3rd Quarter 2010 Commentary

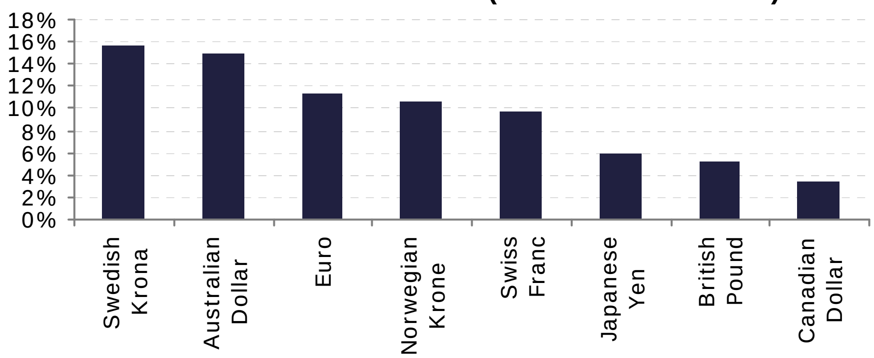
SAMSON
CAPITAL ADVISORS

# Samson Multicurrency Plus Strategy

## Executive Summary

Strong 3rd quarter returns belie the considerable volatility that has swept currency markets throughout the year. The first half of the year witnessed a rally in the dollar and a decline in the value of most major currencies, as crisis in Europe (among other places) precipitated capital flows to U.S. Treasuries and the dollar. As crisis in Europe abated, and investors began to focus on the stable (if not healthy) outlook for the world economy, the safe haven appeal of the dollar faded. Investors began to weigh the strong growth outside of the U.S. more heavily in their calculus, and sold dollars for growth oriented currencies.

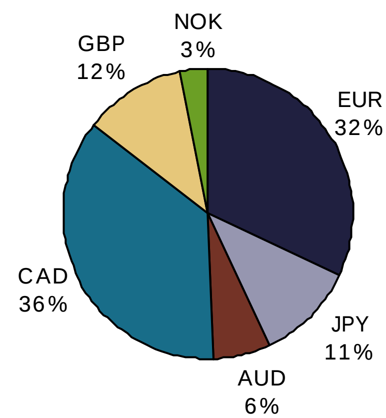
**Relative Performance of Currencies (6/30/10 – 9/30/10)**



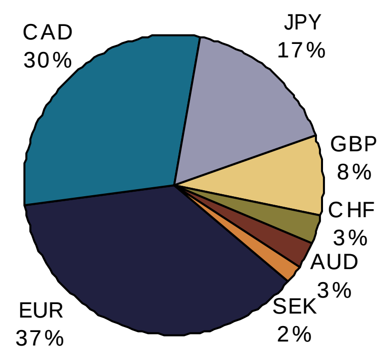

Fortunately for those concerned with Treasury prices, the Federal Reserve has decided to step back into the markets and buy bonds again, no doubt helping to offset the impact of safe haven investors selling their Treasuries to pursue better returns. A list of other places to consider might include the Australian government bond market where 2-year notes now yield almost 5%. Though yields in Canada seem meager by comparison, Canadian 2-Year notes yielding about 1.5% provide nearly quadruple the yield of a comparable maturity U.S. Treasury.

Generally speaking growth oriented currencies indeed performed the best during the quarter and we took several steps to position the strategy appropriately for an improving overseas economic climate. As readers from our prior commentaries will recall, we repeatedly noted that the euro was not likely to collapse as a currency (though this was discussed frequently in the press), and we rebuilt our position in the currency during the quarter. Though we are still moderately underweight the euro, we expect to continue to increase our exposure over time as warranted by the fundamentals. Our slow rebuilding of our euro position contributed to our modest underperformance during the quarter.

**SMP Currency Exposure**
As of 9/30/2010




**Federal Reserve Trade Weighted Majors Index Currency Exposure**
As of 9/30/2010

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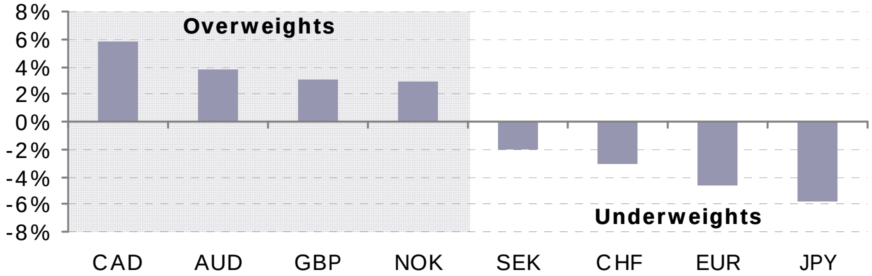
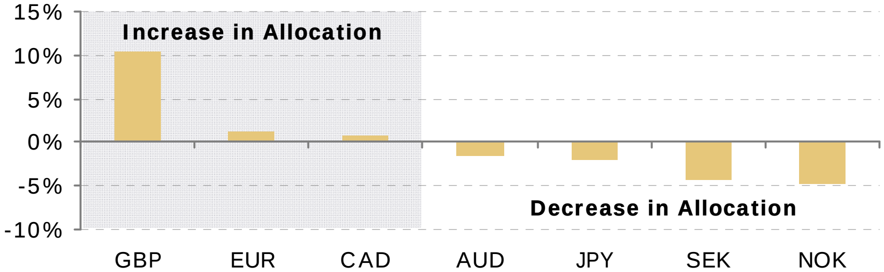
**Overweights and Underweights as of 9/30/10**




**Change in SMP Currency Allocations (6/30/10 – 9/30/10)**

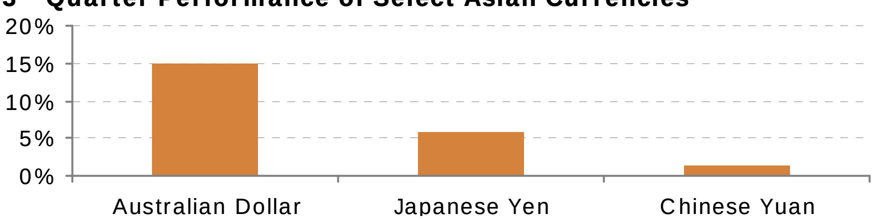



**Looking Forward**

If the IMF is correct, Asia's economy could be as large "as the United States and the European Union – combined – by 2015". This statement, delivered by IMF Managing Director Dominique Strauss-Kahn, has important consequences for policy makers and investors alike. For policy makers, particularly central bankers who manage currency reserves, this tectonic shift in economic power from the West to the East is one more reason why the U.S. dollar's status as a world reserve currency may continue to be challenged.

Choosing the best currency to benefit from Asia's rise is a more challenging proposition. The superficial choice, the popular choice, is China's yuan (also called the remminbi). Many investors have poured money into investments linked to the performance of China's currency. Yet, as the chart below shows, China's currency was the worst performing Asian currency during a period of dollar weakness. Though we have covered the reasons why China's currency has disappointed investors in the past (and will likely continue to disappoint them in the future), it is an important point to review and develop further. China's currency has not performed because it does not float. The value of the yuan is determined by officials appointed by a government best described as totalitarian. As our commentary over the summer pointed out, currencies associated with nations that are not free are less likely to perform based on free market forces. China's currency performance becomes more understandable in this context.

**3rd Quarter Performance of Select Asian Currencies**




The Federal Reserve Trade Weighted Major Currency Index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived from those in the broad index. The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares.

The U.S. Dollar Index® is composed of a basket of the world's major currencies. The currencies that make up the U.S. Dollar Index are representative of America's major trading partners and currently include euros, Japanese yen, British pound, Canadian dollars, Swedish kronas, and Swiss francs. The relative weighting of a particular currency in the index reflects the amount of trade the U.S. does with that country. U.S. Dollar Index® and USDX® are trademarks and service marks of the New York Board of Trade®.

The best performing Asian currency during the period was the Australian dollar. Australia, which may be referred to as the "Home Depot" of Asia, not only sells what the rest of Asia needs (raw materials), but has a currency that floats freely. As the country in Asia with the strongest democratic political traditions, a strong banking sector, and a free float currency, Australia's dollar will likely remain the best currency to purchase for investors with a positive view towards Asia – until China's yuan truly is allowed to float freely.

Free floating currencies like the Australian dollar may become an endangered species if current trends continue. Free markets are losing ground to government intervention in bond markets and currency markets around the world. The Federal Reserve has expanded its balance sheet dramatically, purchasing Treasury notes and bonds, as well as mortgages, as part of its program to heal credit markets, keep interest rates low, and promote growth and inflation. The Federal Reserve is not the only central bank intervening in markets. The Bank of Japan recently embarked on a major program to stop the yen from strengthening further (another reason for us to reduce exposure to the currency). Countries from Thailand to Brazil have introduced measures to curb foreign investments in their currency and bond markets. Eager to maintain their strong growth rates, these countries do not want speculative capital inflows to cause their currencies to strengthen too much. For these nations, currency strength can be a risk to economic growth causing their exports to become uncompetitive in overseas markets. For emerging economies like Brazil and Thailand, it is understandable that their governments would want to control risks to their export-led economies; what is less understandable is the failure of many currency investors to appreciate this dynamic and invest accordingly. Interestingly, if one had to choose between growth oriented currencies during the quarter, it was far better to invest in free float currencies, than those associated with nations with a history of currency controls, or simply less economic freedom.

So, why do investors continue to pour money into investments related to China's yuan and other controlled investments? The siren song of high returns is always appealing to investors; sadly, even when the facts do not support the argument.

Jonathan E. Lewis
Principal

October 22, 2010

Data Sources: Bloomberg®