RCM Alternatives: Whitepaper

Stats, Definitions & Players

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Managed futures can sometimes seem to have a language of its own. Names of organizations, ratios and statistics pop up all over the place, and often without a clear explanation. To bring beginners up to speed and serve as a handy reference guide for anyone in search of a reminder, we've compiled a list of important terms, concepts, and players that make up the managed futures world.

The Stats

As members of the National Futures Association, or NFA, most everything we publish is reviewed by the regulators to ensure compliance with regulation. The goal is to make sure the information we present to the public is fair, accurate and well defined. Along the lines of being well defined, the different performance and risk statistics used throughout our website, newsletters, and blog at times can admittedly be an alphabet soup of different acronyms and funny sounding words (Sortino?).

So how exactly are all of these metrics defined? We're glad you asked.

Compound ROR

The annual rate of return which, if compounded over the number of years in the period analyzed, would yield the cumulative gain or loss achieved during that period. It is essentially the average annual rate of return (on a compounded basis).

Max Drawdown (Max DD)

A drawdown is the worst "pain" experienced by an investor in a specific investment, and it is one of the most valuable measures of risk for a trading system or CTA in our opinion. As an example, an investor starting out with a $100,000 account, who sees it fall down to $80,000 before it runs back up to $110,000 saw a $20,000 loss ($100K – $80K), which would equal a 20% ($20K/$100K) drawdown.

Max Run-Up

The inverse of a max drawdown, a max run-up is the largest percent return between any two points in the history of a program.

Average Month

Simply the average of all the months in the program's history, to give the average monthly return for a program.

% Months Profitable

Has the program made money in 2 out of every 3 months (66%), 2 out of 5 (40%), and so on.. This tells you what percent of months in the track record saw a profitable return.

Sharpe Ratio

Developed by Stanford professor Dr. William Forsyth Sharpe in 1966, this is a risk adjusted return ratio which helps investors measure returns per unit of risk, and therefore compare managers with differing risk and reward profiles on that basis. The Sharpe ratio measures return per unit of risk, with risk defined as the standard deviation of returns. The formula is: Sharpe = (Compound ROR – risk free ROR) / (Standard Deviation of Returns). Attain uses a risk free ROR of 2% in calculating the Sharpe ratio in order to provide a consistent basis for evaluation throughout our research pieces.

Sortino Ratio

The Sortino Ratio was developed by Director of the Pension Research Institute Dr. Frank A. Sortino in 1980, and is a risk adjusted return ratio which helps investors measure returns per unit of risk, and therefore compare managers with differing risk and reward profiles on that basis. The Sortino ratio measures return per unit of risk, with risk defined as the standard deviation of negative returns. It is a modification of the Sharpe ratio but treats risk only as the downside volatility, while the Sharpe ratio penalizes both upside and downside volatility equally. The formula is: Sortino = (Compound ROR – risk free ROR) / (Standard Deviation of Negative Returns).

Sterling Ratio

Developed by Deane Sterling Jones, the Sterling Ratio is a risk adjusted return ratio which helps investors measure returns per unit of risk, and therefore compare managers with differing risk and reward profiles on that basis. The Sterling ratio measures return per unit of risk, with risk defined as the average annual drawdown. Theoretically, a higher Sterling ratio is better because it means that the investment is receiving a higher return relative to risk. The formula is: Sterling = (Compound ROR) / (Avg. Ann DD – 10%).

MAR Ratio

Developed in the early 1990's by Managed Accounts Reports, Inc. (hence, the name), the MAR ratio is a risk adjusted return ratio which helps investors measure returns per unit of risk, and therefore compare managers with differing risk and reward profiles on that basis. The MAR ratio measures return per unit of risk, with risk defined as the maximum drawdown. The formula is: MAR = (Compound ROR) / (Max DD). Don't confuse it with the CALMAR ratio. Though some assume the MAR ratio refers to a shortening of the CALMAR name, there is a key difference. The MAR ratio analyzes data from the inception of the program, whereas the CALMAR ratio only analyzes 36 months of data. We choose to use the MAR ratio because it paints a much broader picture of the program and includes all draw downs. If a program has not had a drawdown in the past 36 months, this will skew the readings of a CALMAR ratio. Think of the Chicago Bulls basketball team in the 36 months before Michael Jordan retired, and the 36 months after, and you can see why limiting your view to just 36 months may not be a great idea.

Average Winning Month

Simply the average of all the winning months in the program's history, to give the average monthly gain for a prorgam. This gives investors a benchmark on which to measure future monthly gains for a program.

Average Losing Month

Simply the average of all the losing months in the program's history, to give the average monthly loss for a prorgam. This gives investors a benchmark on which to measure future monthly losses for a program. Why use all of this data? Unfortunately, there is no magic equation out there that will give you a complete idea of a programs potential returns, risk and past performance, although our flag ranking on our website attempts to do just that by ranking programs across over 25 different metrics. In truth some investors care much more about a certain metric than others do. As such, we take care to provide as much data as possible to anyone who may want to investigate a given CTA or trading system.

The Professionals

In the futures industry, professionals can fall into a wide variety of buckets, but each category serves a unique function in the space. Most of us are familiar with the idea of a stock exchange, like the New York Stock Exchange. The futures industry has their own **futures exchanges,** with some of the largest players in the space being the Chicago Mercantile Exchange (CME) and Intercontinental Exchange (ICE). There are also a wide variety of foreign exchanges out there, trading different (and sometimes similar) markets. The function of the exchanges is similar to what you see on the stocks side of things- the matching of buyers and sellers for products listed at the exchange, or quite simply – the facilitation of trades.

But just as you cannot walk off the street into the New York Stock Exchange and buy some shares of Apple, you have to be working through the proper parties to trade in the futures markets. These parties are called **Futures Commission Merchants, or FCMs.** These agents are essentially vouching for you with the exchanges; they verify your identity, send over the required margin to place a trade, confirm that you have the funds to back up your trading behavior, and keep you informed of your account balances and needed action.

There are two types of FCMs- clearing and non-clearing. A clearing FCM holds a membership with an exchange, and, as such, is responsible for posting the required amount of money to hold any futures positions to the various futures exchanges they have memberships with. However, the cost of maintaining a seat on an exchange and the operational support for the necessary transactions gave birth to non-clearing FCMs. These firms will work with a clearing entity which helps direct the movement of customer cash for trading purposes alone, leaving the remainder of the FCM duties on the non-clearing FCM in question. For context, MFGlobal was a clearing FCM, while PFGBest was a non-clearing FCM that worked with Jeffries as their clearing FCM.

What are the differences between the two? Clearing FCMs are generally a little lower cost, as there's only one entity involved in the clearing process. However, many of these firms will focus on larger investors, while non-clearing FCMs, in our experience, tend to do a better job with client relations. Moreover, non-clearing FCMs have the ability to move their book of business if the clearing party's integrity is somehow compromised. Such moves, however, are rare, with only a few that we can recollect in recent times. Some people like professional traders, commercial hedgers, and large institutional investors may trade enough that an FCM is all they need to conduct their business. Especially since the dawn of electronic trading platforms, more and more investors will simply trade through whichever FCM they've partnered with. That being said, many investors seeking futures markets access will work through another actor- an **Introducing Broker.**

Broadly speaking, an introducing broker is the person or firm most futures market participants have a relationship with. They are the people you call to talk about what Corn might do next week, about which managed futures program is doing well in the current environment, or which electronic trading platform provides the bells and whistles you are looking for. As alluded to, most of these brokers will specialize in specific types of access points, be they retail trading brokers, facilitating the trading of individuals who like to place their own trades either over the phone or via an online platform; hedging transaction brokers for farmers and commodity consumers; or folks like us, who specialize in managed futures recommendations (more on that in a moment). What kind of firm you work with will depend on the type of business you're looking to do.

There are also distinctions to be drawn in broker affiliation. For instance, an **Independent Introducing Broker** has the ability to establish a clearing relationship with any firm they choose, and can move that business as they see fit. In contrast, a **Guaranteed Introducing Broker, or GIB,** is affiliated with one clearing firm alone. They will align themselves with an FCM in order to avoid having to meet certain net capital requirements, relying instead on the capitalization of the FCMs from a compliance perspective. However, should that FCM go down in flames, they're sinking with them. Again, using a broad brush, this is part of the reason we always recommend investors seek out independent brokers. Now, as we pointed out above – not all futures trading is done via a trader placing trades on their own or via their broker. In fact, we don't recommend investors trade futures on their own, at all. Futures trading is complex, and presents the risk of substantial losses, as the NFA likes us to say. In our experience, most people who trade futures on their own end up losing more often than they win. This is why we work in the managed futures space; where we believe that professional money managers can do a better job than a trading amateur when it comes to harnessing the potential value of futures markets. These money managers are called **Commodity Trading Advisors, or CTAs,** even though the press frequently refers to them as Commodity trading funds or commodity hedge funds, or the like.

Essentially, a CTA will trade on behalf of client in identified markets according to a specifically outlined strategy. They may be systematically driven, or trade on a discretionary basis, but the structure of the programs is outlined, along with past performance, in a disclosure document that investors must sign off on before investing. Investors sign a limited power of attorney which gives trading authority in a specific account, and that account only, to the program manager, who then trades on their behalf according to the agreed upon strategy.

Assuming you're operating in the futures markets and not forex (we'll get to that in a second), those investing with a CTA have their money held in a segregated account which has been introduced to a FCM by an Introducing Broker. Assuming said FCM is not PFGBest or MFGlobal and no fraud is taking place, that money cannot be touched, and is the property of the investor. The CTA will trade each clients' individual account, and with that separation of funds comes the ability for daily transparency and liquidity; after all, it is your account which you can view as often as you like and take mo alone.

Now, many CTAs are also registered as a **Commodity Pool Operator, or CPO,** which is similar to a CTA in essentially every way except how the investors access the strategy of the manager. Unlike a CTA where the manager places trades directly in the client's own account, a commodity pool, or Fund run by a CPO, pools together investor money and places trades in a single account owned by the Fund. Because an investors money is invested in the name of the fund, not the name of the investor, this leads to slightly lower levels of liquidity and transparency. The tarde off is that such funds, CPOs, tend to offer lower minimum investment thresholds than are available for individually managed accounts, as they rely on the pooled funds and not individual account balances to trade. You can't trade 1/8 of a contract, but you can get 1/8 of what's needed to trade 1 contract from 8 people in order to trade one contract.

Both CTAs and CPOs require accounts at clearing firms to trade the products of different futures exchanges on behalf of clients, or the fund; while some CTAs will work with introducing brokers to expand their distribution.

The Regulators

You may, on occasion, hear us refer to the NFA or CFTC in our writing, but aside from a jumble of letters, what are these organizations and what do they do? The answer is simple: they work to ensure legal and ethical standards are upheld across the industry.

In 1974, Congress passed the Commodity Futures Trading Commission Act of 1974, which President Ford signed into law. It had become clear, as trading increased in frequency, that there was a need for legal oversight. The passing of the bill overhauled the Commodity Exchange Act and created the Commodity Futures Trading Commission (CFTC or Commission), an independent agency with far more authority over futures trading than its predecessor, the Commodity Exchange Authority.

The bill also allowed for the development of a self-regulatory body for the industry that would complement the actions of the CFTC. In 1976, a group of industry participants, lead by the then Chairman of the CME Leo Melamed, formed the National Futures Association Organizing Committee. The goal was to reflect a large cross section of business and regional interests, because without full cooperation across the industry, the efforts would not be a success. The process was a slow one, but in 1982, Robert K.

Wilmouth, former president of the Chicago Board of Trade, became the NFA's first president. The rest, as they say, is history. The NFA became a self-regulating body operating under the authority of the CFTC. What are the differences? The answer, it turns out, was not exactly easy to track down. Red tape, hesitance to provide direct answers and the complicated legal system being navigated provided a great deal of fog and confusion in our research. After calling representatives from both bodies and a lawyer specializing in futures investing, as well as doing additional research, the short version is this: the CFTC writes the rules and enforces them for non-NFA members, and the NFA enforces the rules for its members unless the infraction is a large one.

Essentially, the NFA has a long list of compliance rules which members must abide by. Included in these rules are all of the CFTC regulations, while others are derived from the industry in order to uphold the highest levels of integrity among members. As the NFA website explains, "With certain exceptions, all persons and organizations that intend to do business as futures professionals must register under the Commodity Exchange Act."

The NFA will then conduct audits of its members and generally monitor their behavior. If they find something out of line, they will issue a reprimand that can range from a letter of warning to expulsion from the organization and hundreds of thousands of dollars in fines.

When does the CFTC step up to the plate? Legally, they could theoretically get involved in any case alleging an infraction of their regulations, but in practice, they usually only get involved in the punitive process if the offender is not an NFA member (meaning the NFA has no jurisdiction), or if the violation was severe. While it is theoretically possible that someone could be punished by the CFTC and NFA, it doesn't often happen that way.

Why are these bodies important? To protect investors. The goal of these bodies is to ensure that investors are being given accurate, balanced information about their options, and not being defrauded. The NFA, in particular, provides a useful tool to investors (click here), whereby you can enter the name of the broker, firm, or CTA you are dealing with/thinking of investing with; and find out if they are indeed registered, how long they have been registered, where they have been in the past, and any complaints or infractions they have suffered.

The Money

Notional Funding

For the average investor, managed futures investments may seem like a pipe dream. The idea of $1 million as a minimum investment can be off-putting for some. Even the more seasoned investor may cringe at the idea of tying up $1 million as a diversification play. What these investors may not realize is that that price tag can often be deceiving.

You see, with managed futures – even if the investment minimum on the program you are interested in is $1 Million - you're not expected to write a check for a cool million on the spot. You can put up just a portion of that amount, put up the equivalent in Euros, Aussie Dollars, or Gold – or even transfer stock positions to fund a managed futures account. You have options when it comes to funding your managed futures investment, which is a big part of their growing popularity in our opinion.

To understand how these different methods of funding a managed futures account work – it helps to step back a minute and consider just how managed futures programs arrive at their 'minimum investment' levels. When you make a managed futures investment, you typically have to meet a minimum investment specified by the program in which you're investing.

These minimum investment amounts are not set by the exchange, your broker, or government regulations. They are set by the manager of the program, and involve a lot more than just the technical amount needed to trade futures per their program. Most managers come up with a minimum investment amount by adding three distinct levels of funding together:

1. The technical minimum amount needed to actually place the trades on the exchanges

2. The amount of future drawdown the manager believes will be seen

3. The amount to make the percentage returns fit into generally accepted levels

Technical Amount

The first part of the minimum investment amount - the amount technically needed to place trades - is what the exchanges and clearing firms refer to as the margin requirement. Any account which wishes to trade a futures contract on a regulated futures exchange like the Chicago Mercantile Exchange must first have enough money in the account to cover the performance bond requirement of the exchange (the margin).

This insures that the exchange can make the trader who takes the other side of the trade good should the trade go against the account. Margins can sort of be thought of as the amount of money which could be lost on that position in a single day - and the exchanges and clearing firms make sure each account has that much money - or else the whole system doesn't work. If this wasn't in place, where would a winner get her winnings from - the loser could disappear.

Perceived Drawdown Amount

The second part of the minimum investment amount is the amount the manager believes an investor needs to withstand any eventual drawdown. Of course, this is just a belief and there is no guarantee future drawdowns will not exceed this level. If the investment has the possibility of losing $150,000, for example, in the normal course of operation - than an investor better have at least that amount in order to proceed. If they didn't, they would have to get out of the investment during the normal ups and downs of the investment. Think of it like a tank of gas. If you're driving 100 miles and need 5 gallons of gas to get there - you better have at least 5 gallons of gas in the car - or else you'll never get there.

Window Dressing Amount

The third part of the minimum investment amount - the amount needed to make the percentages appealing to potential investors, or "window dressing" amount - is simply a subjective amount the advisor computes in order for the average returns and risk of his or her program to come out "nicely," for lack of a better term. Imagine an advisor with average annual returns of $100,000 and drawdowns of $50,000. If that advisor sets his minimum at $100,000 - the average annual return in percentage terms is 100% with a 50% drawdown; while if the advisor sets his minimum at $1,000,000 - the average annual return in percentage terms is 10% with a 5% drawdown. While the returns in dollars are exactly the same, the advisor may want to use the $1 Million minimum amount because he finds the 5% drawdown number catches people's attention more.

The difference between the desired minimum and the minimums needed for margin and drawdown is the window dressing amount. The window dressing is where things get interesting.

So How Does it Work?

A notional fund, or notional funding, is in its simplest terms, the ability to use "imaginary money" to fund an investment in a CTA program or trading system investment. Whether there was some legal issue way back when, or whether the term "imaginary money" didn't sit well with most people, we have no idea. The term "notional funds" is commonly used in its place to describe this practice.

What do we mean by imaginary money? Basically, it means that you give a manager a set amount of funds, but instruct him to trade as though you'd given him more. For example, you say - trade my $250,000 as if it were $1 Million. It all goes back to the funding levels we just described.

If we look at a fictional program as an example, those levels would likely look something like the following:

Technical Amount (Margin) $150,000

Perceived Drawdown Amount $250,000

Window Dressing Amount $600,000

Total (Minimum Investment) $1,000,000

So, getting back to how you use an imaginary, notional balance when investing in a CTA program - the answer lies in this"window dressing" amount defined above. It should be clear that an investor actually needs both the 'technical amount' for margins and 'drawdown amount' to stay alive, and that if that amount is truly there for little more than window dressing, we don't necessarily need it as an investor if we can realize and handle the larger percentage gains and losses.

Sophisticated investors who can handle having 3 to 4 times the percentage gains and losses ask what the margin to equity ratio is (a ratio of the technical margin requirement to minimum required capital) to back out the technical amount needed, than look at the worst max DD to come up with the bare bones minimum they need to invest in a program. The advisors also provide this number, however, in their D-Docs, defining what notional levels they will accept. Notional levels of funding usually range from 25% to 75% (meaning you only have to put up $250K to $750k on average to fund a $1 Million managed futures investment).

Now come the fun part. The cost of doing this is zero (although we have heard of some fund platforms charging a fee to use notional funding – shame on them). There is no interest rate charged on the notional amount like you have in the stock market when buying shares on margin or when buying a house with less money down. One "cost" is that the fees charged by the manager are on the notional amount, not the cash balance in the account. So if the program you're participating in has a 2% management fee, that will balloon to an 8% annual fee if funding at just 25%. Likewise, commissions will have a much bigger impact on the account in percentage terms. The last negatives to consider are the mental anguish you may go through seeing percentage drawdowns 4 times those that are reported (but you're still losing the same amount of dollars) and the nervousness you may encounter when/if the a drawdown takes the account down to within a few hundred dollars of a margin call. For further clarification, you can check out our past newsletter on the subject here.

[Disclaimer: Notional Funding involves the use of leverage, the use of which can substantially increase the risk of loss]

Collateral Types

Even with this notional funding, you don't get something for nothing. You still have to meet the technical and drawdown minimums, but even there, funding is flexible with the variety of collateral options you have. Sure, there's always traditional cash, but there are other ways to fund a managed futures account as well.

Treasury Bills

The more common form of non-cash collateral used in managed futures accounts are US Treasury Bills.

We've covered this in past newsletters, but feel it bears repeating. Treasury bills, or T-bills, are short term government debt obligations, more commonly referred to as bonds. The government issues them every week to cover short term shortages in their cash flow, following the scary logic of you can always pay it back later. Investors lend the government the money for 1 to 6 months, and the government pays the investors back what they lent them, plus interest when the time is up.

The bills are sold at a discount from their face value, meaning you might pay $49,000 for a 180 day, $50,000 T-Bill on January 1st. In 180 days, or roughly six months later on July 1st - the bill matures and you would be paid the full $50,000. The $1,000 difference between the purchase price and face value is the interest you earned.

Some of you might be saying – "So what? I can buy T-Bills in my normal investment account. Why tie up money buying them in my managed futures account?" The answer? T-Bills can be used as margin.

So you don't need to have $100,000 to cover the margin for your investment in a CTA or trading system; and another $100,000 to put into T-Bills. You can use the same $100,000 to both buy T-Bills and cover margin for your investment in a futures program.

That's right, the T-Bill does double duty – with the clearing firm posting the T-Bill to the exchange on your behalf to cover margin and you earning the interest on it while it sits with the exchange. The clearing firms do build in a little buffer for themselves as a risk precaution, and only allow around 90% of the T-Bill's face value to be used as margin, but that's plenty enough for most investors' purposes. One last note on T-Bills – make sure you hold them in a cash account related to any managed accounts you have. If you hold them in the account managed by the CTA, the CTA will be treating the T-Bill interest as part of their profits, and taking their customary 20% of those profits. Better to keep 100% of that interest. Although one problem with holding T-Bills in your managed account these days - they are only paying a rate of about 0.10% - or just $100 per year on $100,000 currently. You can thank Bernanke for that one…

Foreign Currencies

How do you invest in top rated US Dollar based managed futures programs without taking on the US Dollar risk, which would result in lower performance in Euro terms should the dollar keep falling? The secret is to never convert your Euros (or Pounds, or Aussie Dollars, and so on).

Another option for funding your managed futures investment with individual accounts is the use of foreign currencies. In today's economic climate especially, where more and more investors appear to be concerned with the potential for a sharp decline in the value of the US dollar, the ability to fund and keep an account in any of the major currencies is quite attractive.

That's right, your trading account can be held in Euros, Swiss francs, British Pounds, Canadian Dollars, Australian Dollars, and more. Really any of the major currencies. Your entire initial investment can remain in the currency of your choice, with only profits and losses from the trading of the account in US Dollars (assuming they are US exchange traded markets). But – even those profits or losses made through trading don't have to stay in US Dollars, they can be automatically converted for you, or we can convert them at any time per your instructions. This, of course, opens up the possibility for access to top rated US Dollar based managers without being subject to the falling US Dollar risk or having to implement complicated hedging strategies.

One item worth mentioning around holding your account balance in a foreign currency is that you can not purchased T-Bills without first converting your currency to US Dollars, and that the foreign equivalent of T-Bills for the currency you are holding is not available unless the account is over $2 Million (the clearing firm's rules, not ours..)

Warehouse Receipt Funding

There are plenty of people out there eager to get away from the "fiat currency" system. While we don't anticipate a bartering system to replace the dollar anytime soon, a proxy of sorts for such kinds of exchanges exists in individual managed futures accounts, whereby you can use warehouse receipts for commodities as a form of funding.

To understand how this works, we'll look at gold, in particular. Gold played a central role in the commodity run up earlier this year, prompting many to consider gold as worthy, value-retaining investment.

A futures contract gives the buyer a right to the specified amount of commodity (in this case 100 ounces of Gold) at the agreed upon purchase price.

It is a contract to buy that much gold at that price at a point in the future. If buying the current July Gold futures for around $1500 per ounce, the buyer of that contract is agreeing to lay out $150,000 on June 27th (the expiration date) in exchange for 100 ounces of Gold. But what happens once you get delivered on? Will a truck with 100 ounces of Gold show up at your front door? That can happen. You can arrange for delivery of the actual gold and put it in a safe, under your mattress, or in a safety deposit box.

But the more normal course of action is to allow the clearing firm to book those 100 ounces of Gold in your name at a warehouse, getting you something called a warehouse receipt. From there, you can keep it at the warehouse, paying up to about $50 per month for storage (which works out to about 0.60% per year, or slightly above the ETF costs). But here's the cool part, and something which is unique to a futures account. While you are getting gold exposure through owning actual gold sitting in a warehouse, that same gold can be used to margin other futures positions. It is in effect the same as having a Treasury bill in your account. Herein lies the rub. While, theoretically, this kind of funding mechanism could be used with any commodity out there which settles for physical delivery (and wouldn't spoil/rot in storage), conversations with current FCMs indicates that they are only willing to accept gold and silver at the moment.

Stock Holdings Funding

If you're someone who has a fair amount of their capital tied up in the stock market, this may be a good option for you. Much like you can use treasury bills or warehouse receipts to fund your account, you can also use your stock portfolios.

For example, let's say you've got 10,000 shares of IBM stock. You can transfer these stocks into your managed futures account to act as collateral. The clearing firms frown upon actively trading the stock while it's in the account; but have no problems with it acting as collateral. This option can be beneficial for what a good client of ours calls, "financial furniture"- meaning stock that has been in the family for decades that they don't want to sell. Fair warning on this option – one, we're only talking highly liquid blue chip stocks here, the choice of which is made by the CME and clearing firms; and two, you should not expect to keep the full value of the stock for use as collateral. At the end of the day, expect a 50-80% haircut. For example, let's say your stock is worth $100k. Depending on which stock you hold, that may only be worth $50k - $75k in collateral. Still, for those who are torn between having to sell stock to fund a managed futures investment and not doing the managed futures investment – here is an opportunity to have both without being forced to sell at unattractive levels (or because it is financial furniture).

Conclusion

An important risk aspect to remember while looking at these funding options is that while they provide flexibility, it is functionally a way of leveraging up your personal balance sheet. And – disclaimer – leverage can substantially increase the risk of loss. You are essentially doubling down on your current investments, and that leverage can work either for or against you – magnifying either gains or losses. For example, if you're putting up IBM stock holdings as collateral to trade a managed futures program, you're theoretically "long" both the IBM stock and "long" your managed futures program – with the same money. There's more than one way to skin a cat, and there's more than one way to fund a managed futures account. Managed futures does involve substantial risk, so it's not for everyone, but it is more accessible than the price tag often suggests. Whether via "imaginary money," gold bars or the GE stock your Great-Grandpa bought, where there's a will, there's a way to get in the managed futures world.

Disclaimer

The information contained in this report is intended for informational purposes only. While the information and statistics given are believed to be complete and accurate, we cannot guarantee their completeness or accuracy. RCM Alternatives has not verified the completeness or accuracy of any of the information and statistics provided by third parties.

As past performance does not guarantee future results, these results may have no bearing on, and may not be indicative of, any individual returns realized through participation in this or any other investment. The risk of loss in trading commodity futures, whether on one's own or through a managed account, can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market. Any specific investment or investment service contained or referred to in this report may not be suitable for all investors. You should not rely on any of the information as a substitute for the exercise of your own skill and judgment in making such a decision on the appropriateness of such investments. Finally, the ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor performance.

We recommend investors visit the Commodity Futures Trading Commission ("CFTC") website at the following address before trading: http://www.cftc.gov/cftc/cftcbeforetrade.htm

Managed futures accounts can subject to substantial charges for management and advisory fees. The numbers within this website include all such fees, but it may be necessary for those accounts that are subject to these charges to make substantial trading profits in the future to avoid depletion or exhaustion of their assets.

Investors interested in investing with a managed futures program (excepting those programs which are offered exclusively to qualified eligible persons as that term is defined by CFTC regulation 4.7) will be required to receive and sign off on a disclosure document in compliance with certain CFTC rules The disclosure document contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA, as well as the composite performance of accounts under the CTA's management over at least the most recent five years. Investors interested in investing in any of the programs on this website are urged to carefully read these disclosure documents, including, but not limited to the performance information, before investing in any such programs.

Those investors who are qualified eligible persons, as that term is defined by CFTC regulation 4.7, and interested in investing in a program exempt from having to provide a disclosure document, are considered by the regulations to be sophisticated enough to understand the risks and be able to interpret the accuracy and completeness of any performance information on their own.

RCM Alternatives ("RCM") receives a portion of the commodity brokerage commissions you pay in connection with your futures trading and/or a portion of the interest income (if any) earned on an account's assets. CTAs may also pay RCM a portion of the fees they receive from accounts introduced to them by RCM.

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RCM Alternatives

WHAT WE DO

We build great Managed Futures portfolios with clients looking to access the managed futures space in a meaningful way. That's been our specialty for more than a decade, with our experienced team up to the challenge of finding unique managers to fit unique needs.

For Investors

Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.

Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.

Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any add-on, portfolio-level fees for our services.

Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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