

## Managed Futures: A True Alternative Investment

by: Bruce Greig

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We have all heard the old adage “never put all your eggs in one basket,” and most of us have specifically been told this in the context of investing. Surely, you wouldn’t put all of your money into one stock, one mutual fund, or even one asset class. This lesson was vividly illustrated in 2008 when everything seemed to lose value. Major stock and bond indexes were down, as were real estate, commodities and even hedge funds.

Perhaps the traditional definition of diversification had been too narrow; perhaps investors needed a safe haven amidst the carnage? In turns out, there is one available: Managed futures.

When one hears the term “managed futures,” a few myths are likely to come to mind: *they’re too risky; they are like hedge funds, they are very illiquid.* Managed futures, however, as an asset class have exhibited historical risk levels (from 1980-2008) that are less than that of the S&P 500. Comparing managed futures to hedge funds is not apt, since those who provide managed futures accounts or funds are required to be registered by the NFA and the CFTC, whereas hedge fund managers are generally exempt from registration. The issue of liquidity is often misunderstood as well. Many managed futures investments can be redeemed on a monthly basis (with no redemption fee), and are often invested in the most actively traded instruments in the world: futures, Forex, and swaps, among others. In addition, managed futures can provide daily valuation, like a mutual fund, and full visibility.

Managed futures is an industry comprised of professional money managers, known as Commodity Trading Advisors (CTAs). There are more than 1500 registered CTAs, each managing client assets in a unique manner. Like mutual funds and individual brokers, CTAs may specialize. For example, there are CTAs who trade energy investments, others trade equities, while there are also many who trade literally dozens of markets. Managed futures have been used by investment professionals for over 30 years, and today there are over \$200 billion in assets. High-profile endowments, such as Yale and Harvard, have utilized managed futures, in part, to generate their impressive returns over the past decade.

The case for using managed futures can be compelling. Perhaps, foremost, is the lack of correlation to traditional assets. In other words, the performance of managed futures does not necessarily track that of stocks, bonds or any other investment. This has proven very favorable over the last few down years in the market. In 2008, when the S&P lost 39%, the Barclay CTA Index gained 14%. Further, during the 2000-2002 bear market, the CTA Index had positive returns each year.

Another benefit of managed futures is the ability to achieve true global diversification. CTAs literally have the whole world in which to invest, over 150 exchanges on six continents. Managed futures have also shown remarkable resiliency during challenging economic times. During the last bout of inflation (1980-1982) the CTA Index gained over 100%. Managed futures have fared equally well during recessions. In addition to the impressive gains of 2008, in 1990 the S&P fell 7%, and the CTA Index gained 21%.

While Managed futures can be risky and may not be suitable for every investor, every investor should at least consider the benefits they can offer a portfolio. Investing in managed futures can be as easy as opening a regular brokerage account. Ask your financial advisor whether an investment in managed futures is suitable for you. After all, do we expect the next few years to be free of bumps in the road? Managed futures may help to smooth out the ride, and enable you to reach your financial goals with less worry and more confidence.

**Disclosure:** None

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Mr. Greig joined Altin Holdings, LLC in August 2009 as Portfolio Manager. His responsibilities include overseeing the firm’s investment process and handling all aspects of portfolio allocation which include continuous portfolio monitoring, performance reporting and investment research. Prior... [More](#)

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