



# Absolute Return Strategy

Mid-Quarter update  
August 10, 2011

Equity markets overall, and most investors in them, have experienced negative performance this year. We have not been immune. I have two primary thoughts to relay. One is a positive, the other negative. We'll discuss the relatively good part first.

We performed our job in minimizing exposure, and thus portfolio volatility, *early* in the market decline of the past several weeks. The downturn began in mid-July during debt ceiling debates in Washington and fed off of negative economic statistics. Things accelerated as American debt was downgraded and weak European nations, unlike the USA, were further exposed as legitimate default risks. Teewinot clients lost value during the period, as our remaining stock positions quickly broke technical patterns across the board.

Our drawdown since the June 30<sup>th</sup> quarter-end is 6.7%; roughly half of the S&P 500 index's 13.6% decline. A significant number of individual stocks lost multiples of those figures. Large established companies, from US Steel to Bank of America, dropped between 20-40% during this period. And it wasn't just companies that lost value – many heretofore bulletproof performers in the asset management business took hits. In the alternative investment space, even John Paulson –who made his fortune presciently shorting housing & finance into 2008 and buying gold for the last several years – manages funds that are down 20-30% thus far in 2011. Point is, we at Teewinot became conservative early in the decline, and thus fared well above average during this extraordinarily difficult time.

I am less sanguine about our performance during the bullish and sideways market phases in the last 2 years. Looking back, we posted very strong absolute and relative performance numbers in our first 3 years. Then, after completely and correctly avoiding the 2008 debacle, we did not fully capitalize on the bullish and sideways markets that transpired from mid-2009 to mid-2011.

## 3<sup>rd</sup> Quarter (through 8/10/2011)

Clients	S&P 500	Russell 2000
-6.7%	-13.6%	-19.1%

## 2<sup>nd</sup> Quarter 2011

Clients	S&P 500	Russell 2000
-2.7%	0.0%	-1.6%

## Since Inception (through 8/10/2011)

Clients	S&P 500	Russell 2000
+11.0%	-2.7%	-3.0%

## Year-To-Date (through 8/10/2011)

Clients	S&P 500	Russell 2000
-11.3%	-9.0%	-14.4%

I certainly intended to have more to celebrate as we marked our 5<sup>th</sup> Anniversary in business in June 2011.

We were down 4.9% year-to-date on June 30<sup>th</sup>, the close of the second quarter. Those results occurred during a period of generally choppy, sideways motion in the market. In several of our winning investments, we in hindsight overstayed our welcome. Stocks in which we had significant unrealized gains came back to or below our purchase price. These stocks were purchased with prudent risk parameters at the time, and went in our favor, in some cases for 6 months or more. However, as the stocks came back to our cost basis and sometimes below, I respected our risk management process and exited those positions.

Since the fall is approaching, I'll use a football analogy: Teewinot's production on the offensive side has been lackluster, while our defense has remained strong. We have simply not put enough points on the board. I'd prefer the recent market downdraft to have accounted for simply a *partial* giveback of bigger year-to-date gains. Yet that is not the case for the Teewinot or the broad markets. The number of managers in this position is large. I take little comfort being in their company.

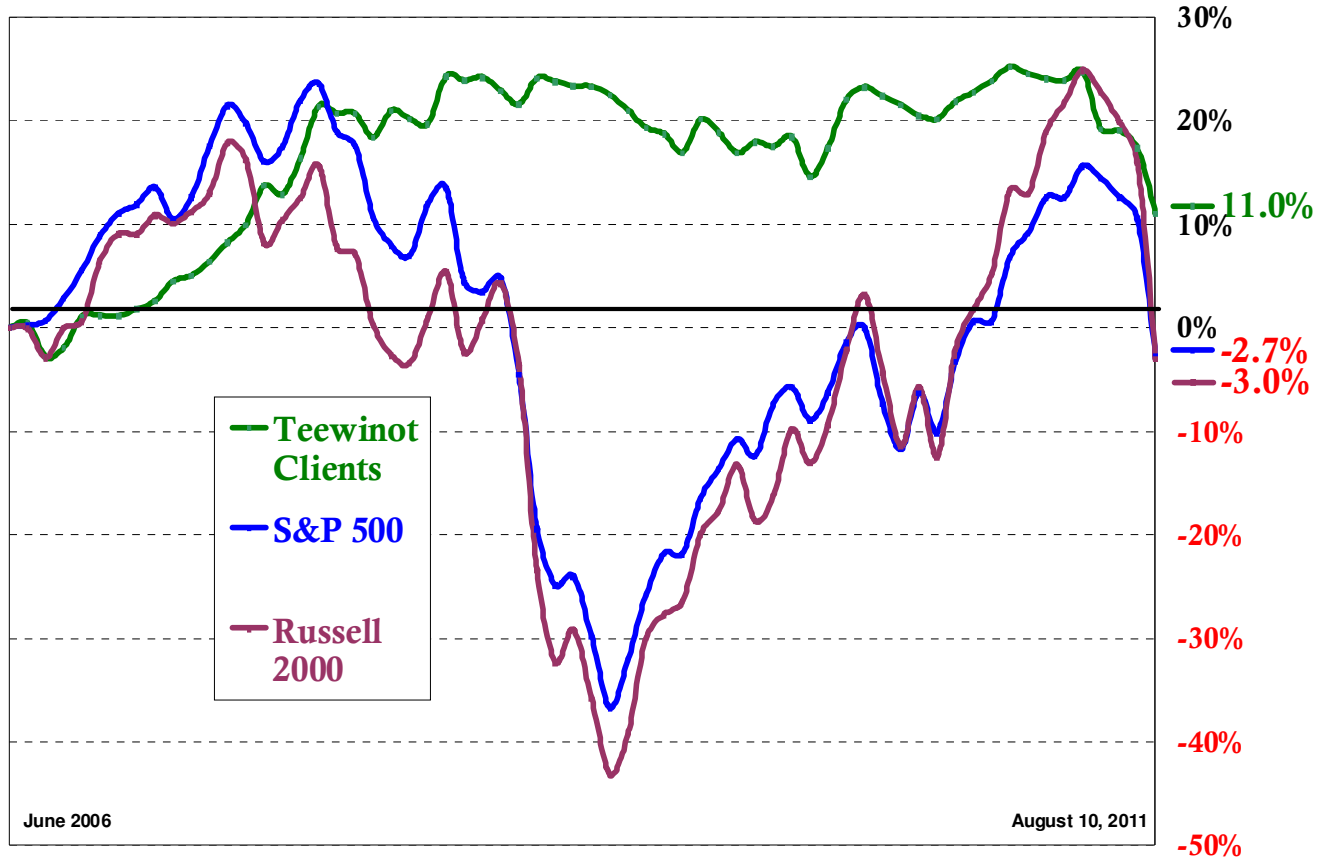
We are scouring the markets for opportunities to profit, and will rebuild our portfolio as solid risk/reward situations present themselves. While not in a hurry to reallocate into stocks, we are also not putting off new investments in fear of widely publicized macroeconomic concerns. Technical and fundamental action in individual stocks will guide our decisions.

Double digit drawdowns are not uncommon in the market or at many firms, but it's a new experience for Teewinot. Statistically, it was bound to happen at some point – and since we're in the business of taking risk in search of reward, could happen again in the future. We are fully optimistic that we'll manage our way through this period and again surpass our high water marks. Negative periods are not enjoyable. I remain confident in investing my savings alongside you, and look forward to putting this recent weak performance behind us.



Buckner Woodford V, CFA

## Returns Since Inception Through August 10, 2011



### 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 and measured monthly.
4. Absolute Return Strategy performance is calculated net of 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.