



TO CONSIDER BEFORE
Investing ^{IN}
Managed Futures
The Advantage of Market Perspective

The world of managed futures can be an excellent form of asset diversification for stock, real estate, bond and/or mutual fund investors. Managed futures offer a wide array of correlated and non-correlated investments into various futures and futures options strategies. Managed futures trading is not for everyone and involves a substantial risk of loss. This report is designed to offer some important insight into whether or not managed futures might be right for you. So without further ado...

#5 Insufficient Risk Capital

Recent market volatility has shown investors just how risky their "safe" assets really are. With investment portfolios taking a beating since the recession began in December of 2007, there have been more than a few news stories about people losing money they couldn't afford to. Risk capital means investment funds that will not affect lifestyle if lost. Risk capital is not the mortgage payment, your child's college tuition fund, or money you borrowed to invest. If you have ever thought of investing this way, it might be time to take a new approach to your savings and access to credit. The minimum investment in a managed account can range from as little as ten thousand dollars to one million dollars or more.

#4 Control Issues

Ask yourself if you feel comfortable with someone else deciding how to invest your risk capital. Regardless of whether you would rather manage your own money or have someone with more time, experience and knowledge in a particular investment arena manage your assets; it is absolutely vital that you do not ignore your responsibilities as an investor. It is your responsibility to thoroughly research the experience and performance history of your investment manager.

All commodity trading advisors (CTAs) have a disclosure document that you must read thoroughly. It is not just there for your records – make sure you read and understand everything. When in doubt; ask for clarification or documentation. Once you place your investments with a manager, it is your responsibility to monitor performance and how it relates to underlying market conditions. It is important to avoid oversensitivity to short term performance fluctuations as long as they are a normal occurrence given historical performance of the investment strategy. A-typical fluctuations in performance might mean that it's time to reevaluate your

manager or investment choice. There is no excuse for failing to monitor your investments closely as an allocation to a managed account involves risk of loss and exposure to market volatility. Past performance of is not necessarily indicative of future results.

#3 Performance Goals

Choosing the right manager is important and potential investors must determine their specific performance goals in advance. If you are unable to define your risk tolerance and investment goals, you may want to spend some time planning before you invest in managed products. Most managers take risks that are relative to the level of performance they attempt to achieve. It may be logical to assume that a managed futures program producing annual returns of 50% is taking substantially more risk than a managed futures program that produces single digit returns. It is not always the case, which is why it's important to familiarize yourself with a metric called the Sharpe Ratio.

The Sharpe Ratio gauges a managed futures program's risk in relation to its performance. It tells you how much risk the manager is employing to achieve a given return. This ratio can be an enlightening metric when analyzing managed futures programs, and there are several performance analysis companies that provide this information. An investor can use the Sharpe Ratio to more accurately gauge not only the performance of a given managed futures program but also the risks being taken to achieve those results. This can help you determine if a managed account may be a good fit given your personal performance goals and risk aversion. However, the Sharpe Ratio doesn't indicate the full risk of an investment.

#2 All Your Eggs in One Basket

If you are an investor who wishes to allocate all your risk capital to one investment, managed products may not be right for you. Managed products may best

be suited for those seeking diversification among their asset allocations. This means spreading out risk capital into non-correlated or only partially correlated investment vehicles. In stocks (although some would argue this is only one investment vehicle) advisors might recommend asset diversification by allocating a portion of risk capital into different areas such as blue chips, small caps, tech stocks, foreign stocks, etc. In futures, the correlations between contracts can be different as contract prices are derived from underlying physical commodities. For example, corn prices are correlated to cattle prices because corn is used as feed which creates a connection between the two commodities. Coffee prices on the other hand tend to hold little to no connection to cattle prices which means the two markets could be considered non-correlated. The lack of correlation between certain markets, as well as the flexibility that the futures markets offer to managers, allow managed futures to potentially provide investors with the ability to diversify their portfolios by either providing exposure to non-correlated or partially correlated strategies.

#1 Time

The most important reason to not invest in a managed account is a lack of time to properly research and evaluate an investment program. Lack of understanding is never an excuse if your investment does not yield the expected results. There are brokerages that specialize in managed products that can assist you in your research, but you are responsible for your money and how you invest it. If you are not willing to commit the time and energy to research and evaluation, an investment in a managed futures program may not be right for you. If you decide to invest in a managed futures program, make a commitment to yourself to dedicate time to researching, reading the disclosure documents, and ultimately choosing and monitoring your managed account investment.

“The recent volatility of the markets has revealed to investors that there are always vulnerabilities. Things can crash, often when least expected. I believe in this industry, but that doesn't mean that it is the right investing solution for everyone. Taking the time to evaluate investment goals and consider a program is as important today as it has ever been.”

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Disclaimer: Trading in futures and options involves a substantial degree of a risk of loss and is not suitable for all investors. Past performance is not indicative of future results. The risk of loss in futures and options trading is substantial, no matter who is managing your money.

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