JWH MARKET COMMENTARY

APRIL 2006

John W Henry & Company INC

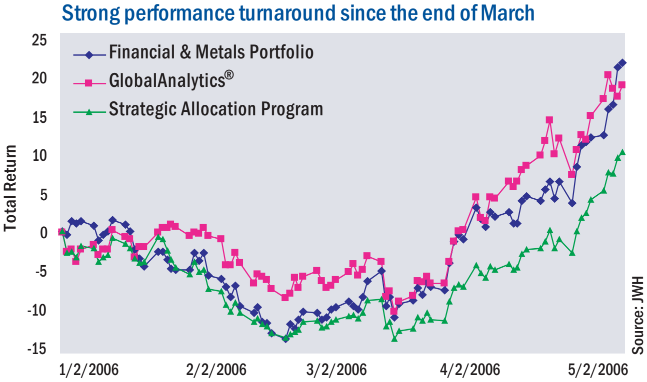
STRONG PERFORMANCE FOR ALL JWH PROGRAMS DRIVEN BY INTEREST RATE AND CURRENCY TRENDS

JWH's strong performance in April was driven by global interest rates continuing to trend higher on inflationary fears, strong demand for precious and base metals and a weakening U.S. dollar.

Signs of strong economic growth around the world led to higher interest rates as markets expected inflation to further increase in 2006. Strong growth also suggests that global monetary authorities will have to continue tightening action to halt the increase in prices. Until the last week of April, there had been no appreciable movement in the currency markets but that changed significantly. The combination of a G7 communiqué that focused on the International Monetary Fund (IMF) being redirected to the problem of global imbalances and the hint in Chairman Bernanke's testimony before Congress that the Federal Reserve may pause and look more closely at the economic data before making further rate increases caused a ripple effect in currency markets. These factors led to strong performance in all of JWH's programs. These gains were enhanced with the continued trends in commodities that have pushed base metals and energies to new highs.

All JWH programs, especially those with diversified exposure, generated solid positive returns. Our flagship Strategic Allocation Program (SAP) was up over 11 percent for the month. The month's gains pushed SAP into positive territory for the year and the GlobalAnalytics® (GA) program above its previous high water mark. The Financial and Metals Portfolio, GA, Global Diversified Portfolio and Worldwide Bond programs are all up double digits on the year through April, based on the broad-based performance in many markets sectors. The foreign exchange programs showed lower gains because much of the move in currencies was centered in the euro. Diversification placed a drag on performance in the currency sector.

Strong performance turnaround since the end of March



The strong performance in just a few weeks shows the significant impact of a divergent strategy when markets start to have strong trends. While some of the moves in the metals markets have been unprecedented and not seen in decades, the majority of our gains were generated from markets that had moves which were modest but strongly directional and represented a change from the previous existing equilibrium.

INTEREST RATE MARKETS CONTINUE SELL-OFF — Strong economic growth, especially in the U.S. Gross Domestic Product numbers which were the best since the middle of 2003, has fueled higher inflationary expectations. Growth in Europe and Japan has also moved above global market expectations as both economies continue their rebound. The perception of a trade-off between growth and inflation is alive and well. What has been a special driver for the markets is that this growth has been synchronized around the world. Strong growth in Asia, the Americas, and Europe means that capacity utilization rates are high and there is little slack in the world economy. This moves the pricing power to suppliers which fuels increases in inflationary expectations.

Inflationary expectations were also helped with the increase in headline inflation as most price indices surged upward. Core inflation has moved higher but not to the same extent as numbers which include energy costs. What has been surprising is the strong consumer confidence in spite of the high fuel prices. Consumers at this point have not been fazed by the surge in oil prices.

There was slight pause in the bond price decline from the Fed comments of a possible halt in rate increases, but the positive economic numbers at the end of the month created an environment for a continuation of this trend. Nevertheless, these inflationary expectations will be tested with the latest data of an unexpected decline in employment growth.

The U.S. yield curve has steepened with rates on the long-end now firmly above 5 percent. Global yield curves are seeing a similar pattern. Monetary authorities are also in agreement with raising rates which may extend the bond rate increases until inflationary expectations are adjusted downward.

DOLLAR TURNS DOWNWARD — The decline in the dollar is associated with two major events, talk of a Fed pause and the global imbalance focus. This has changed the relative focus of market participants. Currency markets are more similar to 2004 when there were large dollar declines as opposed to the 2005 trading environment which focused on carry or interest differentials. The markets will be looking at growth and not the gains from interest differentials as the focus for capital flow decisions. The only major difference is that 2006 still has a positive carry for the dollar relative to many other developed countries.

The Fed chairman's comment that there may be a pause in the rate increases was not a strong statement but a reflection on pragmatism. Nevertheless, this sent a signal to the global markets that the rising rate differential between the U.S. and the rest of the world may not continue. Recent comments by the European Central Bank suggesting that they will move to raise rates mean that the interest rate differential between these economies will decline. The same argument applies to Japan, where there is talk that a rate increase is growing more likely.

The announcement that the IMF will focus on global imbalance again focuses attention on the size of the current account deficit in the U.S. which has shown no sign of declining.[1] Policy actions that can be taken with the help of the IMF are unclear. Any orthodox response to the deficit either calls for higher taxes in the U.S. or a significant appreciation of surplus countries currencies like China. The first is politically unpalatable for the U.S. and the second is destructive for the surplus countries who view that the Japanese response of yen appreciation in the late 1980's and early 1990's was a contributing cause to the their liquity trap and decade of recession.[2]

So far, the dollar decline has been more focused on the euro and to a lesser extent on the yen. From a trading perspective, JWH yen positions have been built more recently in response to breaking through key resistance levels. The euro exposure has been held for a longer period of time and has been able to catch a significant portion of the dollar decline.

Cross rates have not moved as the global imbalance story has focused on the U.S. and to a lesser extent China, which has not appreciated beyond its suggested range. The emerging market moves also were more muted with this sector's returns being unchanged to slightly positive.

CRUDE OIL MOVES TO NEW HIGHS — The fears of longer term price disruptions have pushed crude oil prices to new highs. The combination of the ongoing nuclear dispute with Iran, as well as supply issues in Nigeria and Venezuela has made for higher risk premiums in the energy markets especially in back months. Nevertheless, high volatility has constrained the size of JWH positions in these markets. There has been a continued decoupling of the oil and natural gas markets which are the least correlated of the energy markets. Natural gas is actually at levels that are similar to last year.

The shape of the price curve is unusual for the crude oil markets with prices being in contango. This means that back month futures prices are actually higher than the nearby contract. The oil market usually is in backwardation. This contango is related to the relatively high oil inventory levels. The result is that many long-only commodity investments may actually lose money if there is not a significant price increase to offset the roll-down of prices to maturity.

METALS MARKETS CONTINUE GAINS — Both the precious and base metals sectors have had moves that are unprecedented in recent history. The base metals continue to be driven by the strong global economic growth, especially in Asia. Copper has risen 75 percent this year based on supply disruptions. A combination of mining strikes, low inventory and limited production increases have all fueled what seems like a frenzy of trading activity. The amount of open interest in copper futures greatly exceeds the supply in warehouses. While it is not unusual for futures to have open interest which is higher than deliverable supply, the extent of this imbalance is greater than normal. Even the increase in Chinese interest rates to cool lending markets has not slowed the move. China's GDP grew at over ten percent for the first quarter of 2006.

Precious metal momentum seems to be associated with higher inflationary expectations and growing concerns about the dollar. The gold and silver markets have become more correlated this year as both have moved up in tandem. Both, have reached their highest levels since the early 1980's.

EQUITIES SEEM IMMUNE TO OTHER MARKETS — Gains in the equity markets have been flat for the month. The rising interest rates and declining dollar does not seem to have negatively affected these markets. Strong earnings based on good growth prospects have dominated these markets, even with an increase in the discount rate for those cash flows. There usually is an inverse relationship between interest rates and stock prices, but in the short-run this relationship may not be evident. Finding a negative correlation does not mean that every positive move in one market is offset with an opposite move in the other.

A dollar decline may actually help exports and profits from foreign affiliates. Large-cap stocks may prove to be more resilient to a decline.

COMMODITIES ARE NOT TRENDING — The strong moves in metals and energy markets have not been matched in the traditional grains and softs markets. This does not mean we have not seen rising prices in these markets; however, the level of volatility has dampened the quality of signals. Grain markets have risen on the growing cost of production. Energy usage is a significant portion of agricultural costs. The demand for ethanol is creating a new market for corn and sugar.

THE PHILOSOPHY OF TREND-FOLLOWING — "PLURALISTAS NON EST PONENDA SINE NECESSITAS" — What drives our philosophy of trend-following is the principal of Occam's razor — "Plurality should not be posited without necessity." In simpler terms, "Given a choice between two explanations choose the simplest". In simplest terms, it condenses to, "Keep it simple, stupid!"

William of Ockam was a 14th century Franciscan friar and English logician who argued for parsimony or simplicity in scientific theories. The explanation of any phenomena should use as few assumptions as possible through deleting those that make no difference.[3] If he was a commodity trading advisor he probably would have focused on trends.

If you are trying to determine the direction of the markets, the simplest explanation may be that its future direction will be the trend. It is simple and direct and does not lead to many assumptions of what may happen. It does not look for links with fundamentals even if they exist. Trend-following minimizes assumptions and focuses on a single factor for determining market moves.

The current program gains did not require complex stories or interpretations of Chairman Bernanke's testimony. It required following what the market was telling us. News is important, but we are not trying to integrate the news that is occurring. The markets will do that better than we can. Our job is to find the trend and manage the risk. The recent strong performance was not the result of special insight but a simpler approach of following our discipline.

Trend-following is very effective when markets are moving. The last few weeks attest to the fact that performance can change quickly if there are good market conditions. Programs have moved out of drawdowns and to new highs. Declines have been erased in a matter of weeks. We cannot determine when this will end, but trends usually last longer than expected and the current fundamental stories do not seem to have a reason to change.

Mark S. Rzepczynski, Ph.D.
President and Chief Investment Officer

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

[1]The IMF will increase "multilateral surveillance" and "consultations" to address global trade imbalances. A good review of these issues is found on the IMF website in the speech "Prospectives on Global Imbalances" by Raghuram Rajan, the director of the IMF research department.

[2]See Ronald McKinnon, "China's New Exchange Rate Policy: Will China Follow Japan into a Liquidy Trap" October 2005 Stanford University.

[3]Some of these issues are discussed in the presentation "Fast and Frugal Decision-making: Dealing with the Limits of Quantification and Optimization in Uncertain Markets" for the Global Derivatives Trading and Risk Management 12th Annual Meeting. This presentation will be available upon request.