



July 1, 2010

## Commentary



Professionalism. It's a buzz word across the entire business world. But what does it mean, really? Webster defines professionalism as: "the conduct, aims, or qualities that characterize or mark a profession or professional person." That's a bit vague for my tastes, [Businessdictionaryonline.com](#) says this: "Meticulous adherence to undeviating courtesy, honesty, and responsibility in one's dealings with customers and associates, plus a level of excellence that goes over and above the commercial considerations and legal requirements" That's a better definition of professionalism, and one that resonates in the managed futures world.

CTA's as money managers have various levels of professional and ethical standards to adhere to. There are the legal requirements that hedge funds don't have. The CFTC has laws that enforce limits on conduct hopefully reducing the chance for deceptive or outright fraudulent practices to harm the public. So too with the rules that the NFA promotes and enforces. But ethically, CTA's should have a deeper obligation to their investors/clients. CTA's should take on the burden of acting in the client's best interests. That could mean passing up on taking on a new account from someone who for more reasons than just a "means test" shouldn't engage in trading futures. It might mean getting to know your clients and suggesting they close their account if their situation or needs have changed. There are dozens of possible scenarios where a CTA who puts their clients needs ahead of their own might, by acting in the clients best interest, diminish their own prospects. But that's the way it should be.

I'll admit that's a touchy subject. People will be tempted point to their disclosure documents and remind everyone that we do spell out in a very specific manner that there are no guarantees and that commodity trading is inherently risky. But if you're the kind of manager people should be looking for, the one who treats every penny under management, not as his own to use, but as if it were his own to grow and tend to, then you're probably watching out for your clients best interests already. And if you're not that kind of CTA, you should ask yourself, "why not?" This weeks "Five Minutes with" interview is with Tom Pearson of Cortland Fund Services. Tom points out that one way to present your CTA professionally is to bring in outside experts. Keeping clients clearly informed about what's happening with their money is a great step in assuring that you are indeed being "professional".

---

### **Five minutes with Tom Pearson, President of Cortland Fund Services, LLC.**

Pearson has over 30 years experience in the financial services and accounting industries. Prior to Cortland, Pearson was a founder and managing member of IFA USA LLC, a fund administration company with offices in BVI, the UK and the USA. During his career he has served as Chief Financial Officer and senior executive for [Peregrine Financial Group](#), Inc., a regional futures brokerage firm and Gerald, Inc. an international futures brokerage firm. He has extensive experience with fund formation, regulatory compliance and fund reporting. Tom started his accounting career in public accounting at Arthur Andersen & Company, holds a BSBA from Drake University, and is registered with the [National Futures Association](#) as a [Series 3](#). JLN Managed Futures spoke with Tom about his industry experience and how a fund administrator can enhance the image and raise the professionalism of a [CTA/CPO](#).

**Q:** How has the industry changed over the last 20 years?

**A:** The professionalism of the trader has changed. It's no longer a successful floor trader who thinks, "I can generate 300% per year", you don't see that now. The managers who bring in outside money are organized, and present a thoughtful, professional image.

**Q:** Fund administration ties in to that trend doesn't it?

**A:** Yes. We started the fund admin business about five years ago when I left [PFG Best](#). Because of our futures background we see a lot of CPO's where the need for accurate professional reporting is critical.

**Q:** What made Cortland think about becoming involved in the CTA/Managed Futures space?

**A:** As an administrator Cortland is familiar with numerous asset classes and investment strategies and maintains connectivity with all major FCMs and prime brokers. Cortland's staff has an average of more than 10 years in the administration of a multitude of investment assets including futures and options on futures and a platform that can efficiently process performance data and produce accurate reports.

**Q:** It's pretty clear that to find real success as a [CTA](#), reporting and back office procedures are important, how can a services provider/fund administrator aide a [CTA](#) ?

**A:** A fund administrator's procedures should be SAS 70 Type II certified, therefore the client receives the immediate operational benefit of a professional back office staff familiar with futures trading activity and a system that aggregates trade data from numerous sources allowing efficient consolidation and professionalized reporting. Often CTAs are focused entirely on markets & trading - that is what they are good at and where they add value. Full service fund administrators are focused on accounting and back office administration. For many CTA's, they can gain access to advanced systems and the best practices of a focused fund administrator for less than the cost of one professional level employee. >

**Q:** Are there common mistakes that Cortland sees CTA's making?

**A:** Underestimating the effort involved in marketing and attracting investors. Spending a large amount of time and resources calculating and benchmarking performance at the investor level. Too detailed and too lengthy explanation of the strategy – the investor should be able to understand the overall concept in less ten minutes or less.

**Q:** From your vantage point, when should a CTA start looking for for a fund administrator?

Upon registration, we believe that an administrator can provide valuable counsel from the time the CTA starts business.

**Q:** Is there a size threshold for a CTA when looking at administrators? (AUM? Number of accounts?)

**A:** The size threshold is different for each [CTA](#). For example, a CTA with numerous small managed accounts may find the services of an administrator reduce the CTA's operating cost by eliminating the CTAs need for staff and further allowing the CTA to devote more time to trading activities and marketing. A CTA with few accounts but larger minimum account sized may find that his/her investment base gains comfort in knowing a third party is providing appropriate performance reports and oversight regarding cash transfers.

**Q:** What are the things investors and managers should look for when seeking out an administrator?

**A:** The 10 minimum service levels investors and managers should seek when deciding upon a third party administrator are :

- The delivery of valuations at the frequency requested by the fund manager whether it be daily, weekly or monthly.
- The delivery of investor information within five to seven business days for all their clients that are not fund of funds or private equity funds, with investors able to choose whether they receive their information by e-mail, fax or mail.
- Independently pricing of every position in every portfolio for each valuation, if possible. This is

- good risk management and is beneficial to fund investors.
- “One point of contact” for each [fund](#). This makes administrators more responsive rather than the separate accounting and shareholder teams that some administrators use.
- The management of the audit process for funds so that it is completed in the timeframe determined by the manager.
- Knowledge, experience and best practice (SAS 70) should be utilized to provide advice on the structure, jurisdiction and reporting of the fund, appropriate to the fund's investment strategy and target investor base. A value-added service which will ultimately benefit the marketability of the fund.
- Responsiveness that ensures e-mails and phone calls are returned within finite time periods.
- Staff experience and location
- Corporate secretarial support for fund managers and their funds. An efficient corporate secretarial team with the administrator can save time when compared to using a separate service provider and it is also easier to have one point of contact with the administrator.
- Acting as signatories and managing bank accounts in an effective way. This adds an additional control for fund managers and additional reassurance for investors.

**Q:** Are there questions or performance numbers that clients are looking for that CTA's are often missing?

**A:** Performance numbers that are required by investors relate to the sophistication level of the investor or their financial advisor. Over the last 18 months, we (Cortland) are fielding a material increase in requests for assistance in applying GIPS (Global Investment Performance Standards) performance reporting. At a minimum, the CTA should be prepared to discuss risk management guidelines and policies that are in effect to adjust trading programs in the event market conditions change dramatically.

**Q:** Have you seen a flow of cash into CTA's? Why do you think that is?

**A:** We have seen an increased interest level in futures related investments. Investors are seeking better returns with higher transparency and liquidity. We are seeing people who have never been interested in managed futures start looking around. I think there's a lot of cash on the sidelines looking for a reasonable return. You're also seeing CTA's and CPO's who are getting better at marketing and who are creating their own investor interest. Engaging a fund administrator can free the CTA up to give the appropriate amount of time to marketing their management services. We can provide a full professional staff for less than the cost of one “in-house” senior staff member.

**Q:** Do you think the back office functions are as important as the trading functions?

**A:** Yes, in light of all the Ponzi schemes that have been exposed lately, there's a sincere interest on the part of investor community regarding knowing where the money is and how it's being handled. They want more transparency, they want to know exactly where their money is, and they really like that there's a third party who's watching over the money and that there are controls that keep the trader from moving cash around without reasonable oversight. We've seen investors come and visit us as a form of due diligence. There used to be “one man” CTA's where yesterday's statements might have just been lost in the disorganization. Engaging a fund administrator can eliminate that possible pitfall.

**Q:** Any tips for CTA's?

What we've been told by many investors is that if a manager can't explain their strategy clearly in five or ten minutes, if it's too complex to be readily understood, then they'll tend to walk away.

## Industry News

<http://jline.ws/cNNPIx>

### Hedge Funds Are Down For the Year

by John Curran

You think you've got it rough. Consider the poor hedge fund manager, who has an awful lot riding on the

percentage gains he or she is able to post for clients. The reason is that hedge fund skippers pocket about 20% of the fund's gains in addition to their annual fee. Of course, it's a bit more complicated than that because to pocket a juicy cut of profits hedge funds must be above the high water mark in performance (i.e. the fund can't be clawing its way back to its old high,) and there could still be many funds that are under that mark due to the devastating losses of recent years. But for the rest, 2010 could be a year of big payoffs. Only problem is, it isn't.

A new Merrill Lynch report from technical analyst Mary Ann Bartels notes that year to date the average hedge fund is in the minus column, having lost 50 basis points, or one-half percentage point. That may not sound like terrible performance in these troubled times, but it is if you are counting on your 20% cut. Certainly not all hedge funds are in the red as some sub specialties such as convertible arbitrage funds are posting decent gains so far in 2010. But overall it's been rough.

6/29/2010

<http://curiouscapitalist.blogs.time.com>

<http://jline.ws/dC05RA>

### **What Hedge Fund Managers Think of Financial Reform**

by Paula Schaap

Whether the financial reform bill makes it through the thickets of a highly partisan legislature before the U.S. Independence Day holiday is still an open question, especially after the death this week of Sen. Robert Byrd (D.-W. Va.) at 92. But whatever finally comes out of the debate over how to bring the financial system into the 21st century technological world from the 20th century Industrial Revolution economy it was designed for, the effects will be felt on both the financial sector and the financial industry.

6/30/2010

Hedgfund.net

<http://jline.ws/bDUFUc>

---

## **Strategy**

Foundations post big returns in 2009: Commonfund Institute

By Timothy Inkebarger

Foundations and charities reported returns of more than 20% in 2009, an increase of almost 50 percentage points from a year earlier, according to a survey by the Commonfund Institute. The returns also were the highest in the eight-year history of the Wilton, Conn.-based Commonfund Institute's Benchmark Study of Foundations and in the six-year history of its separate Benchmark Study of Operating Charities. Foundations returned an average 20.9% and operating charities returned 21.5% for the year ended Dec. 31, 2009. Both suffered losses of 26% in 2008. Three-year returns for foundations and charities were an annualized -1.1% and -0.7%, respectively, and five-year returns were 3.6% and 4%, respectively.

7/1/2010

pionline.com

<http://jline.ws/cN2pgJ>

### **Beyond Stocks And Bonds: A True Alternative Investment**

By Bruce Greig

We have all heard the adage "don't put all your eggs in one basket," and most of us have been told this in the context of investing. Surely, you wouldn't put all of your money in one stock, one mutual fund, or even one asset class. This lesson was painfully learned in 2008 when everything seemed to lose value. Stock and bond indexes were down, as were real estate, commodities and even most hedge funds. Perhaps the traditional definition of "diversification" has been too narrow. But was there a "safety net"? There was: managed futures. Professional money managers, known as commodity trading advisers (CTAs), invest in managed futures. There are more than 1,500 registered CTAs, each with a unique managing style. Similar to mutual funds, risk varies among CTAs. Some invest very conservatively, and others more aggressively. Managed futures have been used by investment professionals for more than 30 years and now represent over \$200 billion in assets. High-profile endowments, such as those at Yale and Harvard,

have utilized managed futures, in part, to generate their impressive returns over the past decade.

6/28/2010

fa-mag.com

<http://jline.ws/9DB0J7>

---

## Markets

### Commodities Lose Their Way

Commodities used to be different. Often used as a [hedge](#) against inflation, investing in commodities has traditionally had a low or even negative correlation with equities. In hard times, investors have traditionally shifted their investments from stocks into the safety of hard assets like commodities. At least that's the way it used to be. Tuesday's tumble in the financial markets underscores a recent trend of commodity markets moving in tandem with global equity markets. While the [S&P 500](#) dropped 3.1%, the Reuters/Jefferies [CRB](#) Index of 19 raw materials also fell 2.8%.

6/30/2010

Forbes.com

<http://jline.ws/cNNPIx>

### Commodity Slump Means Worst Quarter in Year on Growth Outlook

By Maria Kolesnikova and Anna Stablum

Commodities are heading for their worst quarter in more than a year on investors' concern that slower growth from China to the U.S. will sap demand. The S&P GSCI Total Return Index of 24 raw materials plunged 11 percent since the end of March, led by declines in industrial metals, gasoline and crude oil. That's the steepest decline since the fourth quarter of 2008 and the first time prices dropped in the first-half since 2001. The gauge climbed 0.1 percent to 4,016.1 at 5:32 p.m. in London.

6/30/2010

Businessweek.com

<http://jline.ws/dqugoX>

---

## Regulation

### Finance Bill's Fate Uncertain in Senate

By Victoria McGrane and Corey Boles

The most sweeping overhaul of financial regulations since the 1930s is on a knife's edge as Democrats scramble to secure the Senate votes needed to pass the legislation.

The death of Sen. Robert Byrd (D., W.Va.) robs Democrats of a vote to push the bill toward final passage. Another Democratic senator, who voted against an earlier version of the legislation, said Monday he wouldn't support the final product either. And the late addition of a fee on banks and hedge funds to cover the cost of the legislation is roiling the few Republicans thought likely to vote for the package. Democrats need to retain the remaining 57 Democratic and Independent senators and also win over at least three Republicans to meet the key 60-vote threshold needed to pass the bill. As of Monday, no Republican had committed to voting for the legislation. Sen. Christopher Dodd of Connecticut, who's charged with guiding the legislation through the Senate, said he "always" worries about having enough votes, but declined to answer further questions. "Let me do my work," he said, before heading off to meet with Sen. Olympia Snowe, one of the Maine Republicans open to voting with Democrats.

6/29/2010

wsj.com

<http://jline.ws/9Pjxtb>

## **CFTC Issues Report on NFA Registration Process**

by Bart Mallon

The [CFTC](#) registration process is handled almost exclusively by the [NFA](#) and last year the CFTC audited the [NFA](#) to see how successful the organization was at conducting the registration process. The audit report, issued this week, indicates that the NFA needs to improve on many different areas. One of the most important items which was mentioned a number of times in the report is that the NFA has not standardized the registration process in some areas. While the [CFTC](#) report focuses only on the registration process, there are a number of other issues with the NFA which should have been highlighted. The first and most important for many managed futures professionals, is the lack of standardization with respect to the disclosure document review process. CTAs and CPOs both need to have their disclosure documents reviewed by the [NFA](#) and during this review process, depending on which examiner is assigned to the review, the process can be relatively straight-forward or quite difficult.

This obviously increases the time before the disclosure document is approved and most likely increases the legal costs involved. Because our firm completes a number of CTA and CPO registrations each month we see this first hand.

6/26/2010

favstocks.com

<http://jline.ws/bRUrgN>

---

## **Bad Behavior**

### **NFA Enforcement Actions**

Windsor Wealth Management LLC

Link to National Futures Association case narrative and disposition of a complaint filed on April 21, 2010.

NFA.futures.org

6/21/2010

<http://jline.ws/bDUFUc>

### **CFTC Enforcement Actions**

#### **Charged with Defrauding Customers**

The U.S. Commodity Futures Trading Commission ([CFTC](#)) today announced the filing of an enforcement action charging Highlands Capital Management, LP, based in San Francisco, Calif., and its principal Glenn Kane Jackson of Tiburon, Calif., with operating a fraudulent off-exchange foreign currency (forex) scheme. Specifically, the CFTC complaint charges the defendants, in connection with the fraudulent scheme, with misappropriating customer funds, issuing false account statements to customers, misrepresenting Jackson's success and background as a forex trader and misrepresenting the reasons why defendants could not honor customer withdrawal requests. Court order freezes defendants' assets, protects records. On June 17, 2010, the same day the complaint was filed under seal, the Honorable Samuel Conti of the U.S. District Court for the Northern District of California entered an order, also under seal, freezing assets held or controlled by the defendants and prohibiting the destruction of books and records. Both documents were unsealed by the court on June 23, 2010.

CFTC.gov

6/24/2010

<http://jline.ws/dBljdM>

#### **Richard D. Theye and Micind Capital Management, Inc., charged with Fraud in Connection with a Multi-Million Dollar Ponzi Scheme**

The CFTC's complaint charges that, since at least December 2005, Theye fraudulently solicited members of the general public to invest millions of dollars in two commodity pools, RYCO Group, LLC and First RYCO, LLC (the RYCO pools), and encouraged prospective investors to roll over their 401(k)s, IRAs and pension funds into the RYCO pools. Theye also allegedly solicited investors through false representations during face-to-face meetings at his church in Austin and in advertising the RYCO pools' purported historical profits trading commodity futures.

CFTC.gov

6/21/2010  
<http://jline.ws/cNSCyN>

---

## Top "click throughs"

**CFTC Approves Domestic Box Office Receipts Futures Contract**

<http://jline.ws/aYuSNF>

**Former Amaranth Chief Returns to the Stage**

<http://jline.ws/9CFzZU>

---