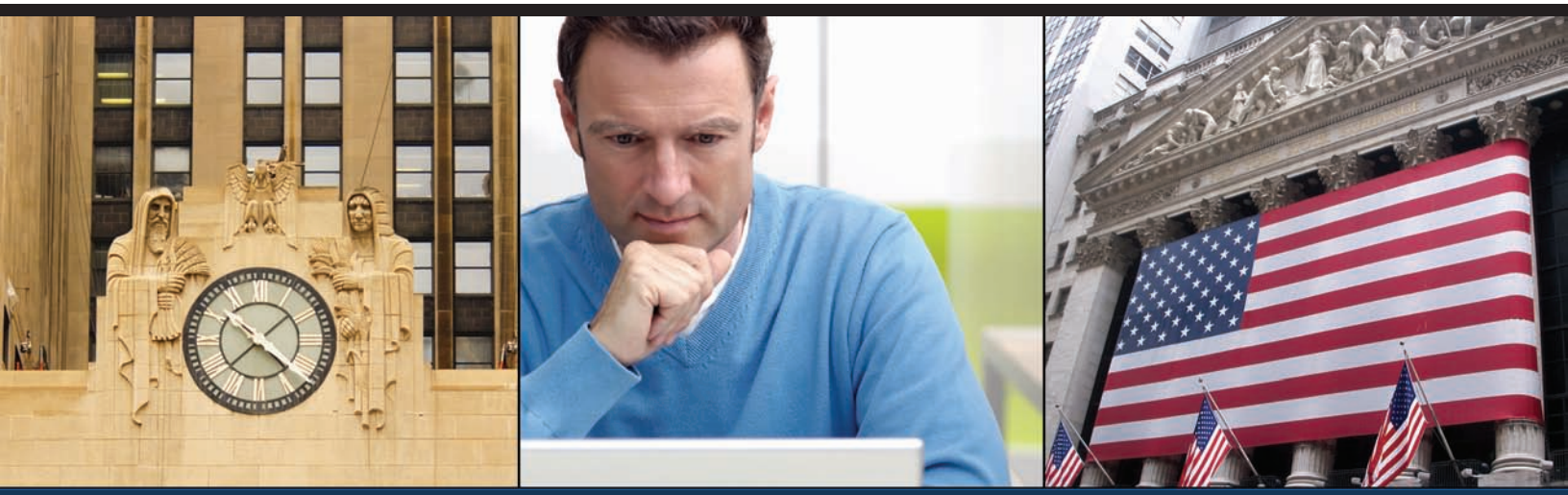
PARK AVENUE
Asset Management

Modern Portfolio Theory:

Dynamic Diversification For Today's Investor



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Introduction to Managed Futures: ***www.ParkAvenueAssetMgt.com/Presentation/***

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A Personal Message

Michael A. DeRose, President/CEO

Park Avenue Asset Management

The case for diversification of one's investment portfolio with managed futures, when supported by independent research and facts, is compelling. This brochure attempts to present this information in a straightforward, easy to understand, provocative manner.

The performance enhancement and risk reduction benefits of incorporating managed futures in one's investment portfolio have been well documented. **However, particularly in today's times of heightened market volatility, I believe the versatility of managed futures to potentially perform in volatile up and down markets, recessionary and boom times, or in virtually any economic condition is its most attractive feature. Whether markets are rising or falling, managed futures potentially stand ready to perform. Very few investments can make that claim!** Past performance is not necessarily indicative of future results. The risk of substantial loss exists in futures trading.

Diversification

Perhaps the most important question investors should be asking themselves: "Is my portfolio diversified with investments that are non-correlated to stocks, and that possess the potential to do well even if the stock market moves down or sideways?"

> *"Commodity futures are one of the least correlated investments to stocks for suitable investors."*

Correspondingly, in a new investment landscape where every investment has risk (even U.S. government securities), I believe suitable investors would be better served in managed futures (with CTAs who have documented records of substantially outperforming stocks with less drawdowns) which, unlike stocks, can perform in both declining as well as rising markets. Please be advised, however, that trading futures and options involves substantial risk of loss and is not suitable for all investors. There are no guarantees of profit no matter who is managing your money. An investor must read and understand a Commodity Trading Advisors most current disclosure document before investing. Also, the reference made above regarding CTAs with documented records and less drawdowns don't necessarily represent the results of any individual program or CTA.

Diversification in asset classes non-correlated to stocks is the corner stone of modern portfolio theory and one of the best ways to potentially balance and protect a portfolio. **Commodity futures are one of the least correlated investments to stocks for suitable investors. I advise placing 10% to no more than 30% of your investment portfolio in managed futures for proper diversification.**

The purpose of this brochure is to make investors better informed about managed futures so they can decide if managed futures is appropriate for them.

Enjoy and may you prosper in your investment endeavors!

Sincerely,

Michael A. DeRose
President/CEO
Park Avenue Asset Management

Trading futures and options involves substantial risk of loss no matter who is managing your money. Such an investment is not suitable for everyone. An investor must read and understand the current disclosure document before investing. The risk associated with selling options is unlimited. Past performance is not indicative of future results.

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Modern Portfolio Theory

Modern Portfolio Theory ("MPT") is also called "portfolio theory" or "portfolio management theory." MPT is a sophisticated investment approach first developed by Professor Harry Markowitz of the University of Chicago, in 1952. Thirty-eight years later, in 1990, he shared a Nobel Prize with Merton Miller and William Sharpe for what has become the frame upon which institutions and savvy investors construct their investment portfolios.

Modern Portfolio Theory allows investors to estimate both the expected risks and returns, as measured statistically, for their investment portfolios. In his article "Portfolio Selection" (in the Journal of Finance, in March 1952), Markowitz described how to combine assets into efficiently diversified portfolios. **He demonstrated that investors failed to account correctly for the high correlation among security returns. It was his position that a portfolio's risk could be reduced and the expected rate of return increased, when assets with dissimilar price movements were combined. Holding securities that tend to move in concert with each other does not lower your risk. Diversification, he concluded "reduces risk only when assets are combined whose prices move inversely, or at different times, in relation to each other."**

Dr. Markowitz was among the first to quantify risk and demonstrate quantitatively why and how portfolio diversification can work to reduce risk, and increase returns for investors. That's probably why he received the Nobel Prize!

Diversification reduces volatility more efficiently than most people understand: The volatility of a diversified portfolio is less than the average of the volatilities of its component parts.

While the technical underpinnings of MPT are complex, and drawn from financial economics, probability and statistical theory, its conclusion is simple and easy to understand: **a diversified portfolio, of uncorrelated asset classes, can provide the highest returns with the least amount of volatility.**

Many investors are under the delusion that their portfolios are diversified if they are in individual stocks, mutual funds, bonds, and international stocks. While these are all different investments, they are all still in the same asset class and generally move in concert with each other. When the bubble burst in the stock market in 2008, this was made painfully clear! **Proper diversification according to MPT is in different asset classes that move independently from one another.**

One of the most uncorrelated and independent investments versus stocks are professionally managed futures. The value of professionally managed futures was thoroughly researched by Dr. John Lintner, of Harvard University, in a 1983 landmark study, "The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds."

Lintner wrote that "the combined portfolios of stocks (or stocks and bonds) after including judicious investments... in leveraged managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone." Lintner specifically showed how managed futures can decrease portfolio risk, while simultaneously enhancing overall portfolio performance. Please be advised that trading futures and options involves substantial risk of loss no matter who is managing your money. Such an investment is not suitable for everyone.

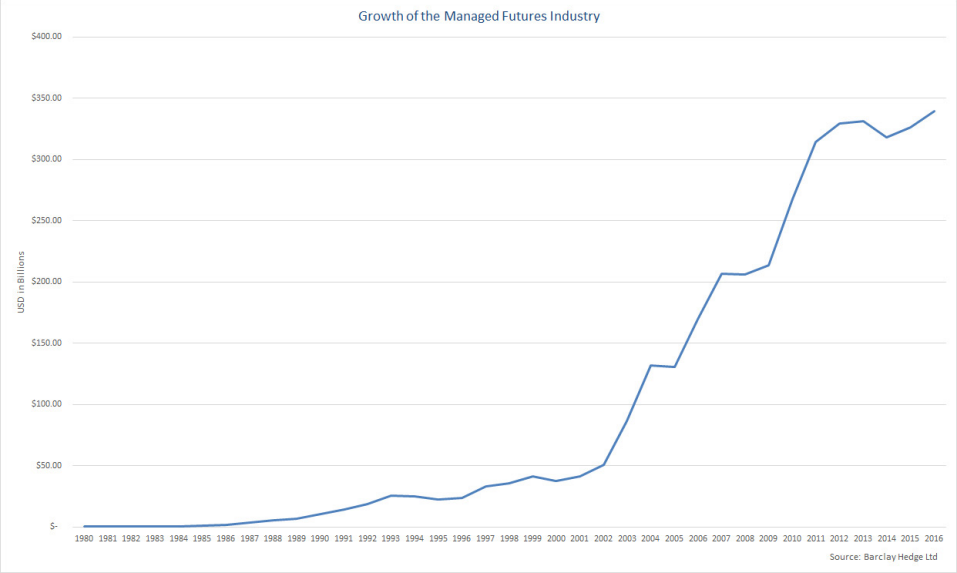
"The combined portfolios of stocks (or stocks and bonds) after including judicious investments... in leveraged managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stocks and bonds alone."

Many times, the best and easiest way to convey an important point is with graphs. A picture is worth a thousand words!

We believe the following graphs represent some of the strongest evidence available today in support of the key tenet espoused in Modern Portfolio Theory, that diversification in different asset classes incorporated in an investment portfolio can reduce risk, and increase returns. And as Dr. Lintner concluded, managed futures are an ideal asset class to use in portfolio diversification. In viewing the charts, you be the judge!

GROWTH OF THE MANAGED FUTURES INDUSTRY

In the last 16 years, assets under management for the managed futures industry have grown approximately an unprecedented 796%



Recent growth in managed futures has been substantial. In 2000, it was estimated that there was $37.90 billion was under management by managed futures trading advisors. By the end of the fourth quarter of 2016, that number had grown to more than $339.7 billion. According to Barclay Hedge, one of the oldest and most respected providers of alternative investment data, managed futures is one of the fastest growing alternative investment strategies today.

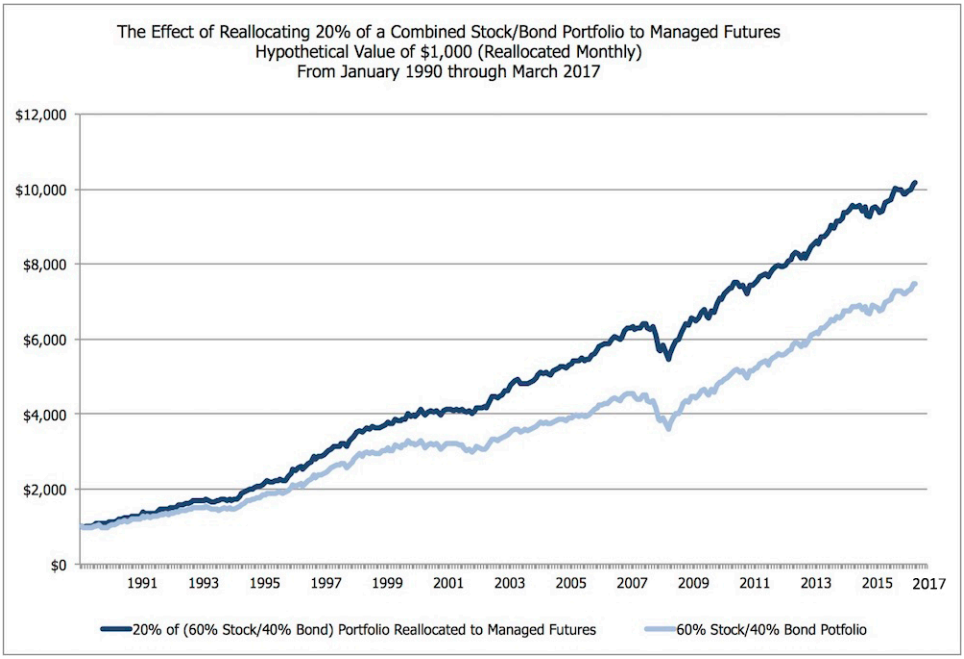
Why are managed futures so popular with investors? According to Sol Waksman, founder and President of BarclayHedge the current growth in managed futures assets has been more closely aligned with changing sentiment among sophisticated investors, who are now seeking transparency, liquidity and lower downside volatility within their portfolios all of which managed futures can potentially provide.

Please be advised that trading futures and options involves substantial risk of loss and is not suitable for all investors. There are no guarantees of profit no matter who is managing your money. An investor must read and understand the current disclosure document before investing. Past performance is not necessarily indicative of future results.

We believe the dramatic rise in managed futures is due to investors becoming better informed about its values, benefits and risks… and enabling investors to be better informed about professionally managed futures is the purpose of this brochure.

The following material mentions services which rank the performance of Commodity Trading Advisors. Please note that the rankings apply only to those CTAs who submit their trading results. The rankings in no way purport to be representative of the entire universe of Commodity Trading Advisors. The material in no way implies that these results are officially sanctioned results of the commodity industry.

THE EFFECT OF REALLOCATING 20% OF A TRADITIONAL STOCK/BOND PORTFOLIO TO MANAGED FUTURES



Stocks are represented by the S&P 500 Total Return Index from December 1990 to the end of Data and by the S&P 500 Price Index adjusted for dividends from January 1990 through November 1990. The S&P 500 indices are designed to reflect all sectors of the U.S. equity markets. The S&P 500 includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market. Companies eligible for addition to the S&P 500 have market capitalization of at least US$3.5 billion. The TR Index accounts for the reinvestment of dividends.

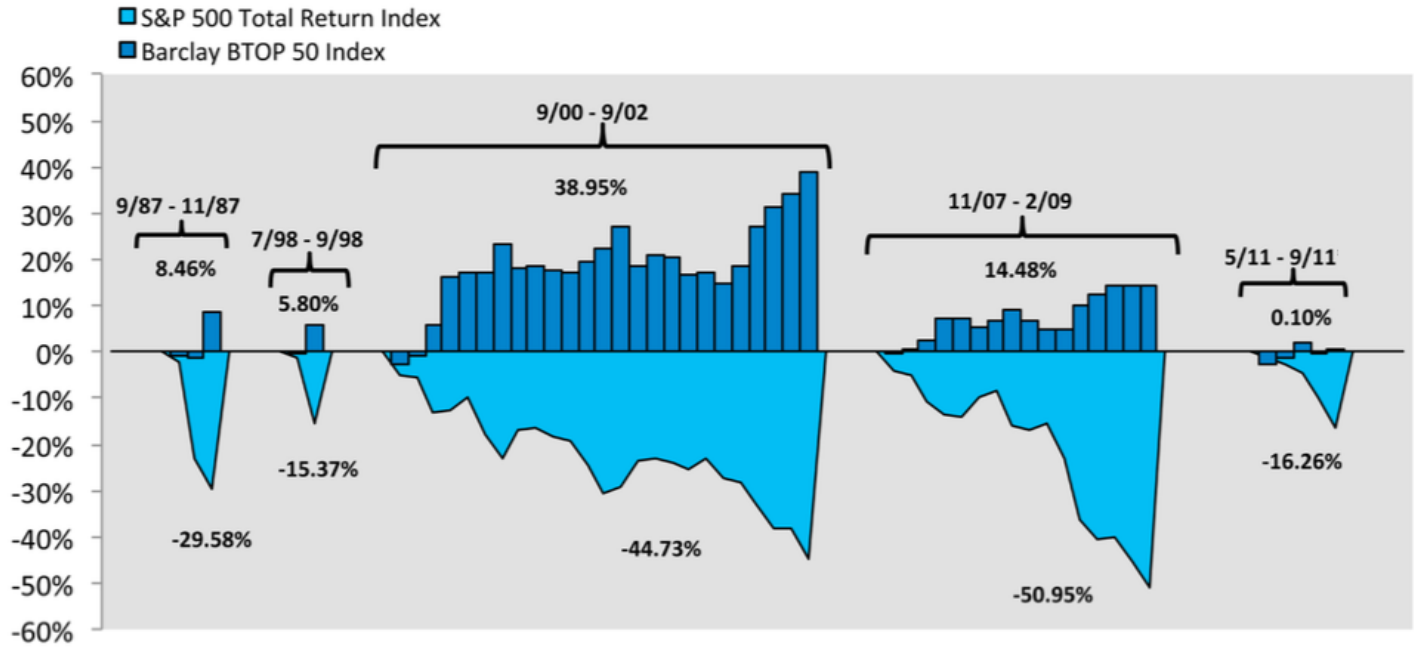
Bonds are represented by the Barclay's US Aggregate Bond Index (formerly known as the Lehman US Aggregate Bond Index). The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass- throughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976.

Managed Futures are represented by the Autumn Gold CTA Index. The Autumn Gold CTA Index is comprised of the client performance of all CTA programs included in the AG database and does not represent the complete universe of CTAs. CTA programs with proprietary performance are not included. Monthly numbers are updated until 45 days after the end of the month.

Trading futures and options involves substantial risk of loss and is not suitable for all investors. There are no guarantees of profit no matter who is managing your money. An investor must read and understand the Commodity Trading Advisors current disclosure document before investing. Past performance is not necessarily indicative of future results. This matter is intended as a solicitation to invest in managed futures. Be advised that an individual cannot invest in the index itself and the actual rates of return for an individual program may significantly differ and be more volatile than the index.

BTOP 50 VS. S&P 500 DURING THE S&P'S WORST FIVE DRAWDOWNS SINCE 1987

The study below supports the famous landmark study by the late Harvard University professor Dr. John Lintner. **In his study Dr. Lintner concluded that managed futures can increase the performance and reduce the risk in an overall investment portfolio. It is important to note the study below is not based on academic theory.** It is based on actual performance statistics of the S&P 500 and the BTOP50. The BTOP50 Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 comprises the largest trading advisor programs, as measured by assets under management.

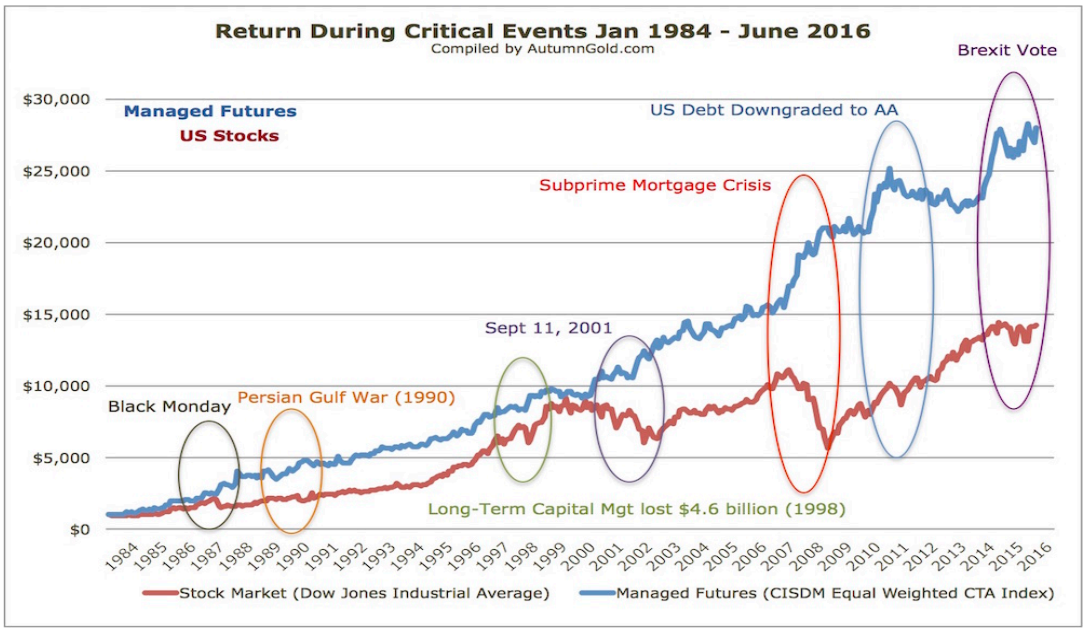


Source: Bloomberg

The BTOP50 Index is a non-investable index comprised of the following and does not represent the complete universe of CTAs. Investors should note that it is not possible to invest in these indexes.

The BTOP50 Index 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. To be included in the BTOP50, the following criteria must be met: Program must be open for investment; Manager must be willing to provide daily returns; Program must have at least two years of trading activity; Program's advisor must have at least three years of operating history; and the BTOP50's portfolio will be equally weighted among the selected programs at the beginning of each calendar year and will be rebalanced annually.

RETURN DURING CRITICAL EVENTS: JANUARY 1984 - JUNE 2016



The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

The CISDM Equal Weighted CTA Index is an equal weighted index of CTAs maintained by The Center for International Securities and Derivatives Markets at the University of Massachusetts Amherst. It reflects the average performance of Commodity Trading Advisors reporting to the CISDM Hedge Fund/CTA Database. Each CTA must have at least $500,000 under management and at least a 12-month track record. The CISDM CTA Index is a continuation of the earlier MAR Index which was sold to Zurich Capital Markets in 2001 and was gifted by Zurich to the University of Massachusetts in 2002 and renamed the CISDM Indices.

This material mentions services which rank the performance of commodity trading advisors. Please note that the rankings apply only to those CTAs who submit their trading results. The rankings in no way purport to be representative of the entire universe of commodity trading advisors. The material in no way implies that these results are officially sanctioned results of the commodity industry. Be advised that an individual cannot invest in the index itself and the actual rates of return for an individual program may significantly differ and be more volatile than the index.

Trading futures and options involves substantial risk of loss and is not suitable for all investors. An individual must read and understand the Commodity Trading Advisors current disclosure document before investing. Past performance is not necessarily indicative of future results.

MANAGED FUTURES PERFORMANCE DURING THE WORST STOCK MARKET DECLINES IN HISTORY

Managed futures performance during severe declines in S&P 500

Event	S&P 500*	BTOP 50 Index**
Crash of '87	-23.23%	+16.88%
Terrorist Attacks WTC 9/11	-14.99%	+4.12%
Iraq Invades Kuwait 1990	-14.52%	+11.22%
1998 Russian Defaults/LTMC	-10.30%	+10.54%
Tech Bubble Bursts 2000	-8.09%	+19.78%
2008 Stock Market Crash	-37.00%	+13.58%

*S&P 500: A basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole.
**Barclay BTOP 50 Index: The BTOP50 Index 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. To be included in the BTOP50, the following criteria must be met: Program must have at least two years of trading activity; Program's advisor must have at least three years of operating history; and the BTOP50's portfolio will be equally weighted among the selected programs at the beginning of each calendar year and will be rebalanced annually. Not all CTAs have performance that is comparable to that of the BTOP 50 Index. Some CTAs have experienced losses during the time periods shown.

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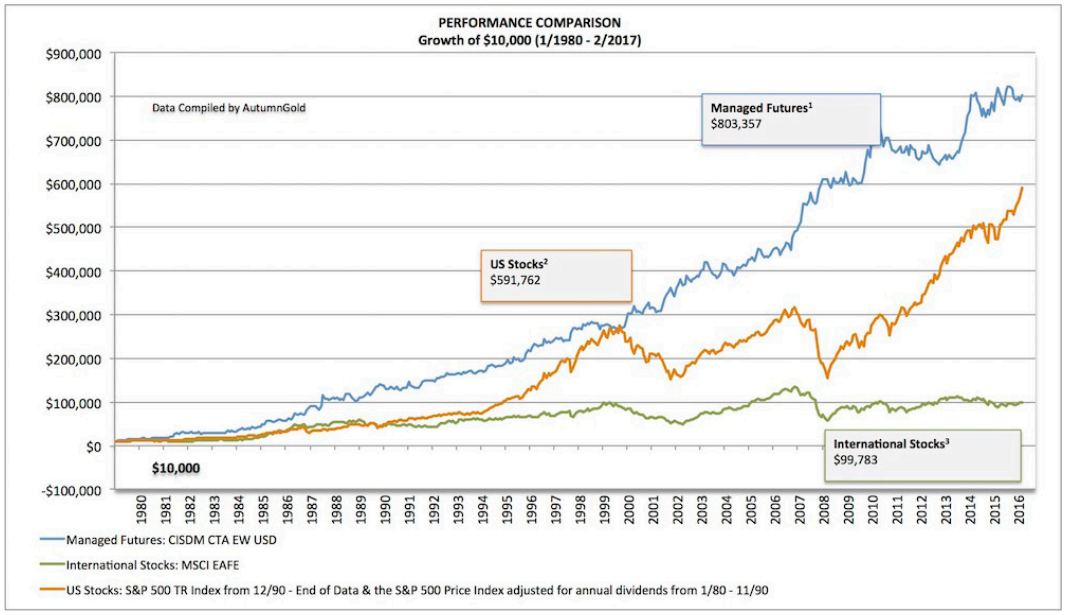
COMPARISON OF PERFORMANCE (01/1980 - 02/2017)*



Over the past 37 years, managed futures have substantially outperformed U.S. and International Stocks.

1- Managed Futures: The CISDM Equal Weighted CTA Index is an equal weighted index of CTAs maintained by The Center for International Securities and Derivatives Markets at the University of Massachusetts Amherst. It reflects the average performance of Commodity Trading Advisors reporting to the CISDM Hedge Fund/CTA Database. Each CTA must have at least $500,000 under management and at least a 12-month track record. The CISDM CTA Index is a continuation of the earlier MAR Index which was sold to Zurich Capital Markets in 2001 and was gifted by Zurich to the University of Massachusetts in 2002 and renamed the CISDM Indices.

2- US Stocks: The S&P 500 Total Return Index from December 1990 to the end of Data and the S&P 500 Price Index is adjusted for dividends from January 1990 through November 1990. The S&P 500 indices are designed to reflect all sectors of the U.S. equity markets. The S&P 500 includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market. Companies eligible for addition to the S&P 500 have market capitalization of at least US$3.5 billion. The TR Index accounts for the reinvestment of dividends.

3- International Stocks: The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of 22 major developed markets excluding the US & Canada.

Source: AutumnGold.

*THIS MATERIAL MENTIONS SERVICES WHICH RANK THE PERFORMANCE OF COMMODITY TRADING ADVISORS. PLEASE NOTE THAT THE RANKINGS APPLY ONLY TO THOSE CTAS WHO SUBMIT THEIR TRADING RESULTS. THE RANKINGS IN NO WAY PURPORT TO BE REPRESENTATIVE OF THE ENTIRE UNIVERSE OF COMMODITY TRADING ADVISORS. THE MATERIAL IN NO WAY IMPLIES THAT THESE RESULTS ARE OFFICIALLY SANCTIONED RESULTS OF THE COMMODITY INDUSTRY. BE ADVISED THAT AN INDIVIDUAL CANNOT INVEST IN THE INDEX ITSELF AND THE ACTUAL RATES OF RETURN FOR AN INDIVIDUAL PROGRAM MAY SIGNIFICANTLY DIFFER AND BE MORE VOLATILE THAN THE INDEX.

Hypothetical Examples of Adding Managed Futures to a Stock and Bond Portfolio

The chart below should prove helpful in understanding how a relatively small investment in managed futures can increase overall portfolio performance:

Let's assume your total portfolio is $250,000 and you invest 80% in stocks and bonds ($200,000) and 20% in managed futures ($50,000). Let's also assume at the end of the year you realize a 5% return on your stocks and bonds and a 25% return on managed futures. The result would be as follows:

$250,00 Portfolio		% of Portfolio	Return	
Stocks & Bonds	$200,000	80%	5% Profit	$10,000
Managed Futures	$50,000	20%	25% Profit	$12,500
			Total Profit	$22,500

Now let's assume you earn 10% on the 80% of your portfolio invested in stocks and bonds, but lose 25% in managed futures. The results would be as follows:

$250,00 Portfolio		% of Portfolio	Return	
Stocks & Bonds	$200,000	80%	10% Profit	$20,000
Managed Futures	$50,000	20%	25% Loss	($12,500)
			Total Profit	$7,500

You can see, in these hypothetical examples, by investing only 20% of your portfolio in futures, if you were to earn 25%, it would outperform 80% of your portfolio invested in stocks and bonds if the stocks and bonds earned 5%.

You can also see that a 25% loss in futures would still leave you with a net profit of $7,500 if your stock and bond allocation returned 10%. These hypothetical examples both show a positive result. The risk associated with futures trading could potentially result in a loss greater than the initial investment, and the overall results could be negative.

Note: No matter what the size of your portfolio, 80% invested in stocks and bonds and 20% invested in managed futures, with the same percentage returns, would produce the same percentage results in our hypothetical examples.

Important Disclaimer: The above hypothetical examples are strictly for illustration purposes only, to help you better understand the potential impact of portfolio diversification. In no way are the examples to be construed as the returns you might receive in stocks and commodities. Of course, in actual investing, your results can be better or worse.

Are Managed Futures Riskier than Stocks?

Technically speaking, futures are riskier than stocks because of the greater leverage in futures and the potential for unlimited risk. Over-leveraging a futures trading account without utilizing prudent money management could result in potentially substantial losses or profits. **In our opinion, that would constitute high stakes gambling, not investing.**

In over 25 years of observing traders and seeing many millions of dollars made and lost, we believe the unprofessional use of leverage and the lack of prudent money management are the culprits that can render futures riskier than stocks. Place futures in the hands of an accomplished CTA and we strongly believe the risk in futures becomes no greater than with stocks. Viewing declines in some of the biggest and supposedly "safest" stocks in America is testimony to our opinion. **The fact is, widely popular blue-chip stocks like Microsoft, GE, Pfizer, IBM, and many other "solid" stocks have experienced greater drawdowns than most of our CTAs! Bear in mind the substantial risk of loss exists no matter who is managing your money.**

Place futures in the hands of an accomplished CTA and we strongly believe the risk in futures becomes no greater than with stocks. The fact is, widely popular blue-chip stocks like Microsoft, GE, Pfizer, IBM, and many other "solid" stocks have experienced greater drawdowns than most of our CTAs!

Truth be told, it's not the investment vehicle that makes or loses money, but rather the individual or individuals managing it. Stocks and futures are both investment vehicles employed by money managers as a means of earning profits. Some managers succeed where others fail, regardless of the conveyance. Doesn't it then stand to reason: it's the money manager's skills, abilities, and investment acumen that will determine investing results, not the investment vehicle?

Are managed futures riskier than stocks? Become better informed by reading the academic studies on the following pages and you be the judge!

Academic Studies on Managed Futures

The Time Variation in the Benefits of Managed Futures

The academic paper, "The Time Variation in the Benefits of Managed Futures," appeared in the Spring edition of "The Journal of Alternative Investments." The report strongly supports much of the findings in previous studies on managed futures. Some of these points were brought out in the August 2003 edition of Managed Account Reports:

- Utilizing even a small allocation of managed futures limits portfolio risk by a statistically significant margin.
- The study confirms earlier findings that managed futures increases return and reduces portfolio risk. A 10% managed futures allocation was allocated for the study.
- More conservative investors may gain from allocating a portion of their portfolios than more aggressive investors.
- Conservative portfolios experienced an increase in return in more than 50% of the years.
- The study went back 40 years.
- The risk reduction benefits of managed futures were quite pronounced. 98% of the years where managed futures were included in each portfolio, experienced an increase in the portfolio's Sharpe ratio. The Sharpe ratio is a measure of risk management. The higher the ratio, the lower the risk.
- **BE ADVISED THAT THESE STUDIES WERE CONDUCTED IN ACADEMIA AND AS SUCH, THE RESULTS ARE NOT BASED ON ACTUAL TRADING.**

The Benefits of Managed Futures

by Thomas Schneeweis, Professor of Finance, University of Massachusetts

This academic study destroys the idea that managed futures as investments are riskier than stocks. According to Schneeweis **"Managed futures are not any more riskier than traditional equity investments. Investment in a single commodity trading advisor is shown to have risks and returns, which are similar to investment in a single equity. Moreover, a portfolio of commodity trading advisors is also shown to have risks, and returns, which are similar to traditional investments."**

> *"Managed futures are not any riskier than traditional equity investments."*

The study's summary and conclusion states:

> *The results of this study provide important information to the investment community about the benefits of managed futures.*
>
> *First, managed futures trade in markets which offer investors the same market integrity and safety as stock and bond markets. Managed futures investment, as for stocks and bonds, provide investors with the assurance that their investment managers work with a high degree of government oversight and self regulation and trade primarily in closely regulated markets.*
>
> ***Second, managed futures are not more risky than traditional equity investment.*** *Investment in a single commodity trading advisor is shown to have risks and returns which are similar to investment in a single equity investment. Moreover, a portfolio of commodity trading advisors is also shown to have risks and returns which are similar to traditional equity portfolio investments.*
>
> *Third, most traditional money managers (and many hedge fund managers) are restricted by regulation or convention to holding primarily long investment positions and from using actively traded futures and option contracts (which offer lower transaction costs and lower market impact costs than direct stock or bond investment). Thus, in contrast to most stock and bond investment vehicles, managed futures traders offer unique return opportunities which exist through trading a wide variety of global stock and bond futures and options market and through holding either long or short investment positions in different economic environments (e.g., arbitrage opportunities, rising and falling stock and bond markets, changing market volatility). As a result of these differing investment styles and investment opportunities, managed futures traders have the potential for a positive return even though futures and options markets in total provide a zero net gain among all market participants. Thus managed futures are shown on average to have a low return correlation with traditional stock and bond markets as well as many hedge fund strategies and to offer investors the potential for reduced portfolio risk and enhanced investment return. As important, for properly constructed portfolios, managed futures are also shown to offer unique downside risk control along with upside return potential.*
>
> *Simply put, the logical extension of using investment managers with specialized knowledge of traditional markets to obtain maximum return/risk tradeoffs is to add specialized managers who can obtain the unique returns in market conditions and types of securities not generally available to traditional asset managers; that is, managed futures.*

Facts and Fantasies About Managed Futures

by Gary Horton, The Warton School, University of Pennsylvania, and K,Geert Rouwenhorst, Yale School of Management

This study was published in 2004, a year which experienced one of the biggest jumps in new money entering managed futures from the previous year since 1980, according to the Barclay Group. With all the previous studies supporting managed futures, the conclusions of this study not only supported the previous studies but went even further in its support. This may have been one of the reasons why 2004 was a watershed year in regards to new money invested in managed futures! A September 9, 2004 Wall Street Journal article entitled, *Commodities Enter Investment Mainstream* brought out a key point in the *Facts and Fantasies about Managed Futures* study that apparently got investor's attention: **"During the past 45 years, commodity futures have had roughly the same return as stocks with less risk, have way outperformed bonds and are a better hedge against inflation than either stocks or bonds."**

"During the past 45 years, commodity futures have had roughly the same return as stocks with less risk, have way outperformed bonds and are a better hedge against inflation than either stocks or bonds."

The study's summary states:

Summary

This paper provides evidence on the long-term properties of an investment in collateralized commodity futures contracts. We construct an equally-weighted index of commodity futures covering the period between July 1959 and March 2004. We show empirically that there is a large difference between the historical performance of commodity futures and the return an investor of spot commodities would have earned. An investor in our index of collateralized commodity futures would have earned an excess return over T-bills of about 5% per annum. During our sample period, this commodity futures risk premium has been equal in size to the historical risk premium of stocks (the equity premium), and has exceeded the risk premium of bonds. This evidence of a positive risk premium to a long position in commodity futures is consistent with Keynes' theory of "normal backwardation."

In addition to offering high returns, the historical risk of an investment in commodity futures has been relatively low – especially if evaluated in terms of its contribution to a portfolio of stocks and bonds. A diversified investment in commodity futures has slightly lower risk than stocks – as measured by standard deviation. And because the distribution of commodity returns is positively skewed relative to equity returns, commodities have less downside risk.

Commodity futures returns have been especially effective in providing diversification of both stock and bond portfolios. The correlation with stocks and bonds is negative over most horizons, and the negative correlation is stronger over longer holding periods. We provide two explanations for the negative correlation of commodities with traditional asset classes. First, commodities perform better in periods of unexpected inflation, when stock and bond returns generally disappoint. Second, commodity futures diversify the cyclical variation in stock and bond returns.

On the basis of the stylized facts we have produced, two conclusions are suggested. First, from the point of view of investors, the historical performance of collateralized

investments in commodities suggests that commodities are an attractive asset class to diversify traditional portfolios of stocks and bonds. Second, from the point of view of researchers, there are clearly challenges for asset pricing theory, which to date has primarily focused on equities.

The academic papers mentioned were prepared for educational purposes and do not address the significant risks inherent in futures trading. Futures' trading is not suitable for all investors. An investor could potentially lose more than the initial investment.

What are Professional Commodity Trading Advisors ("CTAs")?

If an unskilled person attempted to practice law or medicine, he or she would probably perform quite poorly, just like many non-professional and unskilled "do it yourself" futures traders. So it comes as no surprise that in the highly complex and challenging field of commodity futures trading, the vast majority of non-professional, amateur traders do lose. In fact, we often hear statistics that as much as 90% of these "do it yourself" futures traders wind up losing. However, more experienced professional Commodity Trading Advisors ("CTAs") have been shown to achieve substantial, highly attractive returns.

CTAs are federally licensed and registered professional money managers who manage investor's assets using investments in the commodities markets just as a stock mutual fund manager would invest his client's assets in a variety of different stocks.

Studies have shown **professional Commodity Trading Advisors do experience an appreciably higher success rate than the individual amateur trader. The fact is there are numerous Commodity Trading Advisors with highly attractive returns achieved through prudent money management!** You are, however, subject to the risk of loss no matter who is managing your money.

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The establishment of global futures exchanges and the accompanying increase in actively traded contract offerings has allowed CTAs to diversify by geography as well as by product. For example, through CTA managed accounts, investors can participate in at least 50 different markets worldwide, including stock indexes, financial instruments, agricultural and tropical products, precious and nonferrous metals, currencies, and energy products. CTAs offer ample opportunity for profit potential and risk reductions among a broad array of non-correlated markets.

The Professional Versus The Amateur Trader

	Commodity Trading Advisor*	Amateur Trader
Definitive Strategy	Follows a long-term plan based on extensively tested research; limits losses on losing positions while letting profits run on profitable positions. This patient, disciplined approach can pay big dividends though, as with any investment, risk exists.	Usually in the markets seeking instant gratification. Lacking a definitive game plan, he often changes his approach midstream, resulting in impatience and creating chaos. Quick to take a profit and let losses run.
Equity Management	Often diversifies into trading positions covering as many as 25 markets while typically committing only 10%-40% of an account's equity to the markets.	Tries to "break the bank," often committing 100% of an account's equity to the markets. Commonly trades only one commodity resulting in a lack of diversification and increased risk.
Trading Decisions	Commits full-time attention to following a definitive system which may look at market prices and trends, therefore acting immediately upon signals and market knowledge.	Usually able to pay only parttime attention to the markets. Misses news and often makes decisions based on rumors, hunches, gossip, or the opinions of others.
Discipline	Realizes the markets "owe him nothing" and "take no hostages." He expects his share of both winning and losing trades. Neither result will influence him to deviate away from prudent money management and his trading plan. Cuts losses short while allowing profits to run. Realizes capital preservation is a prerequisite to capital appreciation.	Believes his destiny is to predict the direction of the markets rather than to manage risk. When losing, feels he is due for a win. This win-it-back-at-allcosts mindset inevitably leads to downfall. Hangs onto losing positions hoping they will come back. Conversely, takes profits prematurely to validate his prediction.

*Studies have shown that professional CTAs experience returns greater than the individual investor, nevertheless, trading futures and options involves substantial risk of loss and is not suitable for everyone no matter who is managing your money. Past performance is not necessarily indicative of future results.

Dynamic Diversification at an Affordable Cost!

Consider what Jack Meyer, the former fund manager of Harvard University's huge endowment said about diversifying Harvard University's portfolio with futures:

> **"Holding commodities offers protection against the ups and downs of stocks and bonds." Referring to commodities, he added, "They're the most diversifying asset in the portfolio."**

Barron's, the newspaper had the following to say about Harvard Management Company's Chief Executive Officer:

> "In the months after arriving from the Rockefeller Foundation back in 1990, one of his biggest decisions was to settle on diversification as a key theme. Relying on techniques of modern portfolio theory to get the best returns with lowest level of risk, Harvard needed to cut its exposure to publicly traded U.S. stocks and bonds, and increase its investments in foreign stocks, commodities, and private companies. The result: right now the Harvard endowment has about only half its portfolio in U.S. stocks and bonds, versus about 75% for the typical university endowment." **Harvard Management Company's Chief Executive was quoted in the article as saying, "The benefits of diversification are indisputable. Diversification rules. It's powerful and our portfolio is a good deal less risky than the S&P 500."**

Meyer's experience with managed futures strongly supports Dr. Lintner's landmark study and other studies supporting the performance enhancement and risk reduction benefits of managed futures mentioned in this brochure.

With powerful evidence supporting the value of professionally managed futures and its attractive features, investors have placed over 339 billion dollars in it, making managed futures one of the fastest growing investments today. In fact, investors have placed over eight times the money into managed futures over the past 11 years than the previous 20 years!

For informed, suitable investors in the financial position, many believe there isn't a more versatile investment better able to properly diversify, enhance performance and reduce risk in an overall stock portfolio than professionally managed futures!

The research and facts supporting the inclusion of managed futures in an overall investment portfolio are overwhelming. For many informed investors, the question is not if, but how much should be invested in professionally managed futures!

For informed, suitable investors in the financial position, many believe there isn't a more versatile investment better able to properly diversify, enhance performance and reduce risk in an overall stock portfolio than professionally managed futures!

In helping you diversify your overall portfolio, we have constructed several CTA portfolios that can provide dynamic diversification at an affordable cost! Many individual CTAs require account minimums in excess of $500,000. You'll find our entire portfolios of several CTAs are less than what would be required to invest with one CTA! Consult your futures Introducing Broker for the CTAs that best meet your investment goals, and affordability. Please be advised that notional funding creates additional leverage in an account relative to the cash in such an account. This additional leverage results in a proportionately greater risk of loss (and opportunity for gain). While the possibility of losing all the cash in an account is present in all accounts, accounts that contain notional equity have a proportionately greater risk of loss, and it is possible that you may have losses in excess of your original deposit. Although your gains and losses, fees and commissions measured in dollars will be the same, they will be greater when expressed as a percentage of account equity. In addition, you may receive more frequent and larger margin calls.

OUR CTA SELECTION PROCESS

Our selection process spares no expense or effort in finding CTAs with the best possible risk adjusted returns. On an ongoing basis, High Ridge Futures monitors the potentially successful CTAs and Professional Traders in order to find the best possible trading talent. **Our CTA selection process is primarily guided by seeking traders who practice sound money management while producing consistent risk-adjusted returns. For us, capital preservation is a prerequisite for capital appreciation!** Some of the specific criteria we generally look for in selecting CTAs are:

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1. Favorable drawdown-to-return ratios.
2. Recovering from all drawdowns to produce new highs in equity.
3. Consistent annual average returns.
4. CTAs who will reduce fees for clients.

Doubly Diversified CTA Portfolios

Each CTA has his own unique trading system, and places trades on the client's behalf, completely independent from one another. Our CTAs use their own proprietary trading systems to trade the markets of their choice. Not only are these CTAs' performance non-correlated with stock related investments, they are also not correlated with each other's performance. **In effect our CTA portfolios offer double diversification!**

When you examine the disclosure documents of our recommended CTAs, you'll discover that, in many months some advisors were up and others down. Bear in mind, past performance is not necessarily indicative of future results. The risk of loss exists in futures trading. One of the only things our CTAs have in common is that they have consistent performance records. Judge for yourself by asking your affiliated broker to send our CTA disclosure documents. **You will see for yourself: Not only is each CTA's performance non-correlated to the stock market, but also to each other! We believe this is what diversification is all about and this is the epitome of Modern Portfolio Theory!**

The Investment Process

Every client's needs are different. We attempt to match you, the investor, with the best possible portfolio that will hopefully suit:

A. Your investment goals;

B. Your time-frame;

C. Your comfort zone for volatility (investment temperament);

D. Your type of account (i.e. IRA, pension, individual, joint, corporate, etc.); and

E. Your comfort level in terms of affordability.

Our experience has led us to believe it is erroneous and self-defeating to adopt a wait-and see investment stance by observing how one CTA performs before investing with another CTA. That would be the equivalent of an investor seeking to build a diversified portfolio, first buying IBM, and then waiting to see how IBM performs before buying other stocks. Each CTA's performance is completely independent of one another.

Some investors may be able to comfortably invest with multiple CTAs while others will only be able to afford to invest with an individual CTA. Very important: Whatever the amount you decide to invest, we advise in the strongest of terms, that it should be in proper proportion to your overall investment portfolio in order to make a meaningful impact! Studies show around 20% of one's investment portfolio can have the most meaningful impact in terms of the potential for increased performance and risk reduction.

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Whatever your investment means, building a portfolio is, ultimately, a dynamic and collaborative process. We look forward to working with you in building an appropriate portfolio that's best suited to meet your individual needs!

PLEASE NOTE: An individual must only decide to invest with a given CTA after receiving, understanding and signing the disclosure document from each respective CTA.

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Questions and Answers

Q. What's been responsible for growth in managed futures trading?

A: Several factors have impacted growth: First, as traditional markets have become increasingly volatile - and vulnerable to often unexpected events --- institutional money management and other sophisticated investors have sought to more effectively manage overall portfolio risk through diversification. Indeed, risk and diversification are major concerns in today's market environment; Secondly, many investors are seeking higher rate of return. A number of studies indicate that a portfolio that includes managed futures can yield appreciably higher and more stable return over time than a portfolio that includes only stocks and bonds. The same evidence indicates this can be achieved without added portfolio risk. Still another factor in the growth of managed futures has been the tremendous broadening of futures on a global basis to encompass stock indexes, debt instruments, international currencies, and options as well as conventional commodities including metals and energy. These new investment vehicles have created new categories for profit potential as well as a mechanism to lower overall portfolio risk.

Q. How are profitability, volatility and risk affected when managed futures are included in an investment portfolio?

A: Harvard Business School Professor John E. Lintner found that including managed futures in a portfolio have the potential to "reduce volatility while enhancing return." And those portfolios "have substantially less risk at every possible level of return than portfolios of stocks, or stocks and bonds." More importantly, over the past several decades Litner's and other academic studies conclusions concerning the performance enhancement and risk reduction benefits inherent in managed futures have been clearly demonstrated!

Q. What is a CTA managed futures account?

A: A CTA managed futures account is one where a registered Commodity Trading Advisor ("CTA") is given responsibility to make all trading decisions. This authority is delegated by the account holder to the CTA through a limited power of attorney which may be withdrawn at any time.

Q: How can I track the performance in my managed account?

A: All accounts held at a FCM have total transparency. Clients have 24/7 access to their accounts via a password protected Web site disclosing all trading activity and account balances. Funds can be liquid and accessible within one weeks notice. You may also call your Managed Futures Specialist who receives a daily equity run detailing all your open positions, netting out profit and losses, showing the exact daily balance in your account. Whether you call or not, a purchase and sale statement (P/S Statement) automatically will be sent to you on every single trade, showing the date and price entered; when you exit a trade, the date, price, and net profit or loss on the trade as well as your account balance. Besides receiving confirmation on each individual transaction, a summary of all transactions showing their results are posted on the web via your password protected account. Instead of having your statements post office mailed, you can select having your P/S statements e-mailed directly to you! Therefore, even without calling, you will have a written, detailed breakdown of the CTA's transactions and performance in your account. Clients may withdraw their funds at any time directly from the FCM without prior approval from the CTA.

Q: How does my CTA get paid for managing my account?

A: Most CTAs receive an ongoing management fee on the account balance in the range of 2% per year, whether the account is profitable or not, and an incentive fee that varies widely

depending on the CTA. These fees are usually paid either monthly or quarterly which is detailed in each CTA's disclosure document. THE MAJOR SOURCE OF INCOME FOR THE MAJORITY OF HIGH RIDGE FUTURES' RECOMMENDED CTAs IS AN INCENTIVE FEE THAT CAN ONLY BE EARNED BY PRODUCING ONGOING NEW PROFITS FOR AN ACCOUNT NET OF ALL COSTS.

Q: How accessible are my funds in a managed account?

A: Although we strongly advise you to view your managed account as a long-term investment, part or all of your funds are available at any time.

Q: If I am an experienced futures trader why should I have a managed account?

A: There are numerous top-performing CTAs who have managed accounts with other CTAs. When you are trading your own account, you are limited to your trading system and style. By diversifying with CTAs who have good performance records, you are, in effect, constructing a diversified trader's portfolio of your own, the merits of which are discussed in this brochure.

Q: Are there any tax benefits to investing in managed futures?

A: Yes. According to the Tax Act of 1981, short-term profits in commodities are treated as 60% long term and 40% short term. On the other hand, short term trading profits in stocks are treated as 100% short term. A short-term investment is one that is held for less than one year. This favorable tax treatment in commodities can translate to investors in upper tax brackets, saving as much as 30% on taxes in short term gains on commodities versus stocks! Investors should consult their tax advisor regarding their individual tax situation.

Q: Where is my money kept?

A: Clients assets are held in a Customer Segregated Account by ADM Investor Services, Inc. at an established financial institution.

Q. Can I use retirement funds in a managed account?

A: Absolutely. You can use IRA, trust, pension, and other retirement monies. You can use managed futures in a variety of qualified retirement plans including IRAs, trusts, and pensions.

Q: How do I open a managed account?

A: Go over questions you may have with your Managed Futures Specialist. After any questions you may have are answered, have your Managed Futures Specialist help you fill out the management agreement with the CTA and ADM Investor Services Inc. customer agreement forms, both of which should be sent to your Introducing broker for processing.

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Introduction to Managed Futures: ***www.ParkAvenueAssetMgt.com/Presentation/***