RCM Alternatives:
Whitepaper

Ag Traders

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With the majority of U.S. farmland located hundreds to thousands of miles away from Wall Street, it is easy to see how the sheer size of the agriculture sector and its impact on the U.S. economy gets overlooked when discussing the American financial machine. Likewise, most discussions related to managed futures revolve around the systematic trend following CTAs, and rarely their lesser known cousins – Agriculture-focused Commodity Trading Advisors, or as we refer to them in our office, Ag Traders.

Just what is an Ag Trader? They focus on the markets there at the very beginning of futures trading; markets like Corn, Wheat, Soybeans, Soybean Oil, Hogs, and Cattle. Let the Wintons and Transtrends of the world have their fancy algorithms crunching data on financial futures – Ag Traders want to drive to a farm and stick their hand in the dirt to see what the crop is likely to do.

Now, Ag traders have long held a smaller role in the managed futures portfolio, usually being too small in terms of capacity and staff; and too loose in how and why certain trades are put on to be attractive to large institutional investors. But the 2012 grain-rallying drought in the U.S. following a similar one in Russia in 2010, and the resulting good performance of Ag Traders during those times (while traditional managed futures programs have mostly struggled) has put the light squarely on these frequently overlooked options. With that enhanced attention has come a slew of inquiries, and we decided it was probably time to take a much deeper look at the Ag Trading strategy within managed futures, breaking down what they look like, what they do, and why you might want to consider an allocation in your current portfolio.

"They're just a different breed of trader."

The Programs

While the common theme that binds systematic trend followers together is how they trade the markets, the thing which bonds the Ag Trader space together is which markets they trade. As the strategy category name suggests, the programs primarily trade agricultural markets, which is a category comprised primarily of grains and livestock futures. These markets found their roots at the Chicago Board of Trade in the mid 1800's.

And wouldn't you know it? Many of the managers in the Ag Trading space are former CBOT traders who took their skills off the floor when things started to go electronic.

The manager bios in the systematic space tend to read alike: prestigious schools, programming, science, math, engineering and so forth. The same cannot be said of agricultural managers; they're just a different breed of trader. Many of them come from backgrounds in farming or raw commodities trading.

For instance, Jim Green of Rosetta Capital grew up on the family farm, giving him hands-on experience on how certain changes and movements in weather, supply, and demand can impact market movements. Randall Cleland of Tanyard Creek was heavily involved in forecasting meat markets for consumer brands like Sara Lee. Chris Myers of M6 Capital was born and raised on a Catfish farm in Mississippi, along with a family-owned hatchery, feed mill, processing plants and rails for transport.

Typically, the programs will have one, maybe two, people at the top who direct the trading, with a somewhat unconventional support staff. For example, where most managed futures programs are looking to hire PhDs or computer programmers, Rosetta employs a weather analyst.

And while traditional managed futures programs may base their trading on mathematical equations alone, Ag traders often turn to a network of farming co-ops, grain elevators and shipping companies in the U.S. and China for the inside scoop on supply and demand movements. This type of knowledge, and the network it takes to gain it, can't be bought in hallowed Ivy League halls.

The bulk of these programs are discretionary in nature, meaning the trading is ultimately at the discretion of those in charge of trading. They'll use a variety of forms of analysis and data to guide the trading, but rely primarily on fundamental analysis to pick the market direction (if any). That fundamental analysis analyzes the market conditions affecting the supply and demand (such as weather, crop yields, etc), and places trades accordingly – thinking in a way…there is either enough crop to meet consumer demand or there isn't, with prices fluctuating accordingly.

"This type of knowledge can't be bought."

The drought of 2012 is a great example of Mother Nature wreaking havoc on commodity markets with grain prices sky rocketing higher throughout the summer due to damaged crops affecting projected supplies. A benign growing season, on the other hand, can cause oversupply, driving prices down. Fundamental analysis is the study of all of the factors weighing on both the supply and demand side (weather, population, feed patterns, exports, imports, and more).

While the traders playing the game in the 1800's only had to worry about the crops in their own backyard, today is a much more global game. The U.S. is the world's largest grains producer, but the rest of the world is hungry and eager to increase production. Grain prices are now very much impacted by growing conditions in other nations, such as the Soybean crop in Brazil or the wheat crop in Russia. Which means a successful Ag trader needs to have his ear to the ground analyzing imports and exports from around the world.

What does the trading look like? The most straightforward trade you'll see from an Ag trader is an outright long or short futures position which speculate as to whether markets will be moving higher or lower in the future. But things are evolving in the space, and trades have become more sophisticated. Today's toolbox includes options, calendar spreads (long July wheat, Short December wheat for example) or the old crop/new crop spread - a means of following the planting cycle for various markets.

Overall, these programs are difficult to summarize in a single sentence. You can't put a value on the experience and specialized world view necessary to create a solid agricultural managed futures program. It's not just anyone who can look at a Brazilian crop report and estimate how it's going to impact the U.S. futures markets today and three months down the road. That's insight you can't program, which is part of the reason that evaluation of discretionary traders, like those found in agricultural programs, can be so difficult. While we may not be able to identify a unifying element in trading strategies, there are two unique components that apply to the programs in this category - market exposure and performance

THE MARKETS

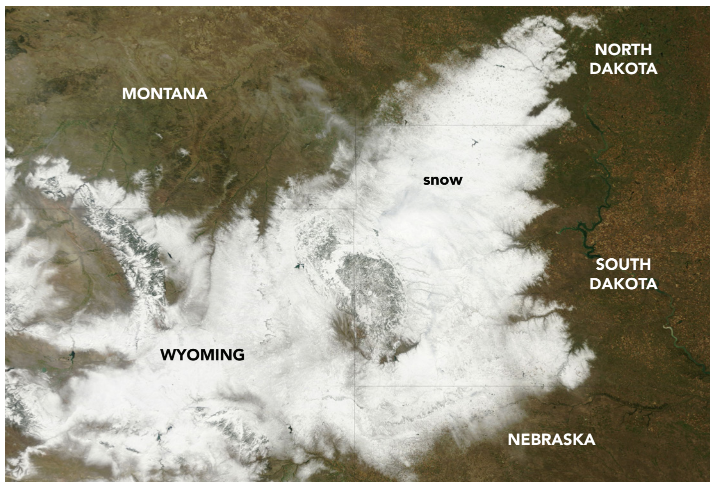
From a market exposure perspective, in an era of booming populations with greater and greater demand for food, the commodity trade of grains has increased in significance. According to the USDA the net value-added to the U.S. Economy by the agricultural sector via the production of goods and services will total an estimated $145 billion in 2012 including Gross Farm income of $425.5 billion and production expenses of $333.8 billion. It can sometimes be hard to wrap your mind

around markets based on intangibles, like interest rate futures, but these are every day products that you and your family interact with regularly, like cattle, corn, eggs, hogs, soybeans, and wheat. A drought in Russia causing wheat stocks to run low, or flooding in Iowa damaging Corn crops are what causes the non correlation of commodity markets to traditional investments in stocks and bonds.

Consider the unusually early blizzard in October of 2013 in Wyoming and South Dakota that dropped more than three feet of snow, killing tens of thousands of cattle which hadn't grown their thicker winter coats yet.

Things like a freak blizzard (fig.1) causing an up trend in cattle prices simply aren't part of the stock market world. Prices aren't rising because of a good consumer confidence number, earnings report, or interest rate decision. Prices are rising because there are 30,000 less cattle in the world (economics 101 = supply down, price up). In more sophisticated vernacular – the two markets have different price drivers, and the price driver for the cattle is about as far away from the price drivers for the stock market as you can get. This is the kind of exposure most investors salivate over these days, but they have

Fig. 1 Blizzard October 2013 - Wyoming/South Dakota



been, as the song goes, "looking for love in all the wrong places." With the dawn of commodity ETFs, agricultural ETFs, like Corn (CORN) or Wheat (WEAT), have seen massive influxes of assets. This has been particularly true in recent months. With a record drought wreaking havoc on crops across the U.S., prices have been upward bound, attracting even more attention to an already attractive investing space.

Here's the problem - long only commodity ETFs consistently underperform even a simple strategy of buying the December futures contract and rolling it annually. When compared with the performance of active trading of Corn and Wheat by professional managers – it is, in our opinion, no contest

Fig. 2 Investments

Investment	Return
Ag Traders	3.17%
Soybeans (SOYB)	-9.15%
Commodities (DBC)	-28.07%
Corn (CORN)	-12.88%
Wheat (WHEAT)	-13.65%

AG Traders = Barclayhedge Ag Trader Index
ETF =, Corn (CORN), Wheat (WHEAT), Soybean (SOYB), DBC (Commodity Index)(Disclaimer: past performance is not necessarily indicative of future results).

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and that's what you pay these managers for. They are the ones with connections to vast networks of farmers, producers, policy analysts and more - not you. They are the ones who can describe, in detail, the differences in crop cycles by region, plant and more - also, probably, not you. This is why agricultural managed futures programs have become increasingly popular - they give investors concentrated exposure to an ever expanding chunk of the global markets in a way that diversified trend followers cannot accomplish, in a far more efficient manner (both on the long and short side) than available retail options.

THE PERFORMANCE

As much as market exposure distinguishes these programs from the rest of the managed futures world and the ETF options available, their performance makes them stand out in a crowd just as much.

To the right is the BarclayHedge Ag Trader Index, which is comprised of programs that report to the BarclayHedge managed futures database and categorize themselves as Agricultural Traders. That being said, you don't invest in an index in this space - you invest in a program. So, in our opinion, looking at individual programs - programs we would consider investing with or already have - provides a better idea of what options are out there for a discerning investors.

The performance of these programs can be enough to take your breath away in some instances, and in others the impressive highs can be matched by equally as impressive lows. Even so, it's not any single component of performance that strikes us as most important, but the overall pictures that paints the argument for inclusion of an agricultural program in your managed futures portfolio.

INVESTING

So let's assume you're interested. You like the types of managers available, you want that concentrated market exposure, and the performance profile sits right with you. What do you need to know about these programs before investing?

First, think about how an allocation would interact with the rest of your portfolio. Generally speaking, we recommend looking at the overall performance of the programs in question, their management. correlation to your current managed futures holdings. In our opinion, allocations to agricultural traders should be between 10 and 40% of your overall managed futures exposure. Many of these programs have, historically, had lower minimum investments - floating in the $50 to $100k range, and giving investors the ability to more comfortably diversify. However, as demand for access has gone up, so have the minimums (more like $250k to $500k now), making it a little more expensive than it used to be to get that diversification on the cheap.

Second, know what you're looking for. As is the case with any discretionary trader, a robust risk management infrastructure is the key to identifying investable options. Discretionary traders are the hardest to understand from a due diligence perspective, as we won't know exactly why a trader decided to put a position on; they basically have free rein. Therefore, it is absolutely necessary that a trader have sound risk management principles and capital protection strategies in play. They will be wrong, and you need to know what that looks like and how big of a hit it could mean for the program.

But beyond that initial selection, you have to know that the ongoing due diligence is what is most important in some ways. With a discretionary trader, style drift becomes much more significant, and the only way to identify that is to watch the trading daily. That's not easy - and that's where working with a team like Attain

Fig. 3 Barclay Agricultural Traders Index

Disclaimer: Past performance is not necessarily indicative of future results. Indices are imperfect proxies representing groups of assets, may be subject to survivorship and selection biases, and are not inclusive of all investment options within a given space.

> **"These are hands-in-the-dirt managers."**

comes in handy. The clients we talk to invested in Ag Traders like the simplicity of the strategy. They like actually knowing the markets that are being traded for their account (Corn and Wheat are a lot easier to understand than New Zealand Bank Bills and Spanish Ibex futures). They like that these are hands-in-the-dirt managers who aren't just relying on a computer algorithm. And they like the ability of the managers to participate in big runs in commodities, while not having the long-only commodity index problems when a pull-back in prices happens. At the end of the day, they find it easier to trust a guy who's actually worked in the fields he's trading than a slick trader in an expensive suit. Can you blame them?

CTA SPOTLIGHT: ROSETTA CAPITAL

Assets Under Management -$62 Million
Founded-1997
Location - Chicago, IL
Minimum Investment - $250,000 (QEP Only)

Ag traders are the original speculators who provided liquidity to farmers and other hedgers by taking the other side of their trades; and in order to be successful the trader had to know the market inside and out, perhaps even better than the farmer did. These types of traders pore over weather reports, soil samples, crop estimates, commitment of trader reports, and import news out of China and Japan; all of which can be programmed these days. But then they do something computers don't quite do yet – they see how they feel about all of that data and where it may send prices over the next day/week/month. Do they trust the USDA report? Do they believe the weather will really be that bad? Do they think this time will be the same as past markets or different?

Anyone can be a fundamental trader and base trade decisions on the supply and demand picture outlined by the fundamentals (weather, crop conditions, demand, the US Dollar, etc.), but, in our experience, it is much, much more difficult to find the fundamental trader who can feel, believe, and think correctly on a consistent basis. We believe Jim Green of Rosetta Capital Management is one of those special fundamental traders, who not only has the know-how of how all the pieces fit together, but also the instincts for knowing when to trust the data and when not to.

THE MANAGER

The manager of the Rosetta Capital program is Jim Green, a 30-year industry veteran with a background in the futures markets as well as the physical commodities themselves. Mr. Green gained farming experience early in his life, growing up on a farm in Henderson County in Western Illinois before starting in the commodities business with Heinold Commodities in 1979.

Those that are familiar with Rosetta will know that Mr. Green's longtime business partner, Mike Swinford, passed away in 2011, which we discussed in a in memoriam blog post. While this loss was definitely tough on Rosetta and the rest of Mr. Swinford's friends and family, Mr. Green has been able to pick up the pieces and keep the "business as usual" mindset at Rosetta.

Mr. Green is also grateful that Mr. Swinford's weather analyst has remained on board and is still part of the Rosetta trading team. According to Jim, fundamental traders are only as good as their weathermen, and he believes he has some of the best in the business working alongside him each day.

THE PROGRAM

Rosetta Capital is an old school fundamental (80%) trader that mixes in a little technical analysis (20%) for good measure. Unlike the machines that respond to each tick across hundreds of different markets, Rosetta takes a long-term macro view of a specific market sector - the agricultural market. His program attempts to take advantage of trading opportunities which may or may not be seen by the computers in markets like Corn, Soybeans, Cattle, and Hogs. Mr. Green and his team use fundamental factors like weather reports, USDA crop reports, demand metrics, cash prices, commitment of trader reports, prices further out on the curve, and more to identify what they call a 'theme' in the markets, and then formulate a plan to take advantage of that theme.

For example, they may read the fundamental factors as signaling a bullish theme, and look for the best risk considered opportunity to profit from that bullish theme (which more often than not is NOT simply getting long that day). In short, once the theme is in place, they then determine the best way to enter the trade. Should the position be entered via futures or options? Are customers better off having an outright futures position or does a spread trade make sense? This is another benefit of being a discretionary trader. There are no defined rules set by back testing to adhere to, and Mr. Green is free to do what seems best. A lot of time and effort goes into planning the trade and waiting for the right opportunity to arrive. This is the most frustrating part for Mr. Green and his customers, as he can be forced to sit on the sidelines and wait for the market to come to him. For example, this summer the grains have not provided much opportunity to trade due to irregularities in the USDA crop reports. So, while Mr. Green felt that grains should be moving lower, he was forced to the sidelines due to the volatility brought about by some USDA estimate revisions. Likewise, Mr. Green also feels that cattle will be moving lower by the end of the year; however, he is waiting for the market to retrace before getting involved.

"All of this manual consideration for a trade may seem like something out of the 1950s."

All of this manual consideration for a trade may seem like something out of the 1950s given how automated the trading world has become, and in a bow to the modern world, Rosetta does use technical indicators (think oscillators, moving averages, and support / resistance levels) to double check their thought process and make sure the technical analysis is lining up with the fundamentals. In order for a trade to be put on, it is necessary that the technical indicators match the fundamentals. But this is still a manual process in terms of analyzing the indicators and deciding what that analysis means, however. As Mr. Green says, "He doesn't want to get run over by a technical freight train," and is very aware that his competitors are trading based off what the chart says. In other words, if a market breaks its 100-day moving average, don't expect to see Rosetta on the other side of the trade – they are more likely to wait for the technical traders to get out of the way and enter at a later time. All in all, the program works by indentifying the pieces to the agriculture price puzzle, and then seeing how those pieces go together. The trick is that the pieces are always changing, as is how they go together. Knowing what the pieces are, not to mention how they fit, takes years of experience in farming and the agriculture markets, and therefore one of the biggest components to the Rosetta program is the brain of Jim Green, and how all of these pieces to the puzzle are analyzed.

Typically, Rosetta tries to keep margin-to-equity at 10%, but this number can be a little deceiving due to the high number of spread trades (which require less margin but can be just as volatile – as even Mr. Green will admit that spread trades are more risky than they seem on paper). Max drawdown is a potential red flag at -39.67%.

RCM COMMENTS

The Rosetta Trading Program is a unique trading program that provides clients with exposure that is nearly impossible, in our experience, to replicate with a systematic trend following and/or spread trading program. With a correlation of 0.030 to the Barclay CTA Index and 0.008 to the S&P 500, the numbers speak for themselves as to why Rosetta Trading Program is a good fit in many managed futures portfolios. Of course, there are risks involved with any investment decision, and the same goes for Rosetta. First, there is a significant amount of key man risk now that Mr. Green is on his own managing the trading. While we have complete faith that Mr. Green is comfortable at the wheel on a full-time basis, even the most dedicated individuals need a break every now and then to recharge the batteries. This is why we are glad to hear that another trader will be coming on board soon to help lessen the burden on Jim.

Another important consideration when evaluating Rosetta is that results posted early on in their track record (2000 – 2004) might not reflect the reality of the trading today. There are some astronomical numbers early on (Past Performance is Not Indicative of Future Results) and Mr. Green will admit to being a more aggressive trader while he was growing his customer base and trying to attract assets.

From a risk perspective, this is good news, as less aggressive usually means smaller drawdowns; however, it does make the compound rate of return skewed higher than it is likely to be moving forward thanks to the large monthly returns early on. Mr. Green does say that the program could put together similar returns to those posted in from '00 through '04 given the right set of market conditions, but we recommend ignoring those early returns and reviewing the program from 2004 onwards to see if it is still a fit for you.

In regards to volatility and market exposure, Mr. Green credits his years of experience to know when it is best to stand aside and wait out the volatility storm. Like other long volatility strategies, Rosetta typically benefits when volatility is increasing in the marketplace. However, there can be too much of a good thing, and Mr. Green believes when the market becomes very irrational is when it is time to stand aside. He points to gold and silver as an example of two markets that he is avoiding right now. This can lead to some frustrating flat periods for the program, but such is life with Rosetta. Rosetta isn't perfect in giving managed futures exposure, but at the same time gives exposure to nontraditional markets like Corn, Soybeans, and Hogs for a reasonable price.

Overall, we have been impressed with the performance of the Rosetta Trading Program since we first added it to our recommended list several years ago. With 10 years of trading under its belt, the program has held up remarkably well across a wide variety of market conditions, when plenty of discretionary traders and agriculture specialists have come and gone since Mr. Green got his start in 2001. The loss of Mr. Swinford is a big one and something that we'll be keeping an eye on for the foreseeable future, but that said, we are comfortable that Rosetta is in good hands and will continue to list the program as recommended.

CTA SPOTLIGHT: M6 Capital

Assets Under Management - $66.96 Million
Founded - 2005
Location - Memphis, TN
Minimum Investment - $300,000 (QEP Only)

THE MANAGER

M6 Capital is run by Chris Myers, who, despite his proclivity for numbers and trading, is a master story teller. Chris eats, lives, and breathes the stuff he trades. He was born and raised on a sprawling family farm that worked in grains, cattle, and, most notably, catfish. Catfish? Yes, their 2000 acre property boasted over 400 acres of catfish ponds, along with a family-owned hatchery, feed mill, processing plants and rails for transport. As he made his own way in life, he didn't stray too far from the family interests, receiving a Master's in Agri-Business Management from Mississippi State University. He then went on to work for a contact from the family business - Willard Sparks. In the 70s, 80s and 90s, Sparks was considered by many to be a guru in agricultural research and trading, making him a more than fitting mentor for Mr. Myers. With Sparks Companies, Myers traveled throughout North and South America, analyzing crops and estimating production for the traders back home.

> "I do **ludicrous amounts of research"**

In a pre-digital era, this was not as simple as it sounds. They were asking questions like whether the farmer's financial circumstances would necessitate a quick or below market sale, or whether the supply and demand dynamics of the region would lead to higher or lower exports, and what that might do to crop markets in other regions. This information was not as easily accessed as it would be today, meaning every scrap of information could turn into an edge for the well-researched trader. Myers left Sparks Companies in 2001 to join Cattlco, the Sparks family cattle feeding operation and 7th largest cattle feeder in the world. There Myers worked under Willard Sparks researching grains and livestock markets and conducting hedging and trading activities. Willard Sparks knew early on that Myers wanted to trade as a CTA, and spent years teaching him the ropes. This tutoring, paired with the support and instruction of Sparks crop estimation wizard Hosea Harkness, fostered a dedication and discipline in research that has shaped Myers as a trader today. Sparks passed away in early 2005, speeding up Myers' timeline for entering the managed futures space. He registered as a CTA later that year, using the fundamental analysis tools he'd picked up from his years with Sparks to craft a discretionary program that specialized in Agriculture markets. A family man through and through, Myers named the program "M6" as an homage to his last name, plus the six members (him, his wife and four children) of his household.

THE PROGRAM

The M6 Capital program is the definition of an agricultural market, focusing on the agricultural markets that Myers grew up studying - in his mind, the only logical route. As he puts it, "I don't know anything about Crude, Natural Gas, the S&P pits. I know about Grains and Livestock. I'm sticking with what I know. I not only know the ins and

outs of the industry - I have the contacts, I have the people, and I have the day to day information flow." In an era where farmers are tweeting about their crops from combines, and USDA reports are broadcast around the world, just how valuable can this kind of information be? Apparently, quite valuable. Myers argues, "Technology has made information more accessible - but that doesn't mean that people know how to interpret it."

Interpreting the information is not as easy as taking a glance at a number. Indeed, this is part of the reason adequately describing the trading methodology of a discretionary program can be so difficult. When the edge is the trader's head, how do you help investors understand what they're getting into? When conversing with Meyers, he doesn't claim that HE is the edge. No, he attributes the success of the program to the prolific research and preparation that goes into placing any trade on any given day. "I do ludicrous amounts of research - I couldn't even tell you how many hours. We buy research from others, as well. We do as much research, if not more, than the vast majority of people out there as far as identifying potential trades."

"Technology has made information more accessible - **but that doesn't mean that people know how to interpret it.**"

But simply being well-researched does not make one a trader, and Myers is simply being humble. It really isn't just about compiling information; it's the ability and experience required to effectively contextualize and sort through that information that really makes a discretionary trader, and in the case of M6, the process of digesting the information is a long one indeed. "Before I ever enter a trade, I am a ridiculously patient person," Myers explains.

Patience would have to be a pre-requisite. Before any trade is placed, Myers and his team spend countless hours identifying the set-up. The first thing they're looking for is the potential for a trade opportunity to open up. Are supply and demand metrics evolving in a given market in such a way that significant price movement can be expected? Just because it's expected doesn't mean the movements will come to fruition, though, so the next thing he's looking for is the anticipated price movements of a market based on its behavior in recent and similar circumstances. The goal is to determine whether the trade has enough upside potential to be worthy of further consideration. "Let's say you want to go long on the soybeans trade at $14.90, for instance," Myers says. "If I think upside is $15.50, and downside is $14.50, that means placing a trade at that point has a potential 60 cent upside and 40 cent downside. That's a "flip a coin" type of trade. We're not flipping coins."

But it's not just about looking for theoretical upside. It's also about finding the trade opportunities where you can adequately monitor factors which could significantly impact the dynamics of the trade. For M6, because of the markets they trade, these factors are largely fundamental. They answer questions like what the average cattle weights are in a given time period, and how that might impact demand for feed, which in turn might impact the price of a crop. While any Joe on the street might be able to draw out some of these connections, M6 is picky about what they'll pay attention to, and when. For them, it's about whether you can monitor the factors in play, as these elements will play into how much risk you're putting on your plate. "If you cannot monitor your factors on a live basis, you cannot realistically calculate risk versus reward," Myers explains.

But even if all the pieces fall into place, it still might not be enough to trigger a trade for M6. They're also paying close attention to market reactions and price movements."What new pieces of information are coming into a market, and how is the market behaving with that information? If I want to be long Corn," Myers says, "and the cash price is going up,

we're getting export demand, your Hog numbers are big, your Cattle numbers are big, and the corn market is sitting still, and the March contract is losing on the May… something's not adding up."

In other words - is the market behaving rationally? This has become a unique challenge in recent years. In fact, he points to 2008 as a shining example of the kinds of climates he's become wary of. "Sometimes correlations get messed up. When that happens, we'd simply be trading the S&P in the Corn pit. We're not going to play that game." But the risk on/risk off trade isn't the only market behavior Myers keeps an eye out for. Is the USDA Crop Report due out tomorrow? If so, you shouldn't expect Myers to have substantial positions in any market. The rise of algorithmic traders has made these days perilous. Sometimes there's no reaction. Sometimes, the market goes haywire. Sometimes, the algorithmic traders read a headline about one crop, and extend the logic to the rest of grains. These are the warning signs he's looking for. Myers is also paying attention to larger trends, and the way those trends might alter the structure of a market. One example of this is the long-only commodity fund. While some managers have seen their presence as a trading opportunity, given their frequently predictable roll, Myers is wary of their influence, and monitors the climates they create vigilantly. "Take wheat, for instance," he says. "Last summer, Wheat was a significant short for speculators, but when the markets started going up, the speculators had to cover their shorts. But the funds aren't about to sell, are they? Unfortunately, that meant there was no natural seller to act as a governor on the markets, and they were going up 20-30 cents a day. The seller used to be a farmer, but now I believe long-only funds are around 25% of the Wheat open interest. At this point, you just have to learn how to work with it– this is sink or swim."

Assuming all of the data is pointing to a solid trade, Myers then has to decide the appropriate trading vehicle to attain the desired goal. This might range from a traditional long or short position to options and calendar spreads - two tools that M6 has used more frequently as the years have gone by. For Myers, it's about appropriate and acceptable volatility. "When money flows into the markets, it often times creates interesting dynamics in calendar spreads. There's a fair amount of implied volatility in options, too. There have been some massive swings over the past several years. At one point, we were long way out of money calls in Soybeans. It started with low volatility - around 19 or 20 - and jumped up to around 36.5. We were right directionally, and made money off the volatility," he explains. "Personally, I like being able to sleep at night. I like being able to calculate my risk. When you have a large futures only position… that's a lot of overnight risk. In volatile markets, you better know your stuff!"

Even after all that, the trade may never get placed. That's where we get into the program's risk management.

Risk Management

Let's imagine a world where a trade qualifies by all of Myers' standards. Before it gets executed, Myers takes a step back to ensure the trade fits within the parameters of his risk management. "Most trades don't go through," he admits. "We're not doing 10 things at once - throwing spaghetti against the wall and hoping it sticks."

Indeed, the program typically ranges between having 1-3 open trades on any day, and Myers is demonstrably uncomfortable with the idea of having more than 4 open trades at any given point in time. This piqued our curiosity a bit - what if there were five or six trades that more than qualified for execution under his standards? Then, he argues, it comes back to correlation concerns. "You pick the best story among the markets. If you've got bullish stories in four correlated markets, and something rattles them, you could be losing on four separate trades instead of one," he pointed out.

> "You pick the **best story** among the markets."

He's also very diligent about managing risk in terms of

position sizing, commoditizing risk relative to account equity. He defines a unit of risk as 1/3 of 1% of equity in an account. This is held relative to the market price and the way that it moves, so the risk is calculated on a fluid basis. On any given trade, M6 will typically accept 1 to 3 units of risk. On occasion, there will be a 4 unit trade, but that's maybe a couple times a year. "If it's a 4 unit trade, you're willing to bet the farm, the wife - everything - on it," Myers chuckled.

But they don't really bet the farm. In fact, the margin-to-equity ratio on the M6 program is statistically very low, averaging 2.3%. More importantly - you remember that incredibly involved research process they go through before they place the trade? That doesn't stop once the trade goes through - it continues throughout the life of the trade. If at any point the fundamentals or market behavior begins to change, that's a cue for M6 to begin scaling down the position or exit, depending on the strength and speed of the changes. If the fundamentals they were tracking suddenly become unreliable? Same cue. It doesn't matter if the untrackable fundamentals aren't changing the market movement; for Myers and M6, it's about logical calculation of risk, and they won't "risk" trading blind.

"It's about **logical calculation of risk.**"

Performance

That's a lot of work going on behind the scenes, you might be thinking. But what has it yielded? We're glad you asked.

Year	BarclayHedge	M6
2010	7.05%	19.01%
2011	-3.09%	7.53%
2012	-1.65%	7.95%
2013	-1.46%	2.08%

Past performance is not necessarily indicative of future results.

After launching in 2005, M6 has had only two down years - 2008 and 2009. The rise of risk on/risk off trading during the time period certainly contributed, and M6 has since adapted their trading style to be far more cognizant of market correlations. Their max drawdown of -15.40% may make some investors uneasy, but the duration of the drawdown was far shorter than even some of our systematic programs, at a mere 16 months. Past performance is not necessarily indicative of future results, and we often advise investors to expect 1.5 to 2x the level of the prior max drawdown to occur at some point in the future, but we are heartened by the way the program has handled negative performance in the past.

Why? Because it makes M6 very different. Not only does it boast the typical non-correlation to stocks, it also has a very low correlation to the BarclayHedge CTA Index. For a managed futures investor seeking a diversifier for their managed futures portfolio, that's a metric they want to see. Not so sure? Take a look at their performance over the past several years relative to managed futures as a whole.

That's nothing to turn up your nose at... many programs would envy those returns at this point. Of course, this does not guarantee an encore for such performance in the future, but it is certainly reflective of the work and research that goes into each trade placed by M6. With a Sortino ratio of 0.90, M6 joins agricultural peers Global Ag and Rosetta Capital atop our focus list, and that is exactly the kind of company they should be glad to have.

RCM Comments

All in all, we find M6 to be a solid agricultural program worthy of consideration. The manager is knowledgeable, experienced, and committed to his process. The performance lines up with the trading style described. It could prove to be a valuable diversifier for a managed futures portfolio of allocations.

Another concern also applies to size, but this time, it's on the upside. One question that every

manager has to deal with at some point is what their limit on capacity for their program might be. For M6, Myers estimates that capacity - or at least, a moment to consider where they go from there - will likely be around $300mm. With his experience in trading sometimes illiquid markets for Cattle (where they would be upwards of 15% of open interest) he's familiar with navigating sometimes tricky waters, and feels confident that he'll be able to continue the strategy for some time to come.

Of course, there is always going to be an unquantifiable risk in investing in a discretionary manager; one need look no further than Dighton Capital for proof of that. This is particularly true when one individual is making the final calls on the trades, as it compounds discretionary risk with "bus theory" risk (click here for more). However, the openness of Myers about his trading philosophy makes ongoing due diligence and monitoring of the trading a little easier than it would be with a pure discretionary manager, mitigating some of that risk.

For the investor looking to diversify their managed futures portfolio, it's certainly worth a second look. We look forward to seeing how M6 performs in the future.

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 undertaken to verify 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 CFT rules The disclosure documents 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. Investor 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 and 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 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 Attain a portion of the fees they receive from accounts introduced to them by RCM Alternatives.

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