Who is Abraham Trading Company?

We are a Commodity Trading Advisor (CTA) and a Commodity Pool Operator (CPO), founded by Salem Abraham in 1988, engaged in the business of offering trading advice to customers in commodity/futures contracts traded on United States, foreign, and international exchanges. ATC trades commodity interests in agriculture, energy, metals, interest rate sensitive instruments, currencies, stock indices as well as other markets.

What is a Commodity Trading Advisor (CTA)?

CTAs are federally licensed and registered professionals who manage investors' assets in the futures markets, just as a stock mutual fund manager would manage assets in the stock market. CTAs are required by the federal government to submit a disclosure document that outlines who they are, states the fees and expenses charged to accounts, and reveals their performance track record.

How do CTA's provide access the commodity/futures markets?

Traditionally CTA's like Abraham offered access to commodity/futures markets only to high net worth individuals and institutions and as a general rule that is still the case, but it has become easier for others to gain access to these markets through lower minimum investment amounts, although as minimum investment amounts decrease, the cost of access increases proportionately. The least expensive and most liquid way is through a separately managed 'managed futures account' followed by privately offered commodity pools, broker dealer retail offerings and finally through 'managed futures mutual funds' which are burdened by the highest fees even though they may offer better liquidity than private offerings and retail offerings. At Abraham we offer access primarily via separately managed futures accounts, but also through private offerings and as an advisor in a multi-manager managed futures mutual fund.

What is a separately managed futures account?

A professionally managed futures account is like any other brokerage account established to trade futures except that you give permission to make all trading decisions on your behalf through a revocable power of attorney to a Commodity Trading Advisor (CTA). In this sense, the advisor is the account "manager." The advisor's compensation is normally a management fee plus an incentive fee contingent on profitability.

What types of investors utilize managed futures accounts?

Typically, individual investors seeking the profit opportunities of futures trading without the responsibility and demands of day-to-day account management have sought out managed futures accounts. Also, many corporate and institutional investors allocate some portion of their total portfolio assets to specially designed and professionally managed futures trading programs. The total amount of capital in managed futures programs is estimated to exceed $300 billion.

What is a privately offered commodity pool?

A private investment structure that combines investor capital to be used in the commodity/futures markets. The commodity pool, or fund, is used as a single entity to gain leverage in trading, in the hopes of maximizing profit potential. The title "commodity pool" is a legal term as set forth by the National Futures Association (NFA). Commodity pools in the United States are regulated by the Commodity Futures Trading Commission (CFTC) and the National Futures Association, rather than by the Securities and Exchange Commission, which regulates other market activity. Commodity pools are similar to mutual funds in that the investors' assets are pooled in order to make trades that would not be possible for each individual investor. The investor's risk is limited to the amount of his or her contribution to the commodity pool. Many hedge funds – private pools of activity managed capital – are commodity pools, and are registered with the Commodity Futures Trading Commission as commodity pools and Commodity Trading Advisors (CTAs) and Commodity Pool Operators (CPOs).

What are the costs, and how do trading advisors get paid?

Three types of charges are involved when a managed futures account is handled by a CTA. One, a management fee of usually 1%-4% of the value of your account is charged for overseeing the trading in your account. Two, most CTAs charge an incentive fee that typically is 15%-30% of the cumulative net trading profits, calculated monthly, or at the end of each quarter, or annually. The net trading profits are the combined total of profits and losses from trading. Often, a CTA will negotiate a lower (or no) management fee in exchange for a higher incentive fee. We particularly like these arrangements because they can mean that the person making the trading decisions on your behalf makes no money until you do. Three, brokerage commissions of $5-25 per side plus a few dollars in exchange and regulatory fees also are charged.

Is there a minimum investment to establish an account?

Yes, but different managed account programs have different minimums, all of which will reflect the amount the advisor considers adequate to achieve appropriate account diversification. At the top end, the best CTAs have $100 million or more under their management, and may not wish to bother with accounts of less than $1 million. The CTAs with the worst track records will take anything that they can get. We only accept accounts of $5 million or more for our individually managed accounts program but also provide several private offerings for accredited investors who would prefer to invest a lesser amount of $250,000 or more. (This is not an offering of securities or a solicitation to buy a security. Such offering is only made by a private offering memorandum to qualified investors.)

What is an accredited investor?

A term used by the Securities and Exchange Commission (SEC) under Regulation D to refer to investors who are financially sophisticated and have a reduced need for the protection provided by certain government filings. Accredited investors include individuals, banks, insurance companies, employee benefit plans, and trusts.

In order for an individual to qualify as an accredited investor, he or she must accomplish at least one of the following:

1) earn an individual income of more than $200,000 per year, or a joint income of $300,000, in each of the last two years and expect to reasonably maintain the same level of income.

2) have a net worth (excluding the value of the primary residence of such natural person) exceeding $1 million, either individually or jointly with his or her spouse.

3) be a general partner, executive officer, director or a related combination thereof for the issuer of a security being offered.

An employee benefit plan or a trust can be qualified as accredited investors is total assets are in excess of $5 million.

How much money should I invest in managed futures and how do I open an account?

We recommend that the amount of money you invest be based on your financial goals and risk tolerance. For many people, this is usually 10%-50% of the overall investment portfolio. Importantly, only risk capital should be used to fund a managed futures account. Before opening an account you must be supplied with a copy of the CTA's disclosure document. Read it carefully and go over any questions you have with our client services team. After your questions have been answered and you feel this type of investing is appropriate for you, we will help you complete the management agreement and any other forms as necessary.

Can I invest a portion of my retirement portfolio in managed futures?

Absolutely. Managed futures are ideal for the long-term profile of retirement plans. You can choose those products that offer a level of volatility appropriate to your retirement objectives. And, managed futures can diversify your retirement funds among asset categories with low to negative correlation.

Are there any restrictions in withdrawing funds from my account?

Managed accounts offer a high degree of liquidity. You have complete control over your account and can deposit additional funds, withdraw funds, or stop trading any time. Usually, the only restriction is that you do not make withdrawals that would bring your account below the minimum required investment. You are free to withdraw all funds after liquidation of any open positions. This can be done at any time you choose unless the account agreement stipulates otherwise. Similarly, if there are profits in the account, you are free to withdraw them or leave the money available for reinvestment. Private offerings provide monthly liquidity.

Are there any tax benefits to investing in managed futures?

Profits resulting from futures trading (presuming positions are held for less than one year) are taxed as 40% short-term capital gains and 60% long-term capital gains. In comparison, profits in stock positions held one year or less are treated as 100% short-term. Please consult your tax advisor for how this may affect your tax situation.

What has been responsible for the growth in managed futures?

Several factors have played a role in the growth of managed futures. First, as traditional investment markets have become increasingly volatile and vulnerable to often-unexpected events, institutional money managers and other sophisticated investors have sought to more effectively manage overall portfolio risk through diversification.

Second, a number of academic studies indicate that a portfolio that includes managed futures can yield an 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 risk, or even reduced risk.

A third factor is the tremendous broadening of futures markets to now encompass stock indexes, debt instruments, currencies and options as well as conventional commodities. This has created whole new categories of profit opportunities. The increasingly global nature of today's futures markets also has expanded the scope of investment opportunities.

Finally, from the standpoint of an individual investor, managed futures accounts have proven to be considerably more profitable on average than futures accounts that individuals trade on their own.

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

Harvard Business School Professor John E. Lintner found that including managed futures in a portfolio "reduces volatility while enhancing return." And those portfolios "have substantially less risk at every possible level of return than portfolios of stocks only, or even stocks and bonds." Research studies demonstrate that managed futures have a low or negative correlation to the stock and bond markets. Additionally, the futures markets provide profit opportunities on a highly leveraged basis in both bull and bear markets.

For the period January 1985 to April 2011, data show that managed futures investments (measured by the Barclay CTA Index) had a compound annual return of 9.03%. That compares very favorably with the 10.88% return shown by the S&P 500 Total Return Index. And, it exceeds the 8.21% return on bonds (measured by the JP Morgan World Government Bond Index). Moreover, during a similar period, analysis showed that a portfolio of one-third each in stocks, bonds and managed futures had similar profitability with less risk.

Why can investment portfolio performance be improved by including managed futures?

Managed futures often perform best when other investments are performing relatively poorly because of the wide variety of markets traded as well as ability to both buy and sell outright. For example, in the fourth quarter of 2008, at the height of the U.S. financial crisis, the MSCI World Index of stocks was down 22.18% while managed futures (as represented by the Barclay CTA Index was up 6.73%. That negative correlation held true in the 10 worst quarters for world stocks over a 21-year period (January 1980-April 2011) as well. During that period, the worst quarterly losses for the MSCI World Index ranged from -12.50% to -22.18% while the Barclay CTA Index showed a performance range of -3.01% to +15.82%.

Is a managed futures account appropriate as a short-term investment?

No. Like most markets, futures tend to be cyclical. In addition, even an advisor who is highly successful over the course of a year probably will experience losses in some months. Thus, it is recommended that you enter a managed futures investment with the intent to maintain it for at least three years. This allows the account to recover from any temporary losses in equity and to benefit from longer-term returns.

Does having a managed futures account lessen the risk of futures trading?

There is risk in trading futures, no matter whether you trade on your own or have a managed futures account. The same leverage and price movements that can produce trading profits can produce trading losses. Any loss that can occur when an individual directs his own account also can occur in a professionally managed futures account. However, one of the things that you should definitely look for in a trading advisor is a long-term demonstrated ability to manage risk.

Are there other reasons why managed futures accounts are generally more profitable?

As in most areas of investment, trading experience and skill are major determinants of trading success. Profitable futures trading requires the discipline and temperament to recognize and act on the differences between market expectations and market realities. It requires development and implementation of carefully considered trading plans, strategies and systems. It requires a keen knowledge of when and how to liquidate positions. It requires understanding how to diversify an account based on how various markets react with and to one another. Indeed, even institutional and corporate portfolio managers who may have experience with futures for hedging applications, often choose to use professional CTAs to manage their futures trading investments.

Don’t trading advisors differ from one another in their investment results?

Definitely. In any given year, some will realize impressive profits and others will incur losses. The success of your managed account will depend on the success of the advisor you select.

How important is an advisor’s past trading performance?

In any endeavor, some individuals are better at what they do than others. For CTAs, a track record is the indication of past performance. However, past performance is no guarantee of future results. An advisor who has performed well in the past may perform poorly in the future. And it is possible that someone who has performed poorly may begin to perform well. Besides performance, look to the track record to reveal other valuable information about an advisor’s experience, approach to trading and amount of money under management. You’ll also want to note whether performance data included in the disclosure document refers to "actual" trading results or to “hypothetical” or “simulated” results.

What should be considered in examining an advisor’s track record?

Start by considering the length of the record. Our track record begins in 1988 when Salem Abraham founded Abraham Trading Company. Sensational performance in a short time span may reflect little more than extraordinarily good luck. Or, of more concern, it may reflect someone who takes greater risks than you may be comfortable with over the long haul. Or it could reflect specialization in markets that, in a given period, were especially active. Look for and be aware of drawdowns (periods of negative performance) in both depth and length. Drawdowns are inherent with any manager and you should determine if you have the patience to sit through them when they are consistent with the track record and a plan to get out when they are not. Track records can be much more meaningful when you examine a longer record. This provides more information about how an advisor has performed over the landscape of continuously changing market scenarios. An advisor's performance in less-than-spectacular years may be an important indicator of risk management skills.

Which futures markets would I be trading in with a managed account?

Our Diversified Program currently trades in 73 different commodity/futures markets around the world. Through our research we have determined these markets based on their liquidity, availability and correlation to each other and in all likelihood we may have long or short positions in many of these different markets at different times. The markets we trade are all from the following sectors:

- Stock Indexes
- Credit Instruments
- Livestock & Meats
- Currencies
- Energy
- Foods & Fiber
- Grains & Oilseeds
- Metals

How do trading advisors differ in their investment approaches?

CTAs can vary in what they trade, how they trade and what tools they use to make trading decisions. Some advisors specialize in particular areas, such as financial instruments, metals, or agricultural products, while others pursue profit opportunities in a more diversified set of markets. They may differ in how aggressively or conservatively they participate in the markets. Another difference is whether the advisor employs a fundamental (supply/demand information) or technical (charts, indicators, etc.) trading system. Even then, different advisors have developed and employ different systems and may read the markets differently. Moreover, the fundamental/technical distinction has broken down somewhat as fundamental advisors frequently employ technical tools to pinpoint the timing of their trading decisions.

Where will my money be held when I establish a managed account?

Your money is held in a customer segregated account at a clearing firm or Futures Commission Merchant (FCM), like SocGen, RJ O'Brien, BAML or Morgan Stanley, to name a few. While the trading advisor will direct trading for the account the FCM performs all other account functions.

Who regulates Commodity Trading Advisors?

Commodity Trading Advisors are regulated by the Commodity Futures Trading Commission (CFTC) and by the National Futures Association (NFA), the congressionally authorized self-regulatory organization of

the futures industry. All trading advisors must be registered with the CFTC; those who manage customer accounts must be members of the NFA. Advisors' Disclosure Documents are required to be submitted to the CFTC for review in advance of distribution to prospective investors. The NFA audits Disclosure Documents (particularly performance information), promotional materials and trading activities on an ongoing basis. Violations of CFTC or NFA rules can result in a loss of trading privileges and other penalties.

How do I monitor the status of my account?

The FCM provides a complete statement of all activity in your account available either by email and/or paper statements on a monthly basis and most provide online portals to monitor activity on a daily basis.

What mistakes do investors sometimes make regarding managed futures?

There are three basic ones. First, because of the risk, futures trading in any form may not be appropriate for a given person, even if a managed account seems more attractive than do-it-yourself trading. Unless you're comfortable with the risk level and feel it's appropriate for you, it would be prudent not to invest at all. Second, an investor might select an advisor based solely on whether the advisor is currently hot. A prudent investor will select a CTA based on the money management skills and a trading style that has been employed in the past to achieve consistent returns. Lastly, investors engage in "account jumping," or prematurely closing accounts out of panic and fear when experiencing a period of flat returns or drawdowns. By doing this, the investor loses the opportunity to recover from those temporary losses in equity and benefit from longer-term returns.

Why would I need managed futures if I were already trading futures?

Trading your own account limits your returns to your own trading ability and trading system. By employing CTAs who have a good performance record, you are developing a diversified portfolio of your own. Thus, you can gain even greater benefits from having futures in your portfolio.

Are managed futures riskier than stocks?

All types of investment have risk, be it stocks or managed futures. However, it is important to understand that the use of leverage available in futures can create the potential for unlimited risk. The prudent use of this leverage is one of the most important money management rules in futures trading. Stocks and futures are both investment vehicles employed by money managers as a means of making profits. Some managers succeed where others falter. Remember, it's not the investment vehicle that makes or loses money, but rather the money manager's skills and abilities that will determine results.

In his June 2002 academic study, "Benefits of Managed Futures," Thomas Schneeweis, professor of finance at the University of Massachusetts, states: "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 is also shown to have risks and returns which are similar to traditional equity portfolio investments."