

Alternative Investment Strategies



Why Managed Futures

The Case for Managed Futures

In today's investment arena, with an ever-increasing need for diversification, transparency, and liquidity, investors continue to look beyond traditional investments. Many investors, ranging from large institutional firms to individuals, are discovering that these needs can be satisfied without compromising performance by investing in managed futures.

As a world leader in futures and derivatives execution and clearing services, MF Global Inc., Lind-Waldock's parent company, serves as a natural partner in incorporating managed futures products into investor portfolios.

What Are Managed Futures?

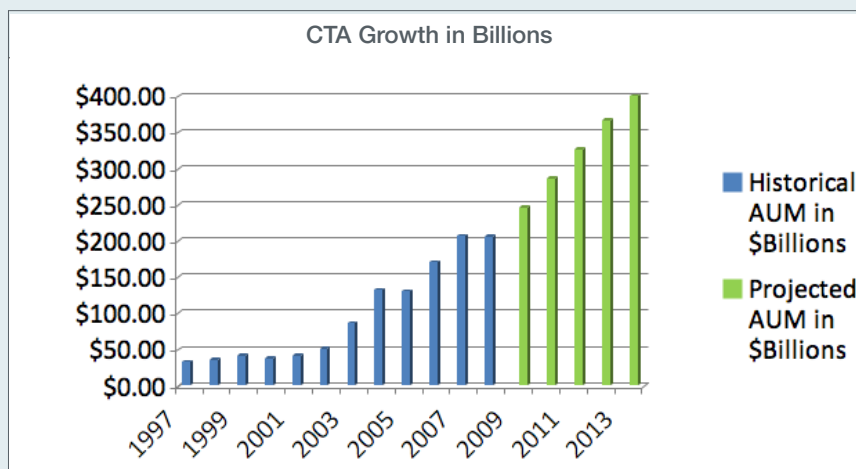
Managed futures describes the category of alternative investments associated with Commodity Trading Advisors (CTA) as well as commodity funds, futures funds, and commodity pools.

CTAs are professional money managers who specialize in using global futures and options markets as trading vehicles for their clients. These managers have the ability to take both long and short investment positions to provide clients potential for gains throughout market cycles. CTAs can offer investors direct exposure to international financial and non-financial asset sectors, including:

- Energies
- Financials
- Currencies
- Metals
- Grains
- Meats
- Softs

In addition to trading a broad spectrum of asset classes and markets, CTAs also employ a variety of different trading strategies, styles, and analyses. These may include systematic or discretionary trading systems as well as fundamental or technical market analyses.

Although managed futures and CTAs have been a part of the financial services industry for several decades, their popularity has recently increased as more investors realized their benefits.¹



Sources: information gathered from Barclay Hedge and Casey Quirk April 2009 Hedge Fund White Paper

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Why Managed Futures?

Managed futures offer a number of key benefits, most notably:

1. Absolute Return—Alpha Generation
2. Diversification
3. Transparency and Liquidity

Absolute Return—Alpha Generation:

CTAs may be commonly associated with “absolute return strategies,” as returns generated can be independent of financial markets. Absolute return strategies enable CTAs to produce returns regardless of market direction. While traditional strategies implement long-only techniques to drive client return, absolute return strategies employ a broader toolkit of investment instruments. These instruments may include short selling, futures, options, derivatives, and use of leverage. It is this versatility of absolute return strategies that drives alpha generation, or risk-adjusted outperformance relative to a benchmark.

We can compare risk-adjusted performance between benchmarks using Sharpe ratios, where a higher ratio represents better risk-adjusted returns. The chart below examines the returns, volatility, and Sharpe ratios of the Barclay CTA Index, a benchmark measuring the performance of CTA managers versus the common benchmarks of stock, bond, and commodity markets in the period between January 1985 and July 2009.

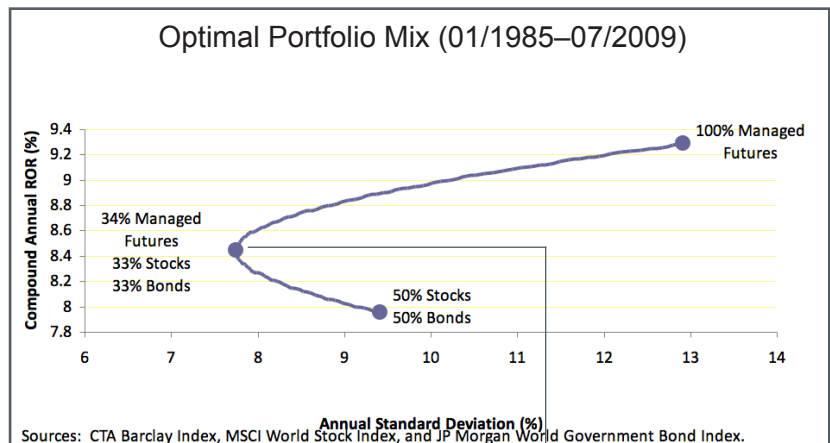
	Compounded Annual ROR (%)	Monthly Standard Deviation (%)	Sharpe
JPMorgan World Government Bond Index	8.57	1.94	0.62
MSCI World Index	7.27	4.40	0.12
S&P Total Return Index	10.85	4.49	0.34
Rogers International Commodity Index (RICI)	9.53	5.05	0.28
Barclay CTA Index	11.96	4.49	0.34

Source: Barclay Hedge database (data from 01/1985–07/2009)

As this table demonstrates, managed futures have historically outperformed competitive benchmarks while offering investors similar risk-adjusted performance and comparable risk exposure.

Diversification

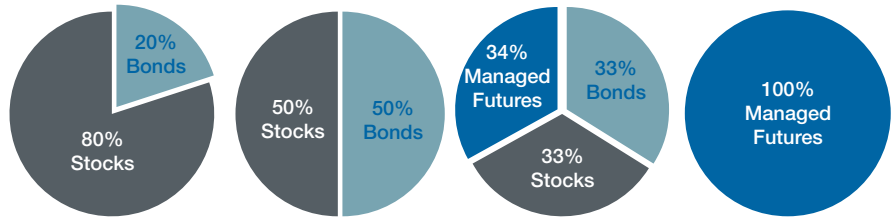
Managed futures are investment vehicles that, when blended into a traditional portfolio, can achieve diversification, reduce portfolio volatility, enhance overall return potential, and provide protection during extreme or down equity market cycles. The chart to the right illustrates an optimal portfolio mix, also known as an “efficient frontier.”



After a strong performance in 2008 by managed futures and a poor showing by traditional asset types, the optimal portfolio mix now calls for about 1/3 managed futures in a traditional portfolio of stocks and bonds.

Below we can actually see how different investment allocations affect some key numbers, such as average monthly return, compounded annual return, monthly standard deviation, Sharpe ratio, and maximum drawdown. Notice that some of the figures below are associated with the efficient frontier presented above.

This historically based model demonstrates that adding managed futures to a blended portfolio of stocks and bonds offers benefits in performance and a reduction in volatility.

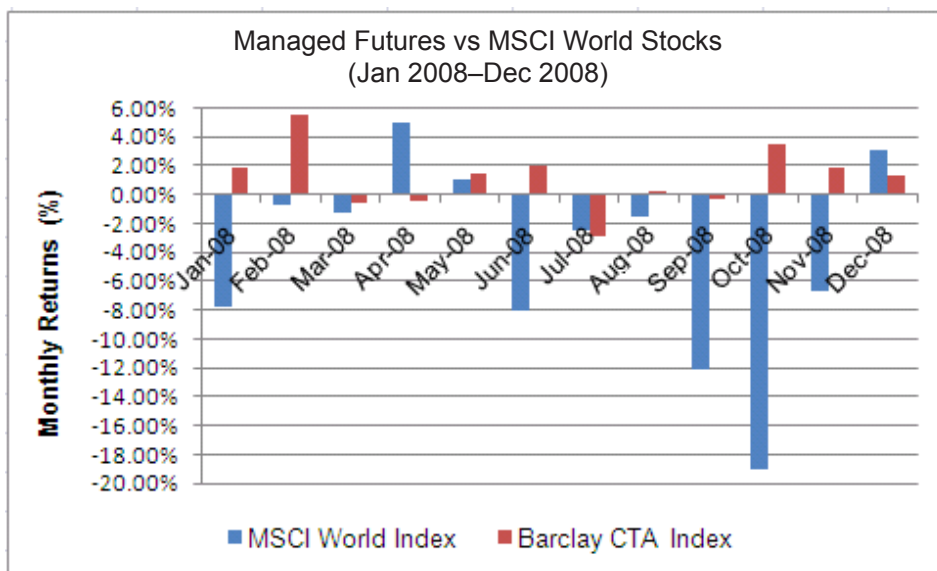


	80% Stocks and 20% Bonds	50% Stocks and 50% Bonds	34% Managed Futures, 33% Stocks, and 33% Bonds*	100% Managed Futures
Average Monthly Return	0.68	0.68	0.70	0.81
Compounded Annual Return	7.54	7.96	8.45	9.29
Monthly Standard Deviation	3.74	2.72	2.24	3.73
Sharpe Ratio	0.24	0.38	0.52	0.38
Maximum Drawdown	45.01	27.39	13.24	15.66

* This allocation represents the optimal portfolio mix based on data between 01/1985–07/2009

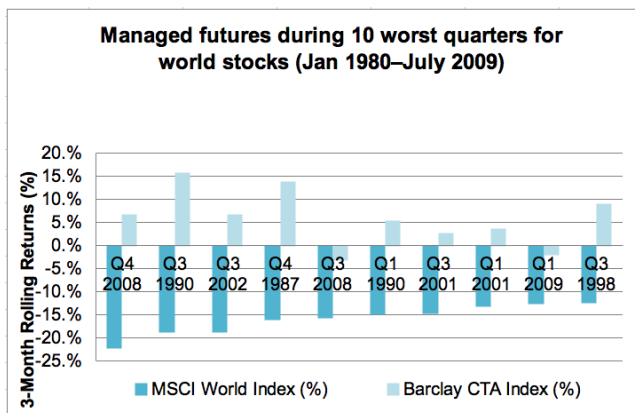
Sources: CTA Barclay Index, MSCI World Index, and JP Morgan World Government Bond Index (01/1985–07/2009)

In 2008, the Barclay CTA Index returned 14%, while long-only investments and hedge funds greatly suffered from a contracting world economy and bearish fundamentals.



Source: information gathered from Barclay Hedge

The year 2008 was not an anomaly, though—managed futures have exhibited similar behavior during other periods of duress in the global equity market. The broad spectrum of asset classes and liquid markets involved in managed futures investments allow CTAs to remain nimble in various market conditions. The following charts show the correlations of CTA strategies with world stocks and their ability to take advantage of various down-market cycles.



Source: information gathered from Barclay Hedge

	MSCI World Index (%)	Barclay CTA Index (%)	Data Set Correlation
Q4 2008	-22.18	6.73	-0.37
Q3 1990	-18.69	15.82	
Q3 2002	-18.69	6.77	
Q4 1987	-15.95	13.77	
Q3 2008	-15.67	-3.01	
Q1 1990	-14.72	5.43	
Q3 2001	-14.64	2.62	
Q1 2001	-13.1	3.75	
Q1 2009	-12.5	-1.86	
Q3 1998	-12.28	8.95	

Negative correlation between managed futures and underperforming world stocks.

Transparency and Liquidity

A significant benefit of a managed account with a CTA is its increased transparency and liquidity compared to investment products like hedge funds. These attributes are especially desirable to investors in the current climate.

How do managed futures increase transparency and liquidity over a traditional investment?

- With a managed account, investor money is deposited with the investor’s brokerage firm and maintained in a customer segregated funds account. While the trading advisor directs trading for the account, the investor has a full view of all trades, positions, and balances, ensuring complete transparency.²
- Managed futures primarily deal in listed markets, meaning that orders are entered on an exchange where counterparties are abundant and orders are settled daily by the clearing houses. This provides liquidity and limits the potential risk of counterparties defaulting. In addition, managed accounts and managed futures funds generally do not have a “lock up” period as is commonly found with hedge funds. This means that clients may request to redeem their capital at any time.
- Managed futures funds that invest in managed accounts will have the potential for more transparency and liquidity than funds where investor money is pooled and those that invest in other funds.

²This applies to managed account structures and not necessarily managed futures fund structures.

Managed Futures in Brief

- Managed futures provide an excellent source of diversification and low correlation to most other asset classes.
- This type of diversified portfolio, consisting of non-correlated assets, increases investor potential for greater returns with reduced total portfolio volatility.
- Not only is there a strong case for managed futures in dismal economic periods, but these vehicles also have exhibited relative consistency throughout market cycles (exhibiting absolute return).
- CTAs are able to employ different trading strategies, trade additional markets, and implement separate trading time frames than traditional investments.
- Managed futures, via investments in individually managed accounts, offer enhanced transparency and liquidity over traditional alternative investments.

Are Managed Futures for Me?

Managed futures can offer almost all portfolios the benefit of diversification, giving them potentially greater returns while reducing risk. However, every investor should consider the following factors.

Managed futures are not a short-term investment.

It is important to note that managed futures should be considered a long-term investment and one that should be added to a traditional portfolio for greater diversification. They should not be viewed as investments that should be traded in and out of quickly.

All investments carry risk, including managed futures.

As with any investment, including stocks, bonds, and real estate, managed futures carry a certain level of risk. It is important to understand these risks and review track records, the use of leverage, and disclosure documents. Managed futures may not be right for everyone. It is important to understand all the risks involved before investing in managed futures. For more information, please speak with a registered futures broker.

About Lind-Waldock

Lind-Waldock has been providing comprehensive, quality futures brokerage service to individual and institutional investors worldwide for more than four decades. We specialize in futures trading—and we know futures markets and products. Over the years, tens of thousands of investors have made Lind-Waldock their futures broker of choice.

At Lind-Waldock, we strive to not only meet your changing demands, but also exceed your expectations. By way of a rigorous process of manager review and analysis, Lind-Waldock provides professional money managers and serious investors access to unparalleled investment resources in the managed futures arena.

Our parent company, MF Global, is the world's leading independent broker of exchange-traded futures and options, operating in 12 countries and on more than 70 exchanges. On any given day, MF Global executes an average of 8 million contracts. It is the largest broker by volume of executed or cleared markets on most markets it operates in, including CME Group and ICE Futures.

Lind-Waldock's reputation for superior client service and its global expertise come together to provide unparalleled access to the complete array of growth opportunities in futures and options. Experience the Lind-Waldock advantage.

FAQs

Q) Who regulates CTAs?

A) Registered CTAs are regulated by both the federal Commodity Futures Trading Commission (CFTC) as well as the National Futures Association (NFA). All advisors must be registered with the CFTC, and those managing customer accounts must be members of the NFA. For more information, see www.cftc.gov and www.nfa.futures.org.

Q) How are fees structured?

A) Managed futures accounts are actively managed and traded by a CTA. Therefore, they typically have higher fees than accounts in equity markets. A flat management fee of one or two percent based on assets is usually charged to cover overhead and administrative expenses. In addition, a performance or incentive fee is charged based on profits in the account—usually around 20%, but this can vary by manager. This cost almost always is calculated net of account costs such as fees and commissions.

Q) What is the minimum investment?

A) Minimum investments vary with each managed account program. Larger minimums are usually required by managers who serve larger clients or need more capital to make their trading strategy viable. However, there are many managed futures programs that offer a range of minimum investment amounts serving various clients and risk profiles.

Q) How is performance reported?

A) CTA managers report performance net of all commissions and fees. Performance figures are commonly found in CTA managers' Disclosure Documents and marketing materials.



Contact Us

For more information about opening a managed futures account with Lind-Waldock, call us at:

800-452-1030 or
312-788-2985

or email Carol Dannenhauer at
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Explore Our CTA Database

If you think managed futures may be right for you, take the next step with Lind-Waldock. When you choose Lind Managed Futures, you'll get the freedom of not having to monitor every market and every news headline.

Your chosen commodity trading advisor will do the work for you. And, you get a name you can trust with Lind-Waldock. You can research more than 100 professional money managers through our CTA Rankings Site, so you can choose the advisor you feel comfortable investing with.

To register for access to CTA profiles, just fill out our [simple form](#) online at the Lind-Waldock.com Web site, under the Services/Managed

Open an Account with Lind-Waldock

Download our [account forms](#) online on the home page of Lind-Waldock.com Web site.

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