



## Markets Never Move in a Straight Line.

### How are we positioned during this environment of extreme volatility?

The X year Bull Run we all enjoyed abruptly ended in the summer of last year as a detriateing economic environment took its toll on the most susceptible of our society and we where hit with what has now come to be know as the "US Sub-Prime Mortgage Crisis". Subsequently the market has been bombarded with mixed news sending it plummeting and soaring on a daily basis. This extreme volatility erodes investor confidence and makes the investment managers' job even more challenging.

As early as beginning of 2007 Tradition have been on a more defensive tack in anticipation of these moves. Directional equity exposure within our portfolios has been reduced, fixed income exposure increased and we have conducted significant research in identify "alternative" investments that are less correlated the major financial markets. Should the worst happen and we are subjected to further market decline our cautious stance will be rewarded. Conversely should we emerge from this current environment on a positive note, our liquidity-management will allow us re-position portfolios accordingly to extract full future value.

We believe it inefficient to try and "catch" short-term sudden moves, with mean reversion so prevalent in the market. Indeed execution costs and the forward pricing of most collective investments would make this a prohibitory unprofitable exercise.

**Therefore by investing for the medium to long term and adopting a more defensive and balanced view we have reduced the volatility of our portfolios compared with that of the overall market whilst maintaining key exposure to the best investments in their class.**

There are, however, consequences of any asset allocation strategy; in our case the intentional dislocation from short-term market moves (i.e. reduced volatility) can cause short-term deviations between portfolio and benchmarks performance. When markets fall sharply, portfolios out-perform in the short-term, when markets rally they under-perform. Although normal and to be expected it can cause confusion when monitoring the comparable performance of portfolios.

In summary we believe that our current strategy will ensure capital **conservation** should market conditions decline further and generate significant returns when markets conditions improve.

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