

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. 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, 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.

Managed Futures / Managed Forex Database

To access the database:

1. Request a free access key at altavra.com.
 - The access key will be automatically generated and sent immediately to your email address.
2. After you receive the access key, you can access the database at login.altavra.com.

*PLEASE NOTE: There is no fee to access the database. This is not a trial access. The access key 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. THIS MATERIAL HAS BEEN PREPARED BY A SALES OR TRADING EMPLOYEE OR AGENT OF ALTAVRA INC. AND IS, OR IS IN THE NATURE OF, A SOLICITATION. THIS MATERIAL IS NOT A RESEARCH REPORT PREPARED BY AN ALTAVRA INC RESEARCH DEPARTMENT. <http://altavra.co/disc>.

Portfolio Component Comparisons

How do stocks, bonds and hedge funds fare as investment vehicles as opposed to stocks, bonds and managed futures? Why should I consider adding managed futures to my overall portfolio?

Many investors share the common misconception that hedge funds offer investors the best of both worlds, namely expectations of returns similar to equities combined with risk parameters normally associated with bonds. In 2003, the Journal of Investment Management published an article titled “Stocks, Bonds and Hedge Funds: Not a Free Lunch!” The author of the article, Mr. Harry Kat of the Cass Business School in London, showed that although including hedge funds in a traditional investment portfolio may significantly improve that portfolio’s mean variance characteristics, it can also be expected to lead to significantly lower skewness. Skewness is a statistical term used to describe a situation’s asymmetry in relation to a normal distribution. Later, in the winter of 2003, Mr. Kat published the article “Taking the Sting Out of Hedge Funds” in which he stated, “Although the inclusion of hedge funds in an investment portfolio can significantly improve that portfolio’s mean-variance characteristics, it can also be expected to lead to significantly lower skewness and higher kurtosis.”

In this article, the author shows how this highly undesirable side effect can be neutralized by allocating a fraction of wealth to out-of-the-money put options on the relevant stock index. Roughly speaking, the costs of the proposed skewness reduction strategy will be higher 1) the higher the hedge fund allocation, 2) the lower the expected equity risk premium, and 3) the higher the bond allocation relative to the equity allocation.

In the current low interest rate environment, for portfolios with a more or less equal allocation to stocks and bonds, the costs of skewness reduction are unlikely to be much higher than 1% per annum. For portfolios with relatively high bond allocations, however, the costs could amount to 3% or even more. This confirms that the benefits of hedge funds heavily depend on the portfolio they are added to and that the attractive mean-variance properties of (portfolios including) hedge funds may come at a significant price.

Mr. Kat furthers this research in another report, “Managed Futures and Hedge Funds: A Match Made In Heaven,” from the Journal of Investment Management (2004). He wrote, “We find that allocating to managed futures allows investors to achieve a very substantial degree of overall risk reduction at, in terms of expected return, relatively limited costs. Apart from their lower expected return, managed futures appear to be more effective diversifiers than hedge funds. Adding managed futures to a portfolio of stocks and bonds will reduce that portfolio’s standard deviation more and quicker than hedge funds will, and without the undesirable side effects on skewness and kurtosis. The overall portfolio standard deviation can be reduced further by combining both hedge funds and managed futures with stocks and bonds. As long

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. THIS MATERIAL HAS BEEN PREPARED BY A SALES OR TRADING EMPLOYEE OR AGENT OF ALTAVRA INC. AND IS, OR IS IN THE NATURE OF, A SOLICITATION. THIS MATERIAL IS NOT A RESEARCH REPORT PREPARED BY AN ALTAVRA INC RESEARCH DEPARTMENT. <http://altavra.co/disc>.

Benefits of Managed Futures

Portfolio Component Comparisons

ALTAVRA

as at least 45–50% of the alternatives allocation is allocated to managed futures, this will have no negative side effects on skewness and kurtosis.”

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. THIS MATERIAL HAS BEEN PREPARED BY A SALES OR TRADING EMPLOYEE OR AGENT OF ALTAVRA INC. AND IS, OR IS IN THE NATURE OF, A SOLICITATION. THIS MATERIAL IS NOT A RESEARCH REPORT PREPARED BY AN ALTAVRA INC RESEARCH DEPARTMENT. <http://altavra.co/disc>.

ALTAVRA Inc. | 1-800-998-7870 | +1-561-829-8291 | clientservices@altavra.com | ALTAVRA.com