

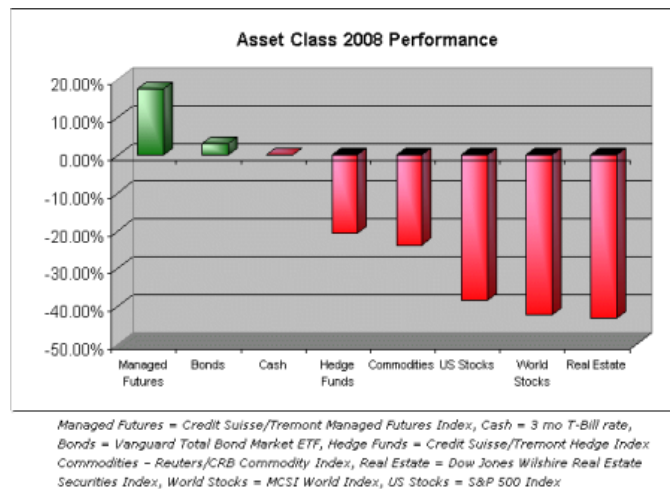
History shows that the best reward-to-risk trades are in the direction of the long-term secular trend. Government intervention has made trading with this trend a frustrating task as the very rationale for intervention is to reverse the prevailing trend of a market. One consequence of this activity has been a sharp rise in the correlation between typically less correlated markets. Many programs have been whipsawed more than once on positions driven by dollar weakness and accompanied by commodity and stock index rallies while the long end of the yield curve struggles. Global Strategies have been down with foreign exchange and long-term interest rates proving the most difficult sectors. Cross rates have been particularly troublesome as the Swiss National Bank has intervened several times to weaken its currency against the Euro. This intervention has caught many discretionary traders on the wrong side causing that sector to be a drag on returns.

During such times fundamentals are often useless leaving only technical analysis valid as such represents a quantitative means by which trader sentiment can be gauged sans the cacophony of both Governmental and Guru rhetoric.

Passive Investment and Asset Allocation:

Retail Investors, Hedge, Mutual and Pension Fund Executives alike were shocked when the long-only commodity allocations made shortly after the turn of the century as a hedge against inflation on their securities portfolios began to break down just as they were needed most in the latter half of 2008. The normal negative correlation between commodities and securities evaporated as the world economy froze up then began to melt down only to be slowed (notice we stop short of using the term “saved”) by throwing the spigots of monetary stimulation wide open.

Yet during the upheaval only two investment medium managed to eke out gains for the year 2008. Those two were Government Bonds (the natural recipient of “flight to safety” cash flows) and actively managed futures accounts as indicated by the various Managed Futures indices. Still the managed futures accounts TRIPLED the returns of bonds even though commodities markets dropped in lock-step with all others....



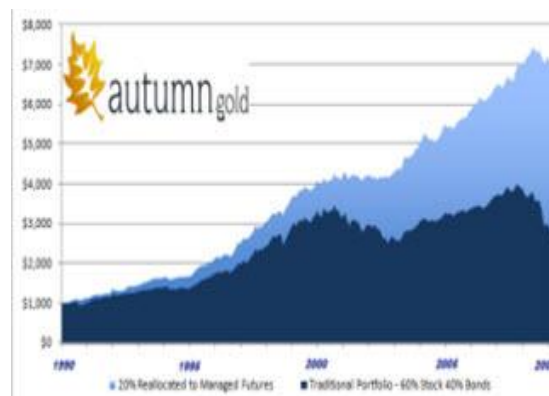
Managed Futures or Auto-Execute Systems?

Managed Futures as a genre' essentially replicate automated trading systems in that the vast majority trade the markets bi-directionally just as did those CTAs who managed the gains illustrated in the above graphic.

Perhaps the primary difference lies in the fact individual managed accounts require minimum investments far beyond the 20% allocation capabilities of the majority of retail investors – even before the 60-odd percent portfolio decimation of 3&4Q 2008. While we know of no authoritative studies on the average account minimum for CTAs operating outside a securitized fund structure, anecdotal evidence indicates \$1mm is by no means unusual and a \$250k minimum seems to be the lower end of the norm for CTAs with reasonable performance, risk parameters and longevity. At a 20% allocation level, even the lower number presupposes an overall investment portfolio on the order of \$1.25mm. Auto-execute trading systems are available in plenty with account minimums often as low as a 10th of that.

So – how would a securities portfolio with a relatively standard 60/40 mix of stocks/bonds have fared during the recent downturn if the same portfolio had been leavened with a 20% allocation to actively managed (CTA or Auto-Execute Systems) futures (50/30/20)?

The below graphic illustrates just such a hypothesis with dark blue representing the former and light blue, the latter.



Click the chart to view in full size and you'll see the representation goes all the way up to the end of 1Q 2009 and indicates that while both portfolios would've shown losses, the one with the futures component dropped a mere 25% while the standard portfolio suffered losses on the order of 58%.

How much to Allocate for Best Diversification?

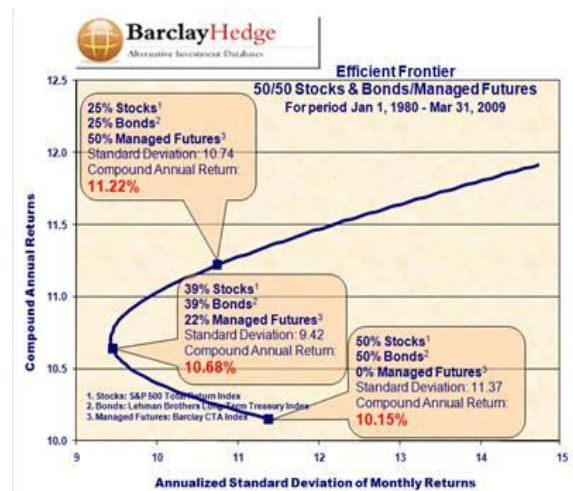
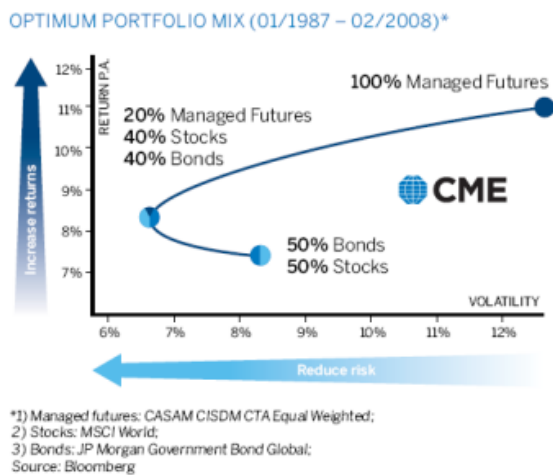
On the Institutional level, portfolio managers and Pension Plan Administrators watch the indices monthly to continually assure optimum portfolio balancing.

Such studies are rarely seen in the public domain and when they are, the reporting periods tend to run an average of 3Q behind the times. For example, no less authoritative source than the Chicago Mercantile Exchange (the world's premier derivatives exchange), in its most recent academic study of Managed Futures as a portfolio diversifier (published September, 2008) published an efficient frontier analysis based on data through only February of that year (left graphic below – click the chart to view full CME study). This study fails to capture the effects of last year's second half market meltdown.

This writer believes deeply in the primacy of current data and has thus made it a key point to obtain and maintain the most relevant analyses possible – this is done on a quarterly basis with the most current data depicted in the graphic on the right which runs through the end of 1Q 2009, (click the graphic to view full size).

The data shows the optimum allocation balancing risk versus reward to lie in the middle data point indicating a portfolio made up of 39% stocks, 39% bonds and 22% futures (CTA managed or auto-executed systems trading) yields a 10.68% average annual return with a standard deviation (risk factor) of only 9.42%.

Optimum Asset Allocation:



While these show allocations to MANAGED FUTURES – you should be aware MF can be considered clones of auto-execute systems and a viable argument can be made that systems trading is better than MF because it obviates the discretionary aspect of MF which is the Achilles Heel of CTAs as a genre’.

In our next discussion, we’ll uncover the benefit to be derived through the counter-intuitive use of drawdown periods to maximize returns using the “return to mean” method of mathematical probability....

Investing in Drawdowns

All trading strategies are prone to drawdown during suboptimal conditions and unpredictable Government interventions. However, the recent environment is the exception rather than the rule, and this too will pass....

Adopting a contrarian approach to systems trading by investing in good programs currently in Draw Down, can be a way to get into good program “at a discount”.

Most investors don't think like a contrarian – and instead are momentum players, usually wanting to get into the program which has done really well recently rather than one which has underperformed. This is one key reason true success eludes most investors in our opinion.

Big drawdowns are still a worry of course, but here's another piece of good news - you don't have to come close to that DD number if you don't want to. You can set a stop trade point/line in the sand at any reasonable level below the current level. You could set a stop trade point at losses for the program of -50%, for example, or compute an average of the last three to five DD and set your exit point there.

Reversion to Mean

In the end, if you believe in any given system's long-term viability, DD periods which are beginning to turn around are a great time to get involved with a program. If you believe volatility is here to stay due to the continuing credit crisis, trillions of dollars in US debt, North Korea, and so on – systems with a proven penchant to excel in periods of higher volatility might well deserve your close attention..

Trade Angle Strategies is a proprietary trading solutions firm that specializes in derivative investment strategies and the development of managed Automated Trading Systems and educational software products. TAS specializes in trading technology that focuses on unique alternative investment solutions in markets around the globe. TAS' business has been built upon the belief that trading systems can help reduce overall risk to an investors' portfolio by using systems that have negative or zero correlations to equity investments.

The firm offers a customer-focused approach that leverages hands-on algorithmic trading expertise with technology-driven trading. TAS offers the most efficient tools of the future of automated trading in today's future and commodity markets.

Our approach: Through the use of strategy automation, we strive to pick the highest probability trades while at the same time implementing reasonable stops to mitigate risk.

Why use Trading Automation?

Systematic trading removes the elements of fear and greed from your trading efforts. This allows for precise entries and exits that aren't clouded by emotional baggage. Most of us have very busy lives; systematic trading effectively unchains you from your computer while still allowing you to participate in the more sophisticated trading markets.

Whether you are an absolute novice or a seasoned trader, our prime directive is to serve your needs and do our utmost to provide the choices and supply the very best service in the industry.

As such, systemic trade automation offers the perfect choice for many passive investors seeking portfolio diversification at low barrier-to-entry with near-instant liquidity and full transparency on top of full control whereby a stop-loss level can be set in advance and implemented on a moment's notice should those pre-set stops be hit.

Finally, through the judicious use of diversification across several independent futures trading strategies within an overall broad portfolio diversification across several asset classes (commodities, fixed-income, equities, etc.), auto-execute systems trading may well represent the ideal choice for investors who actually work for a living in a professional capacity.