July Market Commentary

The market gave us two positive months in a row, before faltering in June. We noted last month that the market was trying to find its footing, it never found it and plunged to new lows. In June the S&P 500 shed 8.43%, the world markets didn't far much better seeing the MSCI World Index fall 8.10%. As we mentioned last month, we were taking a conservative stance in our portfolios. This proved to be a wise move as our portfolios outperformed the market indices.

Regatta's main concern is still the sustained rise in oil and commodities. At the beginning of the month we witnessed a pullback in commodities. This pullback proved to be short lived, as commodities continued their rise. Oil in particular is clearly in a mania. Like all manias, the bubble will burst, but there is no reliable way to predict when it will end.

We believe we are more likely towards the end of the bubble, rather than the beginning and believe commodities are close to a top. If prices continue to rise, this will weigh heavily on the global economies. Hence, demand should weaken, which would be bearish for oil. China has also reduced the amount of the gas subsidies, which also could curb China's appetite for oil. The Fed also has been attempting to talk up the dollar. Claiming they are worried about inflation and could raise rates. Most believe they are saying this in an attempt to put a floor on the dollar, which would also be bearish for oil.

Unfortunately, most believe that the Fed is doing just that, "talking up the dollar", and in reality will not raise rates anytime soon. In other words the Fed doesn't have much credibility, and the dollar has failed to rally. There also have been increased geopolitical concerns, as tensions between Israel and Iran have ratcheted up of late. Needless to say, another conflict in the Middle East would not help lower oil prices. Another concern is the fact we have entered hurricane season. A major hurricane that would threaten oil rigs, or refineries along the Gulf of Mexico, could disrupt production causing a decrease in supplies.

Due to this continued uncertainty in commodities, along with continued weakness in the financial sector, the market gave back the majority of its gains from the recent rally. We mentioned last month, several of our models and timing systems had forecast the weakness at the beginning of the month. This caused us to reduce the exposure in our portfolios by raising cash and hedging long exposure. These systems suggested continued weakness, therefore we moved an even more defensive posture. Our equity portfolios only have between 0-25% net long market exposure.

Chart 1. S&P 500 Index

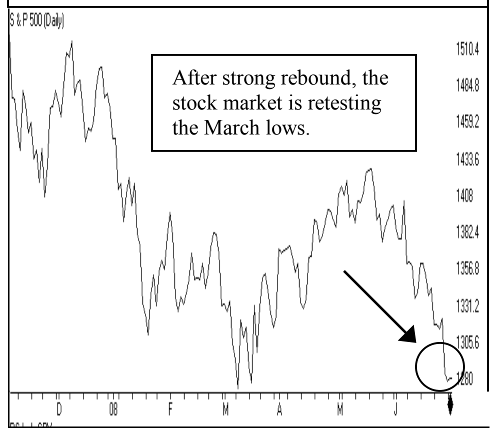


Chart 2. Deutsche Bank Commodity Index

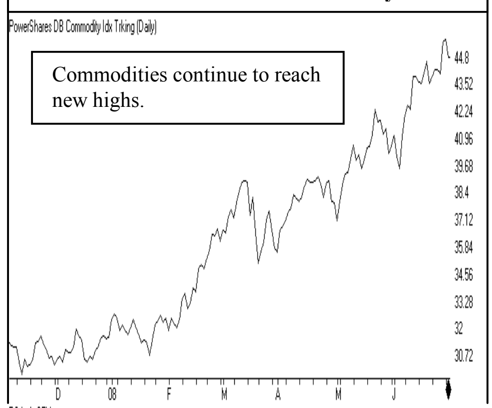
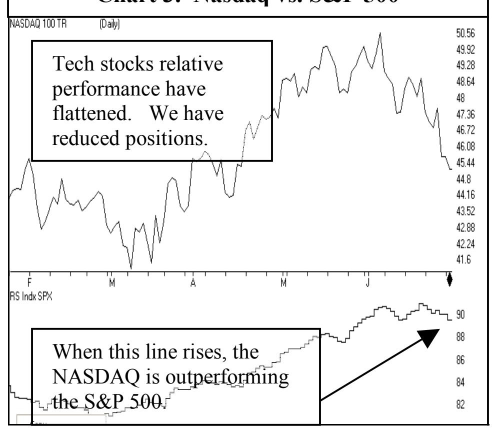
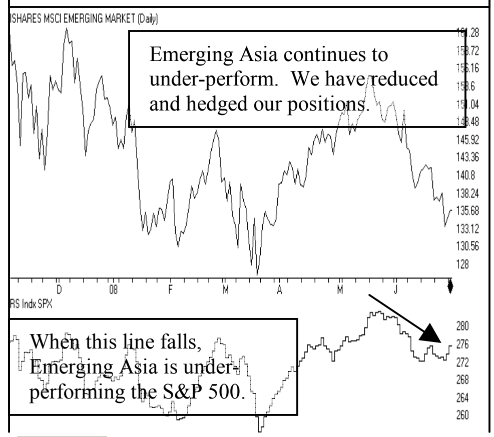


Chart 3. Nasdaq vs. S&P 500



For the short-term, the markets are extremely oversold. We would not be surprised to see an oversold rally, but we will maintain a cautious stance until we see some improving market conditions or a pullback in oil. If market conditions improve, we continue to view the US market as one of the best investment opportunities. In particular, technology, large growth stocks, and companies with a global presence remain our favorites. These stocks are much better positioned to handle the increased commodity prices and should lead the way forward.

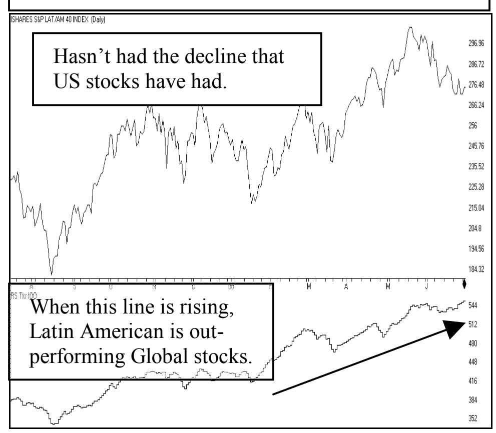
Chart 4. Emerging Asia vs S&P 500



Asian equities have continued to underperform the US markets, and are struggling with commodity increase. We shifted to a lower weight in our portfolios last month, and are have gone short emerging Asia and China to hedge some of our long exposure. If we see a pullback in commodities, these areas could take off. We can easily remove our shorts to take advantage of this move should it come to fruition.

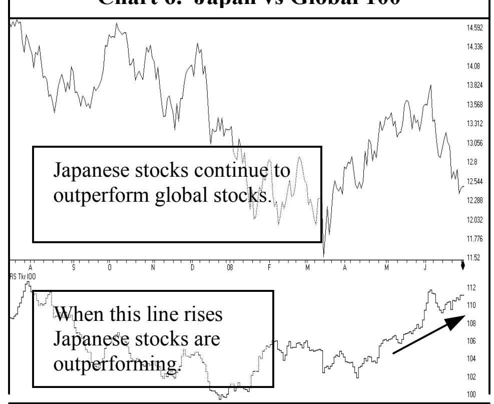
We mentioned last month we were looking strongly into Latin America. We added some to Latin American equities, but were quickly stopped out. We still believe Latin America is a very attractive investment. Latin America is a resource rich region, which has seen increased wealth due to the commodity boom. We continue to monitor this region for inclusion into our portfolios should market conditions improve.

Chart 5. Latin America vs Global 100



Japan is another area that we have been closely monitoring. Japan has fared much better than its other G7 counterparts during this latest economic downturn. The Bank of Japan is one of the few central banks that doesn't have much of an inflation concern. Japanese banks also don't have much subprime exposure and have been outperforming the global banking sector. We sold our Japanese positions to protect our portfolios last month, but continue to see value in this area. Should global market conditions improve, this could be a candidate to add back our positions.

Chart 6. Japan vs Global 100



In conclusion, we believe we could see a short-term oversold rally in the market in early July. But until we get a meaningful pullback in oil prices, we will continue to maintain a defensive stance in our portfolios. Protecting our portfolios from large losses is our main concern. We continue to monitor your portfolio and the markets daily to take advantage of any positive developments.

We sincerely thank you for your continued patronage and support!

The Regatta Research Team