



# GUIDE TO MANAGED FUTURES



TRUSTED **ALTERNATIVES.**  
INTELLIGENT **INVESTING.**

# Why Managed Futures?

## Potential Benefits of Managed Futures

### > Historical Performance

Managed futures have historically withstood a number of major market scenarios. In fact, over the last decade, US stocks gained 5%. Over the same time period, managed futures gained 136%, as exhibited below. Of course, there is no guarantee that any investment will achieve its objectives, generate profits or avoid losses.

### > Correlation

Managed futures have historically exhibited low correlation versus traditional asset classes. Adding low correlated assets to a portfolio has potential diversification benefits and may reduce the overall risk of a portfolio.

### > Liquidity and Transparency

Managed futures investment managers trade in liquid and transparent markets. They can trade in over 150 global markets, such as currencies, metals, financials, energy, and agriculture, and can utilize both long and short trading strategies.

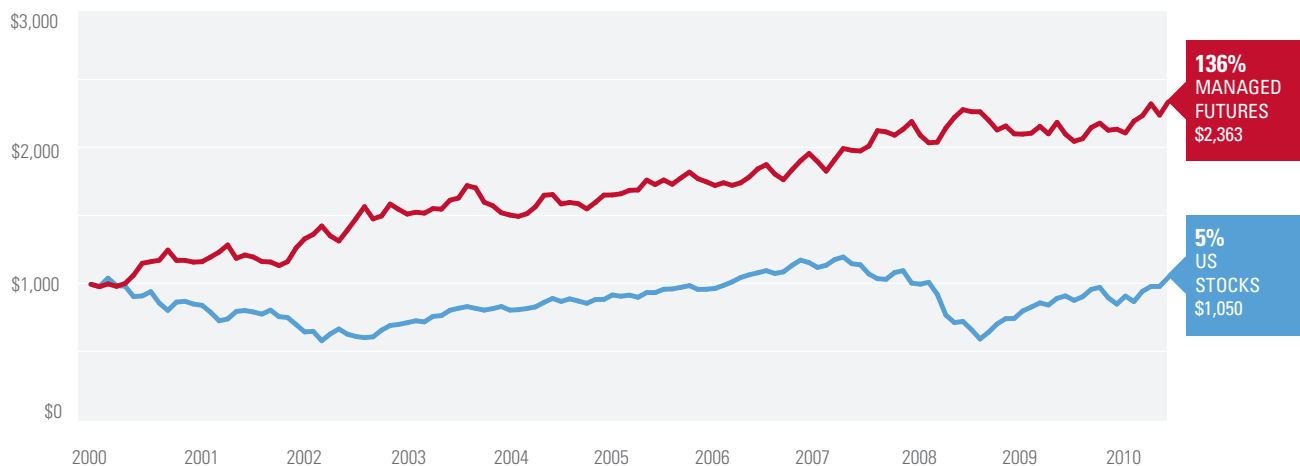
### > Investment Flexibility

Managed futures investment managers use many types of trading disciplines, trading timeframes and trade in various underlying markets. The flexible nature of these strategies gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously.

Figure 1.

## MANAGED FUTURES HAVE HISTORICALLY OUTPERFORMED US STOCKS: VALUE OF AN INITIAL \$1,000 INVESTMENT

July 2000–December 2010



PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. US stocks represented by S&P 500 Total Return Index; managed futures represented by Altegris 40 Index, which was started in July 2000. The referenced indices are shown for general market comparisons and are not meant to represent any particular investment. Source: Altegris.

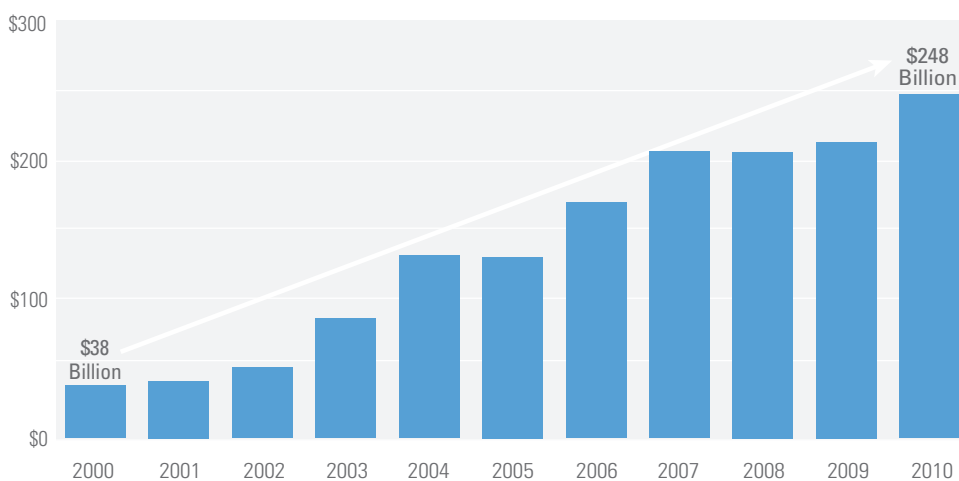
# About Managed Futures

Managed futures is an asset class managed by professional investment managers who use proprietary trading systems to invest in futures and options contracts. They have two key advantages as they seek to generate absolute returns. Of course, there is no guarantee that any investment will achieve its objectives, generate profits or avoid losses:

- ▶ They have the ability to invest across a wide range of global markets (there are over 150 global markets) and asset classes including stocks, bonds, commodities and currencies
- ▶ They have the flexibility to take long and short positions in these investments based on a projected profit potential and economic factors

Managed futures have been utilized by investment management professionals for more than 30 years and represent a market with over \$225 billion under management, as exhibited below.

Figure 2.  
**GROWTH OF MANAGED FUTURES: MANAGED FUTURES ASSETS UNDER MANAGEMENT**  
January 2000–September 2010

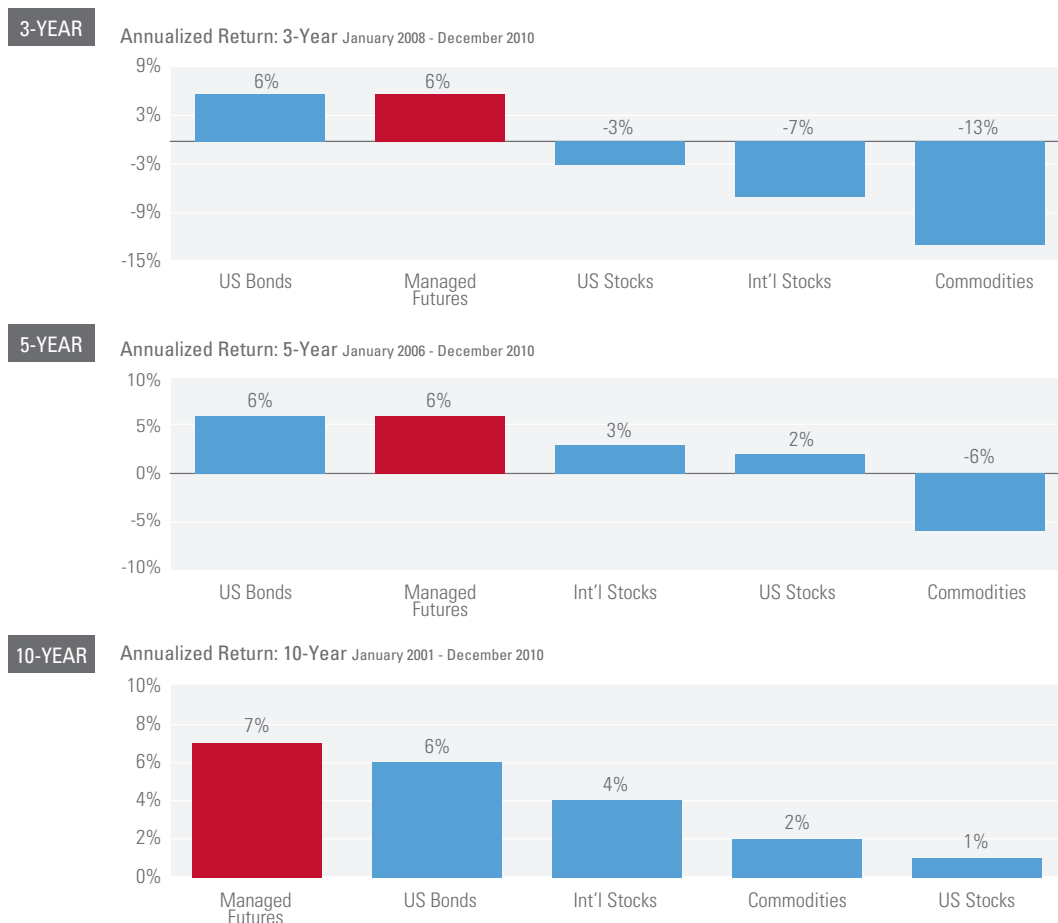


Source: Barclays Trading Group, Ltd.

# Historical Performance Against Other Asset Classes

On an annualized basis, managed futures ranked among the top two best-performing asset classes over the past three and five-year periods—and ranked number one over the ten-year period, as exhibited below.

Figure 3.  
**MANAGED FUTURES RETURNS VS. MAJOR ASSET CLASSES 3-YEAR, 5-YEAR, 10-YEAR**  
 As of 31 December 2010



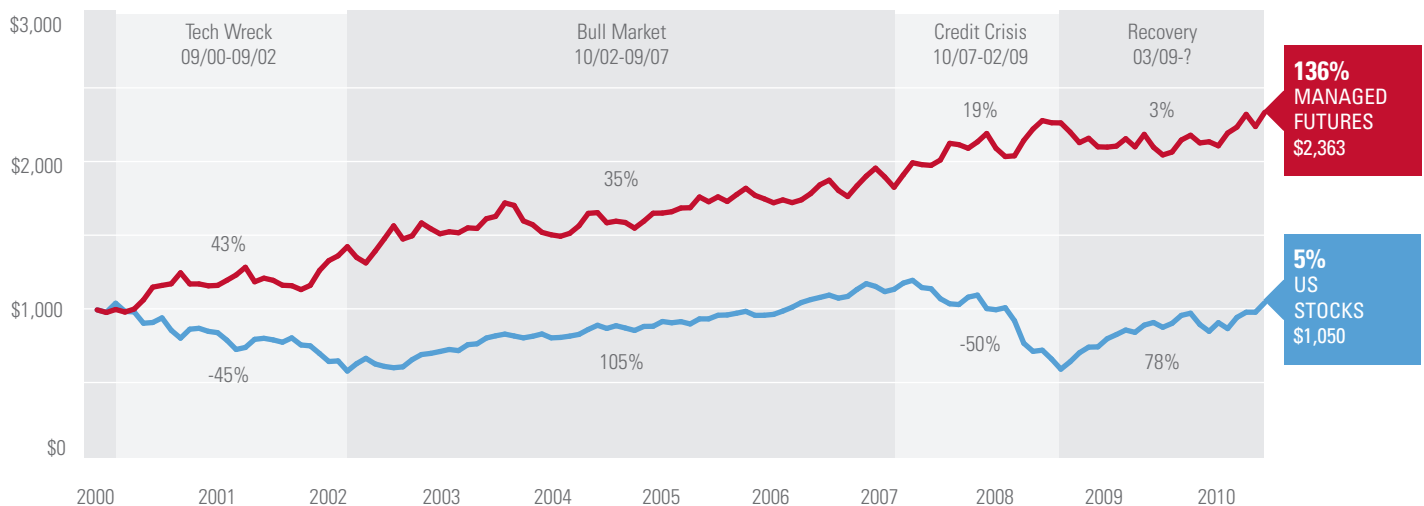
*PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. US stocks represented by S&P 500 Total Return Index; US bonds represented by Barclays Capital US Aggregate Index; international stocks represented by MSCI EAFE Index; commodities represented by GSCI Total Return Index; managed futures represented by Altegris 40 Index. The referenced indices are shown for general market comparisons and are not meant to represent any particular investment. Source: Altegris.*

*There is no guarantee that any investment will achieve its objective, generate profits or avoid losses.*

# Historical Performance Throughout Various Market Conditions

Managed futures' flexibility and diversification have resulted in a strategy that has had an impressive historical track record throughout a number of major market scenarios. In fact, over the last decade, US stocks gained 5%. Over the same time period, managed futures gained 136%, as exhibited below.

Figure 4.  
**MANAGED FUTURES PERFORMANCE DURING CRISIS PERIODS: VALUE OF AN INITIAL \$1,000 INVESTMENT**  
 July 2000–December 2010



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There is no guarantee that any investment will achieve its objective, generate profits or avoid losses.

# Lower Correlation with Other Asset Classes

Managed futures have historically displayed lower or zero-correlation with other asset classes.

Correlation is a statistical measure of how returns of two strategies move together over time; a correlation of 1 indicates the two returns move perfectly together, 0 indicates movements are random, and -1 indicates opposite movements.

Figure 5.  
**ASSET CLASS CORRELATION: 3-, 5-, AND 10-YEAR COMPARISON**  
As of 31 December 2010

	3-Year Jan 08-Dec 10	5-Year Jan 06-Dec 10	10-Year Jan 01-Dec 10
Managed Futures–US Bonds	0.06	-0.06	0.20
Managed Futures–US Stocks	-0.14	-0.01	-0.17
Managed Futures–International Stocks	-0.02	0.10	-0.04
Managed Futures–Commodities	0.07	0.12	0.18

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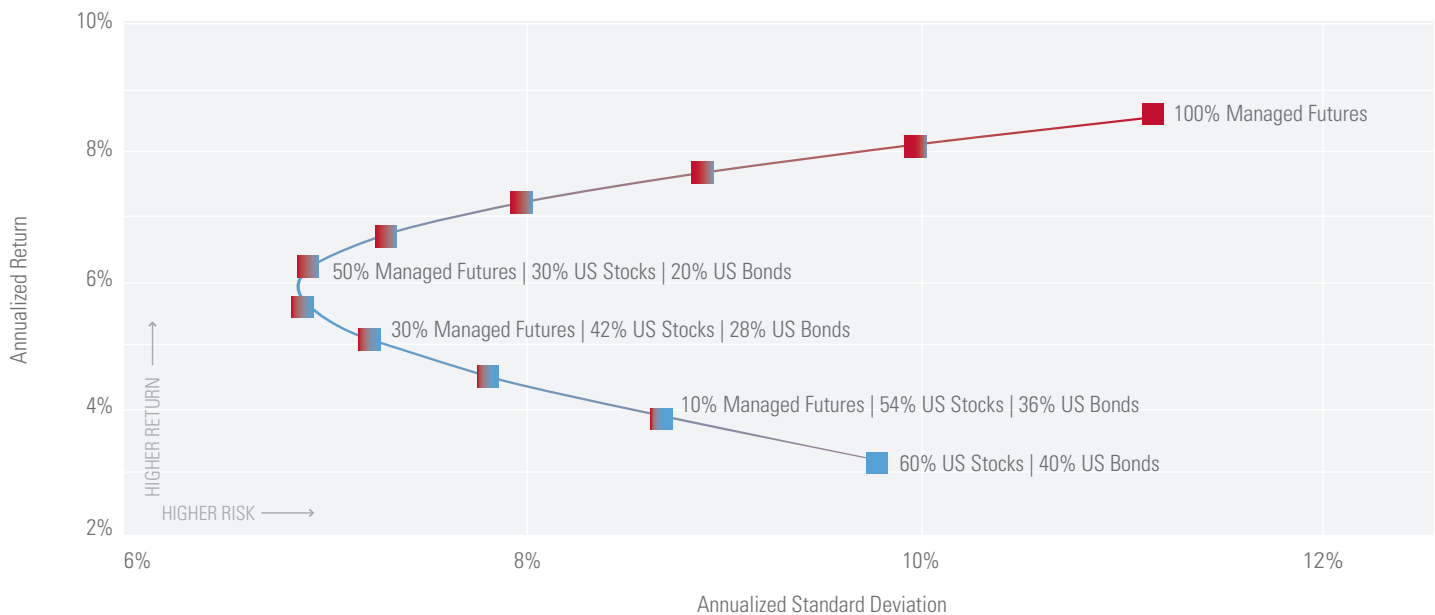
*There is no guarantee that any investment will achieve its objective, generate profits or avoid losses.*

# Lower Correlation with Portfolio Diversification

The diversification benefits of managed futures is supported by documented research from Professor John E. Lintner of Harvard, who demonstrated that it is desirable to invest in multiple asset classes, particularly ones with little correlation to existing investments in order to attain a well diversified portfolio. Dr. Lintner found “inclusion of futures in an investment portfolio reduces volatility while enhancing return. Further, these portfolios were proven to have substantially less risk at every possible level of expected return than portfolios of stocks, or stocks and bonds alone.”<sup>1</sup> His thesis has stood the test of time, as exhibited below.

Standard deviation is a statistical measure of how consistent returns are over time; a lower standard deviation indicates historically less volatility.

Figure 6.  
**ADDING MANAGED FUTURES MAY POTENTIALLY REDUCE RISK**  
July 2000–December 2010



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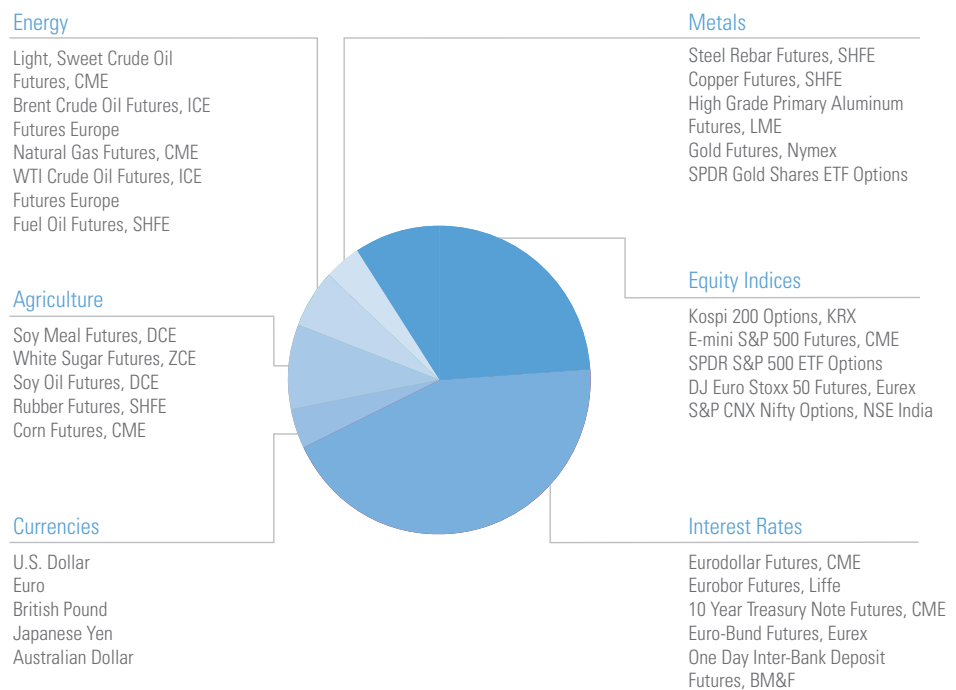
There is no guarantee that any investment will achieve its objective, generate profits or avoid losses.

<sup>1</sup>Dr. John Lintner, “The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds, 1983.”

# Liquidity and Transparency

Managed futures investment managers typically trade in liquid and transparent markets. Because they are exchange-traded, futures contracts are priced and listed daily and offer the benefit of reduced counterparty risk due to their centralized clearing. They can trade in over 150 global markets, such as currencies, metals, financials, energy, and agriculture, and can utilize both long and short trading strategies. The substantial growth of futures exchanges across the globe has added to their liquidity and the opportunities for trades.

Figure 7.  
**MANAGED FUTURES: LIQUIDITY**



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# Flexible Investment Opportunities

Managed futures investment managers use many types of trading disciplines, trading timeframes and trade in various underlying markets. They typically rely on complex trading models and experienced discretion for making their buy and sell decisions. The flexible nature of managed futures strategies gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously.

## ▶ Long or Short Positions

The ability to go long or short gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously

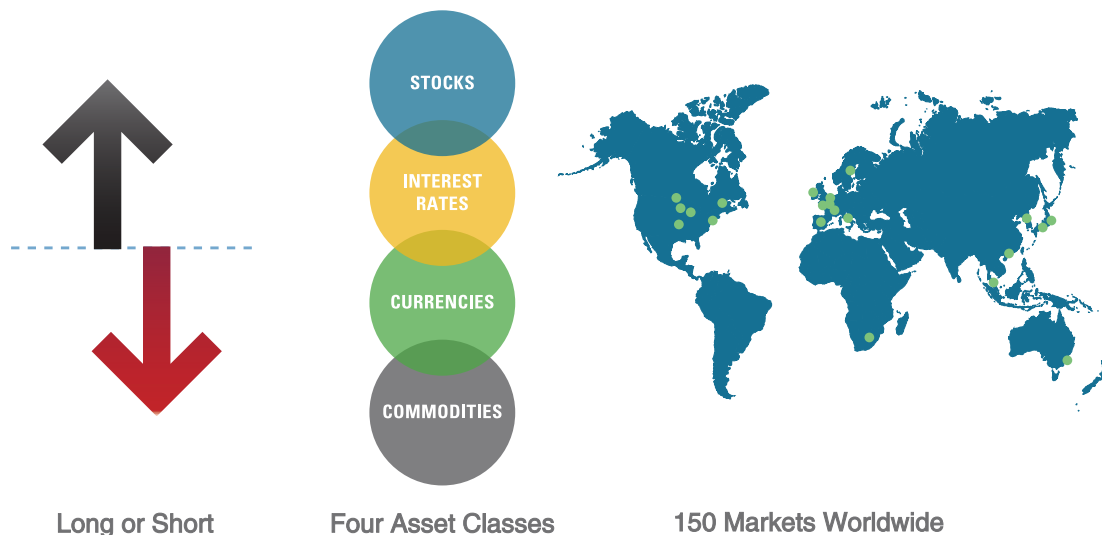
## ▶ Multiple Asset Classes

Managed futures managers have the ability to gain exposure to all four major asset classes: stocks, bonds, currencies, commodities

## ▶ Multiple Trading Disciplines

Managed futures managers utilize a variety of trading disciplines, including trend following (multiple time periods) and specialized (short-term, discretionary, etc.)

Figure 8.  
MANAGED FUTURES: DIVERSIFIED



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# Altegris Advisors

## ▶ ALTEGRIS 40 INDEX<sup>SM</sup>

The Altegris 40 Index tracks the performance of the 40 leading managed futures programs, by ending monthly equity (assets) for the previous month, as tracked by Altegris Advisors. The Altegris 40 Index represents the dollar-weighted average performance of those 40 programs.

## About Altegris

Altegris has one core mission—to find the best alternative investments for our clients. Altegris offers what we believe are straightforward and efficient solutions for financial professionals and individual investors seeking to improve portfolio diversification with historically low correlated investments.

With one of the leading Research and Investment Groups focused solely on alternative investments, Altegris follows a disciplined process for identifying, evaluating, selecting, and monitoring investment talent across the spectrum of hedge funds, managed futures funds, and other alternative investments.

Veteran experts in the art and science of alternatives, Altegris guides investors through the complex and often opaque universe of alternative investing.

Alternatives are in our DNA. Our very name, Altegris, highlights our singular focus on **alternatives**, the highest standards of **integrity**, and a process that constantly seeks to minimize investor **risk** while maximizing potential returns.

The Altegris Companies,\* wholly owned by Genworth Financial, Inc., include Altegris Investments, Altegris Advisors, Altegris Funds, and Altegris Clearing Solutions. Altegris currently has approximately \$2.1 billion in client assets, and provides clearing services to \$800 million in institutional client assets.

\* The Altegris Companies, referred to generally as "Altegris", includes: (1) Altegris Advisors, LLC, an SEC-registered investment adviser; (2) Altegris Investments, Inc., an SEC-registered broker-dealer; (3) Altegris Portfolio Management, Inc. (dba Altegris Funds), a CFTC-registered commodity pool operator and California registered investment adviser; (4) Altegris Clearing Solutions LLC, a registered introducing broker and CTA; and (5) Altegris LLC (the parent holding company).

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## Risk Disclosure

Alternative investment products, including hedge funds and managed futures, are not for everyone and entail risks that differ from more traditional investments. When considering alternative investments you should consider the fact that some products use leverage and other speculative investment practices that may increase the risk of investment loss, can be illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees including incentive fees, and in many cases have underlying investments that are not transparent and are known only to the investment manager. With respect to alternative investments in general, you should be aware that:

- Returns from some alternative investments can be volatile
- There may be a substantial risk of loss: you may lose all or portion of your investment
- The high degree of leverage often attainable in alternative investments can work against you as well as for you. The use of leverage can lead to large losses as well as gains
- With respect to single manager products, the manager has total trading authority. The use of a single manager could mean a lack of diversification and higher risk
- Many alternative investments are subject to substantial expenses that must be offset by trading profits and other income. A portion of these fees includes payments to Altegris
- Trading may take place on foreign exchanges that may not offer the same regulatory protection as US exchanges. Such trading may also entail exchange rate risk
- Past results are not necessarily indicative of future results

An investment's offering materials describes the various risks and conflicts of interest relating to an investment and to its operations. You should read those documents carefully to determine whether an investment is suitable for you in light of, among other things, your financial situation, need for liquidity, tax situation, and other investments. You should only commit risk capital to alternative investments. You should obtain investment and tax advice from your advisors before deciding to invest. The material and any views expressed herein are provided for information purposes only and should not be construed in any way as an inducement to make any investment.

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Altegris Managed Futures Strategy Fund. This and other important information about the Fund is contained in the Prospectus, which can be obtained by calling 877.772.5838. The Prospectus should be read carefully before investing. The Altegris Managed Futures Strategy Fund is distributed by Northern Lights Distributors, LLC member FINRA. Altegris Advisors, Rodney Square Management, and Northern Lights Distributors are not affiliated.**

MUTUAL FUNDS INVOLVE RISK INCLUDING POSSIBLE LOSS OF PRINCIPAL

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