CHRISTIAN BAHA

Managing the way to future profits

The record is clear. Over the past 30 years, established managed futures funds have outperformed stocks and bonds and have produced average annual returns of between 17% and 20%. To all of my fellow investors, that's 'Annual' with a capital 'A'. Have I got your attention yet? I travel around the world speaking to world-class investors like Warren Buffet and large financial advisors and CEOs of multinational companies and it always surprises me that some of the most sophisticated investors in the world don't know about the advantages of one of the most profitable asset classes available today: Managed futures.

In the long-term, investing in managed futures is always a good thing, and a profitable thing to do

To me this is shocking, considering that the best managed futures funds in the world, like Bill Dunn's or Campbell's, had excellent performances with between 17 to 20% annual average returns for the past 30 years. If you had invested just US$1000 with Bill Dunn in 1975 you would have made US$300,000 30 years later. With that record of performance, how can it be that many of the world's most educated investors are not using this asset class?

The truth is that many of them are not even sure what a managed futures fund really is, or know that it is a highly diversified investment that buys and sells the goods we use every day of our lives. These goods include all our daily needs, such as agricultural products, metals, energy, meat, soft commodities as well as currencies, bonds and stock indices. When technology booms bust, we are still using daily commodities.

When markets crash or corporations fail, we are still using daily commodities. In the long-term, investing in managed futures is always a good thing, and a profitable thing to do. "But aren't managed futures risky?", one of my investor friends once asked me. I just smiled and shook my head.

In relation to other investments, managed futures are actually much less risky than stocks. As I explained to my friend, some of the greatest economic theorists of our time have shown that an asset class, like managed futures, can not only help a portfolio of stocks and bonds perform better and with less risk, they can also reduce the risk of the entire portfolio.

The business school experts call this phenomenon "non-correlation".

Between us, it simply means that just because your stocks go down, doesn't mean your managed futures funds will too. Because managed futures funds use more than 100 financial and commodity futures markets — from cotton to currencies to stock indices — and can be long or short, meaning that they can profit from up and down trends, they are not dependent on a bull market to make a lot of money. Even during a market crash, managed futures funds can be profitable.

Due to this long-short possibility they have virtually no long-term correlation to traditional asset classes like stocks, bonds, real estate or even hedge funds. In addition, the correlation between one commodity and another is also very low. This combination of non-correlation and broad diversification across many markets helps to create huge profits and to reduce the overall portfolio risk.

Most successful managed futures funds use their systematic trading programmes to identify those trends or patterns, and then try to follow the trend for as long as it moves in one specific direction; either up or down.

To minimise risk the stop loss limit is always trailed and in the market. Those of us in managed futures, just love the predictability of human behaviour. It has made a lot of money for many high net worth individuals who have been using managed futures for over 30 years. And that's a pretty impressive record. AB

■ *__Christian Baha is a co-founder of the Superfund group of investment companies, leading providers of managed futures funds for institutional and private investors.__*