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The Price Report

- **Keep the champagne on ice**
- **Things that shouldn't work… but just do**
- **Is the tide going out for private equity?**
- **How to get the most out of commodity futures**

Tim Price

The market events of the last few months have been, in my experience at least, unprecedented. Last Friday's half-point cut in the Federal Reserve discount rate will go some way towards easing the liquidity crisis that has afflicted the banks, but I still think the champagne should be kept on ice. While the chain of events that has come to strangle so many sectors is now a little more visible, the future outlook remains uncertain.

Just how did we get here? The origin of the crisis remains the US subprime mortgage market (investors are going to have to get used to the growing spread of cliché, understatement and an unwieldy jungle of acronyms – but if you come across any you don't know, you can look them up on the MoneyWeek website at www.moneyweek.com/jargon). Institutions bought ABS – asset-backed securities – incorporating dodgy subprime mortgage debt as collateral. Institutions also bought collateralised debt obligations (CDOs). These incorporated the mortgages and spiced with leverage. As apparently easy money supplied by central banks and the money markets left institutional investors and traders with a feeling of invulnerability, and spreads throughout the corporate debt market became sufficiently tight over time, leveraging them up was the only way to earn even vaguely reasonable looking returns. Thus leverage became a common theme throughout the crisis.

As the trend towards securitisation gathered pace, the 'spiking' of ostensibly safe packages of debt (the ratings agencies are almost certainly going to be assailed by a flurry of lawsuits for awarding high credit ratings to flawed assemblages of sub-investment grade mortgages) spread far and wide throughout the global financial system. While securitisation removed lenders' accountability for their own actions ('moral hazard' is also a common theme in this debacle), it also disseminated opaque risks across the asset-management universe. Consider how far the crisis has spread and who the known victims have proved to be so far: to an extent, Bear Stearns mortgage funds are fair game – they should have known the risks they were taking on – but German state lenders? French money-market funds? Japanese commercial banks? Australian funds? Who'd have thought they'd end up in so much trouble?

What seemed to be a problem contained within the mortgage-backed market (and thus 'limited' to specialist financiers and traders, including so-called hedge funds) leapt the divide to infect the broader banking environment. As investors sold investment and commercial banking shares on a 'sell first, ask questions later' basis, the banks twisted the screw a bit by demanding a higher level of collateral (margin calls) on their own loans. This is when the hedge-fund crisis set in. Bad money started to drive out good –

and as innumerable institutions began liquidating holdings to raise cash, assets started being sold off indiscriminately. This is why so many firms' shares - otherwise unrelated to subprime mortgages - have been caught in the downdraft.

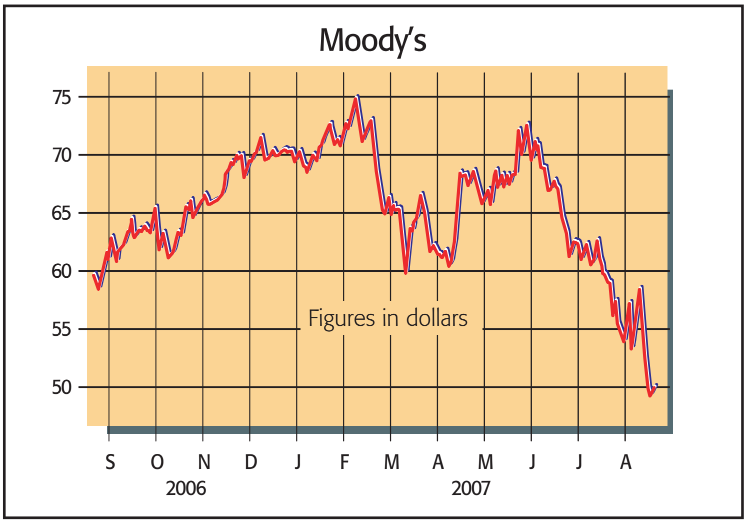
But the situation worsened further as banks began to distrust each other. I've suggested the environment is like that of John Carpenter's film *The Thing*, which is set on an Antarctic research base suddenly threatened by a murderous, shape-changing alien. Because the alien can transform itself into a perfect copy of a human, the inhabitants of the base lose faith in each other and paranoia sets in. This is what has happened in the banking sector, triggering a liquidity crisis. Bloomberg quoted Ina Steinke, a money-market trader at NordLB in Hannover, who said, "Every bank is being suspected now, so no one is willing to lend money to anyone". Banking crises thrive on such sentiment, so the central bank provision of liquidity to the financial system throughout the last week has been entirely appropriate.

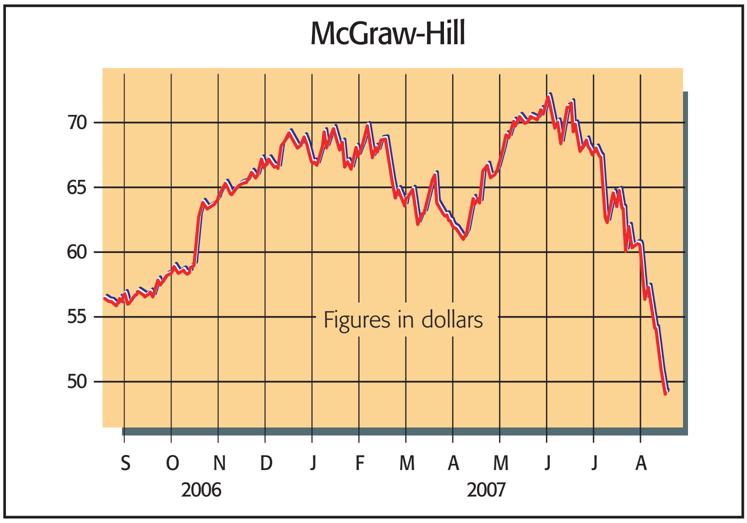
When the dust settles, a number of institutions should re-examine the areas of business they've entered lately, only to emerge blinking from the wreckage, with their budgets and reputations in shreds. Bear Stearns is probably top of the list: how could one of Wall Street's savvier mortgage traders go so badly wrong? And Goldman Sachs isn't far behind. The world's most successful investment bank, at least to date, has made itself look foolish following the implosion of some of its larger hedge funds. It then went on to blame "25 standard deviation events" for the loss of 30% of one fund's value in a week. As The Economist points out, in terms of probability, where 1 is a certainty and 0 is an impossibility, the Goldman Sachs' defence equates to a probability of 0.000...0006, where there are 138 zeroes before the six, which is obviously absurd. The quantitative funds of Goldman Sachs, among others, were using models that weren't up to the task. Perhaps the traders were busy watching *Terminator 3: Rise of the Machines*.

One would expect most (though not necessarily all) investment banks to make it through this crisis. Some of them deserve to fail and were guilty of outrageous risk-taking, overconfidence, blind use of leverage, or all three. Ditto the so-called hedge funds, many of which repeated errors classically committed by Long Term Capital Management back in 1998 (blind faith in untested models; arrogance; undue faith in the liquidity of markets; mis-use of leverage; suddenly getting trapped in crowded trades). But the behaviour of the credit-ratings agencies looks the worst, as many CDO and ABS structures could not have been packaged and launched without their explicit guidance. The market is aware of this, hence the 27% fall year-to-date in Moody's share price (all of which has been incurred since June), or the identical fall year-to-date in the share price of McGraw-Hill, the parent of rival ratings agency Standard and Poor's.

What next? Coordinated central bank intervention should ensure that most of the guiltless financial players will weather the storms. On the basis that central banks continue simply to pump in liquidity, so much the better. But it seems likely the Federal Reserve may go further and actually cut its Federal Funds target rate. That would send out a dangerous message – essentially that Wall Street can get up to whatever it likes, confident that the 'Greenspan put' is alive and well under his successor, Ben Bernanke. The European Central Bank will be under significant pressure to change course on further monetary policy tightening.

As regards the real economies, risks have surely risen in the US of a slowdown driven by weakness in the residential property market and by impaired consumer confidence. Retailers Wal-Mart and Home Depot announced as much last week as they warned on future profits. Even if official interest rates are cut, that does little to help those sitting on bad debts or with largely untradeable assets. As bond trader Tom Graff points out, "Right now it's impossible to trade large numbers of bonds. I'm not talking about housing-related stuff. I mean it's impossible to trade many plain vanilla bonds. Those you can





trade have become much more expensive to trade, because the bid/ask is wider. For anything housing-related, forget it. There are no bids…

"The Fed injecting liquidity won't do a damn thing to help hedge funds and/or financial institutions suffering real losses from bad loans. New Century is bankrupt and they are staying bankrupt. BSAM's funds are worthless and they are staying worthless.

"Nothing the Fed is going to do will make delinquent borrowers current again. Maybe lowering interest rates will prevent a small number of defaults because resets will be lower, but all of these NINA and liar loans are going to go bad no matter what... No one is going to save banks that made too many bad loans.

"But say there is a prime mortgage originator who borrows short-term to underwrite their loans? Now they cannot securitise their prime jumbo loans, and therefore cannot repay their short-term facility. Do we want to drive institutions like this bankrupt merely because the market fears all mortgages? What 'lesson' is that teaching and to whom?"

In the last edition of *The Price Report*, I mentioned SKF, the UltraShort Financials ProShares ETF, which is a two-times leveraged inverse investment on the Dow Jones US Financials Index. In other words, for every 1% this index falls, SKF rises 2% and vice versa. For those with strong stomachs and a conviction that US financials aren't out of the woods yet, this trade still makes sense. However, as before, I should stress that it is a volatile animal and not for widows and orphans. An alternative structure offering equivalent exposure to the US property market is SRS US, the UltraShort Real Estate

ProShares ETF, also a two-times leveraged inverse investment, this time on the Dow Jones US Real Estate Index. It strikes me that there is plenty of pain ahead for the US property sector as teaser-rates get adjusted upwards and delinquencies rise. Again, be aware that these sort of instruments are highly volatile, but if one has an aggressive view on the market, they may well prove profitable for those who can take the inevitable price swings. Unlike most of my recommendations, these instruments are to be traded opportunistically, rather than treated as longer-term investments.

On a different tack, the dust in the market is still swirling, notwithstanding last week's extraordinary Fed intervention. Markets hate uncertainty, but we are stuck with it for some time as the extent of the bad loans hidden in complex products will be unknown for a good while and there are undoubtedly bodies at sea still to surface. For this reason I suspect (Fed/ECB action notwithstanding) that there is further financial-sector volatility to come. The redemption schedule of hedge funds adds to the uncertainty – this market doesn't exactly operate in 'real time', as funds take time to price and offer liquidity in their own units. I suspect the impact of the recent market crisis on real economies will be relatively muted, outside the US at least. And although I have little interest in adding to financial sector holdings, I expect the shares of blue chip international businesses with defensible earnings and sound franchises to bounce back. But it will take time. So if you were happy owning such shares in May and June, you should probably feel happy owning them now. And if you weren't fully invested back then, you'll now be able to pick up some investments at bargain prices. As Warren Buffett has said, the time to get greedy is when others are fearful.

Equities, of course, are not the only game in town (although we began highlighting defensives in Issue 3 of *The Price Report*). Now is a perfect opportunity to revisit the appropriateness of one's asset allocation for the short, medium and long term. Issue 4 highlighted the merits of the Yale approach to portfolio diversification and the benefits of Multi Asset Class investing; for those willing to entrust their capital to third-party managers, Issue 5 included a discussion of some of the better multi-asset class investment trusts. You can find them all in the archive – they are more relevant than ever.

I am delighted to welcome in this edition two new contributors. Although the recent gyrations in the debt and funding market have led some to believe that the writing is on the wall for the private-equity industry, Richard Green, managing partner at August Equity, a specialist provider of equity capital to small businesses, makes a good case for the longer-term sustainability of his sector. While I do not necessarily share Richard's optimism in relation to the funding situation for private equity groups given the meltdown in the credit and money markets, it may well be that the point of maximum gloom (and for that matter opportunity) is indeed behind us now. Hilary Till, the highly respected co-founder of Chicago's Premia Capital Management, gives an overview of the commodity sector, highlighting those features of the futures market that individual investors, notwithstanding the asset class's recent volatility, would be well advised to become acquainted with as the 'supercycle' rolls on. Next, hedge funds. There is much examination of failed models among the quantitative hedge fund community. Jonathan Spring takes a broader, more philosophical view of the issue, and his article is well worth reading. And lastly, the warmest of welcomes to all new subscribers.

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Things that shouldn’t work… but just do

Jonathan Spring, managing partner at The Stable Fund of Hedge Funds, takes a philosophical view of the trauma in hedge fund land

There are all sorts of things that shouldn’t work when you look at them conceptually. Putting on your trousers while standing up is a simple example. Broken into its constituent operations, this simple intuitive act requires dozens of infinitesimal adjustments per second to your centre of gravity as well as intricate coordination between your brain and scores of muscles to ensure you don’t end up sprawled on the floor. That we do this intuitively, in a few seconds, without thinking, every day is a minor miracle: imagine programming a robot to do the same; a roomful of computer geeks working for a year just might be able to pull it off. Might.

Now think about New York City: if it didn’t exist and someone sketched a detailed but abstract plan for its daily existence, you would think he were crazy: it’s just too complex and complicated to work in theory… but it does work in practice, day after day. The same is true of the human body: it seems too crazy that matter organised a certain way creates a sentient creature, but somehow it does. This strikes me as both ordinary — in that we are surrounded by such complex yet partially unexplainable systems — and extraordinary—in that such systems actually work.

A philosopher and his pet swans

The disconnect between what shouldn’t work, but nevertheless does, came strongly to mind as I read Nassim Nicholas Taleb’s *The Black Swan*[1]. Taleb is an iconoclast and a crank, and I greatly admire him for it. By redrawing the lines of philosophy to include what he has observed about randomness and probability, Taleb has changed the discussion about how life can and should be lived. In effect, he says that you ignore statistical processes at your own risk; they are there in the background affecting virtually everything you do whether you like it or not. Further, he claims that if you chose to acknowledge these processes (and the enormous role of those things statistics can’t explain, namely inherent randomness), you can live a more informed, better life. Sure, Taleb is a trader and manages a hedge fund, but he’s no Hedgehogging Barton Biggs; he is demanding space on your bookshelf with Aristotle. I believe he deserves it.

But he has also, to my mind, a little too much of the theorist’s love of perfection—indeed, the same kind of ivory-tower eggheadedness he devotes so much ink to condemning—to see what may be rather obvious to the rest of us non-philosophers. Indeed, I suspect he may have already encountered plenty of ‘Black Swans’ (Taleb’s term for single instances that overturn conventional wisdom) that would undermine his own philosophical programme; the only problem may be that these swans don’t look perfectly black to him.

Models are perfect; the world isn’t

The problem starts with Taleb proposing a seductively concise and logical model of the world. This idealised perspective rests on an argument that can be paraphrased as: 1) We have all been brainwashed to believe that the normal (‘bell-curve’) distribution is a useful descriptor of most statistical phenomena, but it is indeed very bad at describing rare and random one-off events (Black Swans) that can be quite influential in determining the course of subsequent events; 2) there are other models that are more useful, but the most useful thing of all is to recognise that life is filled with inherent randomness that can’t be accurately modelled. In fact, the ability to make consistently useful predictions is largely an illusion; so 3) don't try to make a living by making predictions, instead expose yourself to as many opportunities where there is more apparent reward than risk; and 4) randomness, luck and time will take care of the rest.

There is much to admire in this argument but, as I noted above, so many things in real life don't perfectly reflect the concise, logical and alluring descriptions we attach to them. Witness Taleb's demonisation of the normal distribution as a useful model. The problem with the normal distribution, in my opinion, is not the normal distribution per se, but that it is a model. All models are approximations of how different parts of the world might work. An individual model may be extremely useful for one task, say, building a bridge predictably strong enough not to fall down under most circumstances, and useless at another, such as predicting what price Microsoft stock will close at tomorrow. A model that works well today may need to be modified tomorrow; it may also catastrophically fail tomorrow. We don't know.

So Taleb is right in asserting that models should not be followed slavishly, ignoring their embedded assumptions and potential shortcomings. The fact that models are merely approximations of reality (ALL models—not just the normal distribution), however, does not mean that they cannot be used to make useful predictions. Predictions don't have to be perfect to be useful. Every day we get our pants on without knowing exactly how; New York keeps chugging along without us being able to model its complexity precisely. And we still don't know what animates the human body; just about everything we know about how it works is approximate. Yet we still get by, indeed live better lives because things like aspirin seem to eliminate things like headaches. Aspirin doesn't work for everyone or all the time, but we can usefully predict it will work in a large percentage of cases.

Overwhelmed by randomness

So, I would posit in opposition to Taleb that one can make useful predictions (and not just the trivial predictions cited by Taleb). Yes, there is a lot of inherent randomness in life, and there may always come events that reverse the best-laid plans. But wouldn't reaping the benefits of even a small dose of predictability be 'useful'? Should we throw up our hands at the sometimes overwhelming nature of randomness, or might it be 'useful' to try to tilt the playing field at least slightly in our favour? Taleb spends the bulk of his book attempting to convince us that doing so is virtually impossible—making consistently useful predictions is an illusion. Trying to do so is a measure of the human weakness that fails to acknowledge the influence of randomness; it's superstitious, not scientific.

This is hard to square with the hedge-fund managers I know (and Taleb may know, as well) who consistently make money through their predictions. Taleb dismisses the usefulness of their predictions by illustrating how, in any large, normally distributed group of funds (yikes—there's that 'meaningless' bell curve!), some predictable percentage of them (yikes again—there's that "meaningless" predictive activity!) will substantially outperform their peers—it could all be luck. Could be; but is it?

Taleb's own Black Swans

Here, I think Taleb neglects how the human time frame affects what actually may be 'useful'. In the big picture—hundreds or thousands of years—few things are as permanent as they seem during a normal lifetime. Permanence, however, may not be a useful yardstick for living your life. For example, I know managers whose Sharpe ratios have exceeded two for five years, ten years, and even for 25 years. As far as I can see, they all earn their livings by making consistently useful predictions. Are these individual managers not, then, 'Black Swans' whose surprising existence should strike down Taleb's assertion that it is virtually impossible to make useful financial predictions? And wouldn't the evidence of such Black Swans force Taleb to revise his entire proposed philosophy? Mind you, these managers don't make accurate forecasts all the time (not nearly), but they are correct to the degree that their frequency of being right times their average win divided by their average loss does, over very long periods of time, yield consistently positive returns. That, to me, is a good enough definition of "consistently useful predictions".

Taleb may say, just you wait, they will each run out of luck, or hit the outlier event that will decimate all their previous earnings. But how long should one reasonably wait—26 years instead of 25, 50 years, 100 years? The philosopher can always say that out-performance is merely evidence that one hasn't waited long enough. But mortals tend to care most about their own brief lifetimes. A reasonably successful hedge-fund manager may even be able to retire after three to five years. No wonder all the dentists want to be hedge-fund managers (this is exactly contrary to what Taleb recommends)!

The surprising beauty of imperfection

Now, not everyone should try to be a hedge-fund manager: just those who do things others can't or won't do. Readers who are familiar with my writings know that "doing things others can't or won't do" is my definition of alpha. Indeed, successful hedge-fund managers tend to do things that shouldn't work when you look at them conceptually. That is why others can't or won't do them: they seem impossible. Somehow, these individuals have gotten beyond the paralysing effects of abstraction, philosophising, over-analysis and the need for perfection. By recognising models as nothing more than approximations, ie, imperfect but temporarily useful tools that can be replaced at a moment's notice with anything that gets the job done better or faster, they have assumed a distinctive philosophy of their own: that imperfect approximations can work. Imperfection can be okay. If you want to make money, imperfection may even be better than perfection. Imperfection can, indeed, be surprisingly lucrative.

While the opinions expressed here (and any errors) are mine alone, I want to thank Dave DeMers, Tony Plate, Doyne Farmer, Andrew Lo and Erik Sirri for their substantial contributions to shaping my thoughts.

[1] See *The Price Report* Issue 5.

Is the tide going out for private equity?

Richard Green, managing partner at August Equity LLP, a leading private-equity group, explains why he thinks there is still money to be made.

The recent market crisis has affected all parts of the market and there has been a large amount of comment on the private-equity business as a result – mainly predicting its imminent demise. But is it really the case that private equity, by which I mean investing in everything from start-up early stage companies to giant management buyouts, has run its course?

First I want to look at why we should hope it does not. The British Venture Capital Association regularly commissions a report, produced independently, that looks at the economic impact of private equity on the UK. Some of the recent findings include:

Private equity is good for the UK economy

Private equity-backed companies help grow the British economy and make it more competitive globally. Around 1,300 UK businesses receive private-equity investment each year. Together, these are some of the fastest-growing, most innovative companies in the UK. The UK private-equity industry is the largest and most dynamic in Europe. It makes a significant contribution to the financial services industry and in helping to keep London the leading financial centre in the world.

Private equity is good for jobs

Over the past five years, jobs in private-equity-backed companies have grown faster than in FTSE 100 and FTSE 250 companies. A recent Financial Times survey (2 April 2007) analysing the 30 biggest private-equity deals concluded during 2003 and 2004 found that 36,000 new jobs had been created – an increase of 25%.

Private equity is good for investment and research and development (R&D)

Investment in private equity-backed businesses has grown much faster than the national average. In the five years to 2005/2006 investment in private-equity-backed companies rose by 18% compared with a national increase of 1%. Private-equity-backed companies also increase spending on research and development (R&D). Over the five-year period R&D expenditure in venture companies increased at an annual average rate of 13% and R&D expenditure in management buy-outs increased by 21%.

Private equity is good for sales and exports

Over the past five years sales in private-equity-backed companies have grown faster than FTSE 100 and FTSE 250 companies. Exports have grown faster than the national average.

Private equity is good for growing businesses

Over 90% of companies in which private equity has invested say that without private equity their businesses would not exist or would have grown far less rapidly.

Private equity is more than just the provision of capital.

Around two-thirds of businesses that have received private-equity backing identified strategic direction, financial advice and help with contacts as key support they received from their private-equity backers.

Private equity is good for pensions

The only reason that private equity exists is because investors, especially pension funds, choose to invest in it. Pension funds invest in private equity because they get good returns, which is very good for millions of pensioners.

This is not to suggest the industry is perfect. Given its size, and the fact that some of the very large buyouts have involved high-street names, private equity does now have a duty to improve transparency and communication. Still, given all the positives I would have thought that most people would be pleased to see the success of private equity continue.

So back to the current market. Does it matter to us? We have seen liquidity problems before and I have no doubt will do so again. At the moment this is causing difficulty in the larger private-equity groups given that they need the banks to underwrite debt facilities – and the banks no longer appear to be able to do so. Many banks also have a backlog of deals they have underwritten, which they need to syndicate before they can really get back into the market. This will undoubtedly lead to a slowdown in large transactions. However, debt is still available for smaller deals and it seems to me that the current market correction will be good news in the longer term. There has been a very good run in the mergers and acquisitions (M&A) market, fuelled by low interest rates and the availability of debt. This in turn has driven up prices. A period of calm will do no one any harm.

Many private-equity firms have recently raised new funds, which do very well if they can be invested while prices are low and the money then taken out when markets recover. However, investors can't just buy into the good funds now with this in mind. Funds are raised on a three- to five-year cycle and if an investor is not in at the start, gaining entry to a successful fund through the purchase of a secondary position can be impossible. That is why sophisticated investors in private equity invest on a consistent basis each year. Don't try and pick the market cycles – instead pick the managers with the long track records, who have invested over different cycles and through uncertain times. They will be the successful ones in the future. The private-equity industry offers a wide variety of investment opportunities for investors. Different stages – start-up, early stage, development capital, small buyout, mid-market and large buyout funds all carry different risks and rewards. Different geographies – Europe, Asia, the US and emerging markets again carry different risks and rewards. I am confident that if investors have carefully built their portfolios diversifying by stage and geography and, most importantly, by manager, they will get good returns. This is not an asset class to run in and out of, but one to take a long-term, patient, view of. Develop knowledge and expertise over time, build portfolios and you should experience the superior returns that many other investors have done over the last 20 years.

How to get real value out of commodity futures

HILARY TILL, co-founder of Chicago-based Premia Capital Management, LLC, a proprietary investment and research firm that focuses on the natural-resources markets, looks at how value investors can gain from the commodity futures market. Hilary is also the co-editor of *Intelligent Commodity Investing* (Risk Books, 2007) and can be contacted on till@premiacap.com

During the past five and a half years, the market – the recent blip aside – appears to have validated the claims of the commodity bulls. The returns, for example, for the Dow Jones AIG Commodity Index (DJAIGCI) have been about +15.0% per year (see the first graph below) and it may well be that we are in the midst of the kind of commodity super-cycle not witnessed since the late-19th century's industrialisation of the United States and during the post-World War II recovery of Europe and Japan.

The question is, how can investors get the best value out of the trends? One vital thing to understand is that of term structure – or the relative price differences of futures contracts across delivery months. When a near-month contract is trading at a premium to more distant contracts (ie, the price of a commodity to be delivered now is higher than the price for one for delivery in the future), we say that a commodity futures curve is in "backwardation". Conversely, when a near-month contract is trading at a discount to more distant contracts, we say that the curve is in "contango".

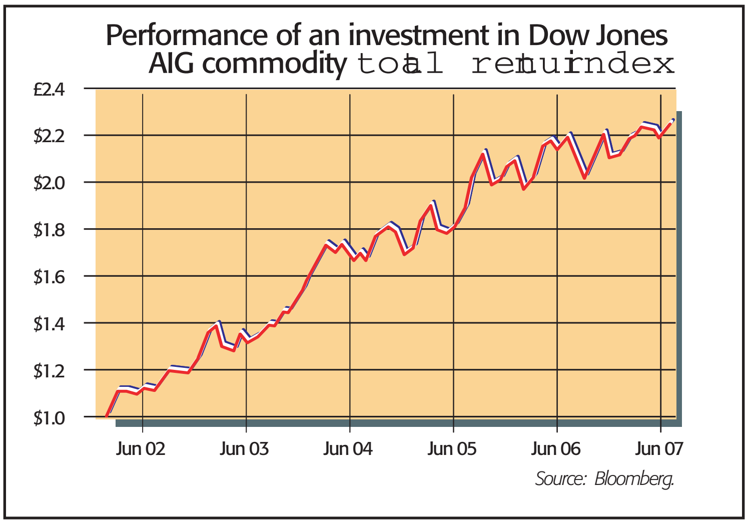
Typically, when there are low inventories for a commodity, its commodity futures contract trades in backwardation: consumers, concerned about future scarcity, are willing to pay a premium for the immediately deliverable contract relative to deferred-delivery-month contracts.

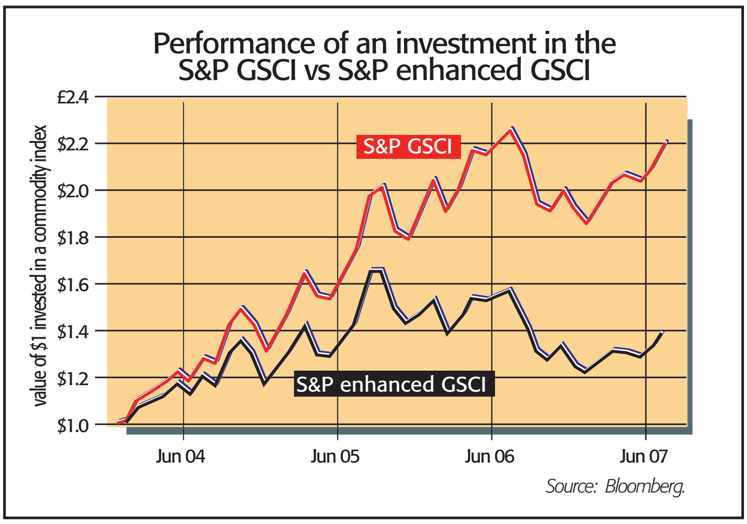
When a commodity futures contract is in backwardation like this there are two ways an investor can make money. The first is simply by owning the commodity outright – given that backwardation typically indicates scarcity, the odds are that the price will go up over time. The other involves a bit more explanation. As the delivery date on a backwardated futures contract gets closer its price will converge on (or roll up) to the spot price. This is the "roll yield" that a futures investor captures. The spot price stays the same but the investor will still earn regular returns from buying discounted futures contracts, which then continuously roll up to the constant spot price. A bond investor might liken this situation to one of earning "positive carry". In a contango market, the reverse occurs: an investor continuously locks in losses from futures contracts converging to a lower spot price. Correspondingly, a bond investor might liken this scenario to one of earning "negative carry". Therefore, in order to profit from what we call term-structure effects, investors need to concentrate their futures exposure in commodity contracts that are typically backwardated.

Commodity Index Re-Engineering

Not everyone gets this right. For example, in 2006, crude oil futures contracts persistently traded in deep contango. As a result, even though spot crude oil prices barely moved from $61.04 at the end of 2005 to $61.05 at the end of 2006, a passive investor in crude oil futures would have lost –30% in 2006 purely on the roll yield. It makes sense to want to hold hard assets such as oil to hedge against all sorts of things but this is plainly too expensive a hedge.

Good news, then, that a number of commodity-index providers have created new-generation indexes, which attempt methodically to provide exposure to spot commodity





prices while minimising the carry costs of such investments, particularly in the energy sector. One can see the impact of taking term-structure into consideration most dramatically in the performance differential between the S&P Goldman Sachs Commodity Index (GSCI) and the Enhanced S&P GSCI index, as shown in the graph above. From the end of 2003 through the end of July 2007, the S&P GSCI has had annualised returns of 10.0% while the Enhanced S&P GSCI has had returns of 24.8% per year. Both indexes have the same commodity weightings. But while the S&P GSCI index passively invests in front-month contracts, the enhanced version dynamically rolls to different parts of each commodity curve, taking seasonality and curve shape into consideration in order to either maximise positive roll yield or minimise negative roll yield. Something to consider before you dive into commodities markets.

Issue	Buy/Sell	Tip	Ticker	Price then	Price now
1	Buy	Xstrata	XTA	2792.00	2723.00
	Buy	BHP Billiton	BLT	1180.00	1275.00
	Buy	Anglo American	AAL	2756.00	2616.00
	Buy	Mercator Gold	MCR	71.00	77.00
	Buy	Vodafone	VOD	139.60	155.30
2	Buy	Australian dollar			
	Buy	New Zealand dollar			
	Buy	Copper			
	Buy	FTSE 100			
	Hold	Rexam	REX	524.00	508.50
	Hold	Billing Services	BILL	32.00	25.50
	Buy	Close AllBlue	CAB	99.50	100.50
	Buy	Dexion Alpha	DASL	98.50	104.25
	Hold	Dexion Equity Alternative	DEA	118.00	122.25
	Buy	Dexion Trading	DTL	103.75	111.00
	Hold	Psolve	PSV	99.50	105.00
	Buy	OHB Technology	OHB.DE	€14.00	€14.20
	Buy	Loral Space and Communications	LORL.NYSE	$48.48	$40.05
	Hold	Dexion Absolute	DAB	149.25	152.00
	Hold	Thames River Multi Hedge	TRMA	136.00	105.01
3	Hold	Procter & Gamble	PG.NYSE	$62.07	$65.01
	Hold	LVMH	LVM	5800.00	5381.00
	Hold	Singapore Airlines	SIA.SP	SGD 18.70	SGD 17.70
	Hold	ICBC	ICK.DE	€0.39	€0.43
	Hold	United Utilities	UU	764.00	661.00
4	Hold	British Empire Securities and General Trust	BTEM	480.00	450.00
	Hold	Smurfit Kappa	SKG	€19.50	€15.20
	Hold	Mayr Melnhof	MYM.F	€170.32	€74.71
	Buy	Datatec	DTC	284.50	285.00
	Buy	VIB Vermoegen	VIH.DE	€11.70	€9.76
	Buy	Burgerlichese Brauhaus Immobilien	BBI.F		€13.00
5	Buy	Xstrata	XTA	2869.00	2723.00
	Buy	BHP Biliton	BLT	1291.00	1275.00
	Buy	Anglo American	AAL	2951.00	2616.00
6	Buy	Pfizer	PFZ	1276.48	1190.00
	Buy	BT	BT-A	315.25	307.50
	Buy	EchoStar	EOR	2453.00	2150.00
	Buy	Advanced Info Services	AVIFY.NYSE	$2.46	$2.60
	Buy	Home Depot	HOM	1969.00	1771.72
	Hold	Telecom Egypt	ETEL.EY	EGP 18	EGP 16.36
	Hold	First Gulf Bank	FGB.UH	AED 14.50	AED 13.80
	Buy	Metro	MEO.DE	€61.13	€57.21
	Buy	Munich Re	MUV2.DE	€134.10	€127.86
	Buy	Deutche Post	DPO	1578.00	1380.00
	Buy	DaimlerChrysler	DCX	4692.00	4060.00
	Buy	Siemens	SIE	7015.00	6074.00
	Buy	Grammer	GMM.DE	€22.50	€18.95
	Buy	Karstadt Quelle	KAR.DE	€25.38	€19.29
7	Hold	Fluor	FLR.NYSE	$114.78	$117.27
	Hold	KBR	KBR.NYSE	$30.93	$29.56
	Buy	Veolia Environment	VVD.DE	€56.77	€52.11

	Buy	Suez SA	SUE	2824.50	2510.00
9	Buy	UltraShort Financials ProShares fund	SKF.US	$82.50	$82.05
10	Buy	UltraShort Real Estate ProShares ETF	SRS.US	$100.50	

Recent Portfolio Changes

ABN Amro sold on 24 July at €36.84
Imperial Energy sold on 24 July at 996p
HSBC European Absolute sold on 24 July for 162p
Cazenove Absolute Equity sold on 24 July for 110p
RIT Capital Partners sold on 24 July for 1,096p