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A HEDGE FUND FOR LITTLE GUYS

Now you can play the futures markets—and hedge the coming nightmare of inflation—like the big boys

[BY KEN KURSON]

I recently received $100 trillion in the mail.

It's in Zimbabwean dollars and it's the bill with the largest figure ever printed in the history of money. It was sent as an eye-catching "we're fucked" holiday card from Jonathan Hoenig, an old friend who started out as a financial writer like me before he deduced that he could make a ton more running his own hedge fund.

When Zimbabwe first printed the 100-trillion-dollar bill, in January 2009, it was worth about $30 U.S. By the time Hoenig sent it to everyone on his Christmas-card list, it was entirely worthless, the victim of Zimbabwe's inflation rate—incomprehensible billions of percent. The point was not to ridicule an African nation shredded by famine, an AIDS epidemic, and perhaps the most brutal dictator of the 21st century. The point was to dramatize a fundamental misconception that Americans hold as inviolable—that three bucks will always buy a slice of pizza or a gallon of gas.

I'm worried about inflation. Real worried. Our bipartisan addiction to spending and borrowing pairs with a hostility toward employers that makes real recovery difficult. I think we're about to experience the kind of vicious inflation that remakes entire economies. Not Zimbabwe or Weimar Germany. But the kind of Carter-level double-digit wealth erosion that *Time* magazine described in 1980 as "so far beyond anything that Americans have experienced in peacetime... as to inspire a contagion of fear."

Happily, there's a play. There's always a play.

Commodities rise in lockstep with inflation. So anyone worried about inflation could hedge by buying a broad-based mutual fund that tracks the Goldman Sachs Commodity Index, like the **Oppenheimer Commodity Strategy Total Return Fund.** But commodities are complicated and volatile. What if I want more active management than I'd get from a broad-based commodity mutual fund, which is confined by the tight strictures of the prospectus?

I've been intrigued by the explosive growth of the managed-futures market since it started taking off around 2003. The idea is obvious enough: An investor who hasn't the skill or time to trade commodity futures hires someone to do so for him. Until recently, that's been the exclusive province of wealthy "accredited" investors who buy hedge funds that can go short, international, lever up, and weight however they see fit. In the mid '90s, Austrian investor Christian Baha came up with the notion of a leveraged managed-futures fund that would comprise approximately half financial futures (bets on stock indices, currencies, bonds, and interest rates) and half commodities (metals, energy, grains, and agricultural markets like coffee, cattle, and hogs).

When Baha opened to retail investors, he named his vehicle—unfortunately—**Superfund,** but the science was grounded in the core idea of modern portfolio theory: that diversity creates less risk without sacrificing return.

The results have been amazing. A hypothetical index of managed futures has outperformed the S&P 500 since 1980 by thousands of percent. Performance is just one part of the equation. To me, the more attractive part for the average guy who's got individual stocks in his broker account and equity funds in his IRA is the portfolio diversification and low correlation of managed futures to other asset classes. The appeal of getting in on that action for a tiny commitment—you can open an account at one of Superfund's futuristic retail centers for as little as $5,000—is undeniable.

But wait, there's more.

Superfund just started a new tranche of its signature fund called **Superfund Gold.** It invests in an array of commodities futures in exactly the same way, but your initial investment is denominated not in dollars *but in gold.* Suppose you buy $10,000 worth of Superfund Gold. If gold were trading at $1,000 an ounce, your $10,000 would be worth ten ounces of gold. Suppose the value of the fund doubles over the next five years and you decide to redeem all your shares. Rather than getting $20,000, you would instead receive as many dollars as it would take to buy 20 ounces of gold. Thus, if the price of gold doubles—akin to saying the value of a dollar is halved—you'd receive $40,000, since that's what it'd take to buy 20 ounces at $2,000 an ounce.

If you believe, as I do, that $20,000 will barely buy in five years what $10,000 buys today, then the ability to invest without fear of being paid back in devalued dollars is a major bonus. Because at some point, even investing prowess and foresight that causes piles of American currency to be delivered to one's doorstep won't mean much if the country has sunk to where a wheelbarrow of money buys a loaf of bread.