

Managed Futures Outperforming the Market

From retail traders to endowment-managing institutions, more and more investors have flocked to Managed Futures due to their low or negative correlation to the worst performing equity markets in decades. Indeed, some savvy investment managers have profited during this time of crisis, many of whom rode downward trends or employed innovative, non-directional strategies like spread trading. These Managed Futures programs have therefore offered the opportunity to not only outperform traditional investment strategies, but profit when the majority of mutual funds have lost.

While Managed Futures has developed in the public's eye for some time, what has really stood out in 2008-9 is the negative correlation: the CISDM CTA Equal Weighted Index--which tracks the average performance of Commodity Trading Advisors (CTAs) reporting to the Center for International Securities and Derivatives Markets Hedge Fund/CTA Database--has performed 11.57% YTD while equity markets have declined at the fastest pace since the Great Depression. Taking another example, in October 2008 the S&P 500 lost 16.79%, the average hedge fund lost 6.4%, but the CISDM CTA Asset Weighted Systematic Index Managed Futures program made 5.65%. One continuing benefit of investing in Managed Futures, particularly for institutional investors, is the availability of leverage for investing while credit remains thin in traditional investment strategies. Of course, the use of leverage can lead to larger losses as well as gains.

The presence of non-directional strategies and leverage has enabled some investment managers and their respective investors to outperform bear markets. CTA program's like Emil van Essen's [Spread Trading Program](#) employ non-traditional strategies like entering spreads between different futures contract months in the same market. Emil van Essen's intention is to capitalize on the effects of long-only commodity funds rolling over their monthly contract holdings. Emil van Essen's CTA program closed out 2008 performance of +86.55% with a standard deviation of 38.35% after ending 2007 up 33% with a standard deviation of 64%.

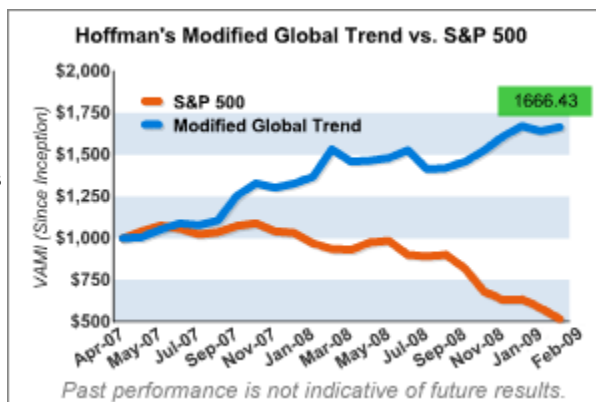
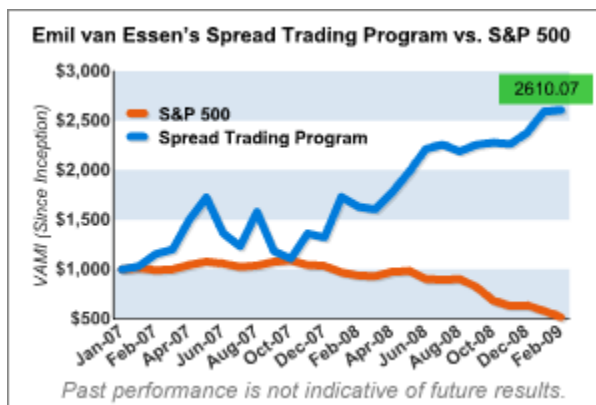
Mr. van Essen, co-founder of Emil van Essen LLC, explained their program's negative correlation to some markets, such as crude oil prices: "We find that we make 4.5 times as much per down move than per up move... a scenario might be: Crude goes up \$20 and then down \$5, and that kind of breaks even for us. Now, if crude goes up \$10 and down \$10, we tend to make a lot... On the small corrections in crude, we've had runs of 20%, 30%, 40% in profits, whereas in the big spikes up in crude, we've tended to lose."

While Emil van Essen has successfully exploited spreads in contract months, other Managed Futures investment managers have benefited from the momentum in the markets--especially the downward momentum. The shifts in the market in 1987, 1998, 2001-02 and now 2008-9 (and maybe 2010?) have led systematic trend followers to new heights. Investment managers that employ these systematic strategies, like Hoffman Asset Management's [Modified Global Trend Following Program](#), benefit from the one thing that computers do much better than human beings: remove emotion from the equation.

Per Hoffman's description, his Modified Global Trend Program is "a synergistic mix of multiple trading systems combined within a framework of a highly sophisticated risk management overlay." Simply put, this Managed Futures program aims to capture sustained price trends in over 70 futures markets across the globe. Whether broad commodity market price appreciation or depreciation occurs, the fund seeks to capture these movements.

Ranging from currencies and interest rate products to sugar, corn and aluminum, diversification is abundant in this program which aims to keep daily volatility within 1.5% of ongoing account equity. 2007 performance racks up a 32.8% gain coupled with a follow-through performance in 2008 of +26.02%. Hoffman's program has currently performed -0.35% in 2009 YTD. This program combines proprietary trend-following strategies to maximize returns while implementing effective risk management in an attempt to minimize losses. This global trend following program has sustained gains during the economic downturn.

We believe that Managed Futures provides the opportunity for investors to access techniques and strategies that are simply unavailable in traditional exchange-traded products such as ETFs, ETNs, or certain unmanaged over-the-counter derivative products. Moreover, Managed Futures programs like Emil van Essen's [Spread Trading Program](#) or Hoffman Asset



Management's [Modified Global Trend Following Program](#) provide a regulated environment for investors to diversify into low or negatively correlated strategies to their traditional debt/equity portfolios. Many global markets, a strict regulatory environment and low correlations have all added to the appeal of Managed Futures to the average and institutional investor alike. Managed Futures has thus offered investors unique opportunities during otherwise inopportune times.