AIMA Highlights Benefits of CTAs

Stockholm (HedgeNordic) – Fresh research shows that investor portfolios containing managed futures funds perform better and exhibit less risk than those without them. Despite occasionally experiencing periods of underperformance, managed futures funds can provide competitive risk-adjusted and non-correlated returns coupled with limited drawdowns.

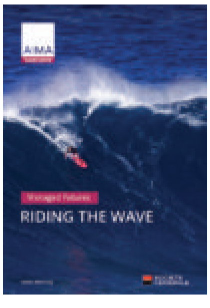
Managed futures strategies represent one of the main alternative investment strategies, accounting for roughly $340 billion in total AUM. Even though the CTA industry has been dominated by systematic trend following, all sub-investment strategies in the space have one common feature: they aim to generate absolute returns through active trading in global futures (and foreign exchange) markets.

In an educational paper titled “Riding the Wave,” the Alternative Investment Management Association – the global representative of alternative investment managers – together with Société Générale explain the role CTAs play in investor portfolios, as well as attempt to help investors make better informed decisions about the CTA sector.

AIMA and Societe Generale show that the performance of a traditional 60/40 portfolio, which has a 60% exposure to equity markets and a 40% exposure to bonds, can be enhanced with the addition of CTA strategies. Specifically, capital allocation to CTAs can increase returns and risk-adjusted returns (due to lower volatility), as well as considerably lower and shorten drawdowns. The paper shows that the largest drawdown, or the peak-to-trough decline, for CTAs since 2000 was less than one-fourth of the scale of the largest drawdown for global equities (-11.63% versus -53.65%).

Managed futures strategies perform particularly well relative to other asset classes in times of market stress. In times of market crisis, market participants become synchronised in their actions, which favours trend-following strategies. For instance, all CTAs in the managed futures database maintained by Société Générale reported positive returns in 2008, with many of those CTAs returning in excess of 30%. For another example, the CTAs included in the Nordic Hedge Index (NHX) returned 16.15% on average in 2008. Most importantly, AIMA and Société Générale find evidence that CTAs are normally able to benefit from having a positive correlation with equity markets in bull markets, and having a negative correlation in bear markets.

According to AIMA CEO Jack Inglis, the educational paper is designed to “help investors better understand managed futures and will go some way to dispel the idea that they are black boxes that can’t be understood.” To view the paper, please click below:



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