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## How Managed Futures Can Improve Investment Returns

by Marlee-Jo Jacobson

### Why Are Managed Futures Needed?

If you are looking to build capital there is no perfect investment. Each component of the typical portfolio carries clearly defined limitations. For example Growth Stocks only perform well in a bull market. Bonds have the opportunity for loss of principal if the asset is sold (interest rate risk). Real Estate is illiquid therefore cash is not easily accessible. Energy Partnerships and Stocks are subject to the price risk of underlying oil prices. Hedge funds may be comprised of only illiquid investments. Each investment has its own set of economic circumstances that require it to perform. If those circumstances are not present it affects your portfolio as a whole.

Substantial financial rewards may be realized by accepting that managed futures are also imperfect but bring their own positive advantages complimenting your existing investments. The synergy of a well-balanced portfolio reduces risk to the entire structure. Unique benefits of managed futures easily offset the risks of traditional investments. Total liquidity and skilled use of leverage are considered the greatest benefit of any managed futures investment. History teaches us that performance and price movement of futures/options greatly differ from traditional investments during various market cycles and do not track well. Futures are non- correlated to any other investment sector making it a perfect strategy for offsetting the inherent risk associated with various market and economic conditions. The question investors must ask when they

survey available capital management vehicles is; How can I utilize the inherent weaknesses of each market sector to my advantage?

Using only 20% or less of your total portfolio automatically considers and reduces the above average risk of using leveraged investments. To fully understand market movements in managed futures, it is necessary to step outside conventional thought and reach towards something more direct, adaptable, liquid and potentially lucrative. As compared to more traditional investments, which are usually held for one year or longer, high leverage makes futures (a derivative) a tool that offers a time value use of capital totally unique to investments. Positions within your portfolio may be held anywhere from minutes and hours to days and weeks. A condensed time frame enables investors to capitalize on the markets volatility and shorter-term trends to seek long-term capital appreciation. Ability to integrate an investment with a time value use of capital so distinctive gives you opportunity to incorporate a "Yield Curve Effect" into your entire portfolio.

Year	100TI	80-20TISI	100HFOF	80-20HFSI	100SI
1998	19.94%	48.66%	0.70%	31.16%	158.00%
1999	35.42%	38.24%	34.51%	38.22%	43.56%
2000	-11.39%	5.18%	17.40%	24.49%	34.40%
2001	1.76%	1.00%	3.51%	1.89%	0.03%
2002	-19.15%	-7.18%	5.86%	6.36%	7.02%
2003	-20.31%	10.42%	13.23%	8.05%	1.54%
2004					
Total Return	6.27%	96.32%	75.21%	110.17%	244.55%

The table represents an equal weighted index the S&P 500, Lehman Bond Index, NASDAQ and Russell 2000. The Hedge Fund of Fund is from Hedge Funds.net web site. Sanctity Index is an equally weighted value of three trading advisors. 20% was taken from the Traditional Index and reallocated to the Sanctity Index. Then 20% from Hedge Funds reallocated to Sanctity. Traditional Indexes are before any cost the Sanctity Index is after commissions and advisor fees.

## What are the Benefits?

It has been proven that managed futures can offset the risk of a traditional investment portfolio when that portfolio is invested in other risky assets such as stocks. Futures and Options have market movements and use capital differently than any other investment. Although each institution differs, many institutions allocate 2 or 3% of their pension funds into managed futures/options/currencies etc. They seek returns in the low teens and then integrate performance into their

entire financial structure. When managed futures are in a negative performance mode, other aspects of the portfolio will be up and over the long term each component of the composite offsets weaknesses of its counterparts.

Retail investors or private retirement funds usually allocate higher percentages because their investment policies differ. Each market sector looks to managed futures for different purposes and benefits. Managed futures can be a superb addition to any retirement portfolio because there are no annual tax consequences. Reinvesting returns year after year has a dynamic effect on asset growth.

### **What are the Risks and How Should they be managed?**

Maximum risk in partnerships is limited to the investor's total capital contribution, plus all distributions paid back. Although total investment loss is highly unlikely it must still be disclosed that total investment loss is possible. We believe that if investors understand the extreme downside they can choose and live with the investment through any market condition with no fear of loss.

We teach people to answer several questions before investing in any high leveraged investment.

1. Where should the capital come from?
2. How much and for how long should be allocated?
3. What considerations should be made to determine capital committed? For example, age, time, temperament, and investment strategy etc.
4. How should I evaluate probabilities of the composite?
5. How should the allocation TO ANY alternative be allocated WITHIN the investment?
6. Opportunity loss after the money is re allocated. \* \* \* \*
7. Risk analysis and time to rebuild the portfolio back to its current value net of the allocation.
8. Consider other possible alternatives (risk/reward, liquidity, time value

etc).

9. How to maximize, monitor & balance the alternative strategy.
10. Value and risk of the alternative investment when integrated into the composite.
11. Prudent evaluation of past performance\*\*\*\*\*
12. Define parameters for specific action under variable market scenarios.
13. Look at your beliefs and intentions relative to your strategy.

Let's briefly review descriptions for each question listed above.

1. Review all of your investments and look for current allocations that are likely to produce the lowest return with the highest risk. That is the money that can probably be considered for reallocation. (The composite investment structure needs to be evaluated). Only use capital that you can comfortably live without. Capital taken from the stock market is also a good choice because there is probably more risk that what can be developed by integrating managed futures.
2. Start with a 12 to 18 month commitment with the least amount of capital needed. The investment should earn your trust in the first year to 18 months. It will also take that amount of time to get comfortable with how high leveraged investments work.
3. The closer you are to retirement age should equal the least amount of capital committed to ANY investment using high leverage. After considering your emotional nature, the more time you have could be used as a reason to commit more capital.
4. Sanctity correlates composite strategies and degrees of leverage. Investors need to determine their personal rational expectation relative to the risk they are willing to assume. The evaluation process is detailed and taught in our investment guides. <http://www.alwaysafemoneymetrics.com/guides/guides.htm>
5. Allocations within the investment are determined by each investors risk tolerance and expectation. Sanctity uses SafeMoneyMetrics™ to allocate assets among advisors and monitor all risk daily.

SafeMoneyMetrics™ maximizes potential return with the least amount of capital at risk and account volatility.

6. It's important to look at where the money is coming from and what will be the opportunity loss because that money is used elsewhere.

7. Assume all capital committed to the new investment is lost. Calculate how long it will take to rebuild your portfolio back to its original value without incurring any more risk. This is a magnificent way to emotionally and financial manage the maximum downside of managed futures investments. From that point everything can only be a pleasant surprise!

8. Carefully evaluate other alternatives to be sure you are optimizing potential return relative to probable risk. Also consider how managed futures can comfortably integrate with your composite portfolio.

9. - 12. The General Partner associated with Sanctity offer investors a due diligence questionnaire that details exactly how each advisor manages capital and what to expect. This risk management strategy defines how advisors act under specific market conditions. The intention is to eliminate negative surprises from the investment and give each investor substance they can refer to during difficult market circumstances.

13. Take time to evaluate your beliefs. Constructive positive beliefs will always lead to success. It's how the Universe works.

We offer complimentary mini courses and monthly articles on managed futures. <http://www.alwaysafemoneymetrics.com/freemini.htm>

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About the Author:

**Marlee-Jo Jacobson** is founder of [Sanctity Capital Management](#), [SafeMoneyMetrics](#) and [AlwaysSafeMoney](#). Investment, risk management, business development and consulting services incorporating [SafeMoneyMetrics](#) are offered to private investors, national and international banks, institutions and financial service professionals. Contact: 20 East 9th Street Suite 15A, NYC, NY 10003 212-777-3862 [mj@sanctity.com](mailto:mj@sanctity.com)

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