

A comparison of indices

Thomas N. Rollinger, CIO of Red Rock Capital, analyses the differences between the leading CTA indices

Investors and money managers interested in diversifying into managed futures are often attracted to the daily transparency and better liquidity offered over the typical hedge fund structure.

However, with hundreds of CTA programs from which to choose, it can be daunting to know where to start one's analysis of this investment space.

One place to begin is with CTA indices, which compile and track the performance of different CTA programs. We recently completed a white paper that summarises and analyses information on over ten CTA indices. While it attempts to encompass the most-used indices, it is not an exhaustive list.

Upon delving into the material one quickly discovers there are differences between the various CTA indices in terms of construction methodology, the number of CTA programs tracked, and minimum requirements with regard to track record length, financial auditing, and AuM. Before presenting the information on the indices themselves, it would be helpful to offer some background on the terms 'managed futures', 'CTAs', and 'systematic trend following'.

Managed futures may be thought of as a collection of liquid, transparent hedge fund strategies, which focus on exchange-traded futures, forwards, options, and foreign exchange markets.

Trading programs take both long and short positions in as many as 400 globally diversified markets, spanning physical commodities, fixed income, equity indices, and currencies.

Daily participants in these markets include hedgers, traders, and investors, many of whom make frequent adjustments to their positions, contributing to substantial trading volume and plentiful liquidity. These conditions allow most programs to accommodate large capacity and provide the opportunity to diversify across many different markets, sectors, and time horizons.

Managed futures traders are commonly referred to as 'commodity trading advisors' or 'CTAs', a designation which refers to a manager's registration status with CFTC. CTAs may trade financial and foreign exchange futures, so the CTA registration is somewhat misleading since they are not restricted to trading only commodity futures.

Moreover, many investors generically say managed futures or CTAs when they more precisely mean systematic CTAs who employ trend-following strategies, likely due to the fact that many of the largest and most successful managers employ some variation of a trend-following strategy.

SUMMARY OF CTA INDEXES ANALYSED

ALTEGRIS 40 INDEX. Each month Altegris ranks their proprietary database of over 500 CTA programs to find the top 40 composite CTA programs based on ending monthly equity for the previous month. There are no limits as to the number of composite programs that individual CTAs may have in any given month.

BARCLAY BTOP50 INDEX. Seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure, selecting the largest investable CTA programs, as measured by AuM. To be included in the BTOP50, the program must: be open for investment; provide daily returns; have at least two years of trading activity; and the program's advisor must have at least three years of operating history.

BARCLAY CTA INDEX. There are currently 582 programs included in the calculation of the Barclay CTA Index. To qualify for inclusion, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the index until after their second year.

BARCLAY SYSTEMATIC TRADERS INDEX. An equal weighted composite of managed programs whose approach is at least 95% systematic. In 2013 there are 466 systematic programs included in the index.

CISDM CTA EQUAL WEIGHTED INDEX. Reflects average performance of all CTAs self-reporting to the Morningstar CISDM Hedge Fund Database. The calculations of the index does not include outliers which are at least +/-3 standard deviation away from the average. In the calculations duplicate funds (funds that differ only in currency class) have been eliminated.

CREDIT SUISSE MANAGED FUTURES INDEX. A subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of managed futures funds.

HFRI MACRO: SYSTEMATIC DIVERSIFIED INDEX. To qualify for inclusion a CTA program must: report monthly returns to HFRI; report net of all fees returns; report assets in USD; and have at least \$50m under management or have been actively trading for at least 12 months.

NEWEDGE CTA INDEX. Calculates the net daily rate of return for a pool of CTAs selected from the largest managers open to new investment. To be included managers must be open to new investment and report returns on a daily basis. The Index is comprised of the largest 20 managers by AuM who meet the above criteria. Currently in 2013 the cut-off for inclusion is roughly \$1bn AuM.

NEWEDGE TREND INDEX. To be included managers must be open to new investment and report returns daily. They must be an industry recognised trend-follower as determined at the discretion of the Newedge Index Committee, and exhibit significant correlation to trend-following peers and the Newedge Trend Indicator. The index is comprised of the largest ten managers by AuM who meet the above criteria. Currently for 2013 the cut-off is \$940m in AuM.

STARK 300 TRADER INDEX. Equal weighted and compiled using performances of the top 300 futures and forex traders from the Daniel B. Stark & Company's database. Performances of all the Stark Indexes are reported monthly in the Stark Trader Analysis Report.

STARK SYSTEMATIC TRADER INDEX. Compiled using performances from all the systematic trading programs from the Daniel B. Stark & Company's database which is comprised of over 400 traders.

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DESCRIPTIVE INFORMATION

	Weighting Method	Number of Constituents	Constituents Disclosed	Date started	Backdated to	Rebalancing	Index Adjustments	Reporting Frequency	Investable
Altegris 40	Asset	40	No	Jan-90	N/A	N/A	M	M	No
Barclay BTOP50	Equal	20	Yes	Jan-02	Jan-87	A	A	D	No
Barclay CTA	Equal	582*	No	Jan-87	Jan-80	A	A	M	No
Barclay Systematic	Equal	466*	No	Jan-88	Jan-87	A	A	M	No
CISDM	Equal	435*	Yes**	Jan-94	N/A	M	M	M	No
Credit Suisse	Asset	34*	Yes	Nov-99	Jan-94	M	Q	M	No
HFRI Sys Diversified	Equal	180*	Yes**	Jan-90	N/A	M		M	Yes
Newedge	Equal	20	Yes	Jan-00	N/A	A	A	D	No
Newedge Trend	Equal	10	Yes	Feb-00	N/A	A	A	D	No
Stark 300	Asset	300	Yes	Oct-93	Jan-82	M	M	M	No
Stark Systematic	Asset	357*	Yes	Oct-93	Jan-82	N/A	M	M	No

Notes: * Number of constituents changes ** Yes with subscription

An asset-weighted index is more representative of the total AuM in the space.

Equal weighted is more representative of the diversity of different trading styles. They both have merit. If you are wanting to gauge the performance of the AuM allocated to managed futures, use an asset weighted index.

If you are interested in how the 'average' program did, then use an equal weighted index.

The effect of number of constituents is similar. A smaller number of constituents with necessarily large AuM is more representative of the total AuM performance of the space.

A large number of equally weighted constituents represents how the "average" program did.

Large numbers of constituents, asset weighted,

is similar to small number of constituents since most of the performance is attributable to the small number of large CTAs.

Index adjustment has a bigger impact with a smaller number of constituents since each constituent has large a percentage impact on the index as a whole.

If an index has more than 500 members, dropping, adding or rebalancing doesn't have much impact on the entire index.

With quarterly or annual rebalancing, the reason for rebalancing is to keep the index in line with its construction goals.

You don't want the individual performance of a single constituent to begin to have a bigger impact than it should. **CTA**

PERFORMANCE STATISTICS (JAN '03 TO JUN '13)

	Annualized return	Annualized standard deviation	Sharpe ratio (0)	Sortino ratio (0)	Max drawdown	Skewness	Kurtosis
Altegris 40	4.38%	9.85%	0.44	0.71	-13.24%	0.03	-0.74
Barclay BTOP50	3.95%	7.16%	0.55	0.94	-10.92%	0.21	0.14
Barclay CTA	3.83%	6.25%	0.61	1.06	-7.89%	0.24	0.13
Barclay Systematic	3.48%	7.51%	0.46	0.76	-10.13%	0.21	0.15
CISDM	6.18%	8.25%	0.75	1.41	-10.08%	0.44	-0.07
Credit Suisse	4.76%	11.44%	0.42	0.66	-14.01%	-0.01	-0.94
HFRI Sys Diversified	7.62%	8.02%	0.95	1.78	-9.33%	0.22	-0.17
Newedge	4.38%	7.83%	0.56	0.92	-10.30%	0.00	-0.49
Newedge Trend	5.33%	12.65%	0.42	0.66	-17.53%	-0.06	-0.57
Stark 300	3.70%	7.29%	0.51	0.83	-10.33%	0.08	-0.64
Stark Systematic	3.29%	7.70%	0.43	0.69	-10.62%	0.11	-0.65
U.S. Stocks	9.75%	15.12%	0.64	0.94	-50.84%	-0.82	2.29
Aggregate Bonds	4.44%	3.67%	1.21	2.12	-3.93%	-0.32	1.77
60% Stocks / 40% Bonds	7.66%	9.20%	0.83	1.24	-32.48%	-0.96	3.34