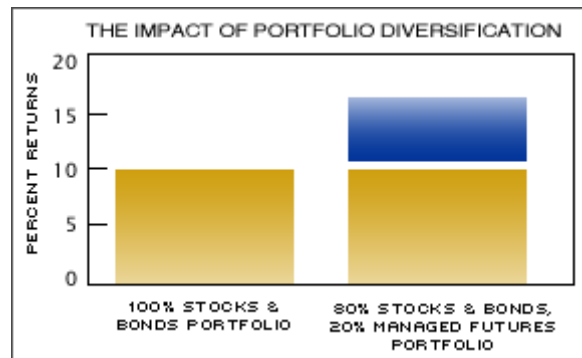


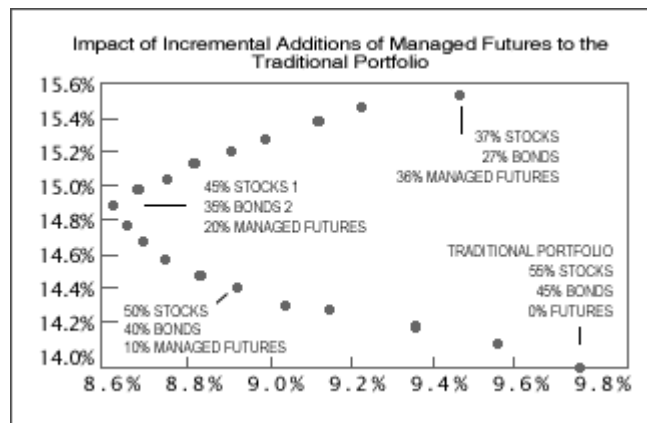
## An Insight Into Portfolio Diversification

With practically a zero correlation with stocks, one of the most attractive features of managed futures is its ability to add profound diversification to an overall investment portfolio.

The ability of futures to enhance the returns of traditional investments has been documented in a study conducted by Goldman Sachs. Covering a 25-year period, the study concluded that by **"allocating only 10% of a securities portfolio to commodities, investors can vastly improve their performance."** Goldman Sachs' conclusion, concerning the value of commodities, was supported by another study published by the Chicago Mercantile Exchange, one of the world's preeminent futures exchanges. According to the CME study, **"Portfolios with as much as 20% of assets in managed futures yielded up to 50% more than a portfolio of stocks and bonds alone."**



The Chicago Board of Trade's booklet, *Managed Futures, Portfolio Diversification Opportunities*, shows a portfolio with the greatest risk and least returns comprised of 55% stocks, 45% bonds, and 0% managed futures while a portfolio exhibiting the greatest returns and least risk, comprised 45% stocks, 35% bonds, and 20% managed futures.



*Results obtained by adding managed futures component at an incremental rate of 1% while simultaneously reducing the stock and bond portions by 1% each. Based on monthly data from 1980-1995 on an annualized basis.*

2005-CINV-00642

- 1 Stocks: S&P 5000 Index (dividends reinvested)
- 2 Bonds: ML Domestic Master Bond index (over 1 year with coupons reinvested)
- 3 Managed Futures : MAR CTA Index

*\*\* Past performance is not necessarily indicative of future results.*

As you can see from the above study, the portfolio with the greatest returns and least volatility included futures.

### **Hypothetical Examples**

**The following hypothetical examples should prove quite helpful in better 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 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:

\$250,000 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:

\$250,000 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%.**

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. The risk of loss exists in futures trading.