



Absolute Return Strategy

Client Letter

4th Quarter 2009

Teewinot client accounts gained 1.3% in the final quarter of 2009. For the full calendar year, we experienced negative returns for the first time. Being down 4%, we did not achieve any of our three stated goals for the year.

The 2009 markets were certainly some of the most volatile in history. From the start, we witnessed an historic 9-week period in which the S&P 500 swiftly lost 25% of its value. As you know, Teewinot clients had been positioned out of harm's way for months, and it was no different during that steep slide. Our clients' portfolios were nicely diversified & protected by their allocation to Teewinot's strategy. Accounts under our care avoided the widespread losses and experienced minimal volatility. Meanwhile, these were dire times for investors limited to traditional buy & hold stock positions.

<u>Since Inception (June 2006)</u>		
Clients	S&P 500	Russell 2000
+18.4%	-5.7%	-9.8%
<u>2009</u>		
Clients	S&P 500	Russell 2000
-4.0%	+24.0%	+27.3%

<u>Early 2009 Decline</u>		
	S&P 500 (SPY) price	Loss
Dec 31 2008	90.24	
March 9	68.11	-25%

<u>Rally from Index Low</u>		
	S&P 500 (SPY) price	% of all Gains from Mar 9 to Dec 31
March 9	68.11	-
April 1	81.06	30%
May 4	90.88	53%
Dec 31	111.44	100%

The S&P 500's closing low for the year was made on March 9. These tables illustrate how extremely volatile both the decline and the rise from those ashes truly were. The extent of the decline is obvious. Less often discussed is that *under one month* after the ultimate low, 30% of the whole year's bottom-to-top uptrend was already in the books. That's an extremely quick snap-back. Over half of the gains from those depths occurred in under two months.

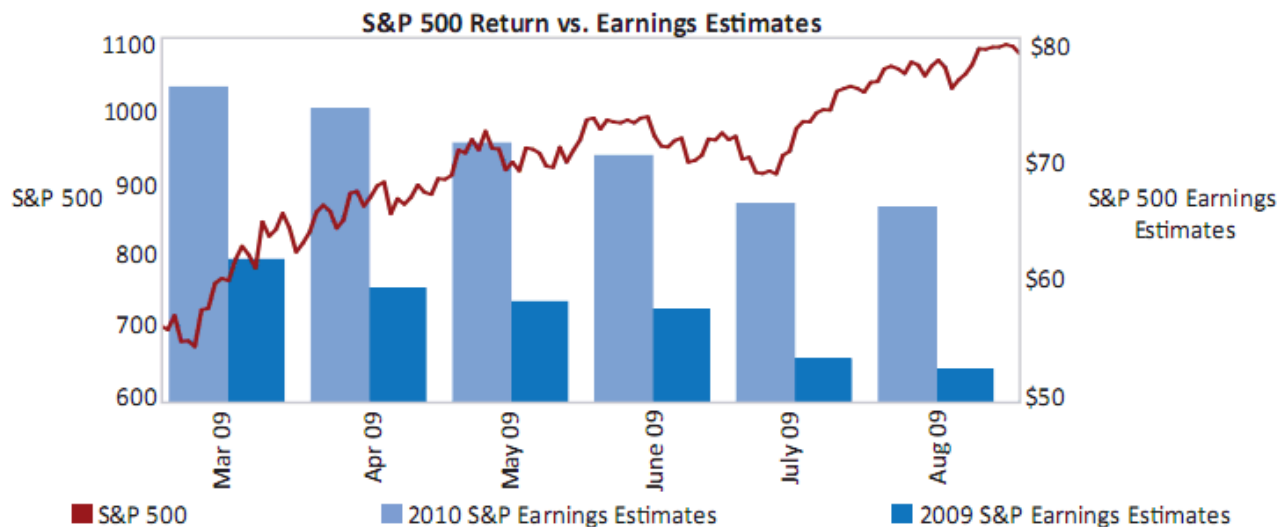
Furthermore, just as the steep decline had very few and shallow bounces, this moonshot rise from the abyss gave few meaningful pullbacks to allow for prudent buying opportunities – at least under our strategy.

Our investment philosophy has never involved buying into securities whose prices are mired in absolute freefall. If boldly buying into downtrends is one's method, one must be willing to risk nearly all the capital invested in that stock. Should it continue lower, the question of when to admit a mistake & sell before suffering large losses remains valid – yet can go unanswered by some portfolio managers. That scenario has no role in our investment discipline.

As an example, General Electric (GE) was trading at \$21 in early November 2008. The blue chip stock's price had been cut in half in 14 months. However, anyone who bought shares, presuming \$21 was a bargain, proceeded to watch the downtrend continue and the price eventually fall to \$6. GE's stock price has since climbed back to the mid-teens, but the point remains the same: While some investors are willing to endure 70% downside risk in pursuit of returns, that is significantly above the acceptable level of volatility to which Teewinot exposes our client assets.

That GE scenario is precisely why we tend not to "buy falling safes." Our strategy dictated that we move out of stocks at the onset of the recent bear market, and the steepness of the comeback simply did not entice the risk manager in us. Thus, our participation in the first half of 2009 was limited.

I will be the first to admit that our caution was incorrect during the second half of the year. We remained cautious because the fundamental backdrop remained extremely troubling. The US economy was not recovering strongly. S&P 500 earnings estimates continued to be revised lower. Meanwhile, stock prices rose.



Late in the year, earnings and economic figures looked better; yet year-over-year comparisons to a historical freeze in global commerce during 4Q 2008 weren't particularly enlightening.

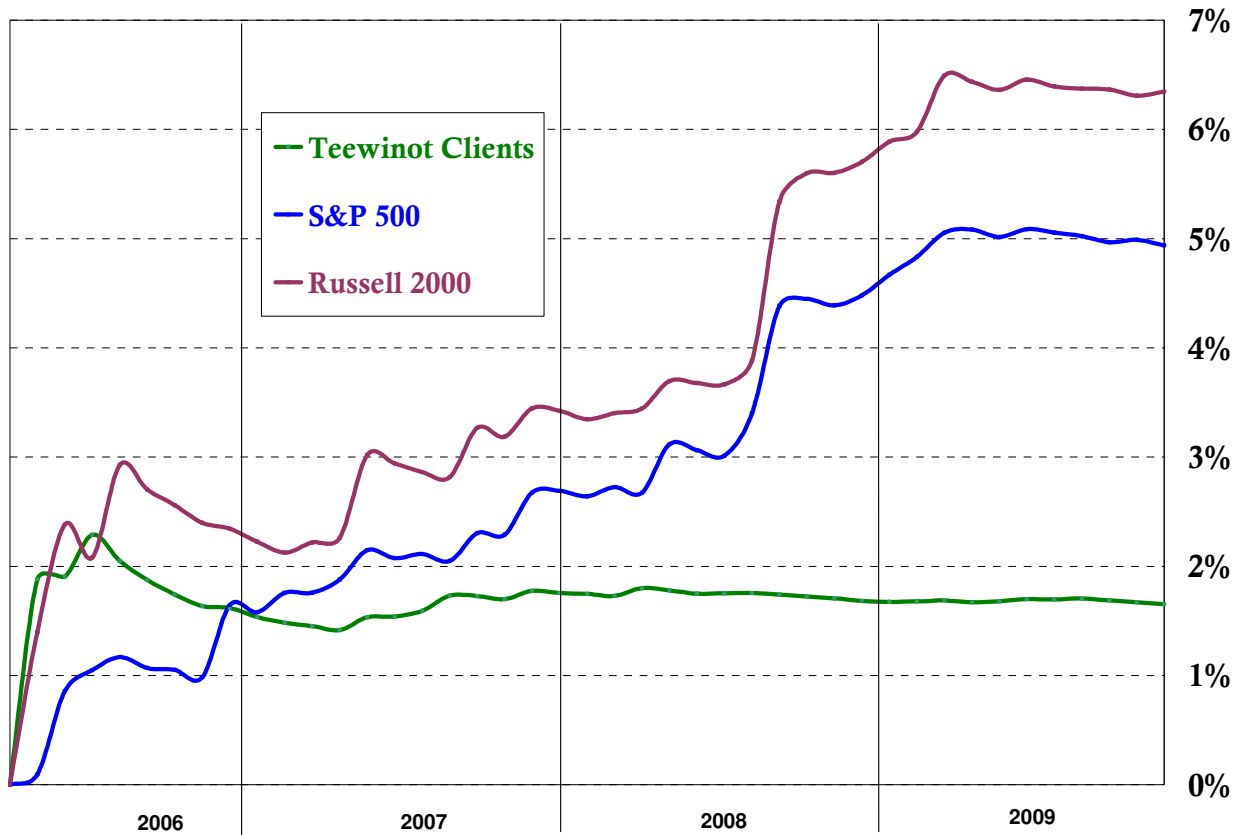
Investors are familiar with the negative macroeconomic issues of our day: overleveraged households, cities, states, and even our Federal government; high unemployment; a mediocre outlook for housing and related credit markets. While we continue to believe all of these are long term headwinds, during latter 2009 it is fair to say that we "missed the trees for the forest." Many stocks rose while we continued to focus on loss avoidance.

In hindsight, we would have rather retained a less cautious tone. During the latter half of 2009's market rally, losses on our downside hedges more than offset gains in our stock positions. The Inverse S&P 500 ETF (symbol SDS) caused the largest drag on performance.

We remain proud of our returns since inception, and extremely confident in the long-term success of our investment philosophy. While generally disappointed with 2009 results –no doubt about that – we are also pleased that in a year when all objectives were missed, our strategy resulted in a total loss of only 4%.

Further, while we're always seeking to earn exceptional profits for clients, as you know we also attempt to minimize the risk of our investments. As the chart clearly shows, our results continue to exhibit a small fraction of the volatility experienced by two major equity market indexes.

Historical Volatility: Standard Deviation of Monthly Returns

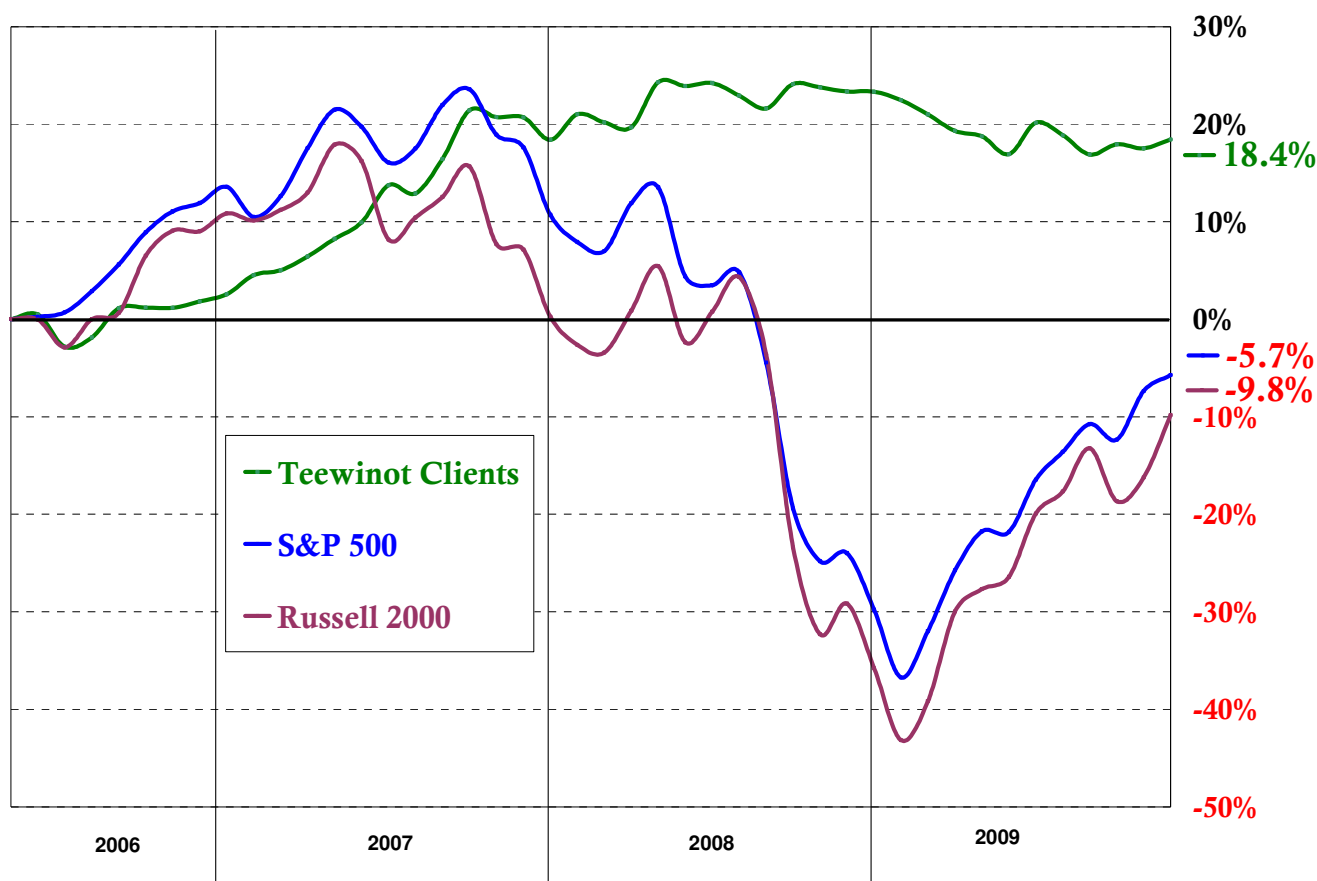


Meanwhile, returns to client portfolios have far out-paced the indexes since inception. That chart is on the following page. It's a trend we plan to continue.

Our business is to take the value of your portfolio to new highs. I remain extremely confident investing my capital alongside yours.

Buckner Woodford V, CFA

Returns Since Inception (June 2006)



Disclosures

1. Absolute Return Strategy calculations are derived from results of a single account following our Absolute Return Strategy. Because our block trades are allocated according to each account's Net Liquidation Value, we believe it closely represents the long-term performance that any account would have experienced over the given timeframe. We refer to this as a "Typical Account."
2. The specific account that represents our Typical Account was Teewinot's first under management.
3. Returns are time-weighted, measured monthly, and rounded to the nearest tenth of a percent for presentation.
4. Absolute Return Strategy performance is calculated **net of** Teewinot Asset Management's fees.
4. Index returns are derived from appropriate Exchange Traded Funds, and include all dividends. The indexes and ETF's used in calculations are: S&P 500 (SPY) and Russell 2000 (IWM).
5. Individual results may differ from the Typical Account for various reasons, including but not limited to: contributions or withdrawals of funds during reporting periods, the timing of such contributions or withdrawals, and imprecise share allocation of block trades across all accounts following Teewinot's Absolute Return Strategy.
6. Past performance is not necessarily indicative of future results.
7. The data herein is for informational purposes only, and gathered from sources deemed reliable; however, are not represented to be error free.