

Investors who are both performance-motivated and risk-averse must necessarily and inevitably address the conundrum of how (exactly) can these two seemingly contrapuntal goals ever be reconciled within a single strategy or within a single portfolio?

The answer may be a diversified investment portfolio with some portion of the total assets invested in managed futures account. That is, an account that utilizes the abilities of a professional Commodity Trading Advisor who is able to bring experience, discipline, and a history of past success to the trading of futures contracts.

By providing plain language answers to plain language questions, CTAGuide.com is your resource in deciding whether a managed futures account can help achieve specific investment goals, particularly in today's volatile and increasingly challenging investment markets.

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1. What is a managed futures account?

A professionally managed futures Account is like any other brokerage account established to trade futures except that you give permission to make all trading decisions on your behalf through a revocable power of attorney to a Commodity Trading Advisor (CTA). In this sense, the advisor is the account "manager." The advisor's compensation is normally a management fee plus an incentive fee contingent on profitability.

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2. What types of investors utilize managed futures accounts?

It has traditionally been individual investors seeking the profit opportunities of futures trading but without the responsibility and demands of day-to-day account management. Recently, however, growing numbers of corporate and institutional investors have been allocating some portion of their total portfolio assets to specially designed and professionally managed futures trading programs. The total amount of capital in managed futures programs is estimated to exceed \$50 billion.

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3. What has been responsible for the growth in managed futures?

A variety of things. As traditional investment markets have become increasingly volatile and vulnerable to often-unexpected events, institutional money managers and other sophisticated investors have sought to more effectively manage overall portfolio risk through diversification.

A number of studies indicate that a portfolio that includes managed futures can yield appreciably higher and more stable return over time than a portfolio that includes only stocks and bonds. The same evidence indicates this can be achieved without added risk, or even reduced risk.

Still another factor in the growth of managed futures has been the tremendous broadening of futures markets to encompass stock indexes, debt instruments, currencies, and options as well as conventional commodities. This has created whole new categories of profit opportunities. The increasingly global nature of today's futures markets also has expanded the scope of investment opportunities.

Finally, from the standpoint of an individual investor, managed futures accounts have proven to be considerably more profitable on the average than accounts that individuals trade on their own.

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4. How are profitability, volatility, and risk affected when managed futures are included in an investment portfolio?

Harvard Business School Professor John E. Lintner found that including managed futures in a portfolio "reduces volatility while enhancing return." And those portfolios "have substantially less risk at every possible level of return than portfolios of stocks, or stocks and bonds." Research studies demonstrate that managed futures have a low or negative correlation to the stock and bond markets. Additionally, the futures markets provide profit opportunities on a highly leveraged basis in either bull or bear markets in the financial and commodity markets.

For the period of January 1, 1994, to December 31, 2005, data show that managed futures investments (measured by the CISDM CTA Equal Weighted Index) had a annual return of about 8.14%. That compares very favorably with the 10.52% return that common stocks (S&P 500) had during the same period, one of the strongest stock markets in U.S. history. Further, it exceeded the 6.35% return on bonds (Lehman Gov/Corp).

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5. Why can investment portfolio performance be improved by including managed futures?

There are several reasons, but high on the list is that managed futures may perform best when other investments are performing relatively poorly. On the occasions of the S&P 500's worst two declines during the past decade, managed futures recorded net profits of 9.7% and 18.6%. A study by University Of Massachusetts finance professor Thomas Schneeweis compared the S&P's worst twelve months and best twelve months and found that managed futures posted gains during both periods.

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6. Is a managed futures account appropriate as a short-term investment?

No. Futures markets, like most markets, tend to be cyclical. In addition, even an advisor who is highly successful over the course of a year will probably experience some months in which losses occur. Thus, while you are free to close an account at any time, it's probably not a prudent investment strategy to establish an account that you don't plan to maintain for at least 3 years. This allows the account to recover from any temporary losses in equity and to benefit from longer-term returns.

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7. Does having a managed futures account lessen the risk of futures trading?

There is no method of futures trading that doesn't involve risk. The same leverage and price movements that can produce trading profits can produce trading losses. Any loss that can occur when an individual directs his own account also can occur in a professionally managed futures account. However, one of the things that you should definitely look for in a trading advisor is a long-term demonstrated ability to manage risk.

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8. How does the performance of managed futures accounts compare with that of self-directed accounts?

Some individual investors, those who have experience, time, access to information, and necessary temperament, are highly successful in directing their own futures trading. The record suggests that only a small percentage of "do-it-yourself" futures traders possess these requisites for success. Studies indicate that somewhere between 65 and 90 percent lose money. However, during the period of January, 1980 to June, 2007 the diversified funds and pools that make up the Barclay CTA Index combined for a Compound Annual Return of 13.58%.

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9. Are there other reasons why managed futures accounts are generally more profitable?

The growing complexity of the markets is one factor but by no means the only factor. As in most areas of investment, trading experience and trading skills are ultimately major determinants of trading success. Profitable futures trading requires the discipline and temperament to respond to market realities if and when they conflict with market expectations. It requires a keen knowledge of when and how to liquidate positions. It requires the development and implementation of carefully considered trading strategies, a trading plan, and a trading system. Effective account diversification demands an insightful understanding of how various markets react with and to one another. Otherwise, attempts to diversify could prove illusory. Even institutional and corporate portfolio managers who may have experience in futures, such as for hedging applications, generally choose to use professional advisors to manage their futures trading investments. For most individual investors, the advantages can be even greater.

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10. What is a Commodity Trading Advisor (CTA)?

CTAs are federally licensed and registered, professional money managers who manage investors' assets in the futures markets, just as a stock mutual fund manager would manage assets in the stock market. CTAs are required by the federal government to submit a Disclosure Document that outlines who they are, states the fees and expenses charged to accounts, and reveals their performance track record. Numerous studies have shown professional Commodity Trading Advisors experience an impressively higher success rate than the individual "do-it-yourself" trader. Through CTA-managed accounts, investors can access emerging profit opportunities in important international markets unavailable in traditional investment portfolios.

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11. Don't trading advisors differ from one another in their investment results?

Definitely. In any given year, some will realize impressive profits and others will incur losses. Still others will

be anywhere in between. The success of your managed account will depend on the success of the advisor you select.

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12. How important is an advisor's past trading performance?

As advisors and prospectuses are required to state, past performance is no guarantee of future results. An advisor who has performed well in the past may perform poorly in the future. And it is possible that someone who has performed poorly may begin to perform well. This notwithstanding, in any endeavor some individuals are obviously better at what they do than others and a track record is at least an indication of past performance. In addition, a track record can provide other valuable information about an advisor's experience, approach to trading, and amount of money under management. You'll also want to note whether performance data included in the disclosure document refers to actual trading results or to "hypothetical" or "simulated" results.

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13. What should be considered in examining an advisor's track record?

Start by considering the length of the record. Sprinters aren't necessarily successful distance runners. Sensational performance in a short time span may reflect little more than extraordinarily good luck. Or, of more concern, it may reflect someone who takes greater risks than you may be comfortable with over the long haul. Or it could reflect specialization in markets that, in a given period, were especially active. Track records can be much more meaningful when you examine a longer record. This provides more information about how an advisor has performed over the landscape of continuously changing market scenarios. An advisor's performance in less than spectacular years may be an important indicator of risk management skills.

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14. Which futures markets would I be trading in with a managed account?

Your trading advisor will determine this and in all likelihood it will be different markets at different times. Futures contracts are available in the following sectors:

- Stock Indexes
- Credit Instruments
- Livestock & Meats
- Currencies
- Energies
- Foods & Fiber
- Grains & Oilseeds
- Metals

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15. How do trading advisors differ in their investment approaches?

One way is in how aggressively or conservatively they participate in the markets. There also could be differences in which markets they trade. Some specialize in particular areas, such as financial instruments, metals, or agricultural products, while others pursue profit opportunities wherever they appear to exist. If you have a preference for a particular approach, this should be taken into account. Another difference is whether the advisor employs a fundamental or technical trading system. Fundamental means that trading decisions are based principally on supply and demand, and "technical" means that the markets themselves are continuously analyzed for signals to future price direction. Even then, different advisors have developed and employ different systems and may read the markets differently. Moreover, the fundamental-technical distinction has broken down somewhat as fundamental advisors frequently employ computerized tools to pinpoint the timing of their trading decisions.

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16. Where will my money be held when I establish a managed account?

Your money is held in a Customer Segregated Account at our clearing firm, Alaron Trading Corp. While the trading advisor will direct trading for the account, Alaron performs all other account functions.

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17. Who regulates Commodity Trading Advisors?

Commodity Trading Advisors are regulated by the Commodity Futures Trading Commission (CFTC) and by the National Futures Association (NFA), the congressionally authorized self-regulatory organization of the futures industry. All trading advisors must be registered with the CFTC and those who manage customer accounts must be members of the NFA. Advisors' Disclosure Documents are required to be submitted to the CFTC for review in advance of distribution to prospective investors. On an ongoing basis, the NFA audits Disclosure Documents (particularly performance information), promotional materials, and trading activities. Violations of CFTC or NFA rules can result in a loss of trading privileges and other penalties.

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18. How do I monitor the status of my account?

Axis Global Management will provide the same timely reports you'd receive if you were directing your own account. These are available a few different ways. First, a complete listing of all the activity in your account, including your balance, can be viewed on Alaron's website 24 hours a day. Second, you may call us at (800) 340-8878 to obtain an up-to-date status of your account. Finally, you are sent a statement, which shows dates, prices, and net profits or losses for all trade activity, as well as your account balance. In addition, you will receive a monthly summary of all transactions showing their results.

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19. What mistakes do investors sometimes make regarding managed futures?

There are three basic ones. First, because of the risk, futures trading in any form may not be appropriate for a given person, even if a managed account seems more attractive than do-it-yourself trading. Unless you're comfortable with the risk level and feel it's appropriate for you, it would be prudent not to invest at all. Second, an investor might select an advisor based solely on whether the advisor is currently hot. A prudent investor will select a CTA based on the money management skills and a trading style that has been employed in the past to achieve consistent returns. Lastly, investors engage in "account jumping," or prematurely closing accounts out of panic and fear when experiencing a period of flat returns or drawdowns. By doing this, the investor loses the opportunity to recover from those temporary losses in equity and benefit from longer-term returns.

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20. What are the costs, and how do trading advisors get paid?

There are basically three types of charges involved when a managed account is handled by a CTA. A management fee usually between 1-2% of the value of your account is charged for the overseeing of the trading in your account. Most CTAs charge an incentive fee which typically runs from 15% - 30% of the cumulative net trading profits calculated at the end of each quarter. The net trading profits are the combined total of profits and losses from trading. Brokerage commissions of \$10-25 per side plus a few dollars in fees are also charged.

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21. Is there a minimum investment to establish an account?

Yes, but different managed account programs have different minimums. At the least, it will be an amount the advisor considers adequate to achieve account diversification. Minimum account size also may be affected by whether the managed account program is designed principally to serve individual investors or institutional clients. Some CTAs have \$100,000,000 or more under their management. They may not wish to bother with accounts of less than a million dollars. We look for traders who have a profitable track record at least 2-5 years long and who have a program that could be advantageous for an investor with \$25,000 and up of risk capital.

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22. Are there any restrictions in withdrawing funds from my account?

Managed accounts offer a high degree of liquidity. The only restriction is usually that you do not make withdrawals below the minimum required investment. You are free to withdraw all funds after liquidation of any open positions. This can be done at any time you choose unless the account agreement stipulates otherwise. Similarly, if there are profits in the account, you are free to withdraw them or leave the money available for reinvestment. You have complete control over your account and can deposit additional funds,

withdraw funds, or stop trading any time.

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23. How much money should I invest in managed futures and how do I open an account?

We recommend that the amount of money you invest be based on your own financial goals and risk tolerance. This should usually be approximately 5% to 20% of your overall portfolio. Only risk capital should be used in managed futures or any speculative investment. Before opening an account you must be supplied with a copy of the CTA's Disclosure Document. Read it carefully and go over any questions you have with your Axis Global Management broker before you invest. After your questions have been answered and you feel this type of investing is appropriate for you, we will help you to complete the CTA management agreement and Alaron Customer Agreement forms which you will need to return to our offices for processing.

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24. Why would I need managed futures if I were already trading futures?

Trading your own account limits your returns to your own ability and system. By employing CTAs who have a good performance record, you are developing a diversified portfolio of your own. Thus you can gain even greater benefits from having futures in your portfolio.

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25. Can I invest a portion of my retirement portfolio in managed futures?

Absolutely. Managed futures are ideal for the long-term profile of retirement plans. Investors can choose those products that offer a level of volatility appropriate to their retirement objectives. Managed futures, therefore, make extraordinarily beneficial long-term additions to an IRA by diversifying among asset categories with low to negative correlation.

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26. Are managed futures riskier than stocks?

On a level playing field, managed futures are no riskier than stocks. However, it is important to understand that the use of leverage available in futures creates the potential for unlimited risk. The prudent use of this leverage is one of the most important money management rules in futures trading. Stocks and futures are both investment vehicles employed by money managers as a means of making profits. Some managers succeed where others falter. Remember, it's not the investment vehicle that makes or loses money, but rather the money manager's skills and abilities that will determine results.

In his June 2002 academic study, "Benefits of Managed futures," Thomas Schneeweis, Professor of Finance, at the University of Massachusetts states:

"Managed futures are not more risky than traditional equity investment. Investment in a single commodity trading advisor is shown to have risks and returns, which are similar to investment in a single equity. Moreover, a portfolio of commodity trading advisors is also shown to have risks and returns which are similar to traditional equity portfolio investments."

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