



Most investments tanked in 2008, and haven't been doing much better this year. But not all are in trouble.

In the midst of the declines that have ravaged many portfolios, managed futures accounts still were able to rack up an average return of 13.5 percent. How did they do that?

The primary explanation is that managed futures are not correlated to the traditional asset classes -- stocks, bonds, real estate and cash. Instead, they represent investments chosen from among 150 global markets offered at a number of futures exchanges around the world. Managed futures funds, which are considered alternative investments, can include futures on all types of commodities -- from corn and wheat to silver and gold -- as well as currencies, stock indexes and energy products. Because managed futures draw their returns from sources other than traditional investments, they can often yield positive returns when those markets are in the doldrums. The ability to invest in a broad array of non-correlated markets on a global scale also provides protection against location-specific problems, such as poor weather or political issues that can affect commodities or financial futures in some areas more than others. And because it is just as easy to go short as to go long in futures markets, there is opportunity to profit in virtually any economic environment.

What Are Managed Futures?

Managed futures are just that -- portfolios of exchange-traded futures products that are managed and traded by professionals called commodity trading advisors (CTAs). CTAs are licensed, regulated and monitored by the CFTC (Commodity Futures Trading Commission) and NFA (National Futures Association). Managed futures are also called managed funds and managed accounts. They provide unparalleled investment diversity, can enhance returns in any portfolio, and can reduce overall volatility.

How Long Have They Been Around?

Managed futures have been available for more than 30 years, and they have been a growth industry, as increasing numbers of investors have been seeking the skills of professional traders and looking for access to global markets. In the past 10 years, assets under management for managed futures have grown by an estimated 700 percent. This expansion has coincided with the availability and increasing speed and functionality of electronic trading at futures exchanges. In 2002, there was an estimated \$45 billion under management by managed futures trading advisors. By the end of 2007, that number had soared to more than \$200 billion.

Supported by Research

Managed funds exemplify the value of portfolio diversity and support the tenets of [modern portfolio theory](#), which was developed by Nobel prize-winning economist [Professor Harry M. Markovitz](#). This theory holds that more efficient investment portfolios can be created by diversifying among asset classes with low to negative correlations. Adding a managed futures fund to a portfolio of stocks and bonds has the potential to reduce risk and improve performance.

A number of studies on managed futures have supported the validity of this theory. The most famous is an early study done by Dr. John Lintner, a Harvard Professor, in 1983. His paper, entitled "The Potential Role of Managed Commodity -- Financial Futures Accounts (and/or Funds) in Portfolios of Stocks and Bonds," argued that "portfolios of equities and fixed income instruments exhibit substantially less variance at every possible level of expected return when combined with managed futures." Lintner's position has been reinforced by the strong performance of managed futures in the nearly three decades since that paper was presented. (see also "[Lintner Revisited](#)")



Now Accessible to Small Investors

Until recently, access to managed futures was pretty much limited to high net worth individuals or institutional investors. Now, however, there are retail funds and public pools that require comparatively low minimum investment levels and provide a way for smaller investors to participate. Public managed futures funds are audited by independent account firms and follow strict disclosure requirements.

Managed Futures and Managed Risks

Lintner's paper, and other studies, also helped investors overcome a fear of futures, which for many years were seen as highly risky investments. While it is true that managed futures, like all investments, are not risk free, they typically involve exchange-traded futures. Unlike over-the-counter trades that lack transparency and depend upon counterparty creditworthiness, exchange-traded futures offer complete price transparency and central clearing.

Clearing operations enable exchanges to uphold the integrity of the futures markets. Central clearing protects customers from trading partners that do not make good on trades by having the clearing house itself serve as the buyer to every seller and the seller to every buyer. Many managed futures funds trade products offered at **CME Group**, the world's largest and most diverse derivatives exchange, and the umbrella company that now encompasses the **Chicago Mercantile Exchange (CME)**, the **Chicago Board of Trade (CBOT)** and the **New York Mercantile Exchange (NYMEX)**. In more than 100 years of service, customers have never lost funds because of a CME Clearing member default.

How Can I Find Out More?

The Education section of the CME group website offers a Managed Futures Resource Center, where you will find informative brochures and free access to an online webinar on managed futures. Check it out to get details, performance charts and more information about the academic research on managed futures.

Once you have learned managed futures basics, you might want to check the performance of various managed futures funds. There are several indexes that will enable you to do this -- the **Barclay CTA Index**, the **MLM (Mount Lucas Management) Index**, the **Credit-Suisse/Tremont Index** and the **CISDM Managed Futures Benchmark Series**.

Managed futures have created a strong track record. You might discover that this type of investment is right for you.

For extensive broker-neutral Asset Allocation and Managed Futures information, visit the **Interconti, Limited** website or click below to browse Interconti's full Managed Futures archival library:

<http://www.intercontilimited.com/mfutsarchive/>

or CME Group's Managed Futures resource page:

<http://www.cmegroup.com/education/managed-futures-resource-center.html>

Sourced from various CME Managed Futures and FIN Alternatives reports – background support linkages researched and supplied by: **T. W. Merryman, CTA** and **Interconti, limited**