



New Price Regimes Make for A Difficult Trading Environment

After sneaking out to nearly a 3% gain though February, the events of March gripped all markets and the Ags were no exception. With new price levels come new amounts and types of risks. Indeed with price levels entering the year at historically high levels the stage was set for a degree of volatility.

In fact, the upward trend stayed in tact through two sets of price breaks. First in early January, the grain markets sold off between 20 and 50 cents across the board. May Corn went from \$6.40 to \$6 in the first two weeks only to blast past the \$6.50 level and never look back.

Until February, when prices were moving north of \$7.25, they were almost touching \$7.50, only to close under \$7 and looking to take out \$6.50. This about-face was followed immediately with a roundtrip back to the top as we moved into March.

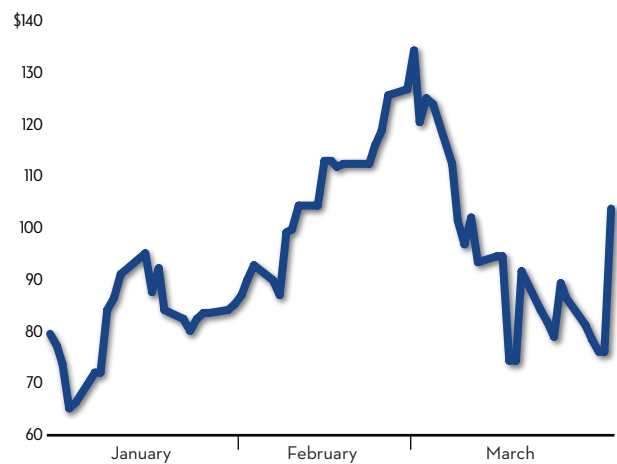
Then came March 11 and for a period of four days, the world stopped. Gripped by fears of another Chernobyl-style nuclear accident people sold food to hold onto equities and the global demand story that seemed once so firmly in tact fell, quickly, apart.

Observing for a moment the July Dec corn spread we see quite clearly not only the absolute movements across the two sectors, but the inherent volatility in the related spread. Trying to invest in a position here proved very difficult indeed.

And then the reality set in. Not only will we need more imports to the East, they may eat up (pun intended) nearly all the reserves the world currently has available.

On the last day of the quarter, the USDA and WASDE reports confirmed the worst—the world may actually run out of old crop corn, there would be very little to carry over and the battle for acres across the agriculture complex was well under way.

July vs. Dec. Corn Spread (in dollars per bushel)



Source: CME Group

What would farmers plant? Corn, beans, cotton? What do the Chinese want? Corn, bean and cotton!

Instead of prices acting with their typical demand destruction features, the markets leapt to new highs as global signs of recovery overpowered concerns of future financial crisis.

We have not seen commodity markets the likes of these since 2008 and we know how that year ended. And so we are left to ask a number of ongoing questions:

- *What is different now?*
- *How much is China willing to pay?*
- *Are the middle classes in the emerging economies finally emerging?*
- *Will high energy costs bring an end to the party?*

Q2, we believe, will bring many an answer and we believe we will be ready to capitalize on the opportunities presented. ■

This document is not complete without attached important legal information

Diversification Softens the Blow From March's Natural Disaster Related Selling

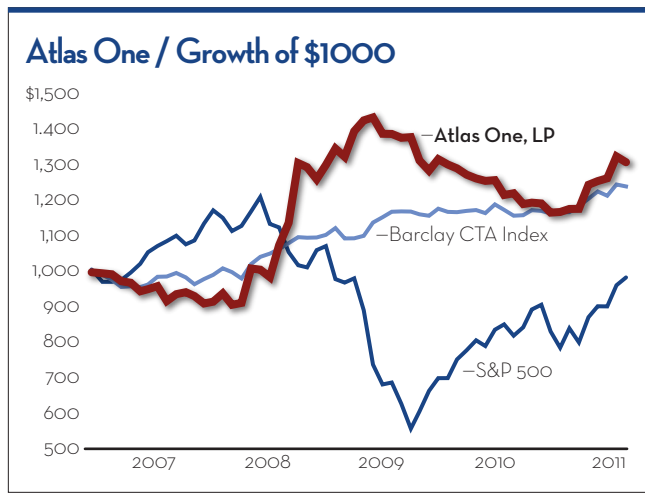
Multi-manager pools had a difficult first quarter as new price regimes populate almost the entire commodity complex. While trends generally stayed in tact, volatility was the predominant characteristic of the first quarter trade.

In general, Atlas One handled that volatility with a high degree of success. However, after leveling out in February, the geo-political and natural disaster laden March was simply too much for portfolio and the mid-month sell off hit the complex with a great deal of speed and force.

The by-product of the March sell off was for most of our managers to take in risk, clearing the decks of positions regardless of their fundamental basis as the world contemplated the state and stature of a possible nuclear disaster. Thankfully, the full scale of the Fukushima disaster seems to have been contained.

And so it was almost without warning that the world was hit with the one-two punch of unrest in the Middle East—driving energy prices higher—and the natural disaster of the largest earthquake on record and ensuing Tsunami. As with the Tsunami, the ensuing wave of destruction lasted for a brief and frightening three days and then was gone.

Managers were left stunned, speechless and significantly roughed up. Most of the complex found themselves down on the year and Atlas One is no exception. Our focus on the commodity sector, while a diversifier and unique feature of the in-



Source: BarclayHedge, McGraw-Hill, Linn Group

vestment, left us a bit more bereft than the market as a whole.

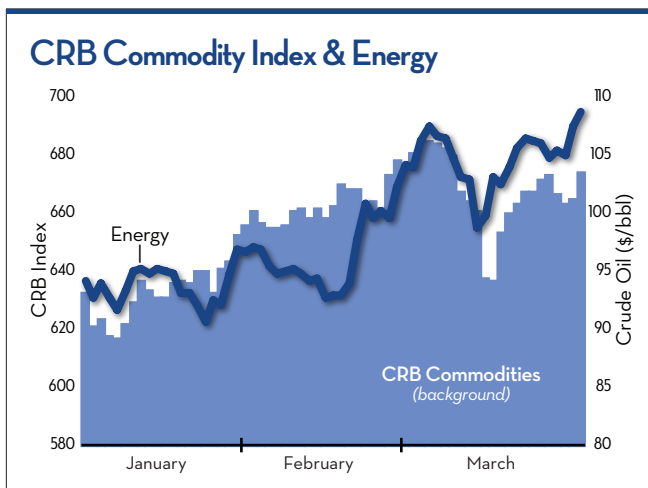
As we begin the second quarter, a new set of dynamics will ensue. Weather will become an issue; each cargo from West to East will take on new significance and the future of interest rate policies in the U.S. and around the world will hold the future of the commodity complex in their collective hands.

We have been disappointed with our U.S. domestic diversified trader this quarter but, given how well they contributed to last year's gains, we can hardly be too upset. Our growing Ag exposure took our volatility profile up a bit and we noticed that both in February and March. We will keep an eye on this as we seek risk adjusted returns—not just returns. Newcomers and short-term tactical traders DMH have shown slow but steady progress, and we are looking to add to this area and to these types of traders.

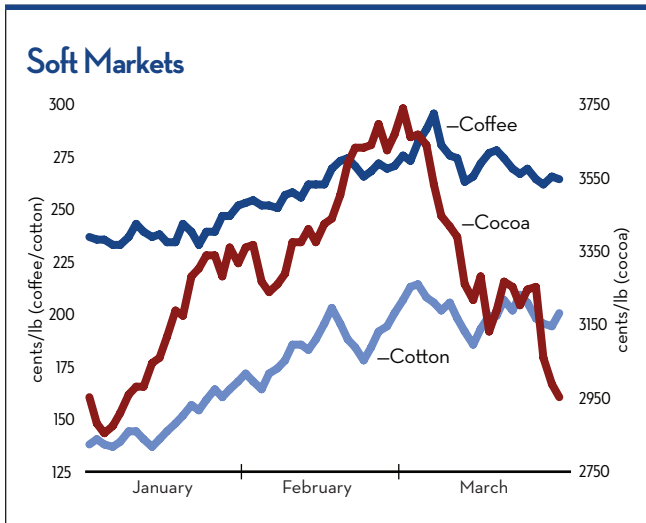
To be sure, we are disappointed with the results thus far in 2011. That said, we feel fairly confident that a return to trading form is in the cards for Q2. Both the constellation of advisors and their inherent trading styles sets us up for a new period of growth. Hopefully one that is more stable and trending than the quarter we've just been through.

Thank you for your continued interest and support.

Lincoln S. Ellis
Director of Asset Management

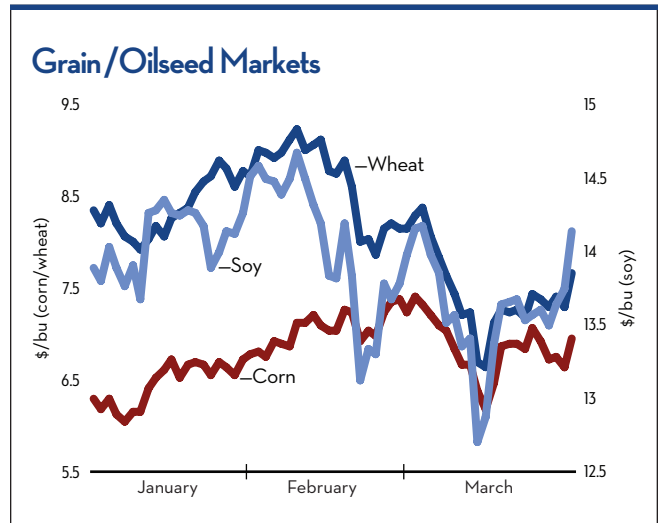


Source: CME Group



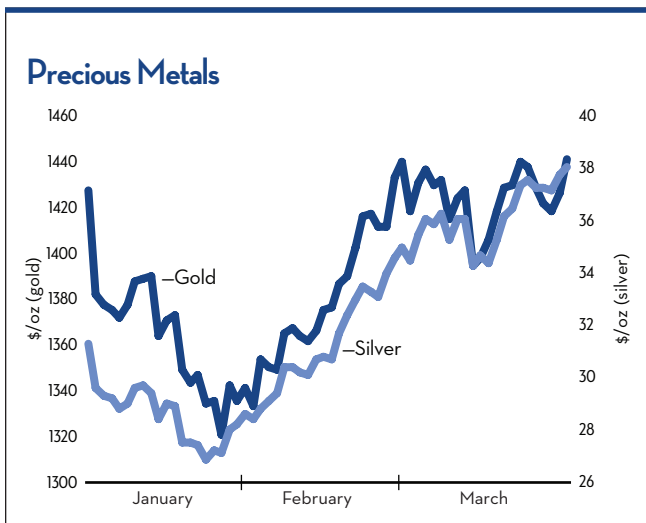
Source: CME Group, ICE

As with all parabolic moves, they tend to revert. As we finished the third quarter some of that reversion had begun in for what we now called the “Triple C.”



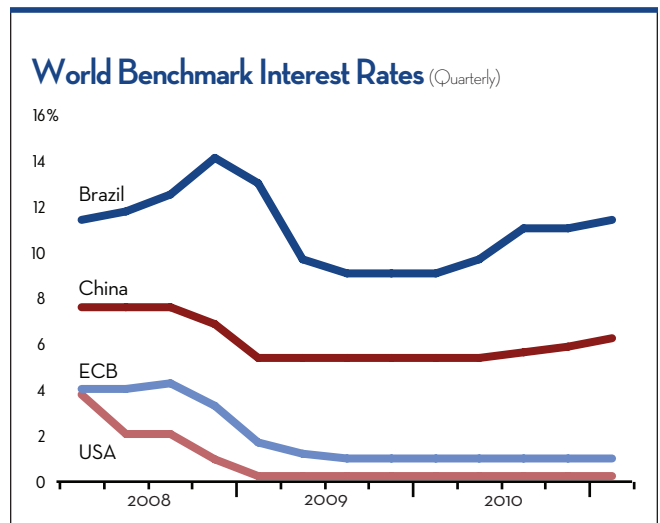
Source: CME Group

As they crossed the March 31st line, only corn was positive on the quarter. What did tick up in the quarter was daily and weekly volatility. As we’ve mentioned elsewhere, new price regimes produce very dynamic markets.



Source: CME Group, ICE

Speaking of parabolic moves... While gold was a wash for the quarter markets keyed in on silver as the new gold. All of the new attention and its bargain basement price of \$30 an ounce gave it a little “gitty up.” Hi ho silver away!



Source: IMF

If one is looking for a rationale as to why the U.S. dollar continued its drubbing in Q1, one need look no further than the global interest rate market—the interest rate differential, which is THE driver of currency values.

A REVIEW OF Q4 GDP and what this means

GDP and Profits: An Economic Malaise

The Q4 GDP release came in slightly better than the previously released 2nd revision of the 4th quarter 2010 GDP estimate.

The main issues that popped out of the release was the downturn in imports which, given the rise in oil prices in the first quarter of 2011, is very unlikely to be a beneficiary to GDP in the coming months.

More importantly, the acceleration in the Personal Consumption Expenditures (PCE) reflects a continued drag on the consumer base (70% of the recent release) and their ability to continue at their recent pace of consumption as the acceleration was largely in food and energy. This has been quickly reflected in the large drop in the recent Durable Goods report earlier this week.

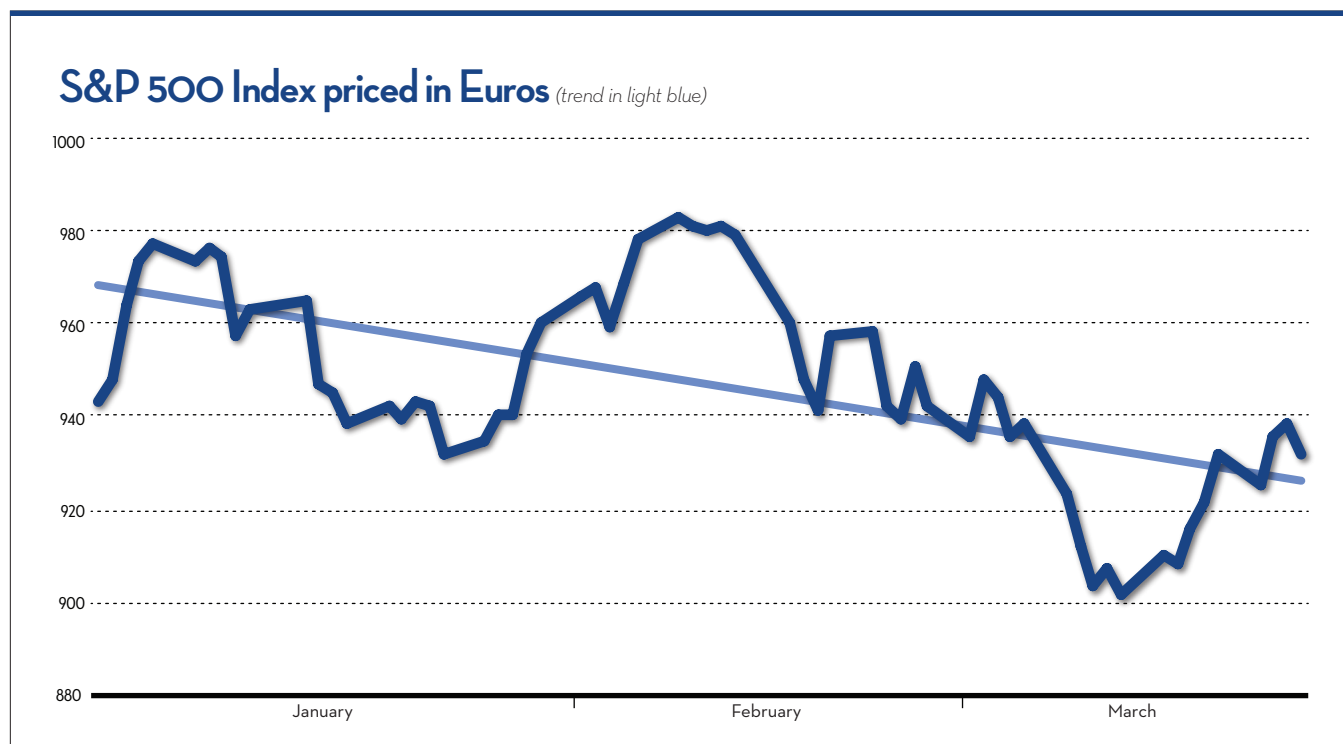
None of this is very surprising or enlightening. In the coming releases of GDP we will see the import component jump, exports lag, and consumption fall. Analysts are already scrambling to bring down their overzealous estimates from the end of last year and this will all eventually show up in

corporate profits.

Which brings me to our chart(s) of the day. Since corporate profits have been the main focal point of the mainstream media in justifying the bear market run up since 2009, it is important to focus on exactly where those profits are coming from and, ultimately, what their impact will be on the future economic growth.

We noticed financial profitability is doing much better than non-financial companies. As regular readers know, this is not surprising given the lack of real accounting issues (markup to myth) and Federal Reserve programs pumped through the financial sector to buoy asset prices.

However, notice that the NON-Financial profits may have reached their peak. The very real danger to investors is the current Wall Street valuation models that use the never ending steam of overly optimistic assumptions of future earnings to justify why you should be 100% invested in equities. IF corporate profits decline; market valuations must be adjusted and they *(Continued on following page)*



Source: McGraw-Hill, CME Group

GDP Review *(Continued from previous page)*

tend to adjust rapidly.

However, there is MORE to this story than just a correction in stock prices. The other half of this story is the future of our economy and the ability, or inability, to “grow” our way out of the economic malaise that 30 years of failed monetary policy has gotten us into.

I bring this to your attention for a very specific reason. In our previous releases we have discussed the issues with the growing debt/leverage of the American household since 1980 and the decline in savings that has impacted productive investment in the US.

The shift from a manufacturing/production based society to a financial/service based society has promulgated this decline in the growth of the economy for the last 30 years. Prior to 1980, personal savings was well above 6% and GDP on average grew at roughly 6%. At that time it took less than .50 cents of debt to produce \$1 of GDP.

Since 1980 personal savings has steadily fallen as personal consumption has risen from 60% of GDP to over 70% of GDP. GDP has also slipped to below a 4% annualized growth rate and it is estimated that it takes more than \$4 of debt for every \$1 of GDP growth. The idea of leverage and use of credit has been widely adopted across all economic strata and the lure of fast money in the markets has turned the blue collar

worker of yore into the Wall Street gambler of today. Therefore, it is really no surprise that during the last 30 years financial sector profits have made up an ever larger percentage of total corporate profitability.

The problem with this is simply that a financial transaction creates virtually NO economic throughput. It creates a commission or profit for the person executing the transaction but that is where it stops.

A manufacturing process, such as building a house, has an economic multiplier of 3 or 4x every dollar input. When a house is built it requires engineers, architects, contractors, workers, suppliers, manufactures, etc., etc. Each of these individuals and companies benefits from the process of building a single house, which in turn requires them to hire workers, buy products, supplies, materials, etc., which in turn fuels economic growth. This is a very simplistic analogy, but you get the idea as to why there has never been a true, organic, economic recovery without housing leading the way.

This is why as we look forward the impacts of Quantitative Easing and Permanent Open Market Operations, while supportive of the financial sector, yield little or no support to the ability of the U.S. economy to “grow” its way out of the issue in the future. Each step that we follow down the current Keynesian path of financial escapades continues to undermine the capability of productive economic growth and plunges us ever deeper toward the Japanese experience. ■

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