

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 DOCUMENT IS READILY ACCESSIBLE AT THIS SITE. 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 ARE ENCOURAGED TO ACCESS THE DISCLOSURE DOCUMENT BY CLICKING THE LINKS PROVIDED AT [FORMS.ALTAVRA.COM](https://forms.altavra.com). YOU WILL NOT INCUR ANY ADDITIONAL CHARGES BY ACCESSING THE DISCLOSURE DOCUMENT. YOU MAY ALSO REQUEST DELIVERY OF A HARD COPY OF THE DISCLOSURE DOCUMENT AT [FORMSBYMAIL.ALTAVRA.COM](https://formsbymail.altavra.com), 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.

QUESTIONS OR COMMENTS: PLEASE EMAIL CLIENTSERVICES@ALTAVRA.COM OR CALL 1-800-998-7870.

For up-to-date performance information on 90+ managed accounts, please access the alternative investment database*.

To access the database:

1. Request a pin number at altavra.com.
2. After you receive your pin number, you can access the database at portfolio.altavra.com.
3. In the database, click on "List of Programs" at the top of the page to view all of the programs in the database.

*PLEASE NOTE: There is no fee to access the database. This is not a trial access. The pin number does not expire.

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL.
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

MAR Investment Focus: Stocks, Bonds and Futures

Study shows that managed futures are well suited for conservative investors.

August 2003, by Ben Warwick

When compared with their hedge fund counterparts, trading advisors tend to generate relatively volatile returns. This performance characteristic is largely due to the inherent directional bias of their strategy; other reasons include its use of leverage and tendency to follow trends until positions are stopped out. As a result, futures-based products are usually marketed to investors with a moderate to aggressive penchant for risk-taking.

Surprisingly, a recent study has found that staid investors may gain more than higher-flying one from managed futures. The study suggests that utilizing even a small allocation of futures limits portfolio risk by a statistically significant margin. Overall portfolio returns, however, are only modestly improved.

Extending Earlier Work

The paper, titled, "The Time Variation in the Benefits of Managed futures," appeared in the Spring 2003 edition of The Journal of Alternative Investments. Authors Gerald Jensen, Robert Johnson, and Jeffrey Mercer view their work as an extension of other studies that attempt to verify the benefits of managed futures in a diversified portfolio.

Their approach differs from earlier work in a number of ways. First, the study addresses the range of investor types from conservative to aggressive.

The researchers also look at the effects of a managed futures allocation over a variety of holding periods rather than just the life of the study. And to add a practical aspect, they cap futures allocations at 10%, a value that is common among individual investors.

In order to generate as much return data as possible, the authors use the Mound Lucas Management index as a proxy for industry returns. The Index goes back to 1961, and roughly represents the performance of a trading advisor following an objective set of trend following rules.

Jenson, Johnson, and Mercer also point out that the MLM index boasts a positive correlation to most managed futures indices, compared with insignificant correlations generated by the CRB and other long-only benchmarks. The study used 40 years of data, ending in 2000 for the analysis.

It confirms earlier findings that futures returns are uncorrelated with both stocks and bonds. Preliminary findings show that adding a futures component both increases return and reduces risk, although the latter benefit seemed more significant.

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL.
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Unequal Benefits

To examine the consistency of the benefits of managed futures, the authors then look at each year in the 40-year study. For the moderate and aggressive portfolios, the addition of a futures component adds to the return in slightly less than on-half of the years.

The conservative portfolio, however, experiences an increase in return in more than 50% of the years. This is because the managed futures allocation replaces more than 50% of the years. This is because the managed futures allocation replaces more fixed income than equity in the more conservative mix.

The risk reduction benefits of the asset class were much more pronounced. In fact, each portfolio experiences an increase in its Sharpe ratio in at least 98% of the years.

The authors then turn their attention to determining which type of economic scenario results in the more substantial benefits from a managed futures investment. Jensen and his team separate the months in the study according to whether the Fed was in an expansive or restrictive monetary cycle.

The turning points occur when the Fed changes the discount rate in the opposite direction from its prior change. Over the 40-year period, there were 21 turning points, with the average duration of expansive and restrictive policy changes each lasting about 20 months.

As one would expect, stock and bond returns are highest when interest rates are decreasing, which represents an expansionary phase. Managed futures, however, are shown to be much more robust during periods of higher rates, when futures enhance both the return and the risk components of each portfolio.

Smarter Traders

Overall, the results of the study indicate that managed futures can be beneficial for a variety of portfolios, although conservatives investors have more to gain than their more aggressive counterparts. However, the use of the MLM index may not be as accurate a gauge for trading advisor performance as it once was.

The MLM has diverged considerably from industry indices over the last few years. And the recent exceptional performance of many advisors has come during a period of expansive monetary policy, which may indicate the traders have become more adept at adjusting to the current economic environment.

If that is the case, timing futures allocations based on economic conditions may have become unnecessary.

An interesting follow-on study could examine the benefits of managed futures in a portfolio of hedge funds. After all, the same environment that favors traditional investing also tends to favor many arbitrage strategies.

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL.
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.