An Introduction to Managed Futures

Optimus Trading Group
Understanding The Risk

PLEASE READ THIS CFTC RISK DISCLOSURE BEFORE YOU PROCEED. 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.

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 BY CLICKING THE LINKS PROVIDED UNDER EACH OF THE RESPECTIVE CTAS. 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. ADDITIONAL DISCLOSURE REQUIRED FOR ADMINISTRATIVE FEES: A COMPLETE DISCUSSION OF FEES AND CHARGES ARE REPORTED IN THE CTA'S DISCLOSURE DOCUMENT. SPECIFICALLY, ONE SHOULD RECOGNIZE THAT AN INTRODUCING BROKER MAY CHARGE A FRONT-END START UP FEE OF UP TO 6% OF THE INITIAL CONTRIBUTION. PLEASE NOTE THAT THIS CHARGE IS NOT REFLECTED IN THE PERFORMANCE OF THE COMMODITY TRADING ADVISOR AND COULD HAVE A SIGNIFICANT IMPACT ON THE CUSTOMERS ABILITY TO ACHIEVE SIMILAR RETURNS.

I HAVE READ AND UNDERSTOOD THE STATEMENT ABOVE AND WISH TO PROCEED

Past performance is not necessarily indicative of future results. Trading futures and options involves substantial risk of loss and is not suitable for all investors. An investor could potentially lose more than the initial investment. Investors must read the current disclosure document before they invest.
Introduction

Here at Optimus Trading Group, we believe that every investor should ask themselves, "Is my portfolio designed with the potential to perform well in any type of market condition?" There are only three outcomes that can happen in investing. You can either make money, you can lose money, or you can break even. The same thing is true about the direction in which a market can go. The market can either go up, it can go down, or it can go sideways. Can your portfolio profit if the market goes up, if the market goes down, or even goes sideways? That's the question.

1. Make money
2. Lose money
3. Break even

The research and facts presented in this brochure will support the inclusion of managed futures in an overall investment portfolio. For the suitable investor, managed futures may be a good way to diversify one's portfolio.
Professionally Managed Futures are one of today’s fastest growing investment vehicles.

To illustrate managed futures growth, the assets invested in managed futures from 1980 to the first quarter of 2003 grew to $57.4 billion. However, from the first quarter of 2003 through the second quarter of 2012, the assets invested in managed futures have increased from $57.4 billion to $327 billion! Since 1980 to the second quarter of 2012, managed futures have grown over 760%! According to Barclay Hedge, one of the oldest and most respected providers of alternative investment data, out of the total $1.78 trillion invested in alternative investment strategies, managed futures is now #1 surpassing all other investment strategies based on assets under management. We are going to explore why investors are looking at managed futures as a part of their overall portfolio.

The Growth of the Managed Futures Industry

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<td>2012</td>
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Source: BarclayHedge, Ltd.
The Ability to Potentially Profit in Any Environment

One possible reason investors are turning to managed futures is because managed futures have the ability to offer the opportunity to potentially profit in any economic environment.

**BE ADVISED, HOWEVER THAT TRADING FUTURES AND OPTIONS INVOLVES SUBSTANTIAL RISK OF LOSS AND IS NOT SUITABLE FOR ALL INVESTORS. THERE ARE NO GUARANTEES OF PROFIT NO MATTER WHO IS MANAGING YOUR MONEY.**

Managed futures are traded by **Commodity Trading Advisors (CTA)**. The CTA is given the responsibility to make all trading decisions in the account through a limited power of attorney which may be withdrawn by the investor at any time. With this trading authority, the CTA trades all of their accounts according to a system. Accounts are not typically individually traded with a CTA. All accounts trade according to the same system.

The role of a CTA trader is comparable to that of a stock mutual fund manager. Both are licensed and registered professionals who make investments in their chosen markets on their clients behalf.

Managed futures can be used in several account types including individual, joint, corporate, and partnership accounts. They can also be used in a variety of retirement plans, including IRAs, trusts, and pensions.

**PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADING FUTURES AND OPTIONS INVOLVES SUBSTANTIAL RISK OF LOSS AND IS NOT SUITABLE FOR ALL INVESTORS. AN INVESTOR COULD POTENTIALLY LOSE MORE THAN THE INITIAL INVESTMENT. INVESTORS MUST READ THE CURRENT DISCLOSURE DOCUMENT BEFORE THEY INVEST.**
Comparison Between Mutual Funds & Managed Futures

Mutual funds may offer investors diversification which we believe is very important. But managed futures may also offer diversification. Mutual funds are professionally managed just as managed futures are. As mentioned before, managed futures are professionally managed by CTAs, Commodity Trading Advisors. Mutual funds offer regulated investment vehicles just like managed futures. CTA’s are required to register with the Commodity Futures Trading Commission. CTA's are also required to be members of the National Futures Association also known as the NFA.

Mutual funds and managed futures both have the ability to profit in bullish markets. Now here is where there is an important difference between managed futures and mutual funds. Mutual funds do not have the ability to potentially profit in bear markets. Meaning if the stock market goes down or a stock goes down the mutual fund cannot profit from it. Unlike mutual funds, managed futures do have the ability to potentially profit in both bull and bear markets. Now, CTA's can also employ strategies involving options on futures contracts that allow for profit potential in sideways or neutral markets as well. So as mentioned earlier, there are really only three outcomes of a market. The market can either go up, it can go down, or it can trade sideways. We recommend that your portfolio should have the ability to take advantage of all three outcomes.

Can your portfolio currently take advantage of up, down, or even sideways markets?

As one can see, unlike mutual funds, CTAs have the potential to prosper in rising, falling, or sideways markets!

Bear in mind that the substantial risk of loss exists no matter who is managing your money, and that the potential exists in futures trading to lose more than your initial investment.

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Diversification is one potentially beneficial feature of managed futures, due to the fact that they have almost zero correlation with stocks.

The CME Group, one of the largest futures exchanges in the world has a publication titled: “Managed Futures: Portfolio Diversification Opportunities” which states that including up to 40% of total investments in managed futures, provides the best risk adjusted returns and greater independence from general market moves.

1) Managed futures: DJCS Managed Futures Index;
2) Stocks: S&P 500;
3) Bonds: Citi/World Bond Index;

*Courtesy CME Group: Managed Futures: Portfolio Diversification Opportunities.
**The Efficient Frontier has a flaw in that it considers only volatility when assessing risk when there are other factors to be considered.
In this example, the diversified portfolio reduced the maximum drawdown from -63.6% to -35.9%, and the return also increased over three times from +6.51% to +19.78%. This is mainly due to the lack of correlation and, in some cases, negative correlation between some of the portfolio components in the diversified portfolio. There is even negative correlation between stocks and managed futures as the two markets move independently from each other.
Managed Futures vs. Stocks

How do managed futures compare to stocks when it comes to risk?

One means of comparing risk is to measure the magnitude of the worst cumulative loss in the value of an investment from a peak in performance to the subsequent low. This worst-case, peak-to-valley scenario is called a **drawdown** in the futures industry. Drawdowns are an inevitable part of any investment. However, because managed futures trading advisors can go long or short (and typically adhere to strict stop-loss limits) managed futures may be able to limit their drawdowns more effectively than many other investments.

**PLEASE BE ADVISED, HOWEVER, THAT THE USE OF STOP LOSS OR CONTINGENT ORDERS MAY NOT PROTECT PROFITS, AND MAY NOT LIMIT LOSSES TO THE AMOUNT INTENDED. CERTAIN MARKET CONDITIONS MAKE IT DIFFICULT OR IMPOSSIBLE TO EXECUTE SUCH ORDERS.**

As the chart illustrates, drawdowns for managed futures have been less steep than those for major global equity indices.

Managed futures: CASAM CISDM CTA Equal Weighted; Time scale: 01/1990–03/2012; Source: Bloomberg.

Managed Futures: CASAM CISDM CTA Equal Weighted Index reflects the average return for CTAs reporting to CISDM database. In order to be included in a CISDM CTA Index, a CTA must have at least $500,000 under management and at least a 12-month track record.

Stocks: MSCI World Index includes a collection of stocks of all the developed markets in the world, as defined by MSCI. The index includes securities from 24 countries but excludes stocks from emerging and frontier economies.

Bonds: JPM Hedged USD Index Global Government Bond Index invests primarily in a portfolio of global fixed and floating rate government debt securities.

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Managed Futures and Portfolios:
A PROVOCATIVE STATEMENT

As mentioned before, this may be your first time being introduced to managed futures. However, managed futures have long been employed in connection with diversifying institutional portfolios. One such example includes Harvard University. Jack Meyer, the former chief executive of Harvard's endowment fund, which is one of the largest endowments in the world, regularly included commodity and financial futures-related instruments in their portfolio. In fact, this proponent of Modern Portfolio Theory has placed himself on the record by stating:

"Holding managed futures offers protection against the ups and downs of stocks and bonds; they're the most diversifying asset in the portfolio. The benefits of diversification are indisputable; diversification rules. It's powerful, and our portfolio is a good deal less risky with commodities than with only the S&P 500."

- Jack Meyer
Are Managed Futures Riskier Than Stocks?

You may have already asked yourself this question.

Futures trading has many risks, and we believe that two important issues that can make futures trading risky are a lack of money management and the unprofessional overuse of leverage.

Over-leveraging a futures account can possibly lead to great profit or a very substantial risk of loss. This method of trading is speculative in the extreme and has more in common with high stakes gambling than the traditional idea of investing. Futures, in general, are riskier than stocks due to the great amount of leverage one can utilize in futures trading and the potential for unlimited risk.

We also believe that these two factors can be reduced by utilizing a CTA. As mentioned previously, CTAs are professional money managers who make their living trading the accounts over which they have discretion.

Regardless of the markets they are trading, there are money managers that succeed and fail in any market, be it futures or stocks. Keep in mind that there is a substantial risk of loss no matter who is managing your money.
Academic Studies on Comparing the Risk in Stocks vs. Managed Futures

Thomas Schneeweis, Professor of Finance at the University of Massachusetts, in his 2002 academic study “Benefits of Managed Futures”, challenges the myth of managed futures as investments that are riskier than stocks.

Schneeweis found that:

“Managed Futures are not any more risky than traditional equity investments. 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 investments.”
Academic Studies on Comparing the Risk in Stocks vs. Managed Futures

Professor Schneeweis’s conclusions are strongly supported in an academic study conducted by Professors Gary Gorton and K. Geert Rouwenhorst. The name of the study is “Facts and Fantasies About Commodity Trading”.

The conclusion of the professors’ study states:

“During the past 45 years, commodity futures have had roughly the same return as stocks with less risk, have way outperformed bonds and are a better hedge against inflation than either stocks or bonds.”

Be advised that these studies were conducted in academia and do not necessarily represent actual trading results.

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Tax Benefits of Managed Futures

According to the Tax Act of 1981, short-term profits in futures are treated as 60% long-term (therefore being subject to a maximum tax of 15%), and 40% short-term (normal taxable income). On the other hand, short-term trading profits in stocks (stocks held less than one year) are treated as 100% short-term.

This favorable tax treatment for futures can translate for those in the upper tax brackets, into savings of as much as 30% on taxes on short-term gains in futures versus stocks!*

Alternative investments such as managed futures are not suitable for all investors. We recommend managed futures should only be used with speculative capital.

* Tax rates are subject to change from time to time as set by Federal and State guidelines. We recommend reviewing any tax consideration with a qualified tax professional.

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Can I track the performance of my managed account?

Definitely YES!

You’ll have full access to all trading activity in your account 24/7!

There are three ways you can track your account.

1. **Vision’s Envision Portal:** You will receive a complete accounting of all activity in your account, including the account balance, 24 hours a day.

2. **Call Your Optimus Futures Advisor:** Your Optimus Futures advisor will receive a daily equity run detailing all your open positions, netting all profits and losses, and showing the exact daily balances in your account. Your Optimus Futures advisor, as a registered representative, will be able to guide you through the positions and tell you what the risk and reward benefits are for each position entered.

3. **Purchase & Sale Statement:** A statement will automatically be sent to your chosen mailing address on every single trade. The purchase and sale statement shows the date and price entered, and when you exit the trade, the date, price, net profit or loss on the trade, and your account balance. Furthermore, a summary of all transactions showing their results are sent each month for the entire month’s transactions. Therefore, you will always be provided with a written, detailed report of the transactions and the performance of your account.

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What’s Next?

If you are interested in opening a managed futures account, have questions in regards to opening an account, or wish to inquire further about individual CTAs, please contact your Optimus Futures advisor. We spare no effort in finding Commodity Trading Advisors that we feel offers the potential for good returns while also employing good risk management strategies. We use very specific criteria when recommending Commodity Trading Advisors, including a disciplined investment approach, a positive track record and a strong management team.

CONTACT A REPRESENTATIVE TODAY

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