HedgeWorld's Alternative Advantage

By Jacob Bunge, Financial Correspondent Monday, March 31, 2008

## Managed Futures for the Masses

CHICAGO (HedgeWorld.com) – From a glass-lined conference room on the 32nd floor of 180 North LaSalle Street, Superfund founder and owner Christian Baha can look down on a thin corridor that ends a few blocks to the south, at the historic Chicago Board of Trade building. Directly between these two points lies Superfund's newly opened street-front office, where Mr. Baha seeks to bring managed futures investing down from the skyscraper offices of the wealthy to the retail investors of Main Street, who can get into one of Superfund's two U.S. products for a minimum investment of $5,000.

Mr. Baha started Superfund in 1996 in Vienna, Austria, and now operates investment vehicles in 18 countries, with more on the way. All of the vehicles follow the same basic systematic, trend-following program, which trades futures across more than 100 markets; altogether the firm counts approximately $1.5 billion in total assets. HedgeWorld sat down with Mr. Baha during his recent visit to Chicago to discuss his views on volatility in futures markets, the boom in commodities prices and making managed futures more inclusive to the average stocks-and-bonds investor.

HedgeWorld: Superfund operates on a systematic trading model. In volatile climates like we've seen in the last few months, how does it perform compared to, say, a year ago when things were a bit more placid?

Christian Baha: We don't like volatility at all. We like trends. A trend is a smooth move in an up or down direction, and both are good for us, but high volatility is bad for us because we would be forced to reduce positions or we would not be able to build up such big positions if the markets are going to one direction in a very volatile way. But sometimes it's better to have a trend with volatility than have no trend at all. And now we have trends with volatility and that's fine, and we make a lot of money out of it. If it would be a little bit less volatile we would make a little bit more, but our funds are up between 20% and 40% year-to-date, depending on the A, B or C strategy.

HW: How are assets allocated in Superfund?

CB: On average we have approximately 50% in commodities, in the long-term, and 50% in the financial markets. In most of the commodity markets we have been pretty long for a few months, like the metals and energies, but also the grains. We are short the financials, like the stock indices, the dollar and we are long the bonds and interest rates. February and March were very good months so far.

HW: What about fees–Superfund's fee structure is noticeably higher than the average 2-and-20 fee structure.

CB: For the performance we are providing, our fees are not higher than the average hedge fund that's providing such a high return. Also, the fees we charge are already earned. That means when our product is up 670% since inception 12 years ago, it's after all fees. The 20% annual return is net of fees. And there is one rule that is quite right, not just with hedge funds but basically with everything in the world: Good things are not cheap, and cheap things are not good. So if you buy quality it's always more expensive.

HW: With the runup in commodities we have seen in recent months, are you seeing a pickup in demand for managed futures products?

CB: Definitely. There is always a demand. It should already be in everybody's portfolios, systematic trend-following funds, but it's not. The demand goes up slowly, but the more the market suffers from these crises like subprime or big banks being in trouble, the more the demand will go up on its own. People see the performance, even when you have all these crises around. The money will always flow where it's first, most safe, and second, has the highest performance potential and the lowest risk potential. We're trading the most liquid markets, which means everybody can get in and out [of them] on a daily basis.

HW: What are your views on long-term trends in commodities?

CB: The commodity bull market is not a bubble, and it will go ahead for another 10 to 15 years. All of the so-called paper asset classes–like stocks, bonds and paper currencies–people will lose their trust in these, and they will go down. Or they might not go down but maybe inflation will become very strong, and then it wouldn't even help you if the Dow Jones was worth $15,000 or $20,000. Let's say the dollar lost 95% of its purchasing power today, even doubling the stock market wouldn't help much.

It's not just that commodities are so strong, it's also that the dollar is so weak. And that's no wonder, because by increasing the huge budget deficit of the United States, by going ahead in war, by helping Bear Stearns and others with $70 billion, and by pumping money into the markets on a weekly basis, you need to print more dollars. It's normal that the dollar gets weaker. You can't raise taxes anymore because taxes are at the highest level anyway. So what you have to do is print more money. At a certain point everybody will know that, and the more you cut the interest rates, the fewer foreigners will want to buy there, especially as [international investors] have the feeling that the U.S. dollar is not the world currency anymore. So it's a death spiral, actually.

I hope all of this is not going to happen. But if it happens, I want to be invested where it makes sense. And managed futures is a very good way to protect yourself; gold is a very good way to protect yourself.

HW: Where do you see commodities like gold and oil going, after their record highs recently?

CB: I've been invested in gold since it was $370 per ounce, personally. I predicted in some Bloomberg and CNBC interviews, when it was $500, I said $1,000 and everybody thought I was stupid. Also, when the crude was $30 [per barrel], I said $100, and everybody said it's not true. And here we are. With gold, I would guess $2,000 per ounce will be seen within three years. Crude will be $200 a barrel within three years.

HW: Why do you believe people have misconceptions about futures markets?

CB: Because people are not educated. There is no subject in school where you learn how to invest your money, and that's a big mistake. Not in America, not anywhere else in the world. We do a lot of education. We open investment centers all around the world, we have opened one here [in Chicago] now. But you know, we are just one fund doing that. There are thousands of mutual fund companies out there not doing it, or if they educate, they educate about stocks and bonds. Basically, they educate about the wrong things. They say diversify into different stocks, but [not across asset classes]. It's like saying don't eat meat, fruits and vegetables, eat only bananas, like a monkey.

HW: What is your firm doing to educate people about managed futures?

CB: We do a lot of seminars for our distribution partners, educating their staff all over the world. If you educate people who have a lot of clients behind them, it's good leverage for us. Then we try and educate authorities about this asset class. We also do a lot of sponsoring, just to make the brand more [visible], so that people see Superfund and ask themselves, "What is it?"

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