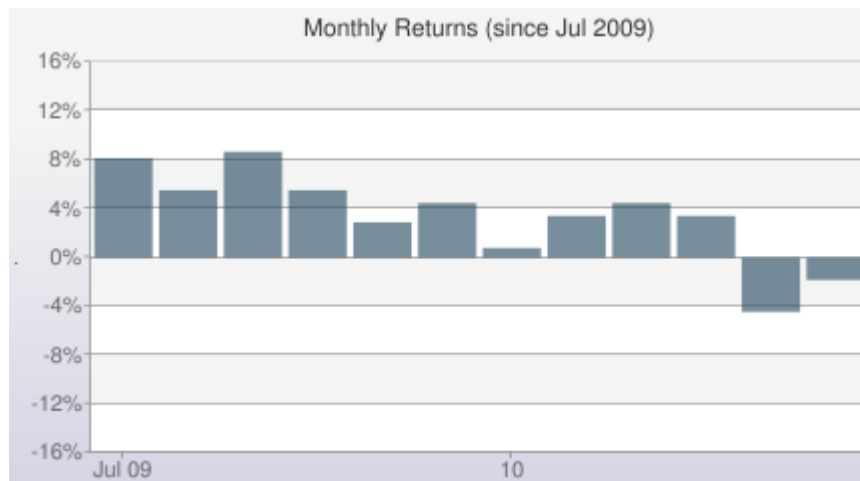
## MCAG STRATEGY WEEKLY

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models are used to determine position size adjustments to maintain the programs maximum position exposure limits. Position exposure limits are the total equity risked in any one market, and is generally between 0.5% and 1.5% of total equity. An increase of the volatility model will cause a position size reduction in any particular market. *Trading futures and options involves substantial risk of loss and is not suitable for all investors. Carefully consider the suitability based upon your experience, objectives, financial resources and other relevant circumstances. Past performance is not indicative of future results.*



The second program I will mention is Valhalla Capital Group's International AB Program. It is a high frequency FX program only available through MCAG. It uses a fully systematic program to trade 15 to 20 times per minute. It aims to capture arbitrage opportunities between currency pairs that happen in seconds or less. The program also ends each day flat so does not put a margin strain on the books. *Trading futures and options involves substantial risk of loss and is not suitable for all investors. Carefully consider the suitability based upon your experience, objectives, financial resources and other relevant circumstances. Past performance is not indicative of future results.*



Each month we list the Top 10 performers so investors can get a feel for what kind of programs perform well in certain environments as well as what kind have brief moments of greatness but are inconsistent. See below for a list of the Top 10 performers for the past month.

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	Current	2010 YTD
Barbashop L.L.C., The - The Trading Program B	28.77%	92.15%
Barbashop L.L.C., The - The Trading Program A	19.09%	47.59%
Ace Investment Strategists - DCP Regular	17.57%	-2.27%
Clarke Capital Mgt, Inc. - Jupiter Program	17.27%	-8.04%
Clarke Capital Mgt, Inc. - Millennium Program	16.08%	-12.31%
Ace Investment Strategists - DPC Regular	15.10%	-8.64%
Global Wealth Analytics, Inc. - STP Program	13.79%	1.00%
White Indian Trading Company Ltd - STAIRS Program (Client)	12.47%	0.23%
Clarke Capital Mgt, Inc. - FX-plus Program	12.15%	15.83%
Global Investment Management - GIM High Frequency Trading Program	11.19%	50.45%

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