

Eight Deadly Managed Futures Investing Mistakes

Written by Mark Melin, Director
Alaron Managed Futures Division



managed futures

Managed Futures: Intelligent Investing

Intelligent Investing – Performance-driven Past Returns

Dighton USA Performance:*

2008 **10.85%** 3 months YTD
 2007 **32.9%**,
 2006 **54.5%**,
 2005 **46.9%**,
 2004 **89.4%**

*Note: Past annual returns for Dighton USA Swiss Futures CTA. Past performance is no assurance for future results. Performance source Barclay Alternative Asset Database or CTA disclosure document. Performance as of March, 2008

FOR A COMPLETE DISCLOSURE DOCUMENT OR PERFORMANCE SUMMARY ON THIS CTA CALL 866 416 0240

Aaron Managed Futures Group specializes in higher risk-adjusted returns and highly differentiated investment portfolios... one-stop access to a broad range of Managed Futures styles and managers.

Managed Futures: An Introduction

What Are “Managed Futures?”

The term "Managed Futures" describes an industry made up of professional money managers known as Commodity Trading Advisors (CTAs). These professional trading managers invest client assets on a discretionary basis using global futures and options markets as an investment medium.

In some respects Managed Futures is similar to a stock mutual fund. While the investment medium is very different (stocks vs futures and options), what is common is that a single investment manager with a past track record makes investment decisions for all those that participate in the program.

Here are some quick facts regarding Managed Futures:

CTA Compensation: The compensation for the CTA trading manager usually comes in the form of a management and incentive fee. The incentive fee is a percentage of the investor's net new profits. If the CTA does not generate net new profits in the account they do not receive the incentive fee.

Performance Reporting: In accordance with NFA and CFTC guidelines, all reported performance is net of fees and commissions.

Account Lock Up: Unlike hedge funds, many CTAs do not require an account lock up period or impose any penalty for withdrawal from the program.

Investment Minimum: Each CTA has sets their own investment minimums, which can range from as little as \$25,000 to as much as several million. Generally speaking the CTAs with longer track records have the higher investment minimums.



YaoSun Strategic Investments Performance*:

2008 **9.28%** 3 months YTD

2007 **9.42%**,

2006 **20.50%**,

2005 **14.29%**,

*Note: Past annual returns for YaoSun Strategic Investments CTA. Past performance is no assurance for future results. Performance source Barclay Alternative Asset Database or CTA disclosure document. Performance as of March, 2008.

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Three Client Profiles:

- Conservative
- Moderate
- Aggressive

Eight Deadly Mistakes Investors Make With Managed Futures – and How to Avoid Them

1 Diversification

The number one mistake with Managed Futures is **Lack of Proper Diversification**. Diversification and non-corollary asset investing is critical in all investing. But in commodity and managed futures investing, it is magnified with a leverage befitting Managed Futures.

All too often those investing in Managed Futures and Commodity Trading Advisors (CTAs) chose a single manager approach to the asset class. This often produces extreme volatility – sharp highs and deep lows.

With a portfolio approach to Managed Futures – investing in a handful of non-corollary CTAs – the investor can mitigate some of the volatility associated with single advisor investing. For instance, let’s assume that in any given month three of five advisors have positive performance, two have negative requirements. If this performance were to extend over the course of a year the investor would have experienced relatively smooth portfolio performance while the individual CTA performance may have been a little more up and down.

2 Investment Focus

The second mistake some investors make is when **their investment decision making focus only considering the absolute returns** of a particular CTA.

There is so much more to appropriate CTA investing than just simple returns. For starters, investors should carefully consider their own risk reward tolerances and then carefully consider the various risk measures for a particular CTA. While the returns could motivate an investor, they must seriously ask themselves if they can stomach the potential drawdowns. They should also consider how the CTA’s strategy correlates with their overall investment portfolio and how the CTA’s strategy correlates with other CTAs and general market conditions.

Rosetta Capital Management Performance*:

2008 **23.88%** 3 months YTD
 2007 **4.28%**,
 2006 **28.25%**,
 2005 **21.90%**,
 2004 **93.35%**

*Note: Past annual returns for Rosetta Capital Management CTA. Past performance is no assurance for future results. Performance source Barclay Alternative Asset Database or CTA disclosure document. Performance as of March, 2008

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Three Client Profiles:

Conservative
 Moderate
 Aggressive

3 CTA Strategies

The third mistake investors make is not understanding how the various **CTA** responsibility of your broker to clearly explain how the CTA strategies work and what could happen under given circumstances, it is the client’s responsibility to ask for this explanation.

4 Returns Expectations

There is an old saying, “Bulls make money, Bears make money, Pigs get slaughtered. The fourth mistake investors make is by **setting unrealistic profit expectations** – both too high and too low. Generally speaking, anyone who thinks they will strike it rich with consistent triple digit performance is setting themselves up for failure, in my opinion. With the Managed Futures asset class, I consider conservative past annual returns to be in the 15% to 20% range; moderate returns in the 20% to 35% range; and aggressive returns in the 35% to 50% range. Of course, risk is the currency of return. The more aggressive your return expectations the higher your risk. Please note that past performance is not indicative of future results.

5 Under Capitalization

Many investors seek to gain exposure to dynamic Managed Futures markets but do so with **too small a minimum investment**. In my opinion, success in Managed Futures comes with CTA diversification. Many of the best CTAs have account minimums near \$50,000, with a select few CTAs having minimums near \$25,000. Given this, a decent minimum investment level for a well diversified portfolio, in my opinion, is near the \$150,000 level. However, good diversification can be obtained near the \$65,000 level.

Marin Capital Markets Performance*:

2008 **2.26%** 3 months YTD

2007 **22.65%**,

2006 **4.25%**,

2005 **33.08%**

2004 **22.43%**

*Note: Past annual returns for Marin Capital MarketsCTA. Past performance is no assurance for future results. Performance source Barclay Alternative Asset Database or CTA disclosure document. Performance as of March, 2008

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6 Selling Drawdowns

It is common human emotion to get nervous when a program loses money. Unfortunately, many investors **exit good CTA trading programs at the first sign of a drawdown**. My advice is to set specific risk management controls, and be prepared for drawdowns. In fact, some CTAs are actually a good buy when they drawdown. Managed Futures can be volatile, but I like to play the statistical measures and often this means buying when others are selling.

7 Lack of Patience

Success doesn't often happen overnight. Sometimes trades and investments take time to develop. Managed Futures is no different. When you establish a Managed Futures account, **give that account the appropriate time to develop and have a longer range investment time horizon**.

8 The Wrong Broker

A significant mistake that many investors make is not focusing on the right broker to help them navigate the tricky yet potentially rewarding waters that are Managed Futures. Here is the interesting fact: **A good, knowledgeable broker costs no more than a basic broker**. So how do you tell if you are working with a good broker? Ask these test questions: Can the broker explain the strategy of each CTA they recommend and how that CTA strategy works under given market conditions? Can the broker explain how the CTA strategy correlates with other CTA strategies and with the stock and bond market in general? Can the broker explain CTA measures such as Alpha, Beta and R Squared? On an ongoing basis the broker should make recommendations to adjust your portfolio. Is he willing to do this? If you would like to review your Managed Futures options with a qualified broker, just e-mail mmelin@alaron.com or call 866-416-0240 and Mark Melin will assign a qualified broker from the Alaron Managed Futures Division to help you manage your account.

Alternative Asset Allocation Framework

Three broadly defined manager profiles:

Global: Manager offers exposure to diversified markets and global exposure. Established managers have good levels of assets under management and institutional appeal... and plenty of capacity. Managers are typically research-oriented, fundamentally and long-term oriented and very often systematic. Manager is risk oriented and focused on keeping monthly returns fairly constant. Defined-risk option overlays are often used to manage risk.

Strategic: Manager offers more dynamic exposure to markets with intermediate time frames, more discretionary approaches to the markets, and therefore not necessarily constrained by style and/or market. Manager offers “big picture” strategic perspective and has the ability to rotate in and out of markets... and can profit from short to intermediate-term market moves and counter cyclical trends. Manager typically adopts more sophisticated approaches to exploit market inefficiencies and/ or volatility through arbitrage strategies and/or market neutral and hedge strategies. Option overlays are used to enhance yield and/or to balance risk.

Tactical: Manager offers tactical exposure to specific market segments and or investment themes... generally using concentrated and/or leveraged positions to generate higher returns. Time frames are generally shorter and relative monthly returns more volatile. Option overlays are typically used to exploit volatility and to enhance absolute returns.

Three Manager Profiles:

Global
Strategic
Tactical

Global	Strategic	Tactical
Diversified	Dynamic	Concentrated
Systematic	Blended	Discretionary
Long-Term	Intermediate	Short-term
Fundamental	Fund/Tech Blend	Technical
Trend Following	Blend	Counter-trend
Unleveraged	Leveraged	Leveraged
Manage to Risk	Balance Risk/ Return	Manage to Return
Defined-Risk	(Un)Defined- Risk	Undefined-Risk
Option Overlay	Option Overlay	Option Overlay (Naked Options)

Crescent Bay Capital Performance*:

2008 **13.16%** 3 months YTD

2007 **2.09%**

2006 **23.37%**

2005 **10.36%**

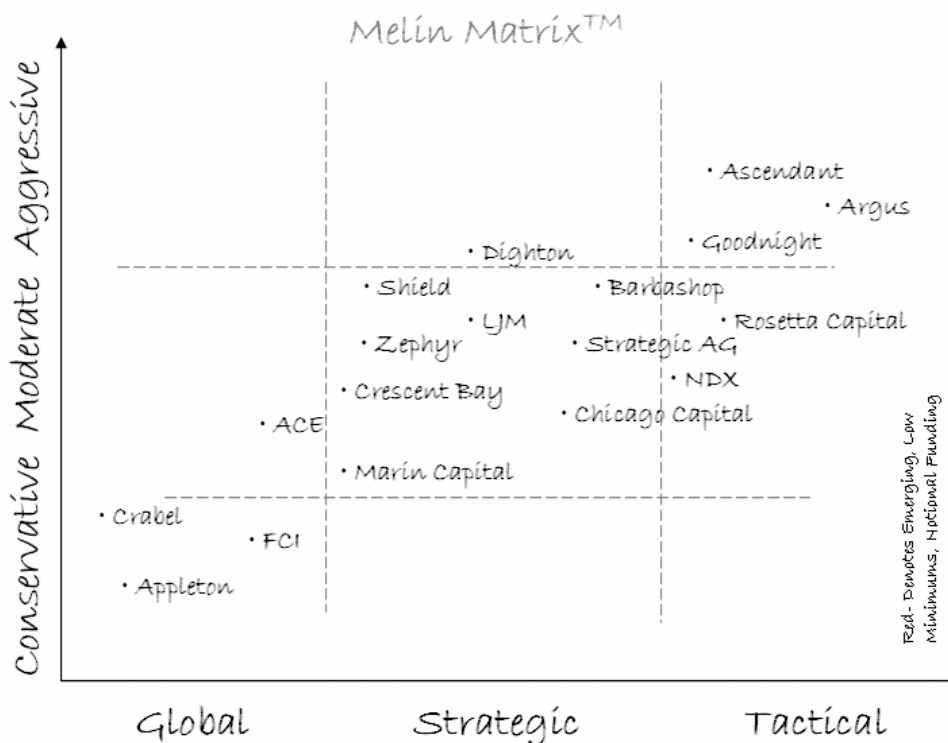
*Note: Past annual returns for Crescent Bay Capital CTA. Past performance is no assurance for future results. Performance source Barclay Alternative Asset Database or CTA disclosure document. Performance as of March, 2008

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The Spectrum of Investment Opportunity

THE MELIN MATRIX™

The graphic below depicts the spectrum of investment futures & options investment opportunities. Broadly, in our opinion investment managers are divided across the spectrum of conservative (global) to more moderate (strategic) or aggressive (tactical) focus and whether the manager is managing to risk or return. In addition, option overlays often used by managers to develop defined risk approaches and/or to enhance premium generating opportunities.



Sample Allocation Proposal: Composite Portfolio

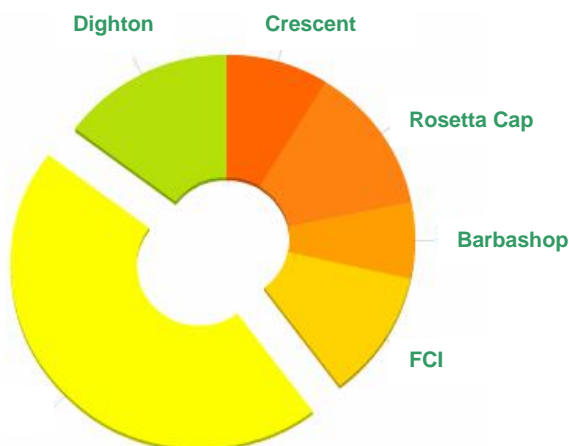
Financial Commodity Investments (Option Overlay - Diversified Markets)

Dighton Futures (Strategic Exposure - Sugar, Cotton, Coffee)

Crescent Bay capital (Option Overlay – Stock Index)

Rosetta Capital (Tactical Exposure to Livestock)

Barbashop (Tactical Exposure to Agriculture & Energy)



Historical Performance:

Below is an analysis of the CTAs historical past performance when grouped together in a single portfolio. Note: Past performance is not indicative of future results.

- **\$500,000** invested June 2004 would be worth **\$1,589,391** in February 2008.
- The compounded average annual return was **45.5%** and the total return was **228.1%**
- The CTAs in the portfolio reported collective past performance of: 2005 **41.9%**; 2006 **49.7%**; 2007 **33.4%**; 2008 YTD **15.8%**.
- During the time period there would have been 30 winning months and 8 losing months.
- The worst monthly drawdown would have been -15.8%.

See risk disclosure for composite portfolio performance on Page 10.

RISK DISCLOSURE

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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. YOU COULD LOOSE ALL OF YOUR INVESTMENT OR MORE THAN YOU INITIALLY INVEST. 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. 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, 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. OTHER DISCLOSURE STATEMENTS ARE REQUIRED TO BE PROVIDED YOU BEFORE A COMMODITY ACCOUNT MAY BE OPENED FOR YOU. ALARON DOES NOT HAVE AN OWNERSHIP STAKE IN ANY OF THE CTAS WE RECOMMEND OR UPON WHICH WE PROVIDE RESEARCH. MUCH OF THE DATA CONTAINED IN THIS REPORT IS TAKEN FROM SOURCES WHICH COULD DEPEND ON THE CTA TO SELF REPORT THEIR INFORMATION AND OR PERFORMANCE. AS SUCH, WHILE THE INFORMATION IN THIS REPORT AND REGARDING ALL CTA COMMUNICATION IS BELIEVED TO BE RELIABLE AND ACCURATE, ALARON CAN MAKE NO GUARANTEE RELATIVE TO SAME.

You must review a current disclosure document before investing in any CTA. This report is no substitute for a CTA disclosure document. Performance source for all CTAs in this document is the Barclay Alternative Asset Database, which is a third party reporting aggregator that is believed accurate but no guarantee is being made relative to same. Please note that rankings only apply to those CTAs which submit their trading results. The rankings do not purport to be representative of the entire universe of CTAs nor are these results officially sanctioned by the commodity industry.

Past performance is not indicative of future results. There is substantial risk of loss when investing in futures and options. | Page 9 of 11

HYPOTHETICAL RISK DISCLOSURE

THIS COMPOSITE PERFORMANCE RECORD LISTED ON PAGE EIGHT IS HYPOTHETICAL AND THESE TRADING ADVISORS HAVE NOT TRADED TOGETHER IN THE MANNER SHOWN IN THE COMPOSITE. HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY MULTI-ADVISOR MANAGED ACCOUNT OR POOL WILL OR IS LIKELY TO ACHIEVE A COMPOSITE PERFORMANCE RECORD SIMILAR TO THAT SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN A HYPOTHETICAL COMPOSITE PERFORMANCE RECORD AND THE ACTUAL RECORD SUBSEQUENTLY ACHIEVED. ONE OF THE LIMITATIONS OF A HYPOTHETICAL COMPOSITE PERFORMANCE RECORD IS THAT DECISIONS RELATING TO THE SELECTION OF TRADING ADVISORS AND THE ALLOCATION OF ASSETS AMONG THOSE TRADING ADVISORS WERE MADE WITH THE BENEFIT OF HINDSIGHT BASED UPON THE HISTORICAL RATES OF RETURN OF THE SELECTED TRADING ADVISORS. THEREFORE, COMPOSITE PERFORMANCE RECORDS INVARIABLY SHOW POSITIVE RATES OF RETURN. ANOTHER INHERENT LIMITATION ON THESE RESULTS IS THAT THE ALLOCATION DECISIONS REFLECTED IN THE PERFORMANCE RECORDS WERE NOT MADE UNDER ACTUAL MARKET CONDITIONS AND, THEREFORE, CANNOT COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. URTHERMORE, THE COMPOSITE PERFORMANCE RECORD MAY BE DISTORTED BECAUSE THE ALLOCATION OF ASSETS CHANGES FROM TIME TO TIME AND THESE ADJUSTMENTS ARE NOT REFLECTED IN THE COMPOSITE.

***For further information contact your Alaron Advisor or
the Director of the Alaron Managed Futures Group***

Mark H. Melin, Director

822 W. Washington

Chicago, IL 60607

Division Main: 866-416-0240

Fax: 312-563-8497

Director E-mail: mmelin@alaron.com

Director Personal Cell Phone: 312-451-8368

www.alaron.com/managed