Managed Futures and Funds: FAQ's

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1. What are Managed Futures? Managed futures is the term used to describe investing in the futures markets with the benefit of a professional money manager, called a "Commodity Trading Advisor" (CTA).

2. What is a CTA? CTAs are typically registered with a national regulatory body, subject to oversight and monitoring by these authorities, and required to provide adequate disclosure to the investor. There are approximately 3,000 CTAs registered in the United States as well as others operating under the regulations of many other countries, including the UK.

3. How do CTAs make profits? CTAs employ a variety of techniques that have been developed and tested in the marketplace to attempt to achieve profits and minimize risks. CTAs can typically trade on technical indicators (price movement, trading volume, chart patterns, and time series) or on fundamental information (supply and demand data). The quality and results of the many CTAs available in the marketplace vary in a range as great as the number of CTAs themselves.

4. What are typical CTA fees? In Aurora-2001 the typical CTA fees are expected to be a management fee ranging between 1.5% and 2% per annum and a performance fee ranging between 20% and 25% of any net new profits. The costs are accrued daily, and all CTA results are net of these operating costs.

5. Why invest in Managed Futures? Over the long term managed futures represents a class of "alternative investments" providing valuable diversification to a traditional portfolio of equities and bonds. Managed futures have been shown to provide returns with little or no relation to the timing and magnitude of the returns associated with traditional securities.

6. How do I participate in Managed Futures? Most investors have neither the time nor the resources to select a CTA. That is why most investing today in managed futures is done through products and vehicles that are structured to aggregate investor money and delegate advisor selection and monitoring to an experienced managed futures intermediary. This is where PFG's Managed Futures Division adds value to the managed futures investment process.

7. What is a Managed Futures Account? A Professionally managed futures account is a discretionary account you give permission to a Commodity Trading Advisor (CTA) to make all trading decisions on your behalf through a revocable power of attorney.

8. Is a managed Futures Account appropriate as a short-term investment? Quite simply, no. Futures investing is a speculative type of investing, and like most markets tend to be cyclical. Additionally, even the most successful professional traders experience periods of flat returns or even drawdowns. Consequently, losses will be incurred for those trading periods. The wise investor will remain steadfast to his/her investment plan and not close the account prematurely in order to allow the account to recover from those temporary losses in equity. It would not be a wise investment strategy to open an account that you do not intend to maintain for at least 3 years, ideally 5, to benefit from compounded returns for the longer term.

9. Are professionally managed futures suitable for everyone? No, they are not. We would first interview you to determine your suitability and provide you with all the necessary information to make sure you understand both the risks and rewards of this type of investing. Generally, in addition to having the required risk capital, an investor needs to have realistic expectations about returns on investment, tolerance to temporary drawdowns that inevitably will occur, and acceptance of the reality that the risk of loss always exists.

10. How can I open an account and how much money should I invest in a Managed Futures Account? Only risk capital should be used in managed futures or any speculative investment. Risk capital is defined as capital that you do not want to lose, but if you did, your lifestyle would not be affected. We recommend that the amount of money you invest depends on your own temperament, financial goals and risk tolerance and should usually be approximately 5% to 25% of your overall portfolio. Each CTA trading program has different account minimums as detailed in their disclosure documents.

11. What are the restrictions on withdrawing funds from a managed futures account? A private managed account program usually the only restriction is that you do not make withdrawals below the minimum required investment. You will be free to withdraw all funds after liquidation of any open positions, unless the account agreement you've signed stipulates otherwise. If you have accumulated any profits in the account, you are allowed to withdraw them or leave the money available for reinvestment.

12. Will my investment portfolio performance be improved by including managed futures? It has been discovered that managed futures may perform best when other investments are performing relatively poorly. On the occasions of the S&P 500's two worst declines during the past decade, managed futures recorded net profits of 9.7% and 18.6%. A study by University of Massachusetts Finance Professor Thomas Schneeweis compared the S&P's worst 12 months and best 12 months since 1985 and found that managed futures posted gains during both periods. Futures provide an opportunity to respond swiftly on a highly leveraged basis when the financial and commodity markets major price movements occur - either upward or downward - and to do so without liquidating other investment holdings or adding to overall portfolio risk.

Of course not all portfolios including managed futures accounts always have positive results. Investment performance is greatly influenced by market conditions, the structure of the portfolio and the success of the trading advisor.

13. Can you compare managed futures accounts with self-accounts and which is better for me?
There are some individual investors who are highly successful in directing their own futures trading if they have the knowledge, experience and resources to do so. Most of the investor world does not possess the traits necessary to be highly successful in futures trading. Studies indicate that somewhere between two out of three and nine out of ten lose money.

When it comes to managed futures, of the 119 funds and pools in the Managed Account Reports Fund/Pool Qualified Universe Index that traded from January 1990 through October 1996, 81% were profitable over the full time period.

14. Is the trend over recent years concerning managed futures good or bad? The increasing complexity of financial markets overall and futures markets especially has been one of the main reasons most industry experts agree that managed futures trading has been increasing. New strategies as well as experience in risk and rewards have played a part in this. Recently created worldwide market linkages have also placed a premium on the ability to quickly analyze and act on vast amounts of information. These are capabilities that professional management is generally best able to provide.

Most successful trading advisors monitor a large number of different markets and market relationships simultaneously and continuously. Usually this can turn into faster profit opportunities and an earlier warning to retreat from seemingly unappealing market positions.

15. Do you have market positions at all times with a managed futures account? All trading advisors differ in their investment approach. Some CTA's may have the approach that the most profitable way to capture the price movements in volatile markets is to maintain continuous but changing market positions. Their trading systems are designed to fit with this philosophy. Other CTA's commit capital to the markets only when there is reasonable confirmation of significant longer-term price trends. If they do not see such trends or the markets are not in certain conditions, the advisor may temporarily elect to remain "market neutral."

There is really no right or wrong approach by a CTA, only that each of them differ in their choices and deciding which one best suits you really depends on your comfort level and personal investment strategies.

16. Where is my money deposited when I open a managed account? Your money will be with the brokerage firm where you have your account. Your trading advisor will direct trading for the account, but all other account functions are taken care of by your brokerage firm, including custody of funds in a segregated customer account.

17. What are performance bond calls and are they relevant in a managed futures account? A performance bond call is a request from the broker to deposit additional funds to the account, generally to cover losses on open positions. All futures accounts including managed accounts are subject to performance bond calls. The major objective of professional trading advisors is to manage and diversify their clients' investments so that you avoid the necessity for performance bond calls. Ask your trading advisor whether all of your funds will be committed to the market at any one point in time.

18. Is there some type of limit to how much you can lose in a managed account? This would be described in your disclosure document when opening your managed account. In some instances, a loss of more than a certain percentage or losses that reduce the account value below a specified dollar amount, may trigger the liquidation of all currently open positions and force closing of the account. This feature is definitely one of the things to inquire about when you are considering opening a managed account. As all trading advisors will tell you though, no one can guarantee an absolute amount of losses any more than they can guarantee a the profit you may receive. The success of your account mainly lies on the success of your trading advisor.

19. Who regulates Commodity Trading Advisors?
CTA's are regulated by the federal Commodity Futures Trading Commission (CFTC) and by the National Futures Association (NFA), the congressionally authorized self-regulatory organization of the futures industry. All trading advisors must be registered with the CFTC and those who manage customer accounts must be members of NFA. To verify an advisor's registration call the NFA toll-free at 1-800-621-3570. All CTA's must submit their disclosure documents to the CFTC for review in advance of distribution to prospective investors. On an ongoing basis, NFA audits disclosure documents, promotional materials, and trading activities. Violations of CFTC or NFA rules can result in a loss of trading privileges and other penalties.

20. Am I able to check the status of my account?
You will receive reports from your brokerage firm. These reports may include mailed reports of all purchases and sales, an overview of all open positions, and most likely a month-end summary of transactions, gains, losses, open positions, and current account value. You can also contact your broker on a daily basis for this information.

21. Does it matter who my brokerage firm is since the trading advisor is directing all the trading? The brokerage firm you are with is a very important decision, just as important as the decision of which trading advisor to invest with. Your brokerage firm may be monitoring and evaluating the trading advisor's performance and be able to give you positive or negative feedback. The advisor directs trading for your account, but it is generally your brokerage firm that will actually execute the trades regarding your account. It's important to know you are doing business with a firm that has the resources and skills to compete effectively in today's markets. It is also very important to trust and enjoy the broker you'll be working with.

22. What are the top mistakes investors make with a managed futures account? The main mistake that is probably made is the fact that although the trading advisor is making all the decisions for you, it doesn't mean that futures trading is always appropriate for your investment strategy. The risk is substantial in futures trading as well as can be the profit, which makes futures trading not appropriate for everyone. Consult your broker and discuss your options before beginning any investment program. Also, be careful with the trading advisor that you choose. Do your research and make sure the CTA's strategies and long term goals are in line with your own.

Finally, don't jump around with your managed account frequently. This doesn't mean you necessarily have to stay with your advisor forever, but it has been proven that accounts maintained over a long period of time tend to perform better than short-term accounts.

23. What is the minimum investment needed to open a managed futures account? Most managed account programs have different minimums. Usually the amount is what the advisor and brokerage firm consider is needed to achieve account diversification. Minimum account size also may be affected by whether the managed account program is designed principally to serve individual investors or institutional/corporate clients.

24. What does PFG add to the investment process? PFG has experienced professionals managing every aspect of the managed futures business. With more than 2,700 futures money manager to choose from in the investment world, it is important that investors place their money with a knowledgeable and experienced organization. It is equally important for investors to have confidence and trust in the track record established by an investment firm as well as in the individual managing their accounts. PFG maintains records on more than 225 futures money managers and 390 programs. We work with only those managers who meet our investment criteria and who have proven themselves capable of managing client assets.

25. How do I find out more? To request additional information, or to discuss managed futures as an investment alternative, call us (toll free) at 1-800-361-6855.

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