ISSUE 55 • November 2013

Opalesque

FUTURES INTELLIGENCE

In This Issue

Entering a Critical Moment in History

The derivatives industry is at a historic point in time. **Unregulated derivatives** that contributed to the economic collapse in 2008 are on the **verge of being regulated** despite a tidal wave of lobbying to prevent, derail and deny these regulations.

While there has been much consternation regarding implementation of Dodd-Frank and Volcker Rule regulations, in this issue Robert Printz points to the **positives for investors** in the article "Dodd-Frank and Volcker Rule Create New Relative Value and Defensive Long Only Opportunities."

Speaking of Dodd-Frank, in among his last likely interviews with Opalesque as a CFTC official, colorful Commissioner Bart **Chilton didn't hold back**, making some of the most **controversial** and **interesting** statements regarding Dodd-Frank and government regulation to date. After this we take a look at CFTC nominee **Timothy Massad** and some surprising on the record statements and off the record analysis of **what to expect** from a Massad CFTC at this very critical moment in derivatives history.

From here former National Futures Association executive James Bibbings and lawyer Nicole Kuchera discuss **challenges to binary options**. This follows an interesting white paper from John Bhakdi, who has an **algorithmic method** to determine **asset allocations** in a **venture capital** fund. To end take a look at **MF Global customers** receiving **all their funds returned** and check in on the Inaugrural Altegris **CTA Challenge**.

I hope you enjoy and benefit from this publication.

Best Regards,
Mark Melin, Editor
Melin@Opalesque.com

Dodd-Frank and Volcker Rule Create New Relative Value and Defensive Long Only Opportunities

By: Robert Printz

Robert Printz plans on using Dodd-Frank and the Volcker Rule in Investing strategy

With sweeping legislation often come unanticipated consequences. And in the case of the long awaited (and widely derided) implementation of both Dodd-Frank and the Volcker Rule, the unanticipated consequences have included positive ones for more nimble investment firms. The ban on most forms of proprietary trading by major bank dealers, coupled with the regulatory influence of Dodd-Frank, has dramatically reduced the presence of some of the most formidable competitors to the nimble investment firms, creating significant opportunity.

This development has expressed itself in several ways.

"(As a result of Dodd-Frank and the Volcker Rule) nimble firms can have a widely diversified portfolio in a multitude of strategies across many sectors."

Nimble firms can have a widely diversified portfolio in a multitude of strategies across many sectors. With far more instruments, securities, options and other derivatives in existence now than 20 or 30 years ago, and with increasing numbers of countries and jurisdictions having functioning securities and derivatives markets, the number of available financial products has increased dramatically. At the same time, the complexity of the worldwide financial landscape has greatly increased, and this complexity has created new opportunities.

The diversification of portfolios allows for a multi-strat profile even within fixed income funds; a departure from previous norms. But the availability of this plethora of instruments is not the real news.

The regulatory influence of Dodd-Frank and the pending implementation of the Volcker Rule ban on proprietary trading by major bank dealers together have dramatically reduced the presence of dealer proprietary desks at the big banks and other large dealers. With the banks and large dealers vacating so many of these business segments, opportunities for investment firms to lend their expertise in these areas are expanding to fill the vacuum.

"Previously, the dealer proprietary desks at the major bank dealers would see the flows first, position trades for themselves, keep prices in line and exit at their convenience"

Previously, the dealer proprietary desks at the major bank dealers would see the flows first, position trades for themselves, keep prices in line and exit at their convenience when other customer flows or technicals provided them with a suitable exit. We believe that dynamic is greatly reduced today. Dealers seem averse to holding significant positions and thus much more quickly move prices to levels at which another liquidity provider is able to structure a strategy with an attractive rate of return for investment. And the nimble investment firms are also able to be more agile with positions and take advantage of smaller dealer axes and opportunities that can really make a meaningful performance difference, which may not be the case for very large ($10+ Billion) funds/managers.

There are several specific observations that can be made about the impact of the ban on proprietary trading—among other influences--on four investment strategies.

Interest rate relative value

2008 created bad memories for many investors in the fixed income relative value sector. Investors still fear leverage, math, or strategies they cannot easily explain to an investment committee. It is for these reasons that few new managers and limited investor appetite have been observed in this sector, although opportunities remain fertile. Recognizing this, there has been a significant recent uptick in demand from investors in this area.

Additionally, there has been some transition from some investors away from directional, more macro styles to more of a relative value approach. Finally, the lack of dealer capacity has allowed for the execution of a number of less complicated strategies that have been successfully employed for years in relative value.

Long/short relative value credit

Beta has had a wonderful run over the past 4-5 years. We have heard from a number of investors that it's time to move away from outright long credit to a more neutral or defensive credit stance. It appears that investors are having a hard time finding managers who are really credit neutral and not taking some form of beta risk. Investors areseeking a focuson generating low correlated alpha, using a credit agnostic, multi-strategy approach to credit.

Long only credit

Investors have also been focused on locating alternatives to their long only fixed income allocation. Using the Barclays Aggregate Index as a proxy for a fixed income allocation, some investors have indicated that they are fearful of interest rates rising and are also concerned about being long rate duration. There has been strong interest in discount, floating rate, short-dated, long only instruments with high levels of subordination. We believe that this defensive, long only sector can provide less interest rate sensitivity than a traditional long only portfolio as well as potentially higher expected total rates of return in a rising interest rate environment.

Asymmetric portfolios

Investors are often looking for inexpensive options. One option is to structure customized asymmetric portfolios that are believed to provide limited current income but hope to achieve solid performance in a market breakout in one direction or the other. With so much market uncertainty, there is significant appeal to looking at overlay strategies that can be complementary to existing portfolios. The influx of new capital in relative value and defensive floating rate credit strategies confirms that the brave new world of Dodd-Frank and the Volcker Rule has increased opportunities for more nimble investment firms.

Robert Printz, Principal and Co-Head, Investor Relations

Robert Printz, Principal and Co-Head of Investor Relations, has been with III Associates since 2000. Prior to joining III Associates, Mr. Printz was with Barclays Capital, where he served as Managing Director and Head of Generalist Sales. His experience also includes a role at, where he. Mr. Printz also served as an MBS specialist with J.P. Morgan Securities and he also marketed derivatives at Merrill Lynch. Mr. Printz holds a B.S. in Management from The State University of New York at Binghamton and an MBA from the Stern School of Business, New York University. He is a Registered General Securities Principal, a Registered Options Principal, and General Securities Representative with FINRA, and an Associate Member of the NFA.

CFTC Commissioner Bart Chilton's Exit Interview Is As Rock and Roll as His Personality

By Mark Melin

CFTC Commissioner Bart Chilton has led a reform agenda at the Commodity Futures Trading Commission

When the Commodity Futures Trading Commission's most visible and outspoken commissioner, Bart Chilton, announced his resignation from the derivatives regulator on November 5, it surprised certain industry participants for several reasons.

With the CFTC at perhaps its most critical junction in history, on the precipices of regulating close to $600 trillion in previous unregulated Over the Counter (OTC) SWAP transactions that Chilton says was responsible for the 2008 economic crash, as well as approaching controversial position trading limits the commissioner had championed that drew fire from both the banking and exchange community, Chilton's exit from the regulator along with the loss of CFTC Chairman Gary Gensler, who advocated similar positions, comes at an unusual moment in the history.

Questions Regarding Timing of Regulator Exits

The exit of the two primary regulatory reform advocates raises questions if the aggressive agenda will be properly implemented in a timely fashion. While many of the Dodd-Frank Title VII rules have been written, finishing the rule writing – including the controversial Volker Rule – and initially enforcing tougher regulation will be tasked to a new CFTC Chairman and two new commissioners.

"Had the Obama administration come to Chilton earlier in 2013 he would have stayed until the rules were finished"

Is now the appropriate moment to introduce so many new people into CFTC leadership roles? Could the Obama administration have done more to keep these reform minded regulators at this key point in history? At one point Gensler had expressed a desire to remain at the CFTC until after the new rules were implemented, as writing rules and initially setting enforcement

Who is CFTC Chairman Nominee Timothy Massad?

Timothy Massad has been selected by the Obama administration to regulate large banks and derivatives traders as chairman of the CFTC.

When the Obama administration appointed Timothy Massad as the choice to be the next CFTC Chairman, many in the derivatives industry were unfamiliar with the "behind the scenes operator" inside the Treasury Department.

"None of this bodes well for the Gensler / Chilton reform agenda."

While he may not be familiar to many in the regulated derivatives industry or even the financial services community at large, he is said to be well known within the elite Wall Street clique and in powerful economic circles in Washington D.C. None of this bodes well for the reform agenda that has benchmarks are two important points in the process. In this interview, Chilton said had the Obama administration come to him early in 2013 he would have stayed at least until the new rules were implemented. The Obama administration didn't approach Chilton early in the year,and faced with a growing desire to explore opportunities in the private sector after a 30 year career in government, Chilton decided to turn the page in his life. Yet questions as to why Obama didn't aggressively act to re-nominate these reform minded regulators at this important moment in history remain.

"There could be delays in implementing the important reforms Gary and I advocated," Chilton said in an exclusive interview. "There are many people in Washington D.C. who would be 'peachy keen' to see our commission spots remain unfilled and slow down CFTC reforms. If there are valid reasons for holding up a CFTC nominee based on qualifications, that's a legitimate reason to slow down the process. But if it is really a back-door method to slow down reform policy proposals that are called for in law and are important to protect the American people, this borders on being irresponsible."

> "If it is really a back-door method to slow down reform policy proposals that are called for in law and are important to protect the American people, this borders on being irresponsible."

In a wide ranging interview Chilton reflected on his time in government, briefly addressed the MF Global investigation, revealed new details regarding many of the initiatives he advocated, provided insight into his motivations and future plans as well as delivered characteristically bold comments that marked the Democratic commissioner's colorful career. What's most interesting are some surprising statements he made regarding hurdles he faced as a regulator advocating on behalf of US consumers and his concerns for the regulatory reform going forward.

Chilton's Unique View of His Role as a Regulator

"I've done the job certainly different from other financial regulator in history," said Chilton, the only person to have worked as a commissioner at a financial regulator before, during and after the economic crash of 2008. To neophytes unfamiliar with Chilton or the CFTC, the commissioner's flowing shoulder length golden blond hair might indicate he is not a "typical" regulator. Those that know him a little better might say his love of music or the guitar he keeps in his Washington D.C. office or his colorful phrases he uses to simplify complex financial topics might be the unique point of differentiation. But to those intimately familiar with international regulatory issues who also support his work, it is Chilton's progressive openness, quest for transparency into previously non-transparent regulatory workings and his outspoken advocacy of derivatives regulation that is meat on the bone.

"What's different is I've tried to be open and have a guiding mantra that is: what's best for consumers'. That had driven all my decisions. From this guiding principle you can back it up to include what's good for the economy, what's good for markets. But it all comes around to what's good for

Outgoing CFTC Chairman Gary Gensler ran into trouble with the Obama administration when he "didn't play ball" with other regulators and instituted tough regulations on banks.

been advocated by outgoing CFTC Chairman Gary Gensler and Commissioner Bart Chilton. In fact, sources say Massad's given objective is to reign in the traditionally independent regulator and "play ball" with Wall Street, who has been viewing with alarm the increasingly "Brooksley Born" like culture emerging at the agency with regards to unregulated derivatives.

Perhaps most telling is the time Massad worked in the Treasury Department implementing the Troubled Asset Relief Program (TARP), supervising government bailout funds delivered to large banks after the economic crash of 2008.

> "Massad was frequently at odds with Neil Barofsky... Neil was holding the banks accountable yet Massad had no appetite for fighting the banks."

Massad was frequently at odds with Neil Barofsky, the then inspector general overseeing that TARP funds were properly used by the banks. "Neil was holding the banks accountable yet Massad had no appetite for fighting the banks. They were always at odds both privately and publically," said a senior government source familiar with the situation. "Massad had no qualms with money going to the banks without much if any oversight."

Barofsky declined to comment for this article.

consumers. That's what I've been about my entire life."

There has been no CFTC commissioner who so aggressively and publically advocated progressive positions to actively regulate the largest and most powerful banks as well as place limits commodity positions and high frequency trading (HFT), which made enemies with powerful political forces who shed no tears at Chilton nor Gensler leaving.

"Chilton's regulatory policies made enemies with pretty much every powerful political force in the derivatives industry."

Some industry observers note that Chilton was among the most accessible commissioners in CFTC history with frank and honest analysis of what was really occurring behind the scenes. "Bringing transparency to the commission has been one of my key hallmarks," Chilton said. But such transparency rubbed certain powerful forces the wrong way, particularly when it worked to tighten the screws of regulation.

New Chiltionism: The DC 'Quadra Kill'

"Wall Street rules the roost in Washington D.C., and that can be unhealthy for everyone except the biggest bankers," Chilton commented, a note of concern on his face. "They contribute more money to political campaigns than any sector in the economy. They have more lobbyists than any other sector in the economy – 10 lobbyists for every single member of Congress. It's incredible. And they've made more profits than any sector of the economy from the point many of them helped crash the economy in 2008," he said, touching on a topic that doesn't have universal agreement among economists. Some financial professionals point the finger at loose loan standards advocated by the government between 2002 and 2007 as the cause of the crash.

"Every single quarter the financial sector makes more money than any single sector of the economy and it is done in part based on the loopholes they create through Congressional lobbying that can endanger the economy," Chilton said, in perhaps his most aggressive tone to date regarding the political power of the financial lobby. "Americans are still hurting today, trying to make ends meet yet the big banks never missed a beat. They received a government bailout in 2008 and their profits, size and power only increased after the crash."

"The statement Citadel's Ken Griffin made (calling for a separation of traditional banking and brokerage operations) was significant."

Aggressively taking on the financial lobby is one reason why Chilton has received popular standing among reform minded financial observers, but this same advocacy only increased the behind the scenes ferocity of the opposition he faced as a CFTC commissioner. Chilton, however, noted the tide is turning, if ever so slowly– and financial professionals are beginning to

However, in "Bailout," the *New York Times* bestselling book detailing the bank bailout process written by Barofsky, Massad was described in clear and startling terms for those concerned that he might not be up to the task of being a tough bank regulator. In one sentence Barofsky called Massad "irresponsible" and said Massad's Treasury unit "misled the American people regarding the progress of the AIG bailout." *

"It can't be any clearer," said the source. "Barofsky is highly respected lawyer who held the large banks accountable. Massad let the banks operate without challenging them and even advocated on their behalf inside government. Then in his book Barofsky essentially said Massad misled people on behalf of the banks. What do you think you're going to get in a Massad CFTC Chairmanship? It's terrifying, particularly as tough rules still need to be written and implemented."

A Massad CFTC Chairmanship is "terrifying"

If Massad has his way, speculation is the reasonably independent and communicative spirit of Chilton will be a thing of the past; smart and tough regulations Gensler advocated protecting the economy from previously unregulated derivatives will be more "accommodating" to big bank interests; gone will be the days when those within the CFTC will be speaking on or off the record when abuses of power occur (or investigations are blocked). This new and "modernized" big bank friendly CFTC that "plays ball" with other Wall Street regulators, sources say, is more the likely outcome of a Massad CFTC Chairmanship than the aggressive, some say abrasive, advocacy embraced by Gensler and Chilton. While little on the record documentation exists regarding Massad's political leanings – and those who speak about Massad do so off the record for fear their jobs in the Obama administration may be in jeopardy – what can be documented supports this view of a Massad-lead CFTC.

While Massad has no experience in the regulated derivatives industry, as a lawyer speak out. "The concept of breaking up the banks is a growing sentiment. The statement Citadel's Ken Griffin made (calling for a separation of traditional banking and brokerage operations) was significant. There are many serious people in the financial industry who have this view, it is not just 'hippie regulators.' I've been in contact with William Dudley, president of the New York Federal Reserve, on the topic and he made a very powerful speech on bank culture and the need for change just the other day." Other Federal Reserve Presidents who support breaking up the banks are James Bullard President of the St. Louis Fed, Thomas Hoenig, president of the Kansas City Fed and Richard Fisher, president of the Dallas Fed. "Former Congressman Barney Frank, when he left Congress, said breaking up the big banks is a good idea. These are not radical people and questioning the power of the banks is needed," he said, sounding the populist tone being echoed by US Senator Elizabeth Warren (D-MA).

"These are not radical people (calling for banks to separate trading/brokerage from traditional banking) and questioning the banks is needed."

"Conflict is no stranger to Wall Street," Chilton said, as he started to outline the strategy generally used to oppose reform bills. "The financial lobby has a tried and true method of killing things they don't like. I call it the 'DC Quadra-Kill.' First they try to 'kill bill,' or kill the bill on the floors of the Congress. Second they try to defund oversight and enforcement efforts. They tried to kill Dodd-Frank in the Congress and when that didn't work they tried to defund CFTC efforts to implement and enforce the regulatory rules, and they've been fairly successful in that regard. If they can't kill or defund the bill then they try to ameliorate the regulation by coming to regulators and first seeking exemptions. If they can't get exemptions then they try and weaken the regulations. If they can't win on these three fronts they go for the fourth prong on the DC Quadra-Kill and they litigate."

While this is what Chilton considers the standard mode of operation to kill regulation, he noted an even more troubling next step.

"CMEGroup Chairman Terry Duffy has called CFTC's position limits rules "the most absurd thing I've ever heard in my life."

"On position limits the bankers have done the Full Monty DC Quadra Kill. But with position limits they are also considering something new which is something not normally part of the Quadra Kill: let's slow things down via holding up nominees. That hasn't happened yet, but I'm concerned that it may."

Position Limits

In 2012 a US District Court vacated a position limits regulation put forth by the CFTC, but this month the agency re-instituted its position limits policy in

with Cravath, Swaine and Moore he helped write the OTC unregulated derivatives contracts used by large banks with their clients, according to Bloomberg. In terms of supporting political causes, Massad's only documented political contribution to an individual politician was a donation to Congressman Jim Hines (D-CT), the former Goldman Sachs banker who is known as the most aggressive proponents of large bank interests on Wall Street. Perhaps most significant is the time Massad spent in his most recent position as administrator at the Troubled Asset Relief Program (TARP). After Barofsky wrote a book highly critical of US Treasury Secretary Timothy Geithner and Massad, accusing him of operating in the interests of the large banks, Barofsky then took a teaching position at New York University and most recently became a lawyer at Jenner and Block focusing on investigating white collar crime. After his government service, Geithner received handsome payments for his speaking talents and most recently took a job on Wall Street as president of the private equity fund.

"Massad is part of the 'Fed old white boys club.' He is the type of guy that will make Wall Street happy," said one senior regulator based in Washington D.C. "After MF Global, Gensler became significantly more aggressive in regards to the banks. While most Wall Street regulators actively try and accommodate the interests of the largest banks, Gary found it necessary not only to confront the big banks but also regulators who would often do their bidding. This is what it took to implement reforms that protect the American people from unregulated derivatives to help us avoid another 2008 style crash. Massad could surprise us, but I wouldn't recommend anyone holding their breath waiting for this to happen," a different source commented.

* The full quote from page 212-213 of the book "Bailout" reads: "Massad's apparent dissembling about the restructuring was irresponsible, but shortly thereafter, the Treasury team pulled a stunt that flat out misled the public about the progress of the AIG bailout."

energy, metal and agricultural markets, slightly favoring cash settled markets (offered by the IntercontinentalExchange, or ICE) while giving harsher regulatory treatment to physically settled contracts (offered by the CMEGroup). In regard to position limits, critics of the program say it could impair liquidity in markets and lead to increased volatility and higher commodity prices. CMEGroup Executive Chairman Terry Duffy has called the CFTC's position limits rules "the most absurd thing I've ever heard in my life." Duffy isn't alone among those with a trading background having issues. "Position limits serve the purpose of limiting transparency and price discovery and hamper the ability of an open market to do its job. The days of an individual trader cornering a market are gone. Position limits will likely force large traders to take risk outside regulated markets into OTC SWAPs transactions that may not have the same transparency," said Jeffery Carter, a former member of the CMEGroup board of directors who now operates West Loop Ventures, a venture capital fund in Chicago.

"The CFTC's new position limits rule is bullet proof," Chilton said. "I expect it may be challenged in court, but I expect the rule to be upheld."

"There is no reason any firm should have enough concentration in a market that they can push prices around. We don't want prices manipulated or people to have the ability to put their thumb on the scale."

When asked if he thought position limits would dampen liquidity and free market mechanisms of price discovery, Chilton responded "not at all," and again took aim at the large banks. "If people think we need banks holding 20%, 30% to 40% of the crude oil market, they are smoking something. That's just not necessary. There are plenty of people speculating in these markets. We want them. We need them. They are good people. It's the excessive speculation we need to be concerned about. There is no reason any firm should have enough concentration in a market that they can push prices around. We don't want prices manipulated or people to have the ability to put their thumb on the scale. It doesn't matter if the price is manipulated higher or lower, our job as regulator is to ensure the price is based on supply and demand and the price discovery process is efficient and effective. Our charge is not to keep commodity prices low, but rather to make sure the markets are fair, efficient and effective."

"Behind the scenes the argument was made to regulators that 'prices were manipulated lower, this is good for the economy.'"

Chilton noted that during deliberations regarding the Libor interest rate fixing scandal, behind the scenes the argument was made to regulators that "prices were manipulated lower, and this is good for the economy."Chilton's answer was "we want fair prices, not manipulated prices. Are you saying we should allow manipulation to one side of prices but not the other?" The CFTC later filed civil suit in the matter against large banks.

Difficulty Identifying Trader Positions

Beyond developing rules for position limits, Chilton says another hurdle is connecting the dots with different holding companies, private partnerships and foreign corporations to identify the positions large traders hold. "You have to put pieces together to understand control of commodities. The fact that one trader at one time had control of 40% of the crude oil market at one time is publically available, but they did it over a variety of exchanges and legal structures. I can't name the firm, but something similar occurred in the natural gas market. There are some issues in the silver market that have yet to come to light when all the pieces of the puzzle come together." Chilton was a vocal advocate in regards to motivating an investigation of price manipulation in the silver market, but the CFTC ended its investigation without any enforcement action.

"We have these large banks owning all sorts of things that we are not unaware of. There is a theoretical conflict of interest and some problems with the law. Do we really want banks influencing our media? Owning our cable companies, phone companies, our grocery stores and movie studios?"

"We have these large banks owning all sorts of things that we are not unaware of. We do know that they own oil tankers, and will lease tankers, some of them you can see, at times, in the Port of Houston. The tankers will sit at sea and wait to bring oil into the port until they think the market conditions are right. This has an impact on the supply because they are holding tankers and yet they also trade oil in the markets. There is a theoretical conflict of interest and potentially some problems with the law. If you control the supply or the delivery mechanism just on its face it is problematic."

It is not just the energy complex that concerns Chilton. "Goldman and JPMorgan own warehousing for aluminum and some of the largest corporations in America, Coca-Cola and Anheuser Busch have complained about this issue, saying the banks have held onto supply saying this is unfair for markets. All these things are concerning about the banks."

Federal Reserve Had Large Bank Position Limits Information, Wouldn't Share with CFTC

Beyond connecting the dots to piece together who really owns commodities and may be violating position limits, Chilton said access to core ownership information from other regulators is another issue. "The main issue is I don't know what commodities large traders own. I'm a CFTC Commissioner and I've been trying to find out what the banks own in the way of commodities and I can't tell you what their positions are. I've been trying to find out from the Federal Reserve, which has this information, since the end of July 2013. I've asked the Federal Reserve to send me a list, give me a link to the information they have. I receive links but they go to nowhere where I can see the information. The links go to orders that approve Federal Reserve requests for ownership, but don't detail their commodities ownership. My concern is the Federal Reserve isn't providing commodity regulators this information and I'm a regulator who supervises these markets. The American people should have visibility into this issue. People should be able to go to a web site right now, today, and click on pages that detail what the banks own."

"My concern is the Federal Reserve isn't providing commodity regulators this information and I'm a regulator who supervises these markets. The American people should have visibility into this issue."

And here Chilton started to frame the issue from a more significant stance, the control large banks have in society today. "Do we really want banks influencing our media? Owning our cable companies, phone companies, our grocery stores and movie studios? Get back to being banks for god's sake! They were so good at it. This country needs a vibrant financial services sector. Some people say it was the railroads who built the country, but it was really the banks. The banks funded the growth of the nation, they funded the building of the communities and the businesses, provided people the money to build their homes. It was the banks. We need a vibrant financial sector. But get off of all this investing (and controlling) everything under the sun."

MF Global: "CFTC Will Go After Anyone."

When engaging in a conversation about behind the scenes Wall Street influence and control, the topic of MF Global and discussion of the most politically powerful CEO to operate in the financial services sector, Jon Corzine, can't be far behind. Corzine was a former bank president and Democratic US Senator and Governor from New Jersey before he took over at MF Global, a derivatives brokerage firm that collapsed under excessive leverage usage and "lost" $1.6 billion in customer funds in the process. "I think people are concerned regarding MF Global," Chilton said. The CFTC filed a civil lawsuit against Corzine and MF Global back office employee Edith O'Brien for "unlawful use of customer funds." This is the first suit to hold a former CEO of a major Wall Street bank responsible for their actions on the job. While industry participants harmed in the MF Global case had hoped for tougher fraud charges to ensure deterrence was in place, the CFTC lawsuit was considered bold by those in regulatory circles because it defied the wishes of influential Wall Street lobbying powers and political forces centered in Washington D.C. that were apparently trying to keep a lid on proceedings.

"We have a good case against Corzine. We have good evidence and we are going forward."

"Up until the point (the CFTC filed a lawsuit) there had been a lot of conjecture, which is understandable. After the government filed a lawsuit I think people were free to think some malfeasance had taken place," Chilton said. It is not easy for outsiders to understand that defying powerful political forces can be career suicide in government and afterwards in the financial services sector, but this didn't faze the CFTC. "It was a brave lawsuit. It shows the CFTC will go after anyone regardless of political influence. Regulators don't want to litigate a case they think they will lose. We have a good case against Corzine. We have good evidence and we are going forward." When questioned about the rumored the potential for new evidence coming out at the CFTC trial, "I'm not at liberty to say any more about MF Global," Chilton concluded. The CFTC appears on an aggressive path in regards to MF Global. It is unclear if this path will be altered when new leadership takes the helm.

Is there potential for new criminal evidence to come out at the CFTC trial of Jon Corzine?

Reflecting on His Career and the Most Significant Regulatory Shift in Chilton's Tenure

Reflecting on what can arguably be considered among the most historic points in CFTC history, Chilton leans back in his chair and contemplates all that he has witnessed, much of it non public. "I've been a federal financial regulator before the crash, during the crash and after the crash. I've seen the whole thing. I've seen a lot of things that are not so cool," he said. "Perhaps most significant you need to look at the economic crash in 2008 and what caused it and what has been done since to ensure it doesn't happen again. What caused the crash was over the counter (OTC) SWAPs trading," he says plainly. "There was no, zero, zippity, zilch regulation in OTC derivatives trading. That has changed. The requirement in Dodd-Frank mandated regulation of these dark market SWAPs. We are finally doing that. We started on October 2, 2013 with 'mini-exchanges' known as Swaps Execution Facilities, or SEFs. These mini-exchanges are going gangbuster. When people talk about Dodd-Frank slowing down economic growth and that it might be an encumbrance, it is exactly the opposite. There is unbelievable competition in the market place, it is vibrant and has opened up opportunities."

"Chilton said the most significant work at the CFTC during his tenure was they "brought transparency, the light of day, to these markets that caused the crash of 2008 and that will be the legacy of the CFTC during Dodd-Frank."

What is the significance of the CFTC's work during his tenure? "We brought transparency, the light of day, to these markets that caused the crash of 2008 and that will be the legacy of the CFTC during Dodd-Frank. I think it is possible there won't be much done in the next several months (until new nominees are confirmed), but I expect these people will take our good work and move it forward. My hope is the nominees will be confirmed sooner rather than later, because it would be dangerous if this work was not continued."

As he started to pull back, the look on his face became wary like that of a warrior who had been to battle one too many times. "The influential nature of the financial sector makes it an uphill fight pretty much every day. Gary and I aggressively advocated for derivatives reform, but we are only there for a time certain and then we are gone. The over-arching system in place with an omni-potent financial sector lobbying machine ever present. Therefore, delaying things by slowing down funding or preventing nominees from being confirmed is just part and parcel to the strategy of those who oppose reform because they will run out the clock just like in a sports game. The strategy is to wait for the guys to leave who are pushing these policies. Recognizing that is the case, publically exposing the issue, is the first step to combating those that simply seek to run out the clock. But we as regulators will never be as influential, we will never have the tools, the resources that the largest of the large players in the financial industry have. But we have something that is every bit as powerful and ultimately more important: we are armed with the truth. We don't have a profit motive. We have the interest of consumers – or let me restate that, we *should* have the interest of consumers – at the forefront of our minds at all times. We have that going for us."

With this Chilton's energy turned up a notch as he contemplated new opportunities in the private sector that await after he completes his term at the conclusion of 2013. "I expect to write a book," he said, which would be his second. "I Certainly won't hold back. I"ll tell the real story of how things work, how the behind the scenes and out of view control impacts public policy and how certain people are fighting the good fight. After I leave government service, I'm not turning back. I might take a few months off, but ultimately I want to remain a vocal supporter for derivatives reform and consumer protections even far beyond these markets. That's what I've been all about and I expect to continue that work in some fashion."

CFTC’s Challenge to Binary Options

By James Bibbings and Nicole Kuchera

Nichole Kuchera is a lawyer with Henderson and Lyman

On June 5, 2013, the Commodity Futures Trading Commission (CFTC) filed an action against the largest binary options trading firm in the U.S., Banc de Binary (BDB). The U.S. Securities and Exchange Commission (SEC) indicated that it intends to file suit against BDB shortly as well. In its complaint, the CFTC alleged that BDB illegally operated an online trading platform that allowed U.S. customers to trade binary options off-exchange from May 2011 to March 2013, in violation of the CFTC’s ban on off-exchange options trading. The complaint also alleged that BDB operated as an unregistered futures commission merchant (FCM) from July 2011 to March 2013 and that it did not limit its customers to eligible contract participants, but rather conducted business with U.S. retail investors as well.

“In its complaint, the CFTC contends it has jurisdiction over binary options trading because binary options are effectively options on commodity contracts regulated by the CFTC.”

In its complaint, the CFTC contends it has jurisdiction over binary options trading because binary options are effectively options on commodity contracts regulated by the CFTC. In its motion to dismiss, which has yet to be decided by the court, BDB has responded that binary options are substantially different from options on a traditional futures position. For instance, in a binary options trade, the customer speculates on whether the price of a certain commodity will go up or down, whether a currency will increase or decrease over another currency, or various other market-related types of predictions. There is no options contract to buy or sell any underlying commodity, currency or other item, and there can be no delivery of the underlying item. Rather, a prediction is made as to the direction of a market move only, and the person who makes the prediction either wins or loses based solely on the market move. Until a resolution is reached by the court as to this key issue, regarding the breadth of the definition of an option, further discovery is unlikely to prove helpful in resolving this matter.

At the present time, only one firm, Nadex, has applied and succeeded in licensing itself to operate an exchange for binary options trading. BDB’s attempts at registration as a binary options trading firm were unsuccessful, as have been similar attempts by other binary options trading firms. The uncertainty over regulation has left binary options firms wondering whether they can continue operating as usual, or whether they should try to register with the CFTC (or SEC) or conduct their binary options transactions over Nadex’s exchange.

Regulatory agencies in other countries, such as the Cyprus Securities and Exchange Commission, have already begun to license binary options as financial instruments. The Malta Financial Services Authority is expected to follow suit shortly. U.S. binary options firms might begin to relocate to these countries, giving up their ability to solicit U.S. investors, due to the current uncertainty in U.S. law concerning the regulation of this type of financial services business.

Further Guidance

We will seek to keep you informed of future updates. Please note that the information set forth in this summary is not intended to be all-inclusive and does not constitute legal advice. If you have any questions concerning the potential effects of the CFTC or potentially SEC action on your business, we recommend that you seek additional guidance. TTP has the business acumen, as well as relationships with law firms, such as Henderson & Lyman, to provide you with the guidance you need to analyze updates affecting the binary options industry.

James Bibbings is the President and CEO of *Turnkey Trading Partners* (TTP), a firm that supports all commodity and forex specific regulatory and business needs. Prior to founding TTP, Bibbings worked with the National Futures Association (NFA) as a supervising auditor. During his time with NFA he was involved in approximately 100 investigative audits and was able to gain a deep working knowledge of FDM, FCM, IB, CTA, and CPO operations. Since departing from NFA, Bibbings has owned and operated an independent introducing brokerage and participated in international forums on proposed CFTC regulatory requirements. He has also provided financial markets content for MSN, Yahoo, Financial Times, FinAlternatives, Wiki-Investments, Safe Haven, Financial Sense, The Wall Street Journal's Market Watch, Forex Journal, FX Street, Forex Factory, Commodity News Center and many other highly acclaimed investment publications. Two highly sought after informational pamphlets regarding futures and forex registration authored by Bibbings are currently available for free upon request through his company website. If you have any questions or comments for Bibbings he can be reached directly by email at james@turnkeytradingpartners.com and would love to hear from you.

Nicole Kuchera, JD, LL.M. *is an attorney in Henderson & Lyman's Financial Services Practice Group. She concentrates her legal practice on futures, securities and derivatives industry clients, such as commodity pool operators, commodity trading advisors, hedge funds, introducing brokers, proprietary trading firms, broker-dealers, investment advisers, swap dealers, futures commission merchants, forex dealer members and binary options trading firms. Ms. Kuchera counsels clients regarding a wide range of compliance and regulatory matters involving the rules and regulations of the CFTC and the SEC, as well as self-regulatory organizations and exchanges. Ms. Kuchera also represents clients in general corporate matters, such as business formation and structuring, licensing and registration, and preparation of disclosure documents, compliance procedures, business agreements and advertising materials. She also represents financial services clients in a wide range of litigation matters in various forums, including state and federal courts and in industry.*

The shortfalls of Venture Capital: Why VC has to become a scientific investment discipline

By John Bhakdi

John Bhakdi operates a venture capital fund that utilizes an algorithmic method to make allocations.

When we think about Venture Capital (VC), we think about great entrepreneurs, secret deals, and the adrenaline rush of hitting the "next big thing". Silicon Valley is in many respects the financial cousin of Hollywood: full of great successes, grand failures, of divas, heroes and villains. Financially not very pleasing, but a fun sport.

But there is a new way of doing business in VC: an approach that uses advanced analytical science and algorithmic investment principles to assist in making funding decisions to remove risk, and give investors much more structured exposure to the world's most promising asset class.
But before I jump into the details, I have to make one important point: The reason we developed a scientific investment approach to VC is not that we have a general bias towards scientific investment in the first place.

> "There is a new way of doing business in VC: an approach that uses advanced analytical science and algorithmic investment principles to assist in making funding decisions..."

We developed the i2X quantitative VC framework and the corresponding Innovation Index because we realized that the financing of innovation is a very special challenge.

The factors that determine the success of any individual early stage technology startups often lie far outside the company and even the founders themselves. They can found not by looking at just the company, but only by factoring in a much larger set of factors that we call "ecosystem".
And even after factoring these ecosystems in, it remains impossible to predict an individual startup's success for logical reasons. Therefore, we have to look at a larger set of startups – a "cluster" – and start looking this cluster an investment object. Only then do we get into a territory that offers statistical significance.

This new quantitative approach to VC is personally important to me. It applies the tools of scientific investing to solve probably the biggest problem in global asset management, which I describe as a lack of alpha.

As Ray Dalio once famously said: "In the long run, income can never grow faster than productivity." And productivity is a simple function of technology innovation whose largest growth comes from technology startups.

Since VC is in charge of financing innovation, it is not just a fun sport. It is the financial infrastructure that is responsible to generate growth across all asset classes.

And right now, it's a grandiose failure. At a $26b US volume, dismal returns of 6.9% p.a. - a negative alpha of 2.8% below the Russell 2000 – no liquidity and 30%+ risk, the numbers look not good.
The reason lies in an outdated approach to VC in that Venture firms simply apply the Private Equity playbook to technology startups: they look into their financials, their growth rate, their past. But this is not how innovation works. Truly disruptive startups have no past: they are new. Startups are future potential that unravels far too fast to wait for it to unravel before you invest.

By failing to provide a financial infrastructure that is built around the fundamental traits of innovation, VC fails to build the startup breeding ground our entrepreneurs, financial markets and economy rely on.
This failure and its negative effects have driven us to take action, and develop a financial technology that accounts for the unique nature of startup innovation.

Following this logic, I want to start the description of the i2X Innovation Index and quantitative VC framework by taking a closer look at the system of innovation it empowers. It is a system of four macro-factors which together form a wonderful mechanic of progress that we call the "Innovation Machine".
To read the full article click here.

ABOUT THE AUTHOR

John is CEO of i2X, the Innovation Index and Exchange. i2X offers targeted, highly risk-mitigated exposure to a scientifically designed index of the best US technology startups. John combines personal startup experience with an extensive track record as corporate executive with a focus on unlocking innovation potential across sectors and organizations. During his career, he has worked with C- and VP-level executives at WPP and Omnicom agencies, Deutsche Bank, Credit Suisse, MasterCard,Ebay, McDonald's, Dow Jones, Microsoft as well as top-tier Silicon Valley VC firms. John is a thought leader on innovation ecosystems, lean startup culture and scientific investment methodologies in Venture Capital.

MF Global Customers See 100% Of Funds Returned

By Mark Melin

When he was in court November 5, 2013 to hear the final ruling that MF Global customers would receive 100% of their money returned, James Koutoulas, pro-bono attorney for some 8,000 MF Global customers who initially lost their deposits in the 8th largest bankruptcy in US history, was thinking "I couldn't believe I was the only representation all these poor people had and how totally the regulators failed to stand up for them." In the Southern District of New York bankruptcy court, Koutoulas just heard court appointed trustee James Giddens say that initially in the MF Global bankruptcy it "seemed inconceivable that MF Global customers would ever get all their money back." But on this day all were in court to witness Judge Glenn order 100% of customer funds returned.

It was nearly two years ago when Koutoulas, appearing on CNBC's Santelli Exchange, was asked if he thought customers would get all their money returned. "Your damn right they will," he said in what would become known as his characteristically bold demeanor.

"What remained unsaid at the time was that Koutoulas and a small group of independent industry participants didn't have much chance as they were laughably fighting the most powerful forces on Wall Street without much, if any, institutional support."

Just after the bankruptcy was announced, the very notion MF Global customers would see all their assets returned was scoffed at, if not outright ridiculed by knowledgeable Wall Street observers. Early official communications from the bankruptcy trustee informed customers they might receive 60% of their assets returned nine months after the transfers occurred. Other official communication, delivered just before the holiday season to the press, set expectations customers were going to have to "share" their assets. What remained unsaid at the time was that Koutoulas and a small group of independent industry participants didn't have much chance as they were laughably fighting the most powerful forces on Wall Street without much, if any, institutional support.

"Koutoulas discovered no one was defending MF Global customers and enforcing segregated account protections, and he became the accidental lawyer defending an industry and the honor of the segregated account."

Koutoulas would first appear in court on behalf of MF Global customers November 15, 2011 in arguably the most complex bankruptcy case in the history of financial services, yet he had only appeared in court once before, pro-bono work in an $8,000 small claims dispute where he represented a friend. In an old courthouse in lower Manhattan just off Wall Street near Battery Park, Koutoulas entered on that chilly morning and gazed at the intimidating wall of over-priced legal talent. It was at this moment he grasped the reality of the situation. "We weren't going to beat $800 per hour white shoe lawyers who knew the intricacies of the brokerage bankruptcy process. We had to win through public media pressure." With this Koutoulas discovered no one was defending MF Global customers and enforcing segregated account protections, and he became the accidental lawyer defending an industry and the honor of the segregated account.

Over-matched, under-financed and over-whelmed, MF Global justice fighters began a guerrilla operation to pressure the justice system to properly function without regard to the overwhelming political influence that surrounded Corzine, a former bank president, US Senator and Governor from New Jersey.

"Farmers, ranchers and small business people needed this money," said Koutoulas, who now sits on the National Futures Association board and runs the Commodity Trading Advisory Typhon Capital. "Many were facing the prospect of not just missing a Christmas season, but their farming and business livelihood was now in danger – as was the entire futures industry." With this as a backdrop, prospects at the time looked dim. Who would have blamed Wall Street observers for thinking Koutoulas was making an absurd prediction customers would get all their assets back two years ago? In the previous Wall Street bankruptcies of Lehman Brothers and Bear Stearns, powerful forces had their way in what was a bankruptcy gang free-for-all where no one stood up to defend the honor of the victim. No one stood up to powerful forces back then, why would the bankruptcy of a "third tier" futures brokerage be any different? And this time the proceedings involved MF Global's former CEO Jon Corzine, arguably the most politically powerful person to ever operate in the financial services sector, who was now facing a small group of independent industry participants who feared losing this fight and allowing justice to be so easily trampled would forever taint the regulated derivatives industry.

"The proceedings involved MF Global's former CEO Jon Corzine, arguably the most politically powerful person to ever operate in the financial services sector, who was now facing a small group of independent industry participants who feared losing this fight and allowing justice to be so easily trampled would forever taint the regulated derivatives industry."

Most Significant Accomplishment

While the recent confirmation that MF Global customers would receive all their deposit money returned is significant, Koutoulas says the biggest achievement was pressuring the trustee to return 72% of customer assets within 6 weeks of the bankruptcy. "They had the money," he said. "When MF Global declared bankruptcy their assets on the books exceeded liabilities. It was just a matter of pressuring the trustee to distribute 72% in December 2011 rather than 60% in July 2012."

As for the future, Koutoulas is currently working on a bill with US Congressman Grimm (R-NY) that would, among other things, force futures brokerage firms to enter into a subordination agreement with their affiliates and lenders confirming customer segregation rights precede that of creditors. "In four pages it does more to protect customers than in 500 pages of new rules that the CFTC is proposing," he said. As to the bill's prospects for passage, Koutoulas notes powerful opposition from derivatives industry institutions, including Futures Industry Association and CMEGroup, as diminishing the potential for the bill to be passed. Koutoulas had testified October 2 regarding the need for enhanced customer protections.

Koutoulas says the biggest achievement was pressuring the trustee to return 72% of customer assets within 6 weeks of the bankruptcy.

For his part, Corzine recently issued statements saying a lawsuit filed against him was "filled with half truths" and proceeded to claim through a lawyer that the transfer of customer assets was "part of a new business plan," according to published reports. Both MF Global creditors and the CFTC have filed suit against Corzine. Corzine recently tried to have the cases dismissed but was denied, with U.S. District Judge Victor Marrero in Manhattan issuing rather harsh and frank statements regarding MF Global executives. "Defendants' contentions would suggest that ... perhaps the debacle must have been the fateful work of supernatural forces, or else that the explanation for a spectacular multi-billion dollar crash of a global corporate giant is simply that 'stuff happens.'"

Just days after this defeat for Corzine, the CFTC won a $1.2 million restitution case against MF Global. Most ominious for Corzine and MF Global senior executives are references to criminal evidence that may appear in the CFTC's upcoming trial of Corzine, including issues related to falsification of reports given to regulators after MF Global was ordered not to transfer assets.

Public reports show MF Global ignored the regulator orders and transfered customer assets the week previous to filing for bankruptcy, arguably leading to the most significant damage to the commodity markets and violation of segregated account protections in history.

Inaugural Altegris CTA Challenge Entering Final Stage

By Mark Melin

As the inaugural Altegris CTA Challenge heads for a December close, and the managed futures industry again experienced among the more significantly negative market environments for price persistence in history, a trend follower with a counter-trend model handily leads the race by several lengths.

Mehnert is known to have what he refers to as a money management algorithm, a systematic method to consider position sizing based on items such as VaR and exit trade strategies.

Mehnert Capital Management's program is a rare shining star, up 21.73% while the Altegris CTA index is down 4.05% year to date. R.J. Mehnert has a professional trading background working for eight years with a partner in a previous CTA prior to moving out on his own. Why is Mehnert up significantly while the industry has been struggling in general? While few traders provide complete details into their secret sauce, Mehnert is known to have what he refers to as a money management algorithm, a systematic method to consider position sizing based on items such as VaR and exit trade strategies. This along with some of his counter trend strategies might explain why he performed positively in May (+6.76%) and June (+4.55%), periods of time when traditional managed futures trend following programs were caught in trend reversals that hit large financial markets, resulting in losses in the Altegris 40 index for May (-4.30%) and June (-3.79%).

"Every CTA does something different," Altegris Clearing Solutions Maxwell Eagye noted. "Most CTA systems are derived from trade ideas that come from individuals. Even though we have a lot of global diversified trend followers in the CTA Challenge, within that group there is a lot of diversification in time frames, sectors and other things. The CTA Challenge was designed to provide knowledge to investors. Getting a research analyst involved can take a lot of effort and a lot of resources. We wanted to develop a more systematic way to at least do an initial vetting using technology and evaluate CTAs on a systematic basis."

In order to score the managers, the CTA Challenge considers seven factors in a formula:

- Daily Rate of Return vs. Daily Volatility [Sharpe Ratio without Risk-Free rate]
- Daily Rate of Return vs. Daily Downside Volatility [Sortino Ratio without Risk-Free rate]
- Daily Rate of Return vs. Maximum Daily Drawdown [Sterling Ratio without Risk-Free rate]
- Daily Rate of Return vs. Daily Margin-to-Equity [Return on Margin]

• Daily Rate of Return vs. Daily Value at Risk (VAR) [Return on VaR]
• Daily Rate of Return vs. Daily Conditional Value at Risk (CVAR) [Return on CVaR]
• Total Rate of Return during the period of the challenge

"Risk control is important," noted Eagye. "The old adage that anything that can go up 50% can go down 50% can be true…just look at the Nasdaq Composite during the Dot Com bubble and subsequent Tech Wreck from 1997 to 2001. We want to make sure that while managers can make money they can also manage risk in market environments that are not favorable to their strategy as a way to preserve capital."

Portfolio Diversification

The CTA Challenge should not be used as a tool for an investor to select the "best" manager, but rather to provide CTA exposure to obtain diversification. "The reason we build diversified portfolios and why we never hold out a single manager is that certain managers succeed in certain market conditions while other managers may not," Eagye said.

2100 Xenon's Long Short Global Fixed Income program, which is entered into the CTA Challenge, is a good example. The strategy is designed to benefit during periods of rising interest rates. When interest rates along the yield curve jumped in May and June the program performed positively, but as market trends along the yield curve remain artificially suppressed investing in the program has been more an exercise of watching their risk controls during periods of negative market environments. "The diversification concept is that in a time of need a diversified manager like Xenon could pull up performance of a portfolio when other CTAs falter."

Eagye notes the primary goal of the CTA Challenge is to provide a platform for small and medium sized managers to display their prowess. "In many cases a manager with $100 million under management can more effectively enter and exit markets than can a CTA with larger assets under management."

The Altegris CTA Challenge 2013 ends in December with an awards dinner scheduled for January 2014. Visit www.ctachallenge.com for more information.

DOCUMENT DISCLOSURE

This newsletter is designed to include a wide variety of industry voices and information. To participate, send your news, events and viewpoints to melin@opalesque.com. To be considered for inclusion information must be factual, and ideally address deep industry issues and reveal insight into how strategies operate, all delivered from a balanced perspective that addresses risk frank terms.

User agreement and confirmation of Qualified Eligible Person status

The user acknowledges and agrees to all of below:
User confirms that they are a Qualified Eligible Person as defined under the (CFTC) Regulation 4.7., because they are: Registered investment company; Bank; Insurance company; Employee benefit plan with >$5,000,000; Private business development company Organization described in Sec. 501(c)(3) of the Internal Revenue Code with >$5,000,000 in assets; Corporation, trust, partnership with >$5,000,000 not formed to invest in exempt pool; Person with net worth >$1,000,000; Person with net income >$200,000 each of last 2 yrs. or >$300,000 when combined with spouse; Pool, trust separate account, collective trust with >$5,000,000 in assets; User also confirms they meet the following Portfolio Requirement: Own securities with a market value >$2,000,000; Have had on deposit at FCM, in last 6 months, >$200,000 in margin and option premiums; Have combination of securities and FCM deposits. The percentages of required amounts must = 100%.

Opinions:
User represents themselves to be a sophisticated investor who understands volatility, risk and reward potential. User recognizes information presented is not a recommendation to invest, but rather a generic opinion, which may not have considered all risk factors.
User recognizes this web site and related communication substantially represent the opinions of the author and are not reflective of the opinions of any exchange, regulatory body, trading firm or brokerage firm.

The opinions of the author may not be appropriate for all investors and there is no warrantee relative to the accuracy or completeness of same. The author may have conflicts of interest, a disclosure of which is available upon request.

Privacy Policy: Links to third party sites may require registration. When registering with Opalesque or Uncorrelated Investments, users can maintain their privacy by selecting the "Opt Out" button and proceed to pay for services. In order to receive complementary reports and information, users may be required to identify themselves, and this information may be shared with third party sponsors.

RISK DISCLOSURE

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.
THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS. YOU COULD LOOSE ALL OF YOUR INVESTMENT OR MORE THAN YOU INITIALLY INVEST. IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS.

THE DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF THE PRINCIPAL RISK FACTORS AND EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR ("CTA"). THE REGULATIONS OF THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") REQUIRE THAT PROSPECTIVE CUSTOMERS OF A CTA RECEIVE A DISCLOSURE DOCUMENT WHEN THEY ARE SOLICITED TO ENTER INTO AN AGREEMENT WHEREBY THE CTA WILL DIRECT OR GUIDE THE CLIENT'S COMMODITY INTEREST TRADING AND THAT CERTAIN RISK FACTORS BE HIGHLIGHTED. THIS DOCUMENT IS READILY ACCESSIBLE AT THIS SITE. THIS BRIEF STATEMENT CANNOT DISCLOSE ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY MARKETS. THEREFORE, YOU SHOULD PROCEED DIRECTLY TO THE DISCLOSURE DOCUMENT AND STUDY IT CAREFULLY TO DETERMINE WHETHER SUCH TRADING IS APPROPRIATE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION.

YOU ARE ENCOURAGED TO ACCESS THE DISCLOSURE DOCUMENT. YOU WILL NOT INCUR ANY ADDITIONAL CHARGES BY ACCESSING THE DISCLOSURE DOCUMENT. YOU MAY ALSO REQUEST DELIVERY OF A HARD COPY OF THE DISCLOSURE DOCUMENT, WHICH WILL ALSO BE PROVIDED TO YOU AT NO ADDITIONAL COST.

MUCH OF THE DATA CONTAINED IN THIS REPORT IS TAKEN FROM SOURCES WHICH COULD DEPEND ON THE CTA TO SELF REPORT THEIR INFORMATION AND OR PERFORMANCE. AS SUCH, WHILE THE INFORMATION IN THIS REPORT AND REGARDING ALL CTA COMMUNICATION IS BELIEVED TO BE RELIABLE AND ACCURATE, AND AUTHOR/PUBLISHER CAN MAKE NO GUARANTEE RELATIVE TO SAME. THE AUTHOR IS A REGISTERED ASSOCIATED PERSON WITH THE NATIONAL FUTURES ASSOCIATION.

OPALESQUE
FUTURES
INTELLIGENCE

PUBLISHER
Matthias Knab - knab@opalesque.com

EDITOR
Mark H. Melin - melin@opalesque.com

ADVERTISING DIRECTOR
Greg Despoelberch - gdespo@opalesque.com

FOR REPRINTS OF ARTICLES, PLEASE CONTACT:
Greg Despoelberch - gdespo@opalesque.com

www.opalesque.com