Intelligent Commodity Investing: A Book Panel

International Association of Financial Engineers (IAFE)

June 11th, 2007

Hosted By Merrill Lynch

Mark Shore

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Mark Shore’s Background

- University of Chicago: M.B.A. with concentrations in Finance, Behavioral Science & Econometrics, 1998
- DePaul University: B.S. in Finance, 1987
- 20 Years experience in the Alternative Investment Industry
- Alternative investment consulting
- COO of VK Capital Inc. (wholly owned Commodity Trading Advisor subsidiary of Morgan Stanley) 1997 to 2006. Develop and due diligence of systematic trading models
- Published research papers
- Began career on the floor of the C.B.O.T. for Shearson Lehman Brothers. Witnessed stock market crash of 1987 in the bond room, drought of 1988 grain rally, assisted grain analyst
- Independent futures trader (commodity and financial futures)
- Senior Research Analyst CRSP (University of Chicago)
- Former President and President Emeritus and current board member of the Chicago GSB NY Alumni Club
- Co-founded “Hedgies on Wheels”, a cycling group for the hedge fund industry

History of the Futures Markets

- In recent years commodity investing has grown enormously as a new bull market in commodities has developed
- Historians traced the use of futures and forwards back to the trading of Japanese rice futures / forwards contracts in the 1500 or 1600's. Japanese candlesticks were also developed around this time
- 1848 - CBOT was formed by merchants to trade flour and hey
- 1851 - corn forwards began trading
- 1865 - futures contracts began trading and buyers and sellers were required to have a margin
- 1936 - Soybeans began trading, 1950/51 soybean complex begins trading
- 1972 - CME began trading financial futures beginning with the currencies
- 1983 - Crude oil began trading at the NYMEX
- 1990 - Natural Gas began trading at the NYMEX
- One must also realize the history of commodities is often plagued by booms, busts, seasonal volatility, political issues, transportation issues, weather issues and the occasional speculator attempting to corner the market.

Set the Stage

- From "**Introducing Alternative Investments in a Traditional Portfolio: The Case of Commodities, Hedge Funds and Managed Futures**" by M. Shore in the Wiley & Sons book ***Handbook of Commodity Investing*** edited by Frank Fabozzi, Roland Fuss and Dieter Kaiser (scheduled for release later this year)

- From 1990 to June 2006 via the GSCI Total Return Index : commodity indices have a low correlation to traditional assets as well as to other alternative investments

- Low correlation or non-correlation is a sought after factor for diversification, but its not the only factor

- As an inflation barometer, commodities can assist a portfolio when the returns are reduced by unforeseen inflation

- Commodities offer positive skewness to a portfolio: thus co-skewness & downside deviation are critical factors

- When commodities were tested with a portfolio of equities, bonds and hedge funds, the metrics were similar, as without commodities, but with less downside tail risk

- Commodities complimented managed futures when simultaneously allocated into a equity and bond portfolio to reduce downside tail risk

- Components of a portfolio should be viewed for their net effect to the portfolio and not as a stand-alone investment

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