

Some Illuminating Facts from *Modern Portfolio Theory: Dynamic Diversification for Today's Investor*

PORTFOLIO DIVERSIFICATION

Capital

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Here are some key points, excerpted from *Modern Portfolio Theory: Dynamic Diversification for Investors*, which we hope you will find illuminating:

- **Dr. Harry Markowitz, the father of Modern Portfolio Theory, who won a Nobel prize for his work, concluded that holding securities that tend to move in concert with one another does not lower risk. Diversification reduces risk only when assets are combined whose prices move inversely, or at times in relation to one another.**
- **A diversified portfolio of non-correlated assets can provide the highest returns with the least amount of volatility.**
- **One of the most non-correlated and independent investments versus stocks is professionally managed futures.**
- **A landmark study by Harvard Professor Dr. John Lintner concluded 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. The risk of loss in trading futures can be substantial. An investor could potentially lose more than their initial investment.**
- **The Chicago Mercantile Exchange, in their 1999 edition of "Question & Answer Report on Managed Futures," states "Of the 119 funds and pools in the Managed Account Reports Fund/Pool Qualified Universe Index that traded from January 1990 through October 1996, 81% were profitable over the full time period!" THIS MATERIAL MENTIONS SERVICES WHICH RANK THE PERFORMANCE OF COMMODITY TRADING ADVISORS. PLEASE NOTE THAT THE RANKINGS ONLY APPLY TO THOSE CTAs WHICH 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.**
- **Jack Meyer, the head of Harvard University's Endowment portfolio, concerning futures, stated, "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...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."**
- **Vision's CTA selection process is primarily guided by seeking traders who practice sound money management while producing consistent returns. To us, capital preservation is a prerequisite for capital appreciation. Before a CTA is placed on its Recommended List, Vision's compliance department conducts an on-site audit of the books and records of the CTA. This is done to confirm the accuracy of the performance record presented in the CTA's government-filed disclosure document.**
- **The major source of income for the majority of Vision's CTAs is an incentive fee that can only be earned by producing on-going new profits for an account. (Net of all costs.)**
- **Managed futures have tax benefits over stocks. 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!

Powerful Studies On Managed Futures

All studies listed are in "Modern Portfolio Theory: Dynamic Diversification for Today's Investor"

- The Chicago Mercantile Exchange published a study concluding that portfolios assigned as much as 20% in managed futures yields up to 50% more than stock and bond portfolios, while possessing comparable risk.
- The Chicago Board of Trade published a study showing a portfolio without managed futures under performs and is more risky than a portfolio that includes managed futures.
- Contrary to popular belief, at certain times, managed futures frequently display less volatility than U.S. equities and interest rate instruments.
- From 1968 through 1995, in all of the worst declines for stocks listed, managed futures were positive. And even in the stock market's best periods, managed futures were also positive.
- Individual results may vary. A customer may not experience these results in the future. Bear in mind in futures, the potential exists to lose more than your initial investment.
- Thomas Schneeweis, Professor of Finance, at the University of Massachusetts, destroyed the myth that managed futures are riskier than stocks in an academic study. He concludes: "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. Moreover, a portfolio of commodity trading advisors are also shown to have risks and returns which are similar to traditional equity portfolio investments." The paper was prepared for educational purposes and does 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.
- 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 consistent returns achieved through prudent money management. You are, however, subject to the risk of loss no matter who is managing your money.

The Most Important Question

We believe the most important question an investor should be asking himself is "What do I have in my portfolio that is non-correlated with stocks and can potentially capitalize on a lackluster, bearish, or up-trending stock market?" **For many informed, suitable investors, there isn't a better way to properly diversify and help protect an overall stock portfolio, than incorporating professionally managed futures!** The research and facts supporting the inclusion of managed futures in an overall investment portfolio are overwhelming. Once you've read our brochure, we believe you will agree with us! Please contact your broker to receive a free copy of the brochure at no obligation.

2003 CINV 00050