



# GUIDE TO MANAGED FUTURES



TRUSTED **ALTERNATIVES.**  
INTELLIGENT **INVESTING.**

# Why Managed Futures?

## Potential Benefits of Managed Futures

### ▶ Historical Performance

Managed futures have historically withstood a number of major market scenarios. In fact, since 2000, US stocks gained 7%. Over the same time period, managed futures gained 129%, as exhibited below. Of course, there is no guarantee that any investment will achieve its objectives, generate profits or avoid losses.

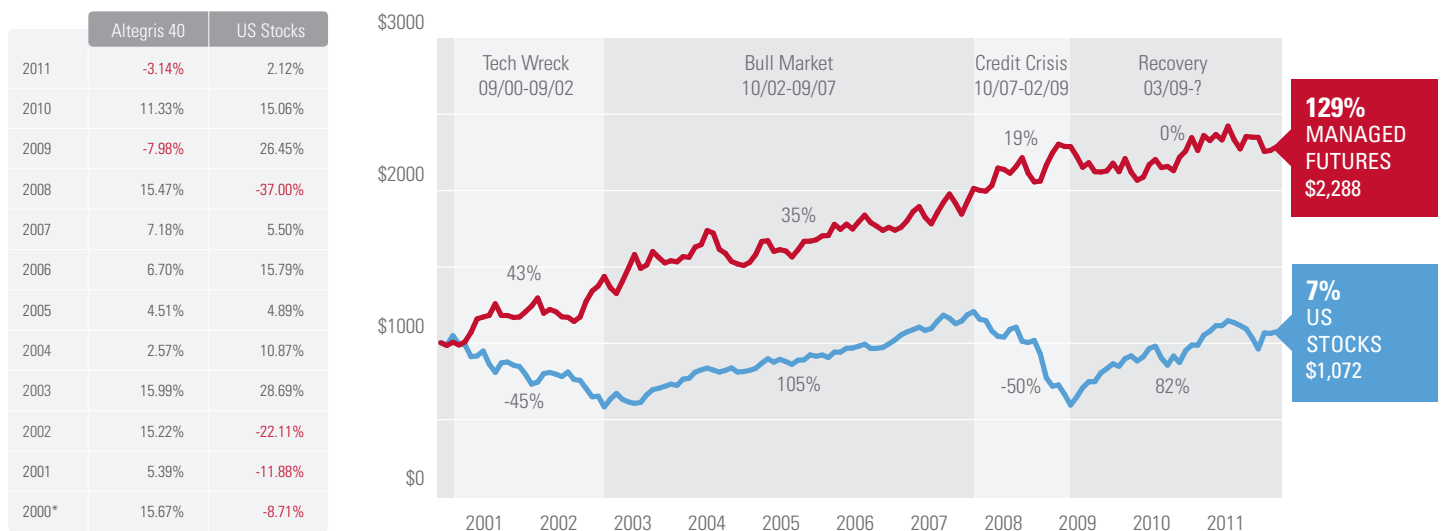
### ▶ Correlation

Managed futures have historically exhibited low correlation versus traditional asset classes. Adding low correlated assets to a portfolio has potential diversification benefits and may reduce the overall risk of a portfolio.

FIGURE 1.

## MANAGED FUTURES PERFORMANCE DURING CRISIS PERIODS: VALUE OF AN INITIAL \$1,000 INVESTMENT

July 2000–December 2011



\*Year 2000 as of July 2000. The total return of an investment is only one measure of performance. See page 10 for performance returns over various time frames. Performance should never be the sole consideration when making an investment decision. Correlation is a statistical measure of how two securities move in relation to each other. There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented. US stocks represented by S&P 500 Total Return Index; managed futures represented by Altegris 40 Index® (started July 2000; data available back to 1990). The referenced indices are shown for general market comparisons and are not meant to represent any particular Fund. Source: Altegris.

## Potential Benefits of Managed Futures

### ▶ Liquidity and Transparency

Managed futures investment managers trade in liquid and transparent markets. They can trade in over 150 global markets, such as currencies, metals, financials, energy, and agriculture, and can utilize both long and short trading strategies.

### ▶ Investment Flexibility

Managed futures investment managers use many types of trading disciplines, trading timeframes and trade in various underlying markets. The flexible nature of these strategies gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously.

## About Managed Futures

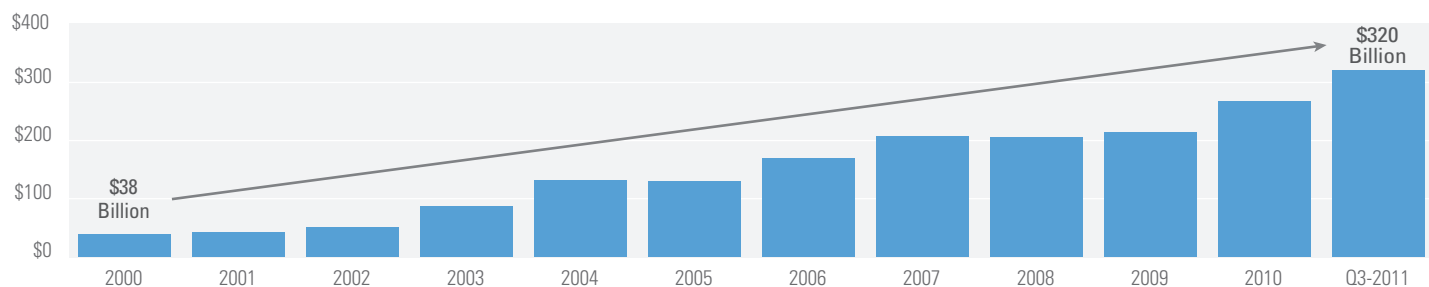
Managed futures is an asset class managed by professional investment managers who use their own trading systems, which react to price movements, to invest in futures and options contracts. They have two key advantages as they seek to generate absolute returns. Of course, there is no guarantee that any investment will achieve its objectives, generate profits or avoid losses:

- ▶ They have the ability to invest across a wide range of global markets (there are over 150 global markets) and asset classes including stocks, bonds, commodities and currencies
- ▶ They have the flexibility to take long and short positions in these investments based on a projected profit potential and economic factors

Managed futures have been utilized by investment management professionals for more than 30 years and represent a market with over \$320 billion under management, as exhibited below.

FIGURE 2.

### GROWTH OF MANAGED FUTURES: MANAGED FUTURES ASSETS UNDER MANAGEMENT | January 2000–September 2011



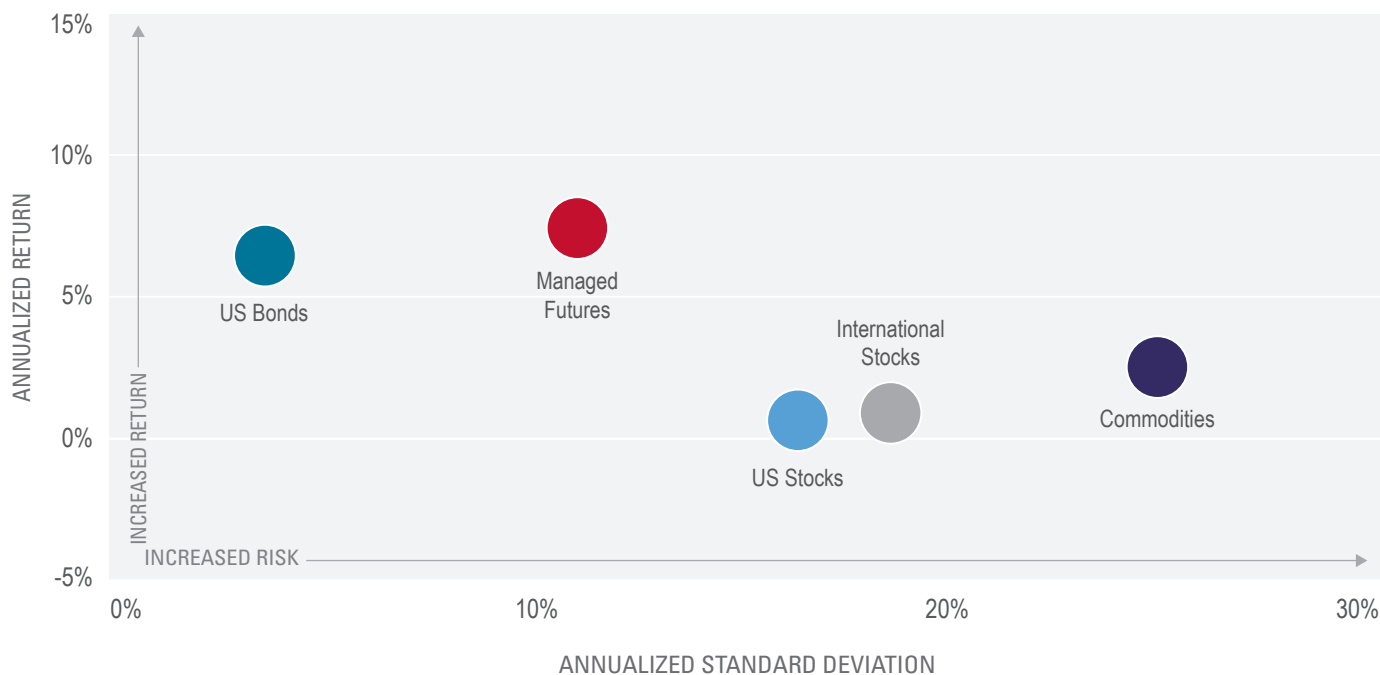
*Short: selling an asset/security that may have been borrowed from a third party with the intention of buying back at a later date. Short positions profit from a decline in price. If a short position increases in price, covering the short position at a higher price may result in a loss. Long: buying an asset/security that gives partial ownership to the buyer of the position. Long positions profit from an increase in price. There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. The success of an investment is dependent upon the ability of a managed futures manager to identify profitable investment opportunities and successfully trade. The identification of attractive trading opportunities is difficult, requires skill, and involves a significant degree of uncertainty. The high degree of leverage often obtainable in commodity trading can work against you as well as for you, and can lead to large losses as well as gains. Managers may trade highly illiquid markets, or on foreign markets, and may not be able to close or offset positions immediately upon request. You can lose all or a substantial amount of your investment. Managed Futures and commodities accounts may be subject to substantial charges for management and advisory fees. Source: Barclays Trading Group, Ltd.*

# Historical Risk/Reward

Managed futures have historically outperformed a number of traditional asset classes since 2000. In addition, managed futures have historically delivered its strong performance with lower volatility. Of course, past performance is not indicative of future results.

One measure of volatility is standard deviation, a statistical measure of how consistent returns are over time; a lower standard deviation indicates historically less volatility.

FIGURE 3.  
RISK/REWARD SPECTRUM: MANAGED FUTURES AND MAJOR ASSET CLASSES  
July 2000–December 2011



The total return of an investment is only one measure of performance. See page 10 for performance returns over various time frames. Performance should never be the sole consideration when making an investment decision. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented. US stocks represented by S&P 500 Total Return Index; US bonds represented by Barclays Capital US Aggregate Index; international stocks represented by MSCI EAFE Index; commodities represented by S&P GSCI Total Return Index; managed futures represented by Altegris 40 Index® (started July 2000; data available back to 1990). The referenced indices are shown for general market comparisons and are not meant to represent any particular Fund. See page 9 for Index Descriptions, Definitions and Risks. Source: Altegris.

# Historical Correlation to Other Asset Classes

Managed futures have historically displayed lower or zero-correlation with other asset classes.

Correlation is a statistical measure of how returns of two strategies move together over time; a correlation of 1 indicates the two returns move perfectly together, 0 indicates movements are random, and -1 indicates opposite movements.

FIGURE 4.  
**ASSET CLASS CORRELATION: 10-, 5-, AND 3-YEAR COMPARISON**  
 As of 31 December 2011

	10-Year Jan 02–Dec 11	5-Year Jan 07–Dec 11	3-Year Jan 09–Dec 11
Managed Futures–US Bonds	0.16	0.01	0.18
Managed Futures–US Stocks	-0.09	-0.06	0.10
Managed Futures–International Stocks	0.03	0.05	0.16
Managed Futures–Commodities	0.21	0.10	0.22

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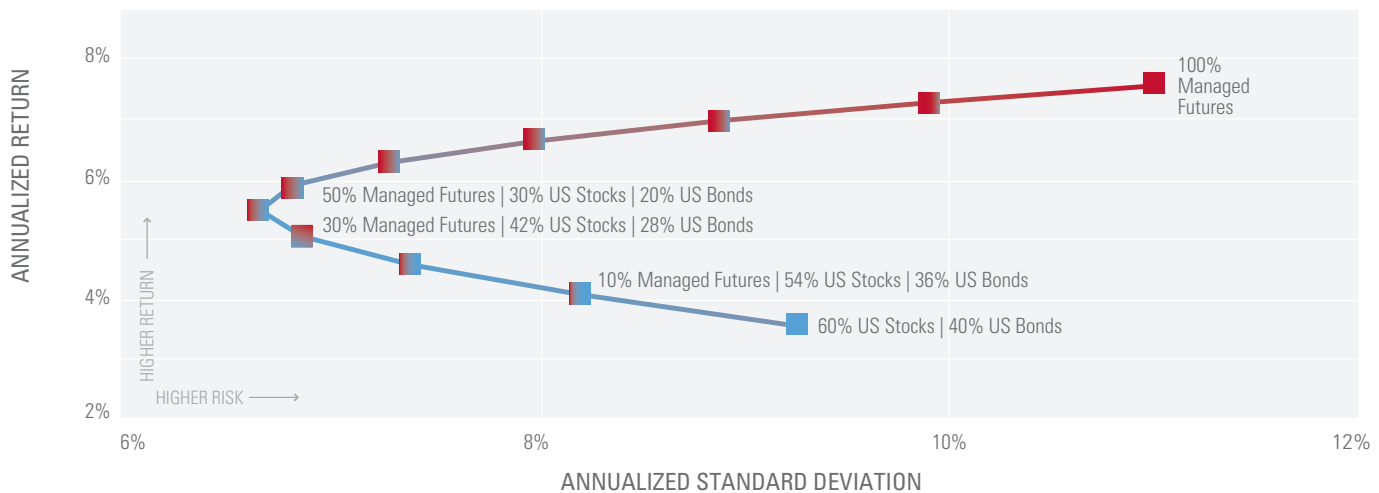
# Potential Portfolio Diversification

The diversification benefits of managed futures is supported by documented research from Professor John E. Lintner of Harvard, who demonstrated that it is desirable to invest in multiple asset classes, particularly ones with little correlation to existing investments in order to attain a well diversified portfolio. Dr. Lintner found “inclusion of futures in an investment portfolio reduces volatility while enhancing return. Further, these portfolios were proven to have substantially less risk at every possible level of expected return than portfolios of stocks, or stocks and bonds alone.”<sup>1</sup> His thesis has stood the test of time, as exhibited below.

<sup>1</sup>Dr. John Lintner, “The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds, 1983.”

Standard deviation is a statistical measure of how consistent returns are over time; a lower standard deviation indicates historically less volatility.

**FIGURE 5.**  
**ADDING MANAGED FUTURES MAY POTENTIALLY REDUCE RISK**  
 July 2000–December 2011

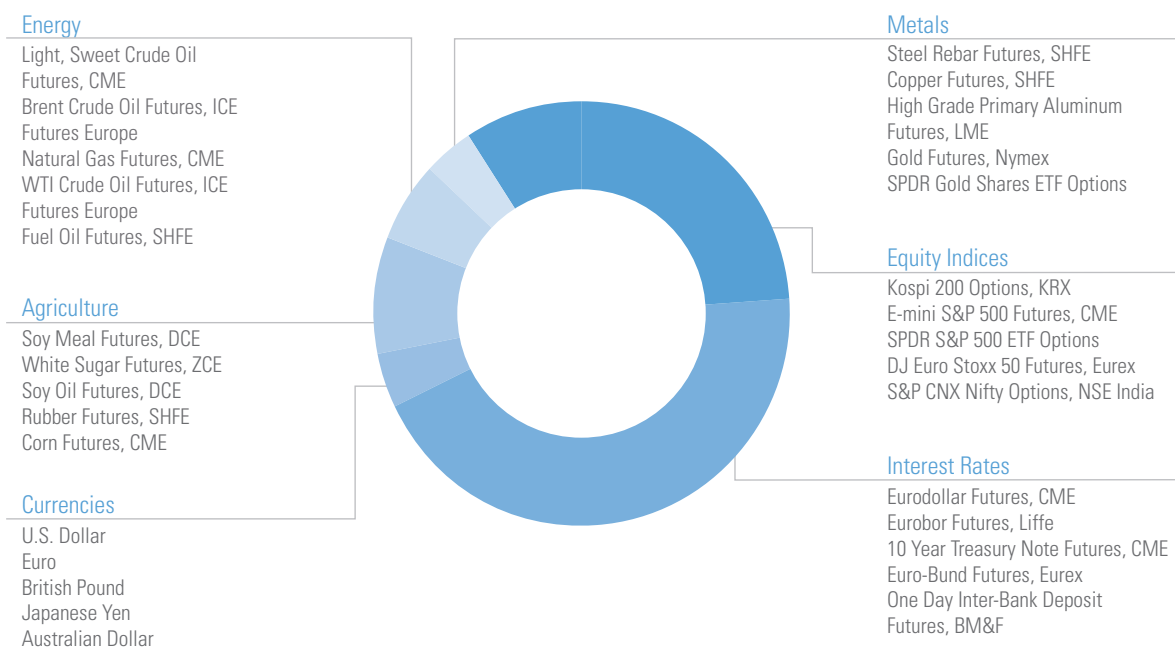


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# Liquidity and Transparency

Managed futures investment managers typically trade in liquid and transparent markets. Because they are exchange-traded, futures contracts are priced and listed daily and offer the benefit of reduced counterparty risk due to their centralized clearing. They can trade in over 150 global markets, such as currencies, metals, financials, energy, and agriculture, and can utilize both long and short trading strategies. The substantial growth of futures exchanges across the globe has added to their liquidity and the opportunities for trades.

FIGURE 6.  
MANAGED FUTURES: SAMPLE MARKETS



FOR ILLUSTRATIVE PURPOSES ONLY. See page 3 for additional disclosure.

# Flexible Investment Opportunities

Managed futures investment managers use many types of trading disciplines, trading timeframes and trade in various underlying markets. They typically rely on complex trading models and experienced discretion for making their buy and sell decisions. The flexible nature of managed futures strategies gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously.

## ▶ Long or Short Positions

The ability to go long or short gives managers the opportunity to potentially profit from both positive and negative developments in multiple markets simultaneously

## ▶ Multiple Asset Classes

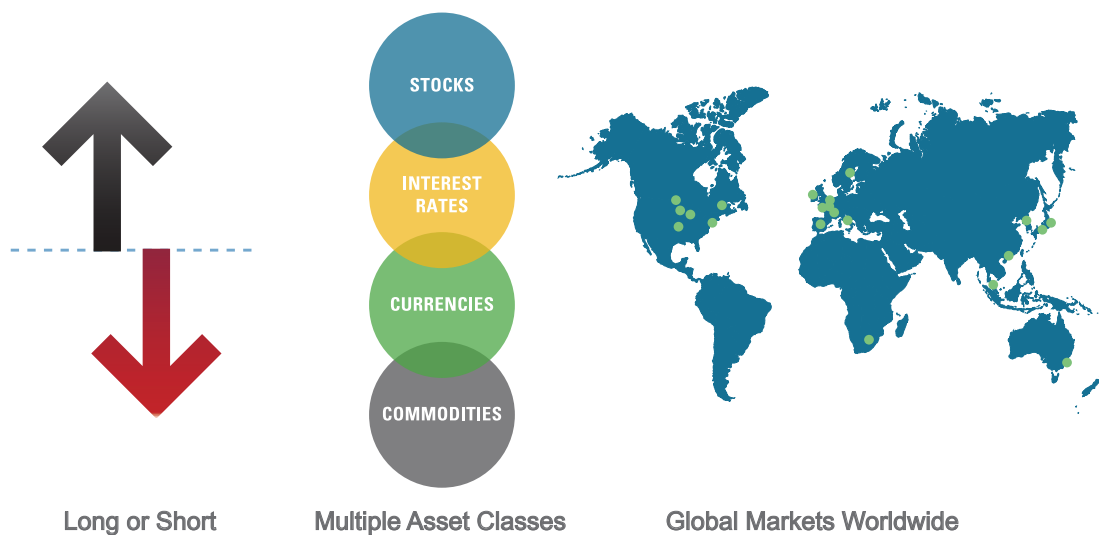
Managed futures managers have the ability to gain exposure to all four major asset classes: stocks, bonds, currencies, commodities

## ▶ Multiple Trading Disciplines

Managed futures managers utilize a variety of trading disciplines, including trend following (multiple time periods) and specialized (short-term, discretionary, etc.)

FIGURE 7.

### MANAGED FUTURES: POTENTIAL DIVERSIFICATION



*FOR ILLUSTRATIVE PURPOSES ONLY. Short: selling an asset/security that may have been borrowed from a third party with the intention of buying back at a later date. Short positions profit from a decline in price. If a short position increases in price, covering the short position at a higher price may result in a loss. Long: buying an asset/security that gives partial ownership to the buyer of the position. Long positions profit from an increase in price. Trend-following is a core managed futures strategy that generally seeks to profit from the continuation of medium to long-term directional price moves in a market. For example, trend following managers will generally be positioned long after prices in a market have moved higher for a period of time and they will generally be positioned short after prices in a market have moved lower for a period of time. Short-term is a specialized managed futures strategy that generally seeks to make profits by capitalizing on the short-term fluctuations in a market. A wide variety of techniques may be employed, but are often similar to trend or counter-trend strategies applied with a shorter time horizon. Discretionary is a specialized managed futures strategy that generally seeks to make profits by capitalizing on the manager's view of economic imbalances and their impact on markets. For example, they may be long gold if central banks are pursuing inflationary policies and may be short gold if inflation is expected to decline. See page 3 for Additional Disclosure.*

# Index Descriptions

*An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented.*

**US Stocks.** The S&P 500 Total Return Index is the total return version of S&P 500 index. The S&P 500 index is unmanaged and is generally representative of certain portions of the U.S. equity markets. For the S&P 500 Total Return Index, dividends are reinvested on a daily basis and the base date for the index is January 4, 1988. All regular cash dividends are assumed reinvested in the S&P 500 index on the ex-date. Special cash dividends trigger a price adjustment in the price return index.

**Int'l Stocks.** The MSCI EAFE Index is a capitalization-weighted index widely accepted as a benchmark of non-US stocks compiled by Morgan Stanley. It represents an aggregate of 21 individual country indices that collectively represent many of the major markets of the world.

**US Bonds.** The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. These specific indices include the Government/Credit Index, Government Index, Treasury Index, Agency Index, and Credit Index.

**Managed Futures.** The Altegris 40 Index<sup>®</sup> tracks the performance of the 40 leading managed futures programs, by ending monthly equity (assets) for the previous month, as reported to Altegris Investments, Inc. The Altegris 40 Index represents the dollar-weighted average performance of those 40 programs. The Index started in July 2000; data is available back to 1990.

**Commodities.** The S&P GSCI Total return Index measures a fully collateralized commodity futures investment. Currently, the GSCI includes 24 commodity nearby futures contracts.

	Representative Index	Characteristics	Key Risks
<b>US Stocks</b>	S&P 500 Total Return (TR) Index	500 US stocks Weighted towards large capitalizations	Stock market risk. Stock prices may decline.
<b>International Stocks</b>	MSCI EAFE Index	1,000+ stocks from 20+ developed markets in Europe and the Pacific Rim	<b>Stock market risk.</b> Stock prices may decline <b>Country / regional risk.</b> World events may adversely affect values. <b>Currency risk.</b> Unfavorable exchange rates may occur.
<b>US Bonds</b>	Barclays Capital US Aggregate Index	Wide spectrum of taxable, investment-grade US fixed income	<b>Interest rate risk.</b> Bond prices will decline if rates rise. <b>Credit risk.</b> Bond issuer may not pay. <b>Income risk.</b> Income may decline.
<b>Managed Futures</b>	Altegris 40 Index <sup>®</sup>	40 top AUM managed futures programs, monthly, as reported to Altegris	<b>Market risk.</b> Prices may decline. <b>Leverage risk.</b> Volatility and risk of loss may magnify with use of leverage. <b>Country / regional risk.</b> World events may adversely affect values.
<b>Commodities</b>	S&P GSCI Total Return Index	24 principal physical commodities that are the subject of active, liquid futures markets	<b>Market risk.</b> Prices may decline. <b>Derivative risk.</b> May be subject to higher volatility. <b>Leverage risk.</b> Volatility and risk of loss may magnify with use of leverage.

# Index Historical Performance

## ANNUALIZED RETURNS: 10-, 5-, 3- AND 1-YEAR COMPARISON

As of 31 December 2011

	10-Year Jan 02–Dec 11	5-Year Jan 07–Dec 11	3-Year Jan 09–Dec 11	1-Year Jan 11–Dec 11
Managed Futures	6.50%	4.19%	-0.26%	-3.14%
US Stocks	2.92%	-0.25%	14.11%	2.12%
US Bonds	5.78%	6.51%	6.78%	7.86%
International Stocks	4.67%	-4.72%	7.65%	-12.13%
Commodities	5.65%	-2.76%	6.98%	-1.18%

## ANNUALIZED STANDARD DEVIATION: 10-, 5-, 3-, AND 1-YEAR COMPARISON

As of 31 December 2011

	10-Year Jan 02–Dec 11	5-Year Jan 07–Dec 11	3-Year Jan 09–Dec 11	1-Year Jan 11–Dec 11
Managed Futures	10.55%	9.84%	9.02%	8.46%
US Stocks	15.86%	18.73%	18.70%	15.26%
US Bonds	3.68%	3.57%	2.78%	2.25%
International Stocks	18.65%	22.45%	22.43%	18.69%
Commodities	25.08%	27.31%	22.07%	19.91%

*PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. Standard deviation is a statistical measure of how consistent returns are over time; a lower standard deviation indicates historically less volatility. US stocks represented by S&P 500 Total Return Index; US bonds represented by Barclays Capital US Aggregate Index; international stocks represented by MSCI EAFE Index; commodities represented by S&P GSCI Total Return Index; managed futures as represented by Altegris 40 Index® (started in July 2000; data is available back to 1990). An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented. There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. The referenced indices are shown for general market comparisons and are not meant to represent any particular Fund. See page 9 for Index Descriptions, Definitions and Risks. Source: Altegris.*

## Risk Disclosure

*Hedge funds, commodity pools and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency as to share price, valuation and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees. Alternative investment managers typically exercise broad investment discretion and may apply similar strategies across multiple investment vehicles, resulting in less diversification. Trading may occur outside the United States which may pose greater risks than trading on U.S. exchanges and in U.S. markets. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.*

***Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund or Funds described herein. This and other important information about a Fund is contained in a Fund's Prospectus, which can be obtained by calling (877) 772-5838. The Prospectus should be read carefully before investing. Funds are distributed by Northern Lights Distributors, LLC member FINRA. Altegris Advisors, J.P. Morgan Investment Management and Northern Lights Distributors are not affiliated.***

*MUTUAL FUNDS INVOLVE RISK INCLUDING POSSIBLE LOSS OF PRINCIPAL*

## The Altegris Companies

*Altegris and its affiliates are subsidiaries of Genworth Financial, Inc. and are affiliated with Genworth Financial Wealth Management, Inc., and include: (1) Altegris Advisors, LLC, an SEC registered investment adviser; (2) Altegris Investments, Inc., an SEC-registered broker-dealer and FINRA member; (3) Altegris Portfolio Management, Inc. (dba Altegris Funds), a CFTC-registered commodity pool operator, NFA member and SEC-registered investment adviser; and (4) Altegris Clearing Solutions, LLC, a CFTC-registered futures introducing broker and commodity trading advisor and NFA member. The Altegris Companies and their affiliates have a financial interest in the products they sponsor, advise and/or recommend, as applicable. Depending on the investment, the Altegris Companies and their affiliates and employees may receive sales commissions, a portion of management or incentive fees, investment advisory fees, 12b-1 fees or similar payment for distribution, a portion of commodity futures trading commissions, margin interest and other futures-related charges, fee revenue, and/or advisory consulting fees.*

*Genworth Financial, Inc. (NYSE:GNW) is a leading Fortune 500 insurance holding company with more than \$100 billion in assets and employs approximately 6,500 people. Genworth has leadership positions in offerings that assist consumers in protecting themselves, investing for the future and planning for retirement, and also offers mortgage insurance to help consumers achieve homeownership while assisting lenders manage risk and capital.*

## Altegris Advisors, LLC

*Altegris Advisors LLC is an SEC-registered investment adviser that advises alternative strategy mutual funds that may pursue investment returns through a combination of managed futures, equities, fixed income and/or other investment strategies.*

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## About Altegris

Altegris searches the world to find what we believe are the best alternative investments. Our suite of private funds, actively managed mutual funds and managed accounts provides an efficient solution for financial professionals and individuals seeking to improve portfolio diversification.

With one of the leading Research and Investment groups focused solely on alternatives, Altegris follows a disciplined process for identifying, evaluating, selecting and monitoring investment talent across a spectrum of alternative strategies including managed futures, global macro, long/short equity, event-driven and others.

Veteran experts in the art and science of alternatives, Altegris guides investors through the complex and often opaque universe of alternative investing.

Alternatives are in our DNA. Our very name, Altegris, highlights our singular focus on alternatives, the highest standards of integrity, and a process that constantly seeks to minimize investor risk while maximizing potential returns.

The Altegris Companies, wholly owned subsidiaries of Genworth Financial, Inc., include Altegris Investments, Altegris Advisors, Altegris Funds, and Altegris Clearing Solutions. Altegris currently has approximately \$3.36 billion in client assets, and provides clearing services to \$774 million in institutional client assets.

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