2016
INSIGHTS

Managed Futures During Equity "Crises"– An Update

The Managed Futures asset class has acquired a reputation among investors for providing what is known as "crisis alpha" – the ability to generate returns at a time of market crisis.[1]

HIGHLIGHTS

- **CHART**
  Historical Performance of Equities and Managed Futures during Crises

[1]*See, for example:* ***In Search of Crisis Alpha: A Short Guide to Investing in Managed Futures****, Kathryn M. Kaminski (CME Group).*

Definitions of Terms and Indices can be found on the back page.

Most individual and institutional portfolios generally have substantial (often 50% or larger) positions in equities and equity-related asset classes. Because the "risk" of these asset classes is generally quite high, the majority of the total risk of these portfolios is driven by equities. Hence, most financial crises, almost by definition, involve large declines in equities, accompanied by similar trends in other markets, as most investors resort to panic selling of risky assets all at the same time. Generally, market volatility also spikes during these times. Many equity market crises are also characterized by a "flight to safety," with increased investments into assets such as the US Dollar, precious metals, and US Treasury securities. These strong price trends and the accompanying volatility expansion can often prove to be an environment in which managed futures have thrived.

The latest example of this was the period December 2015 – January 2016, when the S&P 500® Total Return Index lost –6.5%, while the VIX® Index, a forward-looking measure of equity market volatility, spiked by more than 25% (increasing from about 16% at the end of November 2015 to more than 20% at the end of January 2016). The "crisis," in this instance, has been attributed to Mario Draghi's underwhelming stimulus measures announced in early December, perhaps exacerbated by the US Fed's first rate hike, albeit widely anticipated and long overdue, since 2006. Over this period, the Barclay BTOP 50® Index, which is often used as a proxy for the managed futures asset class, gained approximately +1.3%.

Several commentators, including us, have addressed and analyzed this characteristic of managed futures during other past crises. Here, we update those results, using a slightly different and perhaps more "rigorous" definition of a crisis. We look for periods since 1987 when the VIX® Index has either shown an increase of 25% or greater, or has reached an absolute level of at least 30%. We then try to identify the

qualitative reason for such an increase, e.g., the events of 9/11/2001, the Greek crisis, etc. Next, we examine the returns on the S&P 500® Total Return Index, equities, and the BTOP 50® Index, managed futures, over those periods.

Our results are summarized below, and speak for themselves. In every single one of these crises, as we define them, equity markets trade lower, ranging from −6.5% to from −46.4%. Managed futures, by way of contrast, show only three periods with negative returns, ranging from −2.8% to −0.2%, but twelve periods with positive returns, ranging from +1.0% to +18.7%.

Definitions of Terms and Indices can be found on the back page.

Historical Performance of Equities and Managed Futures during Crises (%)

1987 - PRESENT

PERIOD	STARTING VIX®	ENDING VIX®	CHANGE IN VIX®	EQUITY RETURNS	MANAGED FUTURES RETURNS	DESCRIPTION OF CRISIS
SEP-NOV 1987	--	--	--	-29.7	8.5	Black Monday
JUL-OCT 1990	21.11	30.04	42.3	-14.1	13.5	Iraq invades Kuwait
FEB-MAR 1994	10.63	20.45	92.4	-7.0	1.0	First Fed hike since 1989
JUL-AUG 1998	19.71	44.28	124.7	-15.4	5.4	Russian default and LTCM crisis
SEP-NOV 2000	16.84	29.65	76.1	-13.1	6.0	USS Cole; Mad Cow outbreak; Bush v Gore
FEB-MAR 2001	22.02	28.64	30.1	-14.9	5.3	Bush inaugurated; US and Britain attack Iraq
JUL-SEP 2001	19.06	31.93	67.5	-14.7	4.1	Events leading up to 9/11 attacks
APR-SEP 2002	17.40	39.69	128.1	-28.4	18.7	Enron and WorldCom; End of tech bubble
DEC-FEB '02-03	27.50	29.63	7.7	-9.7	17.5	War in Iraq; SARS outbreak
JUN-FEB '08-09	17.83	46.35	160.0	-46.4	7.2	Global financial crisis (The Great Recession)
MAY-JUN 2010	22.05	34.54	56.6	-12.8	-2.8	Greek crisis
MAY-SEP 2011	14.75	42.96	191.3	-16.3	-2.1	Eurozone debt crisis; US credit downgrade
APR-MAY 2012	15.50	24.06	55.2	-6.6	2.2	Continuing European crises
AUG-SEP 2015	12.12	24.50	102.1	-8.4	-0.2	Chinese currency crisis
DEC-JAN '15-16	16.13	20.20	25.2	-6.5	1.3	Draghi stimulus fiasco; first Fed hike since 2006

VIX® data begins in January 1990.

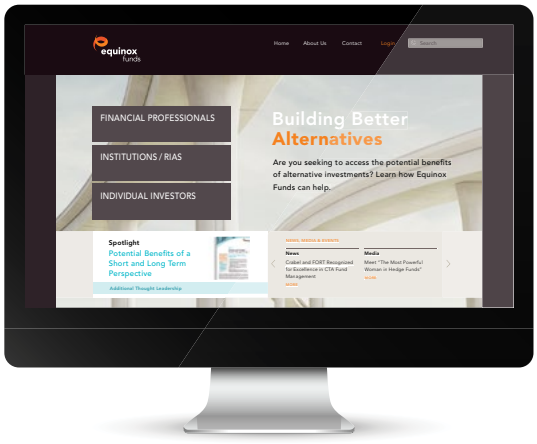
It is worth exploring possible explanations for these historical results. These are summarized succinctly in the paper by Kaminski, cited earlier, as follows:

- *Managed futures strategies tend to be highly liquid and trade almost exclusively in futures markets with minimal credit exposure; hence, they may be less susceptible to the illiquidity and credit traps that are generally prevalent during equity market crisis.*
- *They are dominated by systematic trading strategies, with no long equity bias; hence, they tend to be less susceptible to behavioral biases and the emotion-based or panic-driven selling that is often triggered when large losses are experienced.*
- *They trade across a wide range of sectors and markets, and can hold either long or short exposures, depending on perceived price trends; hence, they have the potential to profit from both up-trends and down-trends across multiple global futures markets.*

Our evidence is based purely on historical data, and there is no assurance that these patterns will necessarily repeat during future crises. Further, managed futures as an asset class tend to have low correlations to most other asset classes, which means they have the potential to provide diversification benefits by lowering the overall risk of a portfolio. However, they should not be viewed as "hedges," because a hedge is traditionally defined as an asset that has a high negative correlation.

Definitions of Terms and Indices can be found on the back page.

For more information on managed futures, please contact your investment professional or visit **equinoxfunds.com**.



APPENDIX

DEFINITIONS

Correlation is measured on a scale from 1.00 to -1.00. [1.00] Investments with high correlation tend to rise and fall together. [0.00] Non-correlated investments tend to move up and down with no relation to one another. [-1.00] Investments with negative correlation tend to move in opposite directions.

Crisis alpha refers to profits or gains that can be made by exploiting certain market trends during times of market turmoil.

Hedge is to make an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Long Position refers to the buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.

Short Position is a position whereby an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future.

Volatility is a measure of fluctuation in the value of an asset or investment. Lower volatility improves the stability and lowers the risk of an investment portfolio.

INDEX DESCRIPTIONS

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

The **Barclay BTOP50 Index® (BTOP50)** seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50. In each calendar year the selected trading advisors represent, in aggregate, no less than 50% of the investable assets of the Barclay CTA Universe. The index does not encompass the whole universe of CTAs. The CTAs that comprise the index have submitted their information voluntarily. Managed Futures programs in the Barclay BTOP50 Index® may be subject to leverage risk, volatility and risk of loss that may magnify with the use of leverage.

The **S&P 500® Total Return Index** is widely regarded as the best single gauge of the US equities market. This world-renowned Index includes 500 leading companies in leading industries of the US economy.

The **VIX® Index** is a forward-looking measure of equity market volatility. Since its introduction, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

A WORD ABOUT RISK

THE PURCHASE OF A MANAGED FUTURES INVESTMENT INVOLVES A HIGH DEGREE OF RISK. SPECIFICALLY, YOU SHOULD BE AWARE THAT, IN ADDITION TO NORMAL INVESTMENT RISKS, MANAGED FUTURES INVESTMENTS ENTAIL CERTAIN RISKS, INCLUDING, IN ALL OR SOME CASES:

- MANAGED FUTURES OFTEN ENGAGE IN LEVERAGING AND OTHER SPECULATIVE INVESTMENT PRACTICES THAT MAY INCREASE THE RISK OF INVESTMENT LOSS.
- MANAGED FUTURES CAN BE HIGHLY ILLIQUID.
- MANAGED FUTURES ARE NOT REQUIRED TO PROVIDE PERIODIC PRICING OR VALUATION INFORMATION TO INVESTORS.
- MANAGED FUTURES MAY INVOLVE COMPLEX TAX STRUCTURES AND DELAYS IN DISTRIBUTING IMPORTANT TAX INFORMATION.
- MANAGED FUTURES ARE NOT SUBJECT TO THE SAME REGULATORY REQUIREMENTS AS MUTUAL FUNDS.
- MANAGED FUTURES OFTEN CHARGE HIGH FEES

Securities offered through Equinox Group Distributors, LLC, Member FINRA.

47 Hulfish Street, Suite 510
Princeton, NJ 08542
T 1.877.837.0600

equinoxfunds.com

5109-NLD-02/09/2016
EFM-II-007-0216