INTERVIEW-Managed futures funds low on buzz, high on returns

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NEW YORK, July 24 (Reuters) - They hardly create the kind of buzz their sexier cousins, the hedge funds, do. And their share of global stocks, bonds and derivatives is an almost laughable 0.03 percent.

Yet, when it comes to giving long-term returns, few come close to the managed futures run by commodity trading advisers, or CTAs, a senior industry executive said.

"Over the next decade and a half at least, the biggest wins will be in commodities and the best of those will be with the CTAs or managed futures," said Christian Baha, founder and chief executive of Superfund, a Monaco-based CTA.

"But as of now, managed futures are almost undiscovered," he said. "That's because very few people are thinking about it or using it as an investment opportunity."

CTAs, which buy futures in a bullish market and sell short in a bearish one, performed better last month than hedge funds which use a variety of trading strategies, data from The Barclay Group, a funds tracking service, showed.

Of the 787 managed futures funds monitored by Barclay, 689 had reported their numbers for June, and 274, or above 39 percent, had positive returns. The average positive rate of return (ROR) was 2.66 percent.

For hedge funds, those with positive returns were also above 39 percent, but the average positive ROR was just 1.14 percent. Still, only 3,763 of the 4,767 hedge funds monitored by Barclay had reported for June, meaning there could be room for them to catch up with the CTAs.

But percentages were only part of the story as the real profit made by investors through managed futures are seldom told, Baha said in a telephone interview.

"If you put $1,000 into a CTA that returns 30 percent a year, you can get almost $10 million after 30 years because of the interest that will be applied upon interest," he said.

"You may find it unbelievable, but managed futures can do that. But you must be prepared to invest for the long haul," said Baha, who had grown Superfund into a $2 billion managed futures fund in just under 10 years using a 50:50 mix of financial futures and commodity futures.

Hedge funds often make news with their stubbornness in fighting regulation and the spectacular losses and wins they score with clients' money. CTAs, which are on the regulated side of the fund game, rarely get such media exposure.

Baha said CTAs account for $145 billion, or 0.03 percent, of the $486 trillion invested in stocks, bonds and derivatives. Hedge funds were worth eight times more at $1.2 trillion.

"But if you ask me, I don't really regard hedge funds as sexy because they've only taken up less than 0.3 percent of the global funds portfolio," he said. This, Baha said, fell way short of the 15 to 20 percent hedge-fund investment level recommended by Harry Markowitz, a portfolio expert and winner of the 1990 Nobel Prize in Economics.

Baha adds: "In the 60s or 70s, if you asked anyone in Europe or the U.S. why they weren't investing in stocks, the answer was simple: because it wasn't sexy yet. It only became sexy in the 90s when the stock markets began booming."

"But, generally, if you ask whether a stock is a good investment or not, you basically have to say it's a bad investment in the long term, because you've gained not more than 8 percent for the last 100 years after inflation.

One regular criticism about managed futures is their reliance on complicated computer-plotted strategies over man-made investment tactics.

But Baha offers no apologies. "We're now in the information age and everybody is using a computer. So, why shouldn't a computer do the trading? You have many, many electronic exchanges doing the same."

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