

Building a Strong Financial Fortress

**Harnessing the Potential Benefits of
Non-Correlated Assets to Reduce Portfolio Risk**



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James Wood - Biography

- **16 Years Experience Working with Publicly Traded Companies Developing and Implementing Aggressive Growth Strategies**
- **8 Years Experience as a Registered Futures Broker and Associated Person to Global Capital Group, LLC - Assisting Individuals and Entities Diversify Risk in Their Portfolios**
- **Registered and licensed for Series 3 (Commodities & Futures Professional) and Series 30 (Branch Manager)**
- **NFA ID: 0492059 - [Basic Broker Lookup](#)**
- **Husband to Jennifer, Father to Natalie (9), Matthew (7) and Jacob (3)**

TRADING FUTURES AND OPTIONS INVOLVES SUBSTANTIAL RISK OF LOSS AND IS NOT SUITABLE FOR ALL INVESTORS. THERE ARE NO GUARANTEES OF PROFIT NO MATTER WHO IS MANAGING YOUR MONEY.



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Eliminate Single-Point Failures



Which elevator would you get in?



Questions Investors Should Ask Themselves...

- *Am I over-weight in equities?*
- *Do I have investments in any other asset classes other than Stocks/Mutual Funds/ETFs?*
- *Do any of my investments have the potential for gains in down and sideways markets?*
- *Am I Truly Diversified?*
- *Do I Have A Single Point Failure In My Investment Portfolio?*

Key Stats:

- From March 2000 through March 2013, an investment in the S&P 500 made **ZERO RETURN**
- From March 2000 until March 2023, the S&P 500 has had losses of 50.95%, 44.72%, and 23.86% which took 37, 49, and 6 months respectively to recover from*

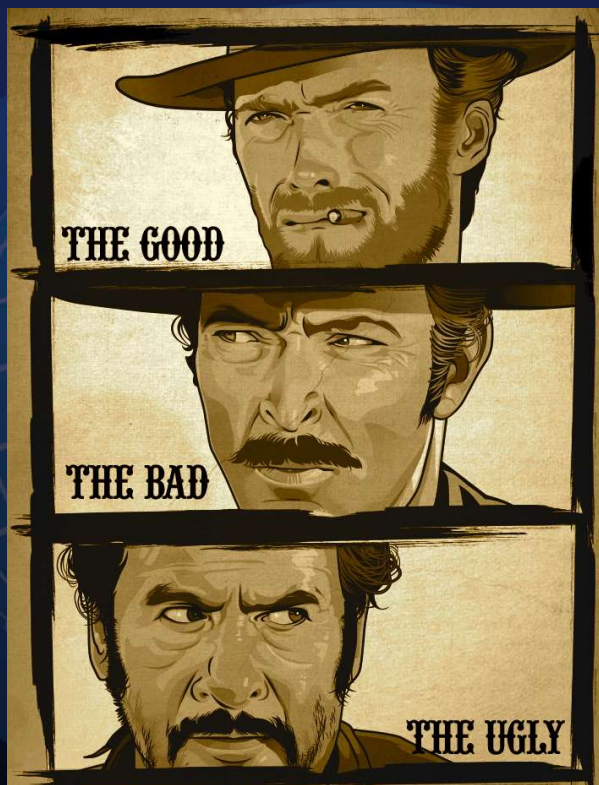
* Source: www.autumngold.com

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The Stock Market

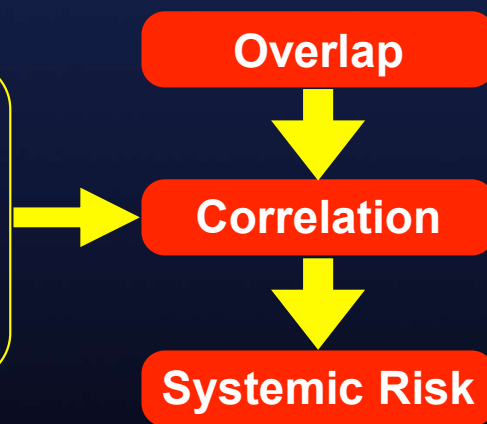


Mostly Simple Strategy (Long Stocks)

Accessible to most investors (Online)

Mass Market (Low Min Investment)

≈ 4,200 Stocks
≈ 7,500 Mutual Funds
≈ 3030 ETF's



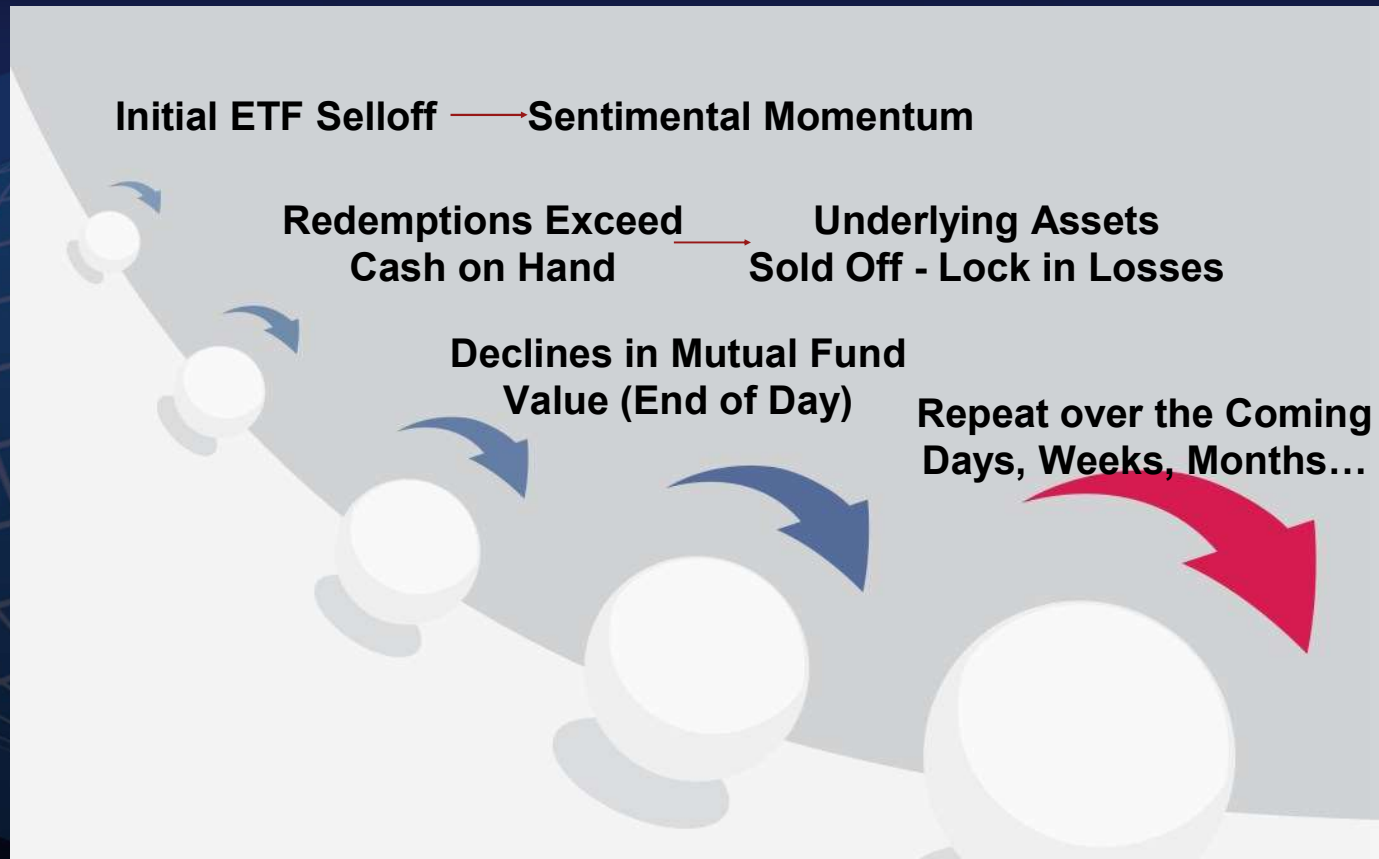
High Correlation = Low Diversification

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Potential Danger of ETF's (IMO)



IMO = In My Opinion

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Global Capital Group Opinion of Sector Diversification

Investing in Stocks and Bonds Alone May Not Provide Adequate Diversification to Reduce Risk in a Portfolio since Sectors of the Stock Market are Highly Correlated to Each Other

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Low Diversification in the S&P 500*

Jan 2013 - December 2022

	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom	Utilities	Real Estate
Energy ^SP500-10	1										
Materials ^SP500-15	0.68	1									
Industrials ^SP500-20	0.70	0.89	1								
Consumer Discretionary ^SP500-25	0.51	0.79	0.80	1							
Consumer Staples ^SP500-30	0.37	0.60	0.69	0.64	1						
Health Care ^SP500-35	0.51	0.73	0.77	0.71	0.70	1					
Financials ^SP500-40	0.73	0.81	0.89	0.72	0.56	0.69	1				
Information Technology ^SP500-45	0.48	0.76	0.76	0.88	0.64	0.70	0.65	1			
Telecom ^SP500-50	0.60	0.74	0.76	0.76	0.54	0.72	0.73	0.75	1		
Utilities ^SP500-55	0.23	0.36	0.40	0.42	0.64	0.47	0.32	0.39	0.37	1	
Real Estate ^SP500-60	0.39	0.63	0.65	0.70	0.71	0.66	0.57	0.62	0.61	0.76	1

Non-Correlated or Negative Correlation	Well Diversified	-1.0 - 0.0
Little to No Correlation	Well Diversified	0.01 - 0.2
High Correlation	Poorly Diversified	0.21 - 0.5
Very High Correlation	Little to No Diversification	0.51 - 1.0

- Individual sectors of the S&P 500 are highly correlated to each other
- High Correlation Results in Low Diversification

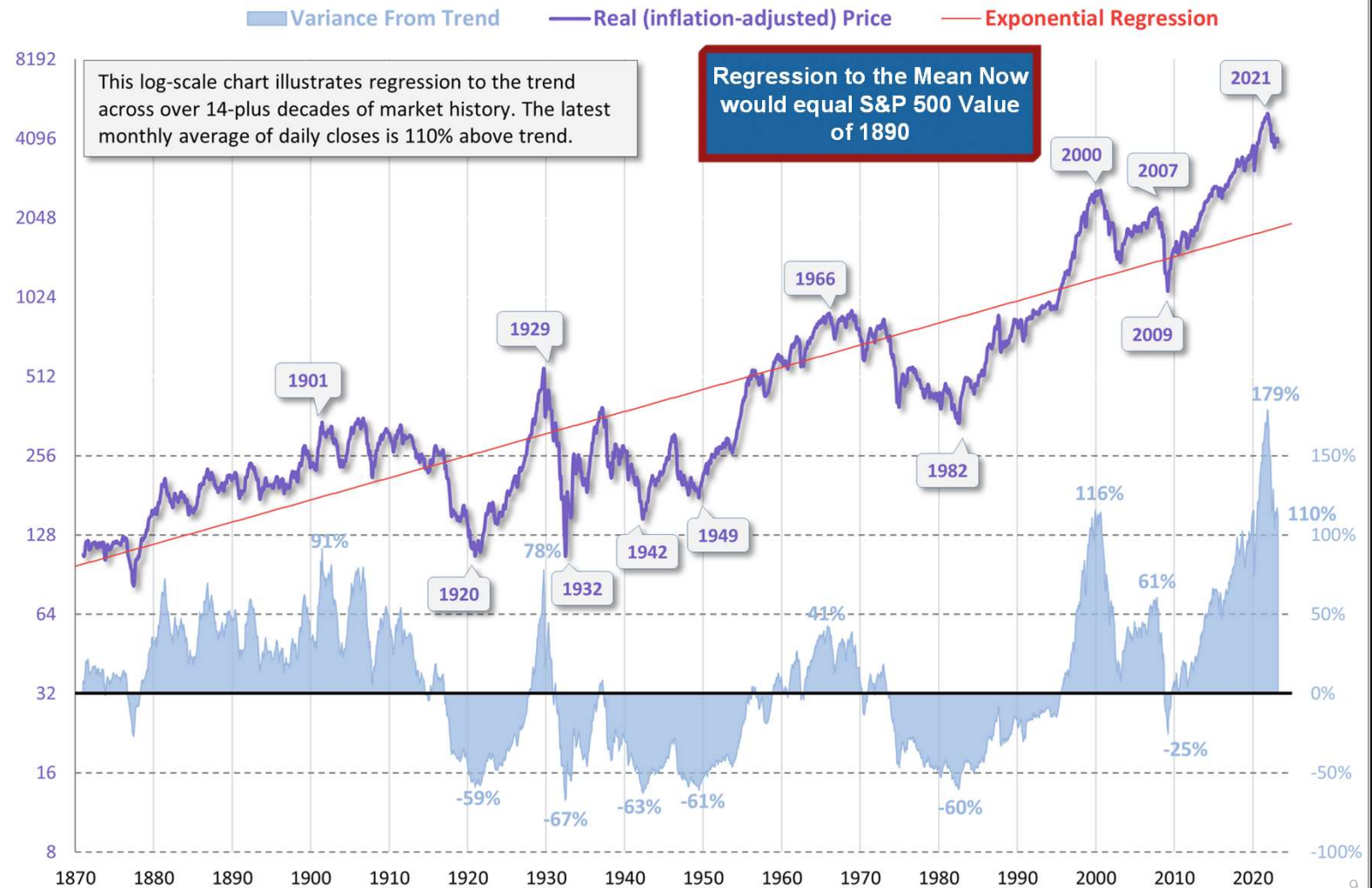
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S&P Composite Index: Regression to Trend



How to Solve Systemic Risk

- Need to Use Different Asset Classes
 - Sectors of the Stock Market are not Asset Classes
 - Large & Small Cap Stocks are not Different Asset Classes
- Asset Classes Should be Uncorrelated to Each Other
 - Helps Reduce Risk at the Portfolio Level
- Asset Classes Must Independently have Solid Performance
- Employ Numerous Strategies to Increase Diversification

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What are Alternative Investments?

- Financial Asset that does not fall into one of the conventional investment categories
 - Conventional categories include stocks, bonds, and cash
- Examples of Alternative investments:



- Source: https://www.investopedia.com/terms/a/alternative_investment.asp
- <https://online.hbs.edu/blog/post/types-of-alternative-investments>

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The Futures Market

Definition

Financial exchange where people can trade standardized futures contracts; that is, a contract to buy specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.

Hedge vs. Speculate

There are two types of investors in the futures market: Hedgers and Speculators. Hedgers are looking to protect an underlying asset or portfolio from fluctuations in market conditions. Speculators are looking to profit from fluctuations in the market.

Bidirectional Market

In the futures market, there is no transactional difference between buying first and selling later (going long) or selling first and buying later (going short).

As such, there are opportunities for gains in any market condition.

* Source: <http://www.investopedia.com/terms/f/futurescontract.asp>

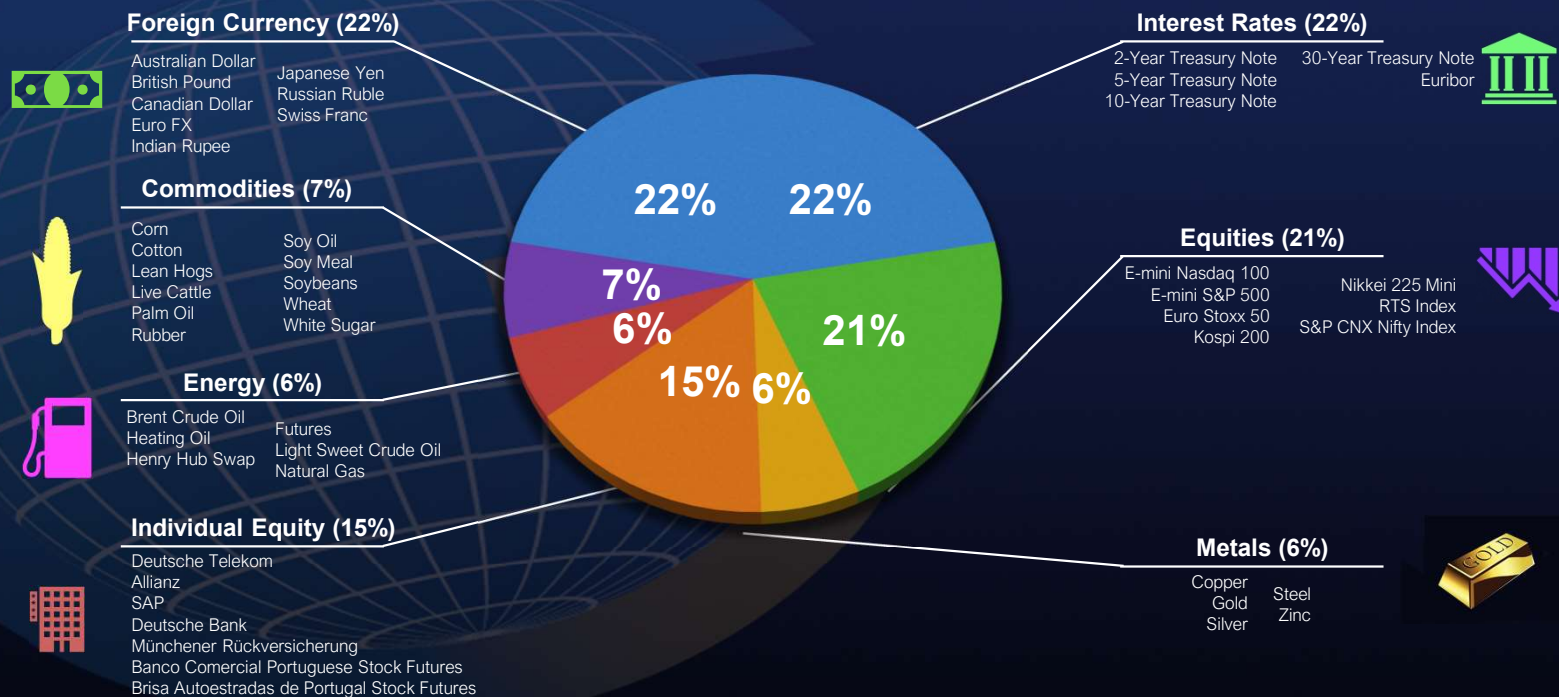
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Diversification of the Futures Markets

The Futures Markets provide access to potential opportunities in a variety of different global markets including Equities, Interest Rates, Foreign Currencies, Metals, Energy, Agricultural Commodities and more.



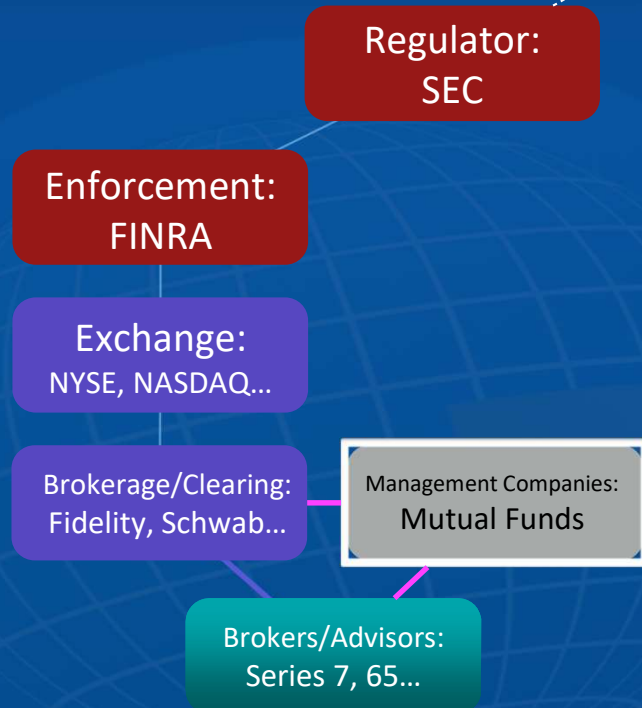
The above list is only a partial list of the futures products currently available around the world
 "Other" represents the remaining 1 percent. Source: FIA 2012

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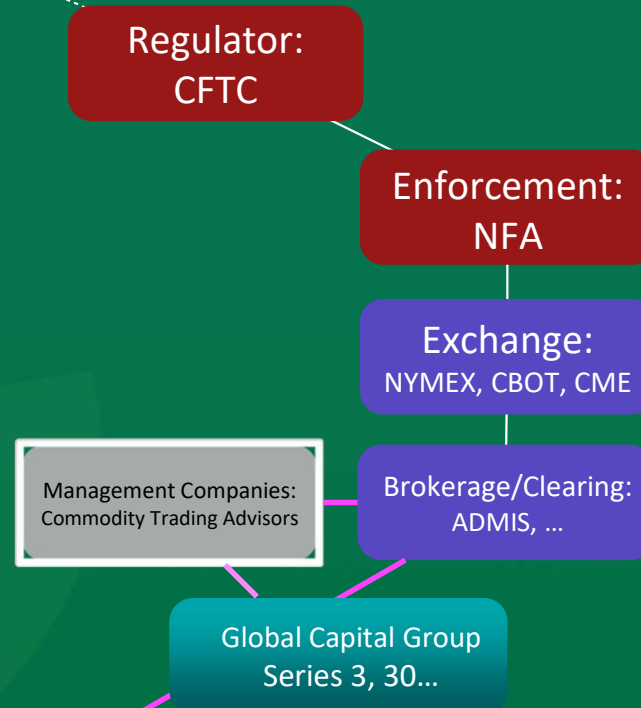


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Securities



Futures



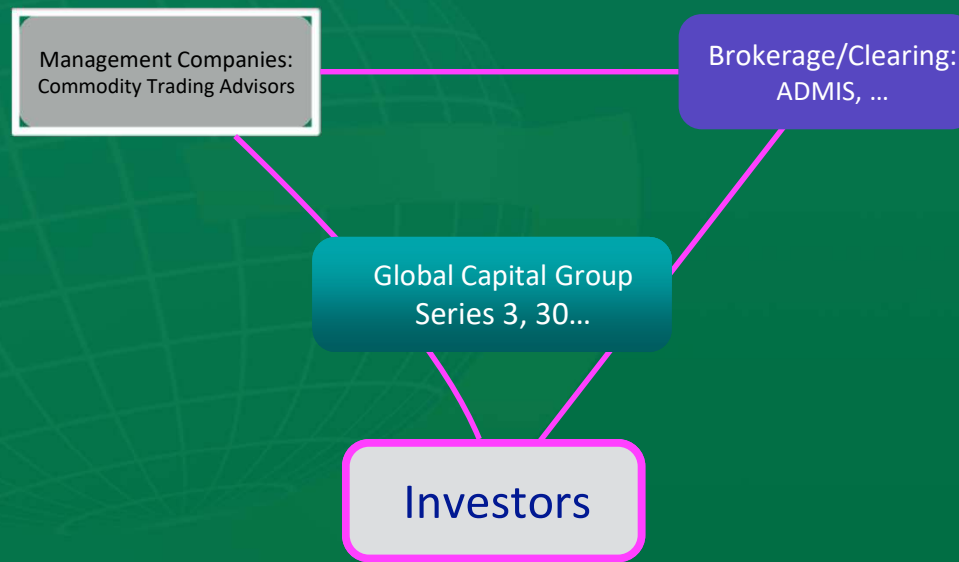
Investors



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Professionally Managed Futures Accounts

A.K.A. Absolute Return Strategies



What is a Commodity Trading Advisor?

- Licensed and Regulated Entity that Uses Futures Contracts and Options to Attempt to Generate Profit for Their Clients
- May be Highly Specialized in One Niche of the Futures Market with Decades of Corporate Hedging Experience and Industry Contacts
- Not a “Pooled” Investment, Rather an Agreement Between the Client and the CTA for the CTA to Trade on the Client’s Behalf - Not a Futures Fund
- Performance is Not Dependent on the Direction of the Market, but the Proprietary Strategy of the CTA - *“Absolute Return Strategies”*

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Absolute Return Strategy

- A strategy that generates Alpha. Alpha is the **excess** returns of an investment relative to the return of a benchmark index.
- Absolute Return Strategies aim to produce a positive return, irrespective of rising, flat, or falling markets (Alpha). They use investment techniques such as futures, options, longs, shorts, spreads, arbitrage and hedging.
- Examples of Absolute Return Strategies would be Hedge Funds and Professionally Managed Futures Accounts.

** Absolute return strategies do not guarantee generation of Alpha.*

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Analysis of Mutual Funds & Professionally Managed Futures (PMF)

Mutual Funds	Managed Futures Accounts
Diversification in Equities	Diversification across Asset Classes
Professional Management	Professional Management
Regulated: SEC & FINRA	Regulated: CFTC & NFA
Opportunity for Returns: Bull Markets: Yes	Opportunity for Returns: Bull Markets: Yes
Opportunity for Returns: Bear Markets: No	Opportunity for Returns: Bear Markets: Yes
Opportunity for Returns: Flat Markets: No	Opportunity for Returns: Flat Markets: Yes
Money Given to Fund Company	Money Stays in Customer's Account
No Daily Visibility to Positions	100% Visibility of Positions, Prices, P&L
Fees based on AUM	Fees based on Performance
Penalties for early withdrawal are typical	No Lockup Period; One Day Liquidity
Repeatability of Returns Dependent on Market Direction	Absolute Return Strategies; Not Market Dependent

Past performance is not necessarily indicative of future results.

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How Managed Futures (MF) May Solve Systemic Risk

- Need to Use Different Asset Classes
 - MF utilize the Futures Markets not the Stock Market
 - The Futures Markets are Very Diversified
- Asset Classes Must be Uncorrelated
 - MF Tend to be Positively Correlated with Volatility
 - ❖ MF Gained 17.59% in 2008[^]
 - ❖ MF Have been Positive During the Last 5 Major Stock Bear Markets^{*}
- Asset Classes Must Independently have Solid Performance
 - MF have Outperformed the S&P 500 since 1980^{**}
 - MF worst peak-valley loss of 12% is far less than the 50%+ losses in stock indexes (S&P 500, Nasdaq, Nikkei 225, MSCI World, etc)
- Employs Numerous Trading Strategies to Increase Diversification
 - MF Employ Short and Long Trend Following, Arbitrage, Spreads, Options and Many Other Strategies not Readily Available in the Stock Market

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[^]Managed Futures as an asset class does not necessarily imply that individual programs were positive.

^{*} Source: Bloomberg and AlphaMetrics

^{**} Source: AutumnGold. Shown in "Modern Portfolio Theory 2015 approved," p. 9.

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Materials ^SP500-15	0.68	1									
Industrials ^SP500-20	0.70	0.89	1								
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Consumer Staples ^SP500-30	0.37	0.60	0.69	0.64	1						
Health Care ^SP500-35	0.51	0.73	0.77	0.71	0.70	1					
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Information Technology ^SP500-45	0.48	0.76	0.76	0.88	0.64	0.70	0.65	1			
Telecom ^SP500-50	0.60	0.74	0.76	0.76	0.54	0.72	0.73	0.75	1		
Utilities ^SP500-55	0.23	0.36	0.40	0.42	0.64	0.47	0.32	0.39	0.37	1	
Real Estate ^SP500-60	0.39	0.63	0.65	0.70	0.71	0.66	0.57	0.62	0.61	0.76	1

Non-Correlated or Negative Correlation	Well Diversified	-1.0 - 0.0
Little to No Correlation	Well Diversified	0.01 - 0.2
High Correlation	Poorly Diversified	0.21 - 0.5
Very High Correlation	Little to No Diversification	0.51 - 1.0

- Individual sectors of the S&P 500 are highly correlated to each other
- High Correlation Results in Low Diversification

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Diversification of Risk with Managed Futures*

Jan 2013 - December 2022

	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom	Utilities	Real Estate	BTOP 50
Energy ^SP500-10	1											
Materials ^SP500-15	0.68	1										
Industrials ^SP500-20	0.70	0.89	1									
Consumer Discretionary ^SP500-25	0.51	0.79	0.80	1								
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Utilities ^SP500-55	0.23	0.36	0.40	0.42	0.64	0.47	0.32	0.39	0.37	1		
Real Estate ^SP500-60	0.39	0.63	0.65	0.70	0.71	0.66	0.57	0.62	0.61	0.76	1	
BTOP 50	0.08	0.02	0.02	0.01	0.20	0.06	0.08	-0.04	0.01	0.12	0.11	1

Non-Correlated or Negative Correlation	Well Diversified	-1.0 - 0.0
Little to No Correlation	Diversified	0.01 - 0.2
High Correlation	Poorly Diversified	0.21 - 0.5
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- The Managed Futures Index has very little correlation to the sectors of the S&P 500
- Allocating a small percentage of one's portfolio to Managed Futures may provide uncorrelated returns to the stock market while having the potential to reduce portfolio risk

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How Did Each Asset Class Perform in 2008?



● Stocks:	
→ US Stocks -	Down -38.41%
→ World Stocks -	Down -42.08%
● Real Estate –	Down -43.12%
● Commodities Index –	Down -23.74%
● Barclay Hedge Fund Index**	Down -21.63%
● Managed Futures^ –	Up +17.59%

Past performance is not necessarily indicative of future results.

^Managed Futures as an asset class does not necessarily imply that individual programs were positive.

** Source: attaincapital.com/alternative-investment-education/managed-futures-newsletter/investment-research-analysis/313

** Source: http://www.barcleyhedge.com/research/indices/ghs/Hedge_Fund_Index.html

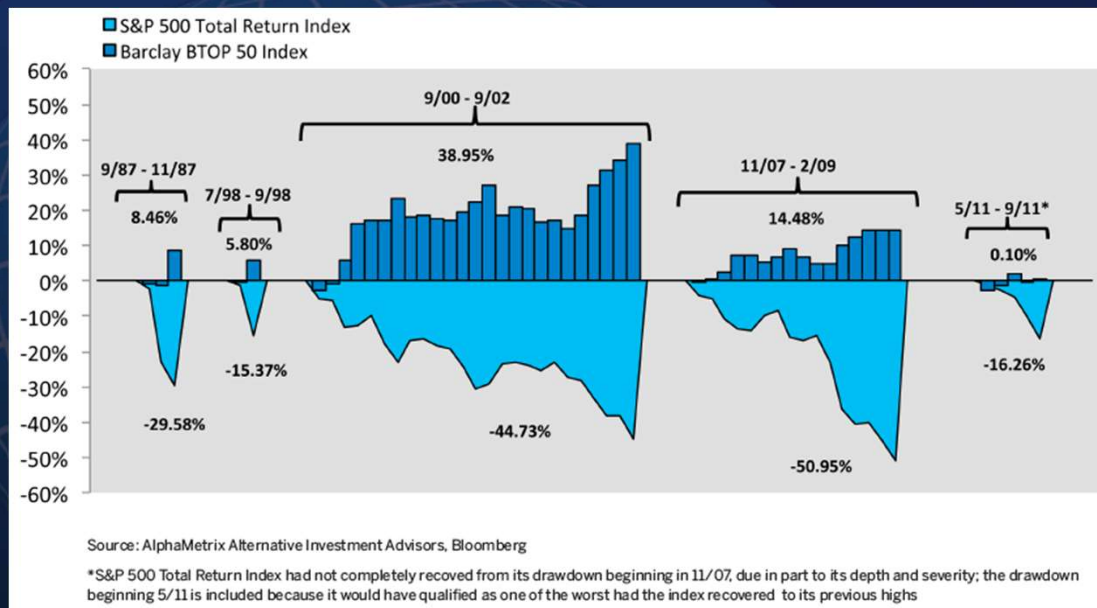
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BTOP 50 vs. S&P 500 Total Return Index's Worst Five Drawdowns since 1987

During All Five Worst S&P 500 Drawdowns, the BTOP 50 Managed Futures Index was Positive



January 2022 (9 Months) - S&P **down 23.86%**

→ BTOP50 (9 Months) **up 9.3%**

January 2020 (3 Months) - S&P **Down 19.6%**

→ Btop 50 (3 Months) - **Up 1.1%**

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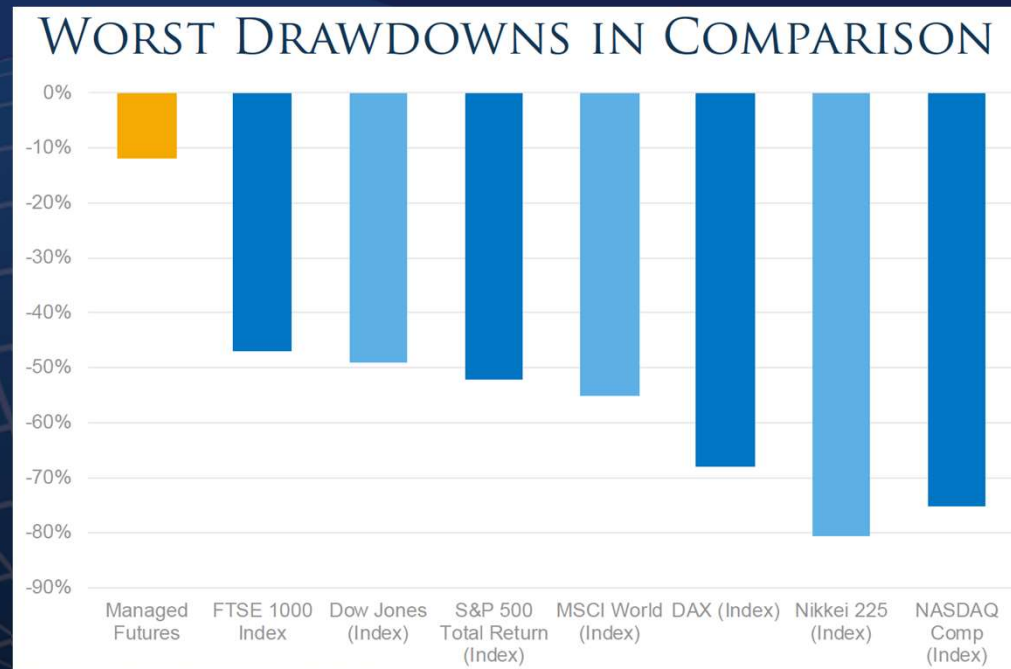
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* Data Compiled on AutumnGold
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Drawdown Comparisons

***Managed Futures had the Lowest Drawdown
(Peak to Valley Loss) Compared to 7 Major Indexes***



Managed Futures: CASAM CISDM CTA Equal Weighted Index reflects the average return for CTAs reporting to CISDM database. In order to be included in a CISDM CTA Index, a CTA must have at least \$500,000 under management and at least a 12- month track record.

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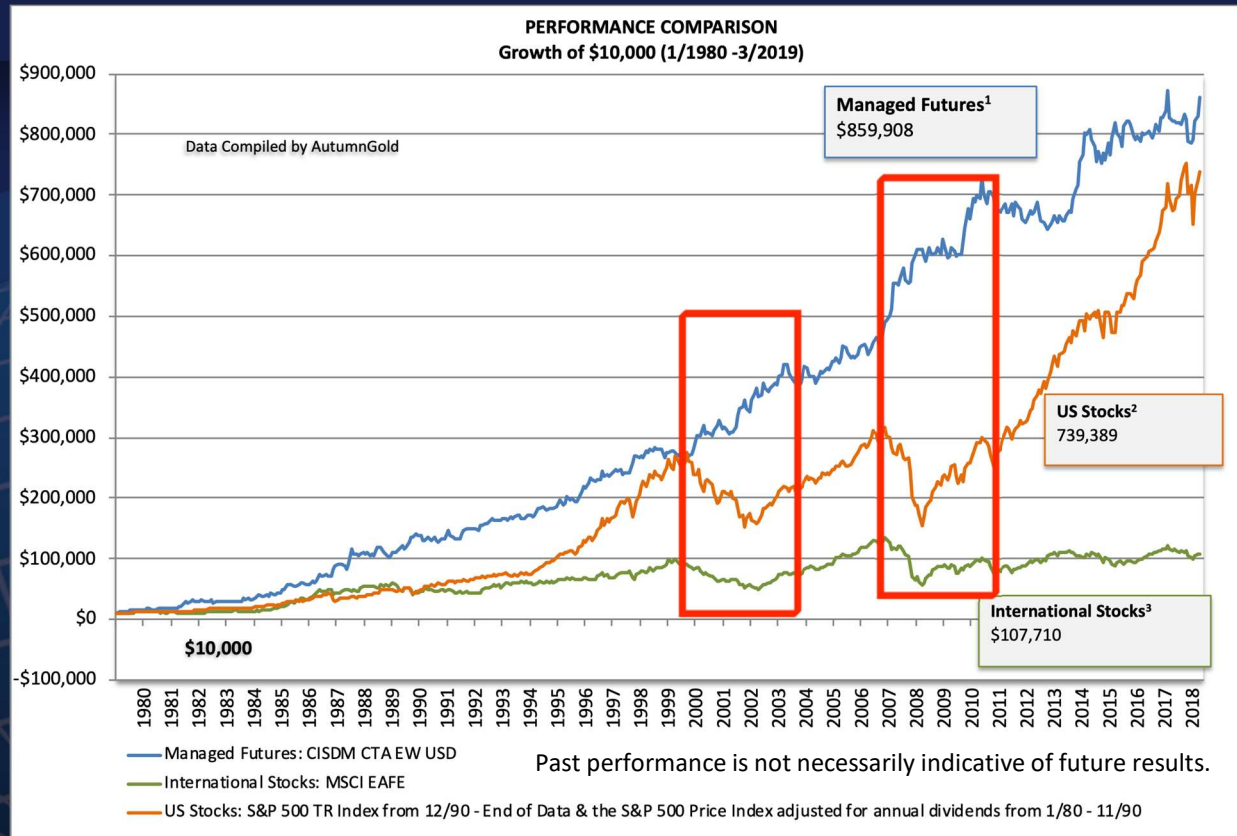
Based on a period from 1/90 to 8/18. Source: Autumn Gold.

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Performance Comparison of Managed Futures vs. S&P 500 TR



1- Managed Futures: The Barclay CTA Index is a benchmark of representative performance of commodity trading advisors. There are currently 535 programs included in the calculation of the Barclay CTA Index for 2018. 2- US Stocks: The S&P 500 TR. 3- International Stocks: The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of 22 major developed markets excluding the US & Canada. THE USE OF THE PHRASE MANAGED FUTURES REFERS TO THE ASSET CLASS, AND NOT TO ANY INDIVIDUAL COMMODITY TRADING ADVISORS PROGRAM. BE ADVISED THAT AN INDIVIDUAL PROGRAM COULD HAVE BETTER OR WORSE PERFORMANCE RESULTS WHEN COMPARED TO THE STOCK MARKET.

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Benefits of Managed Futures in a Well-Balanced Portfolio

- Potential to lower overall portfolio risk
- Opportunity to enhance overall portfolio returns
- Broad diversification opportunities
- Regulated and Professionally Managed
- Opportunity to Experience Returns in all kinds of economic environments Using Absolute Return Strategies

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The Yale Endowment Difference

Managed Yale Endowment From 1985 Until His Death in May 2021

Drastically changed Asset Allocation to Favor Absolute Return Strategies

Became the “Father of the Modern Endowment Portfolio” through decreased dependence on Stocks



David Swensen

“One of the most important metrics that we look at is the percentage of the portfolio that’s in what we call uncorrelated assets. And that’s a combination of absolute return, cash, and short-term bonds. **And those are the assets that would protect the endowment in the—in the event of a market crisis.**”

“Alternative assets, by their very nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management.”

– Yale 2018 Endowment Report

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Yale Endowment Accomplishments

- Second largest endowment at \$42.3 Billion
- Yale has consistently outperformed all other endowments
- Average return last 20 years was 12.1% ,versus S&P 500 return of 10.42% (All dividends Reinvested)*
- Yearly Returns from Endowment used to pay One-third of Yale's Yearly Operating Expenses
- Yale Endowment's largest Investment allocation is NOT in Stocks

Where is it?

Past performance is not necessarily indicative of future results.

* Source: * Source: <https://www.institutionalinvestor.com/article/b17qpx3nyyqywd/we-crush-stock-indexes,-yale-claims>

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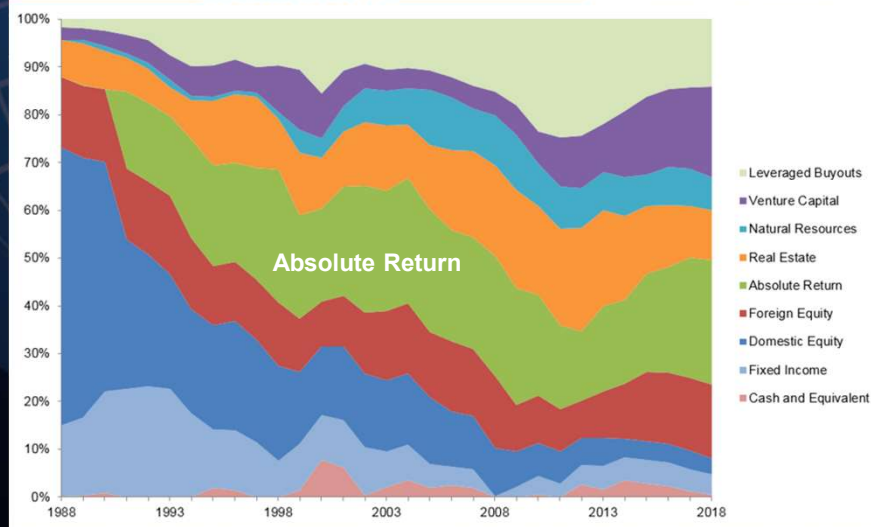
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Yale Endowment Asset Allocation

Allocation by Asset Class

	2021 Ending June 2022
Absolute Return	21.6%
Domestic Equity	2.3%
Fixed Income	4.2%
Foreign Equity	11.4%
Leveraged Buyouts	15.8%
Natural Resources	3.9%
Real Estate	8.6%
Venture Capital	22.6%



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- Absolute Return Strategies are one fifth of portfolio (21.6%)
- US Equity Exposure has Been Reduced to 2.3% from a 5 year high of 4%
- **Morningstar** Suggests an Optimal Allocation of 20% into Managed Futures (Absolute Return Strategies)**

* Source: investments.yale.edu

** Source: Managed-Futures Category Handbook, Morningstar Publications



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Morningstar Managed Futures Model Portfolio*

Figure 7 Managed Futures Model Portfolio (through Sept. 2011)

Asset Allocation	10-Yr Return (Annualized)	10-Yr Std. Dev. (Annualized)	10-Yr Sharpe (Annualized) Ratio	10-Yr Sortino (Annualized) Ratio	10-Yr Morningstar Risk-adjusted Return
60/40 Portfolio	4.44	9.41	0.30	0.42	1.51
5% Managed Futures*	4.69	8.63	0.35	0.50	1.91
10% Managed Futures*	4.93	7.88	0.40	0.59	2.27
20% Managed Futures*	5.37	6.55	0.54	0.82	2.91

*Funded from the stock portion of the 60/40 portfolio.

Past performance is not necessarily indicative of future results.

- ➊ Adding 20% Managed Futures to the 60/40 Stock/Bond Portfolio (40% Stocks, 40% Bonds, 20% Managed Futures) Provided:
 - ➔ Lowered Risk on average by 30% every year
 - ➔ Increased Return on average by 21% every year
 - ➔ Increased Risk-Adjusted returns by 95% per year

* Source: Managed-Futures Category Handbook, Morningstar Publications

TRADING FUTURES AND OPTIONS INVOLVES SUBSTANTIAL RISK OF LOSS AND IS NOT SUITABLE FOR ALL INVESTORS. THERE ARE NO GUARANTEES OF PROFIT NO MATTER WHO IS MANAGING YOUR MONEY.



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Fiscal Year 2022 Results (July 2021 thru June 2022)

- Yale Endowment Gains **0.8%** for Fiscal 2022*
- Average Endowment in United States lost **8%** for Fiscal 2022*
- S&P 500 lost **12.4%** during Same Time Period
- Yale has added \$33.3 Billion More in Value Over the Past 30 Years than a 60-40 Portfolio**

Past performance is not necessarily indicative of future results.

* Source: <https://www.pionline.com/section/endowments>

** Source: <https://www.nytimes.com/2018/10/01/business/yale-endowment.html>

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How to Choose Your Investments - Analogy

- If you or your family were having brain surgery, what questions would you have for your Brain surgeon?
 - Training (College, Medical School, Residency)
 - Depth of Professional Experience (Generalist versus Specialist)
 - Length of Experience (Length of Time in General, and in Specific Operation Type)
 - Results (Number of Operations, Risk Types & Mitigation Plans, Success Rate, Failure Rate)
 - Cost
- What questions would you not ask?





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What Have We Learned? *

- Sectors of the S&P 500 are Highly Correlated to Each Other, Resulting in Little to No Diversification of Risk in the Stock Market
- Managed Futures May Provide More Diversification, Showing Less Correlation to All 11 Sectors of the S&P 500
- Managed Futures have been Positive during the last 7 major drawdowns of the Stock Market*
- Managed Futures Have Outperformed the Stock Market Since 1980
- Managed Futures May Enhance Diversification through Multiple Asset Classes, Strategies, Markets, Management Companies, Etc.
- Yale, MIT, and U of Penn all Utilize Substantial Allocations to Absolute Return Strategies such as Managed Futures to Outperform their Peers - You can, too.

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Twice since 2002 the Market Suffered near 50% Declines
This Requires 100% Gains to Get Back to Break-Even



Do you think the market has
more **upside** or **downside**?

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Q&A: Some Commonly Asked Questions

Can I use Managed Futures Accounts in my Retirement Portfolio?

Are the results shown Net of fees?

How do you get paid?

Is this a liquid investment?

How are Managed Futures Accounts taxed?

What are the fees?

Do you have account minimums?

Are these the same as Managed Futures Funds?

Can I just invest in one program?

Why doesn't my Financial Advisor talk about Managed Futures?

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Next Steps

- Call us for a personal consultation - answer your questions, perform a portfolio risk assessment
- We develop a custom Managed Futures Allocation for you, matching your risk tolerance
 - Principals of the CTAs
 - Training Experience
 - Depth of Experience (Generalist versus Specialist)
 - Length of Experience
 - Investable Results (AROR*, Sortino Ratio**, Largest Drawdown, Correlation with S&P 500 & with Paired CTA Programs)
 - Compare Results to S&P 500 - Evaluate Return Improvement and Risk Reduction in your portfolio
 - Analyze repeatability of results based on strategy, experience, economy, etc.

*AROR - Annual Rate of Return. **Sortino Ratio - A financial metric used to measure risk-adjusted returns between different investments in different markets.

**Sortino Ratio - Complete Definition: <https://xplained.com/262577/sortino-ratio>

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Building a Strong Financial Fortress

Harnessing the Potential Benefits of Non-Correlated Assets to Reduce Portfolio Risk



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