Keep on innovating

It was Hilary Till—who writes "Is roll yield still a useful concept?" (page 18) in this issue— that wrote a year ago about how the futures industry has a way of innovating its way out of tough periods (see "Chicago's futures industry: A story of crisis and opportunity," Futures, February 2014). Well, the various headwinds and headaches the industry has faced has impacted the managed futures sector as severely as any portion of the industry.

First the trend-following driver of the sector has suffered through poor performance ever since its historic breakout year of 2008. Then, add the twin debacles of MF Global and PFG, which may have adversely affected commodity trading advisors more than any other registered futures entities, and, of course, consider the subsequent regulatory fixes that put more burden on the victims of those frauds.

While performance goes through cycles, the recent struggles lasted longer than most poor performance periods, and the larger investment world had always viewed trend following with skepticism. The extraordinary stimulus from the Federal Reserve following the 2008 credit crisis, which created a risk-on/risk-off environment for markets may have affected performance, but this is a bottom line world.

With all this, not only did managed futures break out of its slump in 2014 — the Barclay CTA Index returned 7.69% and the Barclay BTOP50 Index returned 12.29% — but the industry has continued to innovate.

As Till foretold a year ago the industry finds a way. Here we present several new products that reveals the innovative spirit of the industry. Individually they couldn't be any more different, but that is not to say one is right and the other wrong.

The idea of creating hedge fund and managed futures beta through investable indexes is not new, but MSR Investment's Michael Rulle takes it a step further by creating core return driving strategies he uses as the building blocks for 1000 indexes and a platform to test existing managers (see "The DNA of Performance," page 22). Traders and investors can use the tool as a way to gain exposure to various market segments or to test whether a manager they are investing in is truly providing alpha.

What's neat about this tool is how it helps educate traders about the nature of returns. It is hard to say what the ultimate purpose of this tool will be, but it should improve people's understanding of where returns comes from.

In "Covenant Optimal: Coming full circle," (page 26) we describe how Scot Billington and Brince Wilford, principals of Covenant Capital Management, are offering a high return strategy they argue puts less capital at risk.

In the past few decades it seems that managers targeting more than 20% had to almost apologize as the prevailing investment wisdom favored lower volatility approaches.

Covenant turns that approach on its head, but they aren't simply leveraging up their existing programs for show, they have a plan supported by research backing up their approach to asset management.

We are rightfully proud that both of these firms should be familiar to readers: Both have been profiled in the pages of *Futures* before — Covenant several times and initially as a "Hot New CTA" more than a decade ago.

In evaluating managers, I never had a bias for low or high volatility strategies. The focus was always on whether the risk in a strategy was properly revealed. Too often there is an assumption that low volatility is better and perhaps safer. Often lower volatility is more expensive because an investor needs to notionally fund it, and pay higher fees, to get more bang for his buck. Allocators seem to foucs more on Sharpe ratios—particularly in strategies were it isn't relevant—than returns. All returns need to be measured by the amount of risk taken to achieve them but as Billington says, you can't spend a Sharpe ratio.

We have often reported on the non-correlation benefits of managed futures and how it can enhance your portfolio, but Tim Pickering introduces an index and resesarch that illustrates this in his piece, "Improving on the correlation benefits of managed futures," (page 28). Pickering's study takes this a step further by showing how a dynamic allocation model to managed futures can benefit your overall portfolio.

Back to Till, her examination of the long-term effect of roll yield, yielded some interesting information. She found that returns form long exposure to crude oil were greatly enhanced when filtering out exposure during periods of contango. Perhaps a bit premature to build a trading strategy, but it shows the power of research and looking at markets in a different way.

The work being done by all these folks illustrates the point Till made a year ago about the ability of the industry to rebuild and innovate its way to new horizons of growth. This is a dynamic industry with smart and dedicated people working to find new ways to efficiently trade and provide alpha to investors.

While it is great to see the long cold streak for managed futures end and for so many managers to produce positive returns, the real reason for optimism is the creative work being done by so many in the futures world.

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A Note to our Readers

Much like the futures industry, *Futures* Magazine has evolved over the years to survive and grow. As this issue marks our 43rd year as the trader's premier print publication, I am thrilled to be able to announce Daniel P. Collins as our new Editor-in-Chief. No one is more qualified to lead *Futures* editorial than Dan. In fact, Dan previously held the Managing Editor position from 2005 through early 2013 and has contributed as a writer in every issue of *Future*s since 2001. Dan is a prolific writer, a provocative commentator and, with his 25 years of experience in the industry, is plugged in to every aspect of the futures and alternative investment world.

While we at The Alpha Pages are focused on the expansion and evolution of *Futures* Magazine in anticipation of our 500th issue later on this year, Dan similarly is focused on the next stage of evolution of the futures industry. But, that is his story to share....

Welcome back, Dan!

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