



# UNDERSTANDING PROFESSIONALLY MANAGED FUTURES

*One of Today's Fastest Growing  
Investment Alternatives*

# CFTC RISK DISCLOSURE STATEMENT

THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION.

THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS.

IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THE DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF THE PRINCIPAL RISK FACTORS AND EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR ("CTA").

THE REGULATIONS OF THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") REQUIRE THAT PROSPECTIVE CUSTOMERS OF A CTA RECEIVE A DISCLOSURE DOCUMENT WHEN THEY ARE SOLICITED TO ENTER INTO AN AGREEMENT WHEREBY THE CTA WILL DIRECT OR GUIDE THE CLIENT'S COMMODITY INTEREST TRADING AND THAT CERTAIN RISK FACTORS BE HIGHLIGHTED. THIS BRIEF STATEMENT CANNOT DISCLOSE ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY MARKETS. THEREFORE, YOU SHOULD PROCEED DIRECTLY TO THE DISCLOSURE DOCUMENT AND STUDY IT CAREFULLY TO DETERMINE WHETHER SUCH TRADING IS APPROPRIATE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. YOU MAY ALSO REQUEST DELIVERY OF A HARD COPY OF THE DISCLOSURE DOCUMENT, WHICH WILL ALSO BE PROVIDED TO YOU AT NO ADDITIONAL COST. THE CFTC HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN ANY OF THESE TRADING PROGRAMS NOR ON THE ADEQUACY OR ACCURACY OF ANY OF THESE DISCLOSURE DOCUMENTS.

OTHER DISCLOSURE STATEMENTS ARE REQUIRED TO BE PROVIDED TO YOU BEFORE A COMMODITY ACCOUNT MAY BE OPENED FOR YOU.

## **ADDITIONAL DISCLOSURE REQUIRED FOR ADMINISTRATIVE FEES:**

A COMPLETE DISCUSSION OF FEES AND CHARGES ARE REPORTED IN THE CTA'S DISCLOSURE DOCUMENT. SPECIFICALLY, ONE SHOULD RECOGNIZE THAT AN INTRODUCING BROKER MAY CHARGE A FRONT-END START UP FEE OF UP TO 6% OF THE INITIAL TRADING CONTRIBUTION. BE ADVISED THAT IBS CLEARING ADMIS MAY CHARGE A MAXIMUM OF 3% FRONT-END FEE. PLEASE NOTE THAT THIS CHARGE IS NOT REFLECTED IN THE PERFORMANCE OF THE COMMODITY TRADING ADVISOR AND COULD HAVE A SIGNIFICANT IMPACT ON THE CUSTOMERS ABILITY TO ACHIEVE SIMILAR RETURNS.

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# Thought Provoking Questions

## Concerning managed futures over the past 30 – 40 years:

- **What if over the past 32 years, during 12 quarters when the S&P lost more than 10%, managed futures were positive in nine and in the three instances where managed futures were negative, losses were 7 to 10 times less than the S&P? (See slide #5)**
- **What if over the past 32 years, when the S&P lost more than 10% in a quarter, reallocating 30% to managed futures could have increased performance and reduced losses in every instance? (See slide #6)**
- **What if during the most critical events over the past 38 years, managed futures outperformed stocks? (See slide #7)**
- **What if over the past 32 years, reallocating 20% of a traditional stock/bond portfolio to managed futures could have increased performance 9.9%? (See slide #8)**
- **What if over the past 40 years, managed futures outperformed stocks by 18.8% and international stocks by 1079.2%? (See slide #9)**

Assuming each and every one of these statements could be confirmed through independent studies based on the actual performance of stocks, bonds and managed futures how would you feel about the need for managed futures in your portfolio?

Every question posed above is backed by empirical research using major industry indices in stocks, bonds and managed futures and illustrated in this PowerPoint!

## One of the Fastest Growing Alternative Investment Strategies

Over the past 22 years, total assets invested in managed futures have grown by 923% to \$387.8 billion, ending the second quarter of 2022. According to Barclay Hedge, one of the oldest and most respected providers of alternative investment data, managed futures is one of the fastest growing alternative investment strategies today.

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# What are Managed Futures?

A managed futures account is one where a registered Commodity Trading Advisor (CTA) is given responsibility to make *all* trading decisions. This authority is delegated by the account holder to the CTA through a limited power of attorney which may be withdrawn at *any* time.

CTAs are registered with the Commodity Futures Trading Commission (CFTC), an agency of the federal government, and are members of the National Futures Association (NFA) a self-regulatory organization authorized by Congress in 1982. CTAs are professional money managers who manage an investor's assets using investments in the commodities markets similar to the way a stock mutual fund manager would invest his client's assets in a variety of different stocks.

**You can use managed futures in a variety of qualified retirement plans including IRAs, trusts, and pensions.**

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# CTA Return During Periods When the S&P 500 Lost More Than 10% in a Quarter (from Sept. 1990 - Jun. 2022)



The chart above demonstrates how the Autumn Gold CTA Index performed during periods when the S&P 500 TR Index experienced quarterly losses greater than 10%. The period covered is from September 1990 to June 2022. **Note how in the thirteen periods shown, Managed Futures was positive ten times while the S&P 500 was negative. In the three periods that Managed Futures was negative along with the S&P 500, losses were seven to ten times less.** The Autumn Gold CTA Index reflects the average performance of Commodity Trading Advisors (CTAs) reporting to the Autumn Gold Database. The chart demonstrates that the Autumn Gold CTA index produced above average quarterly returns during periods when the S&P 500 TR Index incurred quarterly losses in excess of 10%. In every instance from 1990-June 2022, when the S&P 500 Price Index incurred these losses, the Autumn Gold CTA index produced positive return or minimal losses.

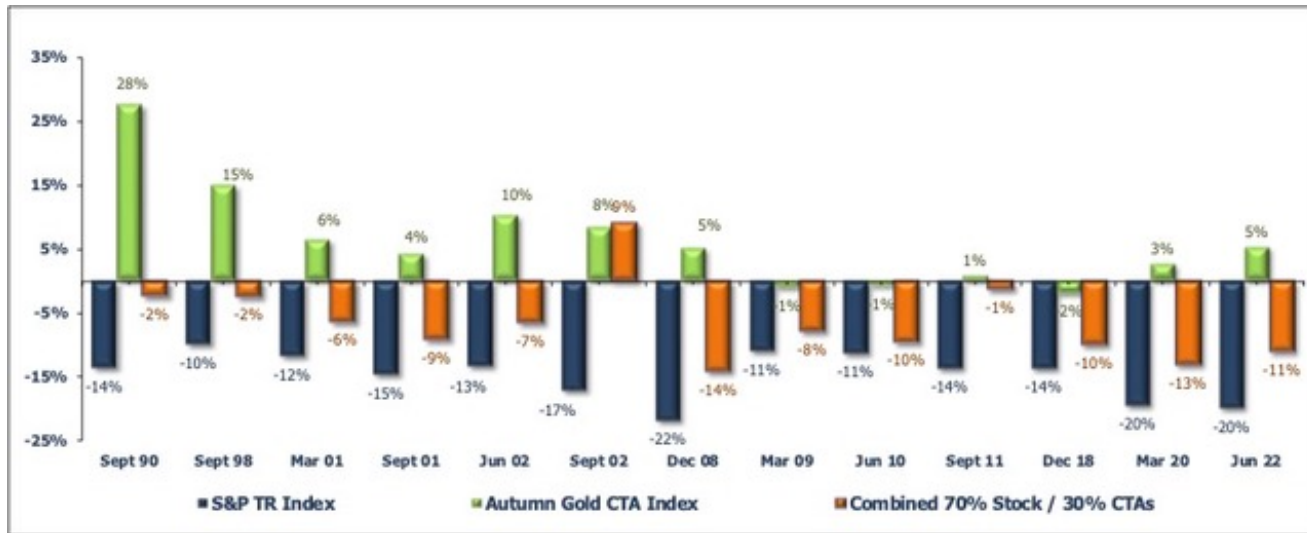
Managed Futures are represented by the Autumn Gold CTA Index. The Autumn Gold CTA Index is comprised of the client performance of all CTA programs included in the AG database and does not represent the complete universe of CTAs. CTA programs with proprietary performance are not included. Monthly numbers are updated until 45 days after the end of the month.

S&P 500 TR Index - The S&P 500 indices are designed to reflect all sectors of the U.S. equity markets. The S&P 500 includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market. Companies eligible for addition to the S&P 500 have market capitalization of at least US\$3.5 billion. The TR Index accounts for the reinvestment of dividends.

Trading futures and options involves substantial risk of loss and is not suitable for all investors. An individual must read and understand the Commodity Trading Advisors current disclosure document before investing. Past performance is not necessarily indicative of future results. The addition of managed futures to a client's portfolio does not mean that a portfolio will be profitable or that it will not experience substantial losses and that the studies conducted in the past may not be indicative of current time periods or of the performance of any individual CTA.

Source: Autumn Gold

# Combined Returns During Periods When the S&P 500 Lost More Than 10% in a Quarter (from Sept. 1990 - Jan. 2022)



In all periods shown, the inclusion of allocating 30% of the portfolio to Managed Futures could have reduced losses and increased performance in the combined portfolio of 70% stocks and 30% Managed Futures.

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Source: Autumn Gold



# Return During Critical Events

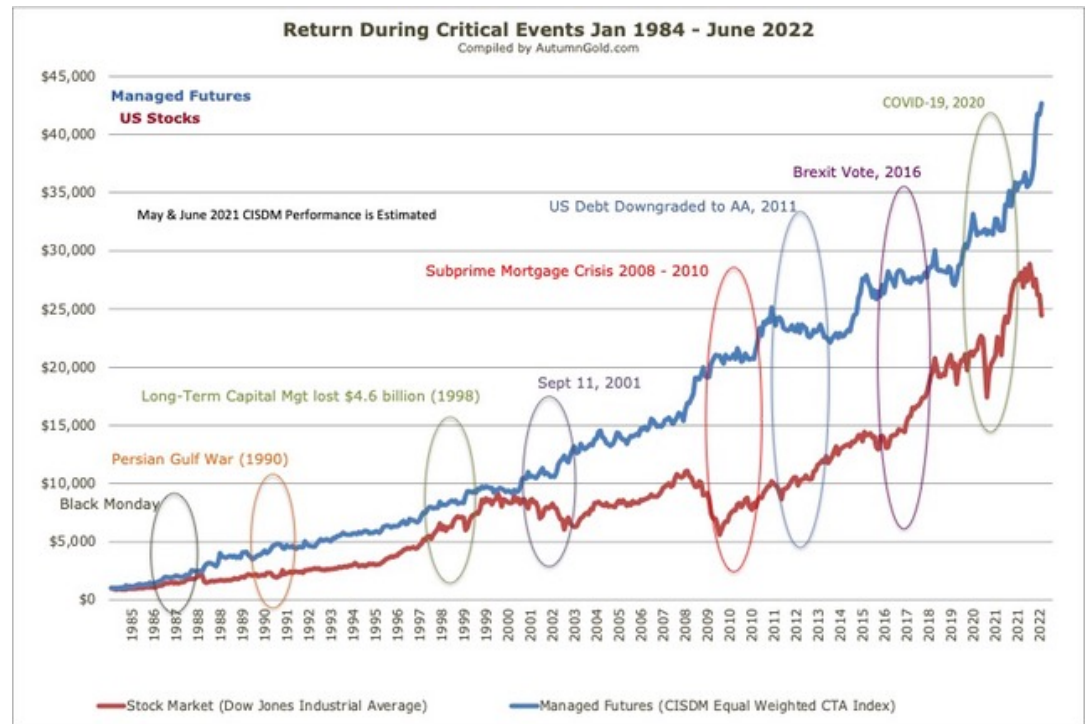
## January 1984 - June 2022

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The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

The CISDM Equal Weighted CTA Index is an equal weighted index of CTAs maintained by The Center for International Securities and Derivatives Markets at the University of Massachusetts Amherst. It reflects the average performance of Commodity Trading Advisors reporting to the CISDM Hedge Fund/CTA Database. Each CTA must have at least \$500,000 under management and at least a 12-month track record. The CISDM CTA Index is a continuation of the earlier MAR Index which was sold to Zurich Capital Markets in 2001 and was gifted by Zurich to the University of Massachusetts in 2002 and renamed the CISDM Indices.

### PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.



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# The Effect of Reallocating 20% of a Traditional Stock/Bond Portfolio to Managed Futures (from Jan. 1990 - Jun. 2022)

Managed Futures are represented by the Autumn Gold CTA Index. The Autumn Gold CTA Index is comprised of the client performance of all CTA programs included in the AG database and does not represent the complete universe of CTAs. CTA programs with proprietary performance are not included. Monthly numbers are updated until 45 days after the end of the month.

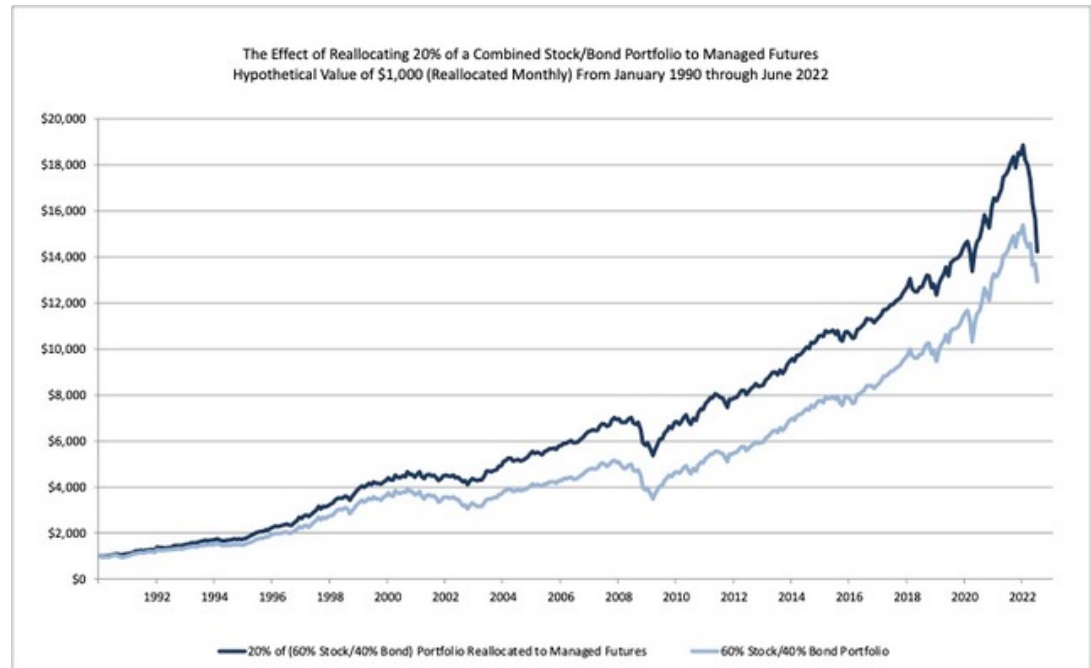
**Note how the portfolio including 20% Managed Futures could have increased performance by 9.9% (\$14,221 vs. \$12,931).**

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Bonds are represented by the Barclay's US Aggregate Bond Index (formerly known as the Lehman US Aggregate Bond Index). The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976.

Source: Autumn Gold





# Performance Results of a 40 Year Study Comparing Managed Futures\*, U.S Stocks And International Stocks (from Jan. 1980 - Jun. 2022)

Comparison of Performance (1/1980 - 6/2022)

Past performance is not necessarily indicative of future results.

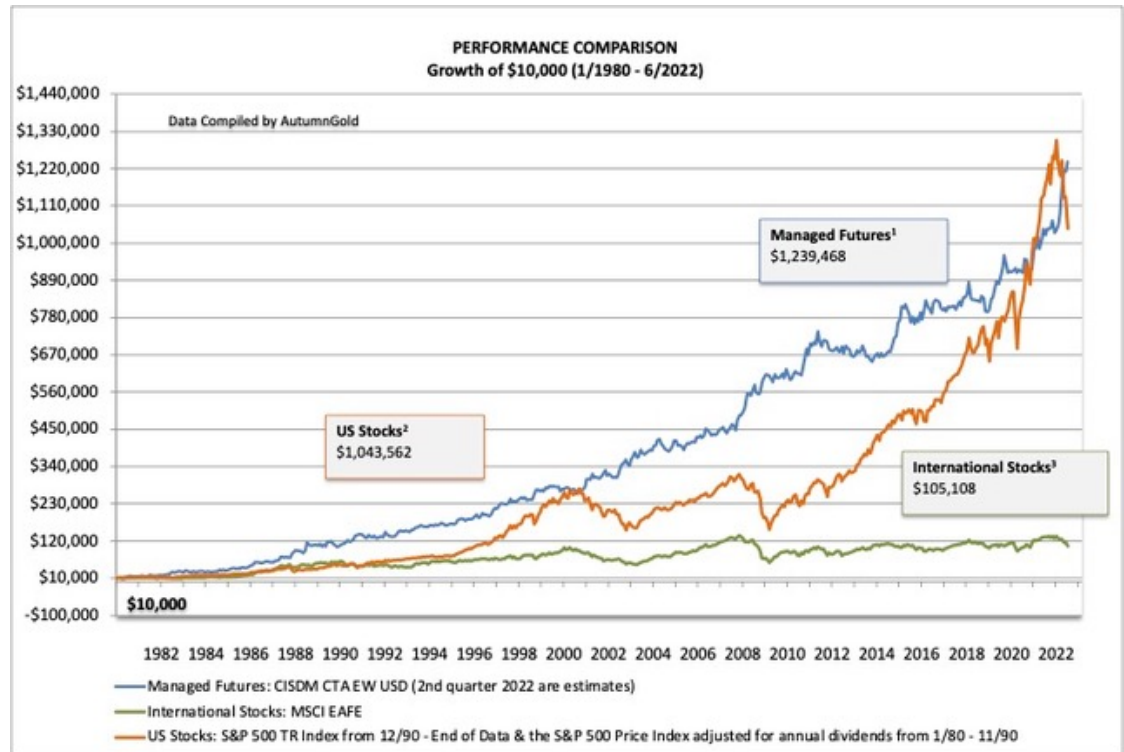
**Over the past 40 years, managed futures have substantially outperformed U.S. Stocks by 18.8% and International Stocks by 1079.2%.**

1- Managed Futures: The CISDM Equal Weighted CTA Index is an equal weighted index of CTAs maintained by The Center for International Securities and Derivatives Markets at the University of Massachusetts Amherst. It reflects the average performance of Commodity Trading Advisors reporting to the CISDM Hedge Fund/CTA Database. Each CTA must have at least \$500,000 under management and at least a 12-month track record. The CISDM CTA Index is a continuation of the earlier MAR Index which was sold to Zurich Capital Markets in 2001 and was gifted by Zurich to the University of Massachusetts in 2002 and renamed the CISDM Indices.

2- US Stocks: The S&P 500 Total Return Index from December 1990 to the end of Data and the S&P 500 Price Index is adjusted for dividends from January 1990 through November 1990. The S&P 500 indices are designed to reflect all sectors of the U.S. equity markets. The S&P 500 includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market. Companies eligible for addition to the S&P 500 have market capitalization of at least US\$3.5 billion. The TR Index accounts for the reinvestment of dividends.

3- International Stocks: The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of 22 major developed markets excluding the US & Canada.

Source: Autumn Gold.



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# Managed Futures Risk Reduction and Performance Enhancement Benefits

While managed futures can decrease portfolio risk, they can also simultaneously enhance overall portfolio performance. The potential for managed futures to increase performance and reduce risk in a stock and bond portfolio has been substantiated by an extensive bank of academic research, beginning with the landmark study by Dr. John Lintner of Harvard University in which he wrote: "... the combined portfolios of stocks (or stocks and bonds) after including judicious investments ... in leveraged managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone."\*

\*Lintner, John, "The Potential Role of Managed Commodity Financial Futures Accounts (and/or Funds) in Portfolios of Stocks and Bonds," Annual Conference of Financial Analysts Federation, May 1983.



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# Amateurs vs. Professionals



We believe the most prudent way to participate in the commodities markets is with the professional Commodity Trading Advisors (CTAs).

According to a report published by CME Group: “Some individual investors – those who have the know-how, time, access to information and necessary temperament – are highly successful in directing their own futures trading. Unfortunately, however, the record suggests that only a small percentage of do it yourself futures traders possess these requisites for success. Studies indicate that somewhere between 2 out of 3 and 9 out of 10 lose money”. However, some CTAs have been shown to achieve consistent returns, even in volatile markets.

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# Managed Futures vs. Hedge Funds

The differences between managed futures and hedge funds are substantial. Managed futures are 100% transparent. With hedge funds, investors are often unaware of the holdings of the fund. At times their positions are very hard to value and estimate. When liquidated, hedge fund positions can be much lower than their estimated value. On the other hand the holdings of managed futures managers and the corresponding profit/loss of the positions can be viewed in real time every day at their exact value.

Additionally, managed futures typically trade in the most liquid markets in the world. Hedge funds often venture into illiquid securities (such as mortgage backed securities or over-the-counter products) which aren't traded on many exchanges.



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# Managed Futures vs. Commodities

In our opinion, investors often make no differentiation between commodities and professionally managed futures. Commodities are an asset class. Professionally managed futures are an investment vehicle which uses the commodity futures and options markets in an attempt to capitalize on a rise or fall in commodity prices.

In professionally managed futures, performance results are more dependent on the skill of the manager, not the investment vehicle. For example, 2008 was one of the worst years on record for not only stocks, but also commodities: commodities fell 46%. However, professionally managed futures were up 14% to 18% according to the Credit Suisse/Tremont Managed Futures Index\* and the Barclay CTA Index due to Commodity Trading Advisors (“CTAs”) capitalizing on significant declines in commodity prices!



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# A Common Mistake

Most investors consider themselves diversified if their investment portfolio includes a percentage mix of stocks and bonds. Their stock holdings may include corporate stocks, index funds, preferred stocks mutual funds, international and emerging market funds. Bond holdings may include treasuries, corporate and municipal bonds. If an investor follows the guidance of most financial advisors, these blends of stocks and bonds would be considered “diversified”. We believe this is a common mistake among most investors.

Furthermore we believe the real test for a diversified portfolio is not in up markets when gains correlate with stock market indexes, but rather in bear markets where investors have found that they are extremely exposed to declining asset values, despite their perceived “diversification”.

See slide numbers 5 and 6 to see how managed futures performed in stock market declines.

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# Hypothetical Examples of Adding Managed Futures to a Stock and Bond Portfolio

The chart below should prove helpful in understanding how a relatively small investment in managed futures can increase overall portfolio performance:

Let's assume your total portfolio is \$250,000 and you invest 80% in stocks and bonds (\$200,000) and 20% in managed futures (\$50,000). Let's also assume at the end of the year you realize a 5% return on your stocks and bonds and a 25% return on managed futures. The result would be as follows:

\$250,00 Portfolio		% of Portfolio	Return	
Stocks & Bonds	\$200,000	80%	5% Profit	\$10,000
Managed Futures	\$50,000	20%	25% Profit	\$12,500
			Total Profit	\$22,500

Now let's assume you earn 10% on the 80% of your portfolio invested in stocks and bonds, but lose 25% in managed futures. The results would be as follows:

\$250,00 Portfolio		% of Portfolio	Return	
Stocks & Bonds	\$200,000	80%	10% Profit	\$20,000
Managed Futures	\$50,000	20%	25% Loss	(\$12,500)
			Total Profit	\$7,500

**You can see, in these hypothetical examples, by investing only 20% of your portfolio in futures, if you were to earn 25%, it would outperform 80% of your portfolio invested in stocks and bonds if the stocks and bonds earned 5%.**

**You can also see that a 25% loss in futures would still leave you with a net profit of \$7,500 if your stock and bond allocation returned 10%.** These hypothetical examples both show a positive result. The risk associated with futures trading could potentially result in a loss greater than the initial investment, and the overall results could be negative.

Note: No matter what the size of your portfolio, 80% invested in stocks and bonds and 20% invested in managed futures, with the same percentage returns, would produce the same percentage results in our hypothetical examples.

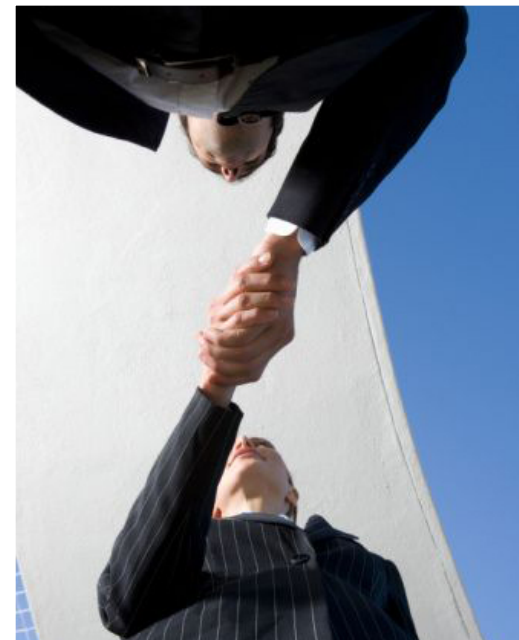
**Important Disclaimer:** The above hypothetical examples are strictly for illustration purposes only, to help you better understand the potential impact of portfolio diversification. In no way are the examples to be construed as the returns you might receive in stocks and commodities. Of course, in actual investing, your results can be better or worse.

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# Personalized Advisory Service

Our CTAs are carefully selected from the universe of CTAs, primarily based on their risk-adjusted returns and our overall evaluation of their trading expertise. Each has their own trading style and market approach with varying levels of aggression in their trading. Our managed futures specialist works with each investor based on an investor's risk tolerance, investment capital, performance goals, and diversification requirements, in selecting the CTA or CTA portfolio that may best satisfy the investor's needs.

This is a personalized highly collaborative process where the managed futures specialist provides the necessary information and comfort to the investor in order to make an informed investment decision.



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# Important Questions!



Is your “traditional diversification” really protecting your future? What investment do you have in your portfolio that has the versatility to potentially profit just as easily in declining as well as in rising markets? In today’s global economy, real diversification may be more important than ever before.

The old “buy and hold” recipe of strictly stocks and bonds no longer provides the security and reliability that it once did, especially in the current economic cycle. We believe that the definition of diversification in the 21st century should include a wide variety of “uncorrelated” asset classes. These should include investment alternatives which provide the potential opportunity for profits in declining markets and the ability to achieve a truly diversified portfolio.

**We believe there are few investments that can provide this type of diversification better than professionally managed futures!**

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# Frequently Asked Questions

**Q: Are there any tax benefits to investing in managed futures?**

**A:** Yes. According to the Tax Act of 1981, short-term profits in commodities are treated as 60% long term and 40% short term. On the other hand, short term trading profits in stocks are treated as 100% short term. A short-term investment is one that is held for less than one year. This favorable tax treatment in commodities can translate to investors in upper tax brackets, saving as much as 30% on taxes in short term gains on commodities versus stocks! Investors should consult their tax advisor regarding their individual tax situation.

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# Frequently Asked Questions (cont'd.)

## **Q: Where is my money kept?**

**A:** Clients assets are held in a Customer Segregated Account by ADM Investor Services, Inc. at an established financial institution.

## **Q: How accessible are my funds in a managed account?**

**A:** A managed account usually offers a high degree of liquidity. Although we strongly advise you to view your managed account as a long-term investment, part or all of your funds are available at any time.

## **Q. Is the money in my managed futures account safe?**

**A:** Your funds are kept in segregated accounts in your name. CFTC Regulations prohibit Futures Commission Merchants (FCM) from commingling segregated funds.

Be advised that segregation of funds does not guarantee safety from losses due to trading.

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# Frequently Asked Questions (cont'd.)

**Q: How can I track the performance in my managed account?**



Clients have 24/7 access to their accounts via a password protected Web site disclosing all trading activity and account balances. Funds can be liquid and accessible within one weeks notice.



You may also call your Managed Futures Specialist who receives a daily equity run detailing all your open positions, netting out profit and losses, showing the exact daily balance in your account.



Whether you call or not, a purchase and sale statement (P/S Statement) can and will automatically be sent to you on every single trade, showing the date and price entered; when you exit a trade, the date, price, and net profit or loss on the trade as well as your account balance.

Besides receiving confirmation on each individual transaction, a summary of all transactions showing their results are posted on the web via your password protected account. Instead of having your statements post office mailed, you can select having your P/S statements e-mailed directly to you! Therefore, even without calling, you will have a written, detailed breakdown of the CTA's transactions and performance in your account.

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# Frequently Asked Questions (cont'd.)

**Q: I am down on my stock fund or stock related investment, why would I want to sell at a loss in order to open a managed futures account ?**

**A:** This is a very common question, especially in today's market environment. Human beings are not programmed emotionally to accept losses. But the #1 rule is to cut losses and let profits run, the same logic applies to portfolios.

If it is true that you would have a better chance to potentially improve long term performance with a mix of different asset classes which includes managed futures, does it matter what the current value of your stock or stock fund is? This mix may have the potential to perform better over a period of time in the future than an investment in stocks and bonds alone.

We are not suggesting that you liquidate your entire portfolio in order to participate in managed futures. We believe that stocks play an important role in a portfolio. We are suggesting you take into serious consideration the compelling facts, studies and opinions brought out in this PowerPoint presentation on diversifying your overall portfolio with professionally managed futures!

Why risk your entire portfolio on the hope that we are not at one of those stages? In the strongest of terms, we believe we are in one of those stages now where stocks will under-perform for the next decade!

Trading futures and options involves substantial risk of loss no matter who is managing your money and is not suitable for all investors. Past performance is not necessarily indicative of future results. This matter is intended as a solicitation.

# Contact

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