

# FOCUS

Newsletter of Horizon Cash Management LLC

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## BRIGHT SPOTS IN DARK MARKET

By Ginger Szala

The last few years have been rough for most commodity trading advisors, especially systematic and diversified traders. A group of CTAs who have performed well since the 2008 financial crisis are specialty traders, who focus on certain market sectors, or even certain styles such as short-term trading or mean reversion. Some allocators are looking to these specialists for diversification and return. Sol Waksman, founder of BarclayHedge, has been collecting data on commodity

## AN INSIDE LOOK AT THE SPECIALIST

By Ginger Szala

Despite their positive influence on portfolios, commodity trading advisors who specialize in certain commodities, complexes or even trading styles, are a slim piece of the asset allocation pie. For example, of the roughly \$331 billion allocated to CTAs, only \$1.21 billion goes to those who trade agricultural markets only, as of the end of 2013 according to BarclayHedge, which collects performance data on 1100 CTA programs. Not a surprise as only \$21.5 billion went to discretionary traders while the lion's share, \$283.4 billion, went to systematic traders.

Although 2008 was a great year for all CTA groups, especially systematic traders, performance overall has drifted down with the exception of the specialized and discretionary traders. Agriculture traders have done especially well. After an index ROR of almost 10% in 2008, and a substandard 2009 return of -1.4%, the index has been in the positive column since. Although they may not have the high highs of systematic traders, they definitely don't have the low lows.

The beauty of ag traders, and for many specialized sector traders, is they are not correlated to the pack, thus making an argument for inclusion in a fund or portfolio to provide the yin to the community's yang. For example, in January 2013, the Barclay CTA index had a return of -1.46%, with diversified traders having the worst overall index performance at -2.94% and systematic traders down 1.1%. The best performers? Ag traders, with the index up 2.89%.

Further, specialized traders are the least correlated to any of the BarclayHedge CTA indexes. The agricultural index' closest correlation is to the Discretionary Traders Index, with a .61 correlation (for the period from Jan. 1, 1987 through Jan. 31, 2014). That makes sense, as they largely are discretionary traders.

Currency traders, of the BarclayHedge indexes, have the second lowest correlation. BarclaysHedge discontinued its energy index in the late 1990s due to the reduced number of energy traders.

In 2012, William Blair and Co. released a white paper, "The Case for Commodity Long-Short Investing," which was updated from a report done a few years earlier by Guidance Capital prior to it being acquired by Blair.

The paper outlines the positives of not only long-short commodity funds as a diversifier, but also as a performer. For example, the Morningstar Long/Short commodity Index has risen 48 times since its inception in 1980 through December 2011, verses the long-only GSCI rising only seven times over the same period. Furthermore, volatility was significantly lower on the Long/Short index.

The study also points out that fundamental and sector specialists provide the benefits of 1) returns tend to come "in the form of alpha, driven by uncorrelated ideas often expressed through spread trades," 2) they may better "anticipate and profit" from trend reversals because of their in-depth fundamental analysis, and 3) this specialized group has been "shown to reduce the volatility of the portfolio when combined with the systematic managers."

To get inside the thinking and style of these specialized traders, FOCUS spoke with four sector specialized CTAs to see what different perspective as well as non correlation, these traders can add to a portfolio.

### Third Street Ag Investments

AUM: \$27 million

Total return from December 2008-January

2014: 27.63%

Compounded annual return: 4.83%

Key correlations:

Vs. Barclay CTA Index: -.06

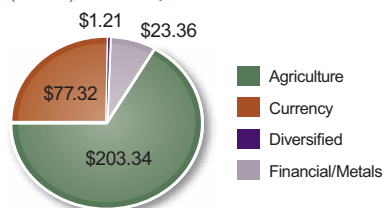
Vs. FOF Index: .07

Vs. S&P 500: .06

The combined trading experience of Third Street Ag Investments team is close to 70 years, and all of those years were spent analyzing and trading the agricultural markets either on a trading desk upstairs or on the trading floor. In 2012, Bob Otter and Chad Burlet decided to launch Third Street Ag, using Burlet's trading

### Assets Under Management

(billions) as of February 2014



### Systematic vs. Discretionary AUM

(billions) as of February 2014

