The Alternative Files

Trend Following

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ATTAIN
CAPITAL MANAGEMENT

Even though managed futures growth over the past two decades has seen the dawn of other strategy types within the asset class, trend following is still the bread and butter of the world of managed futures. In fact, in our recent breakdown of the CTA industry, trend following was far and away the dominant strategy. However, not all trend followers necessarily cut from the same cloth.

You see, trend following is at its core a long volatility strategy which suffers frequent but small losses in exchange for infrequent but large gains. The strategy attempts to keep its head above water until some market movement provides a large outlier move in which the strategy can profit.

While trend following, by definition, is the process of recognizing and trading along with an up or down trend, there are multiple mechanisms for identifying both when a trend starts and when it ends, with technical indicators such as Bollinger Bands, Donchian Channels, and Moving Average Cross Overs.

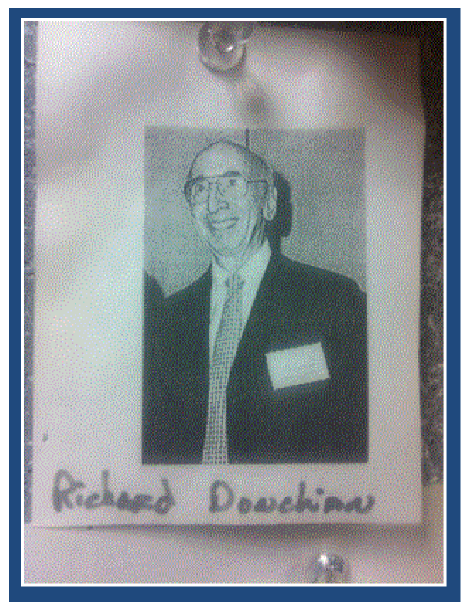
The different types of trend following methods are essentially broken up into two types: those that believe a new trend is triggered by a breakout of prices above/below a certain level, and strategies which use the relative movement of prices to determine whether a new trend has started.

Breakout Models

Perhaps most easily recognizable of the breakout trend following model methodologies is the Bollinger Band method, which we discussed rather extensively in our blog post series on crude oil, "Anatomy of a Trend Following Trade" (Part 1, Part 2, Part 3, Part 4, and Part 5). In this method, a program looks for a breakout above or below "bands" surrounding market prices at one standard deviation above and below the 60 to 100-day moving average to initiate a trade, and closes the trade when the market moves back to the 60 to 100-day moving average.

A variation of the Bollinger Band method is to create bands around market prices using the Average True Range (or ATR) of prices instead of the standard deviation of prices, seeting the bands 2 ATRs above/below the current price, for example.

Another breakout model is the Donchian method, named after Richard Donchian (and before you ask, yes, we do have a picture of him tacked up on the bulletin board in our kitchen– we've told you before we're nerds for this stuff).



The so-called "Father of Commodities Trading" developed what would become known as Donchian trading channels, which are simple channels surrounding recent price action with the top channel equal to the highest price of the last n days and the bottom channel the lowest price of the same period.

You buy when prices break above the top channel (making a new 20 day high, for example), and sell when the market breaks below the bottom channel (a new 20 day low, for example). A typical period may be 20 to 50 days. This is a method similar to the famous turtle method.

Relative Price Models

Relative price models are less concerned with if a market has broken out of a range and more concerned with whether recent prices are stronger or weaker than past prices.

The Simple Moving Average Cross Over method (which is used more frequently in the stock market, in our experience) is the classic example of this, and it entails buying or selling when two moving averages of differing time periods (such as the 20-day and 100-day simple moving average) cross over one another. The shorter term moving average is used as the trigger, signaling a buy when it crosses above the longer term average, and a sell when crossing back below the average. CNBC and the twitter stream go all a flutter when the S&P 500's 50 day moving average crosses over its 200 day moving average to the upside, calling the move the "Golden Cross."

"These are the basic building blocks behind strategies used to manage hundreds of billions of dollars across the world.

A variation of the moving average cross over is the Triple Moving Average method which uses three moving averages instead of two (such as 10, 20, and 50-day simple moving average), where the smallest period crossing over the longest period acts as an early indicator of a trend, and the middle period crossing over the longest period acts as confirmation of the trend.

After that, there are a few lesser known methods which use singular indicators (which themselves are based on relative price movements) to divine whether a trend has begun or not. These include an ADX (average directional index) method where the non directional indicator which measures the strength of a trend must be above a certain level in conjunction with a crossover of the positive/negative directional indicators; and an RSI (relative strength index) method where a move of the RSI above certain levels signals an uptrend and below certain levels a down trend.

And as simple as it sounds, these are the basic building blocks behind strategies used to manage hundreds of billions of dollars across the world. Of course, in truth it's much more complicated than that. Every manager has their own unique variation on the basic trend following format, giving rise to hundreds of different programs with different styles – not to mention different performance and risk profiles, too.

CTA SPOTLIGHT: COVENANT CAPITAL

We first profiled Covenant Capital Management in March of 2010. At the time, Covenant Capital Aggressive Program was an up and coming trend following program that had just completed their sixth year of trading and were ready to make a splash in the managed futures space. Since then, the program has been listed as a top 15 managed futures program at Attain four times, including a #2 overall ranking in January 2011.

Assets Under Management
$292 Million

Founded
1999

Location
Nashville, TN

Minimum Investment
$250,000

Covenant Capital has grown rapidly in recent years, with assets climbing to $496 million under management - approximately, 2.5 times higher than they were when we first met them in 2009. The Covenant Aggressive program, which has been a favorite of Attain clients, has grown even more rapidly to $85 million (from $5mm) since we first met with program manager Scot Billington in our office in late 2009.

The Manager

> **"Covenant is a perennial member of Attain's Top 15 rankings of managed futures programs"**

The managers of Covenant Capital are Scot Billington and Brince Wilford, both of whom have a 45% ownership stake in the company. Scot is credited with the trading ideas and system development, while Brince has been responsible for managing day-to-day operations and more importantly the substantial asset growth the program has seen over the last 20 months. Scot and Brince met in 1995 as a matter of circumstance as executives in banking (Scot) and healthcare (Brince) respectively. Scot convinced Brince to take a look at his trading models for potential investment and the rest, as they say, was history.

Mr. Billington got started in trading as an assistant trader for a division of J.C. Bradford & Co in 1993, and eventually wound up on the Chicago Board Options Exchange trading floor as an options trader in the OEX 100 options as late as 2002 as they continued to work on the Covenant program. Mr. Billington is the Chief Manager, Head Trader, and is responsible for all system development at Covenant. Scott graduated from Miami University (Ohio) and is currently on the board of advisors for their Entrepreneurship Department. Scot lives in Naperville, IL with his wife and children. He spends his free time playing golf, exercising with his family, and coaching little league sports. He and his family also enjoy time together at their lake house in Michigan during the summer months.

Mr. Wilford came to Covenant as a veteran of the health care industry where he worked in a number of management, consulting, and finance roles until 2006. That same year, he switched to focusing his efforts on Covenant full time, where he is Chief Operating Officer. Mr. Wilford was the sole underwriter of Covenant in 1999 and is currently responsible for all activities of the company including research, development, and testing; as well as accounting and compliance. He is a graduate of Furman University in Greenville, SC; and lives with his wife in Nashville, TN where they enjoy boating on the weekends and spending time with their children.

Scot and Brince launched Covenant in 1999 (Covenant Original Program) with the goal of having the best risk adjusted returns in the industry. Those lofty expectations were quickly tempered when the program finished 2000 at -3.31% and 2001 at -22.16%, leaving Scot and Brince no choice but to continue with their day jobs while the program worked its way out of drawdown. Looking back on their early struggles gives them perspective on their current success, and is one of the main reasons why they continue to reinvest in the company by adding staff in critical areas like research and customer support. Scot and Brince have grown Covenant from a part time job to a thriving CTA and they have added the necessary pieces along the way to support their growth.

One of the key additions to the Covenant team is Scott England who was brought on in 2009 as Director of Marketing. Scott worked the floor of the Chicago Board Options Exchange as a market maker in the S&P 100 (OEX) trading pit, where he befriended Scot Billington. Before working on the floor, Mr. England was a stockbroker with a national retail brokerage firm, which gives him a unique perspective into how a managed futures program fits with traditional stock portfolios. Scott received his bachelor's degree from the University of Illinois at Urbana-Champaign, and has an MBA from the Kellogg Graduate School of Management at Northwestern University. Scott lives in Naperville, IL with his wife and two children, where he spends his free time coaching football and basketball. He enjoys spending time in the summer in the northwoods of Wisconsin, and at Wrigley Field rooting on the Cubs.

More recent additions to Covenant include Robert Matthews as Director of Research and Kelli Turner as Operations Director. Robert came to Covenant in 2011 after spending the majority of his career as a senior engineer with VEXTEC Corporation where he helped design software used by medical device manufacturers as well as the US Department of Defense. Mr. Matthews holds advanced degrees in mechanical engineering and finance, including a M.S. in Quantitative and Computational Finance from the Georgia Institute of Technology. Kelli Turner is responsible for all office operations including trading administration and compliance within Covenant's operations. Ms. Turner has had extensive experience working in the banking and investment industry. She has also taught computer and other business-related courses at the high school and post secondary levels. Ms. Turner received her B.S. in Business Education from Auburn University.

"Covenant's goal is to have the best risk-adjusted returns in the industry after 20 years."

The Program

Covenant's goal is to have the best risk adjusted returns in the industry after 20 years, and that goal tells you a lot about how the Covenant program works. It tells us they are in it for the long haul, value risk avoidance, and believe there will be opportunity for their program well out into the future.

To the naked eye, Covenant appears to be a classic multi-market trend follower reliant on expanding volatility and several trends per year to make money. But, a closer look (and those positive 2009 & 2010 returns) reveals that there is more going on here than a simplistic trend following approach.

Perhaps the easiest way to explain how Covenant is different is to look at what they don't do. Most trend following models use a wide net, and try to catch as many trends as they can within that net. While that method is assured of catching any trends that happen, the problem inherent with it is that you will get a lot of bycatch (losers you didn't want in your net), which leads to increased volatility in the portfolio. In contrast, Covenant uses a rod and reel instead of a net and cast in specific spots only, spots that they have identified as good fishing holes, which more often than not produce a catch.

Without the fishing metaphor, Covenant does not believe all trends are created equal. They believe some trends have a much better success of being profitable, and that some have a greater chance of losing. Covenant strives to identify those trades with a higher than average chance for success and avoid those which have a greater chance of being a loser (no matter the profit potential).

This attempt to identify those trades with the highest probability of success is just one of three main components of the Covenant model which they believe sets them apart from the competition: few trades per year, a bias toward long rather than short positions, and an ultra-long term philosophy.

Low Volume of Trades

Covenant strives to only take those trades which their models signal as having the highest probability of success, and in doing so only take a very low 20-25 trades per year. This allows them to "conserve their bullets", in Scot Billington's lingo, for when a high probability trade comes along.

> **"Taking more long trades than short helps de-correlate Covenant returns from those of other trend followers."**

To do this Mr. Billington has developed proprietary filters that prevent trades from being taken during periods of higher than average volatility for that market, preferring instead to enter trends at lower volatility points typically just before the market breaks out of its trading range.

Long Versus Short

Covenant has intentionally built a long bias into their trading program with the underlying belief that long trades have a better chance at success than short trades. According to their research, long positions will out-perform short positions over a statistically significant set of trades. The logic behind this assertion is strikingly simple, and centers on the fact that there is no cap on how high a market can go, while short trades have to stop moving lower a at some point (they can't go below zero).

While we may view the Covenant program as a trend following model, which looks to profit from market trends emerging, Covenant will tell you that their trading model is based more on the tendency of people to undervalue outliers in the markets, or in their undervaluing of a potential trend. If we think of trends as things which can be bought and sold, Covenant looks to always buy those trends low and sell them higher. Conversely, most other trend followers simply look to buy any trend which emerges (no matter how expensive) in the hopes of selling it back at a higher price. As an example, Covenant believes there is a much better chance of success going long Crude Oil at $30 in hopes it rises to $40, than there is buying Crude at $80 in hopes it rises to $90. For most, this is the same trade, a breakout trend higher which can make $10, but Covenant views the lower priced trade as having a much higher probability of success.

This short trade avoidance was more than just a bias for most of their track record, with Covenant having no short trades in their model from 2002 to mid-2008. The huge sell off in 2008 caused them to reconsider, however; and as a result, Covenant reduced the time frame of the volatility filter and reintroduced short trades in a limited scope. Moving forward, Covenant believes somewhere around one in every five trades will be a short trade. With the rest of the industry mostly believing in having a balanced model in which the logic is the same for long and short trades, the unintentional benefit of Covenant taking more long trades than short is that it helps "de-correlate" Covenant returns from those of other trend followers.

Ultra-Long Term Philosophy

The average hold time for Covenant is 270 days for winning trades, and approximately 20 days for losing trades. These numbers are interesting, in that a "normal" trend follower has roughly the same hold time for a losing trade (20 days), but is out of winning trades much sooner (about 120 days on average). A longer hold time usually brings with it higher risk (you have to give the trade more room to operate), but Covenant's volatility filter and selection of trades only with a high probability of success appear to have given it the ability to reap the benefits of a longer hold time without adding significant additional risk.

Holding for a longer period can also help cut down on costs, as there are much fewer trades (only 20-35 per year). Covenant believes they are saving approximately 6% per year on operating costs versus traditional trend following programs thanks to the smaller number of trades.

Covenant takes a systematic approach to market selection and is has traded the following markets: Australian Dollar, British Pound, Canadian Dollar, Dollar Index, Euro Currency, Japanese Yen, Swiss Franc, Mexican Peso, Soybean Oil, Soybean Meal, Soybeans, Corn, Wheat, Cocoa, Sugar, Coffee, Orange Juice, Cotton, Crude Oil, Heating Oil, Natural Gas, 30-year Treasury Bond, Euro Bund, Lean Hogs, Live Cattle, S&P 500, Nikkei, Silver, Gold, Copper .

These markets have been selected based on their ability to produce viable trends and changes can be made at any time. The manager expects to add more foreign markets as assets continue to grow. Average risk per trade is approximately 1% and stops are used on all trades. Covenant does not use profit targets for any trades. Instead, Covenant attempts to capture as much of a trend as possible and exits a position in if a trailing stop is triggered (Disclaimer: stop orders cannot guarantee an order is filled at the desired price).

"We recommend working with your broker to determine optimal start trade points."

Attain Comments

We have watched Covenant's meteoric climb through the CTA ranks and can tell you first hand that they are definitely doing something different than other multi-market programs. For starters, Covenant has (knock on wood) avoided a large drawdown since we first began following the program. This includes an impressive +26.75% ROR and -6.92% maximum drawdown in 2009, when most of their multi-market trendfollowing peers struggled to keep their heads above water. A positive year in '09 is impressive enough, but when you book end it with nearly identical years in 2008 (+27.55% ROR, -12.48% Max Drawdown) and 2010 (+24.45% ROR, -7.36% Max Drawdown) tells us these guys are onto something unique (Disclaimer: past performance is not necessarily indicative of future results).

As with any new investment it is important to understand the risks involved as well as the opportunity. In our opinion, Covenant's ultra long term trading philosophy is one that coincides with the core value of risking a defined risk per trade and allowing winning trades to run. With this in mind investors interested in the program should have a long term (minimum 3 to 5 year) outlook on the investment. The nature of the trading strategy is such that it can take anywhere from a week to a year to become fully invested in the program. Scot and Brince firmly believe that one of the key differentiating factors of their program is the trade entry price; specifically, if you miss the opportunity to enter at a specific level the chances of the trade working out in your favor decrease substantially. There will only take NEW signals for new clients who are just getting started with the program. After following the program on a daily basis for 2 years we can tell you that only taking new signals can lead to serious performance deviation until the account is fully invested. Essentially, what happens is that the new clients are missing out on the diversification benefit of prior trades and can find themselves with a portfolio that is significantly more volatile (for better or worse) than the composite track record. To avoid this we recommend working with your broker to determine optimal start trade points, like when the program is light on open positions.

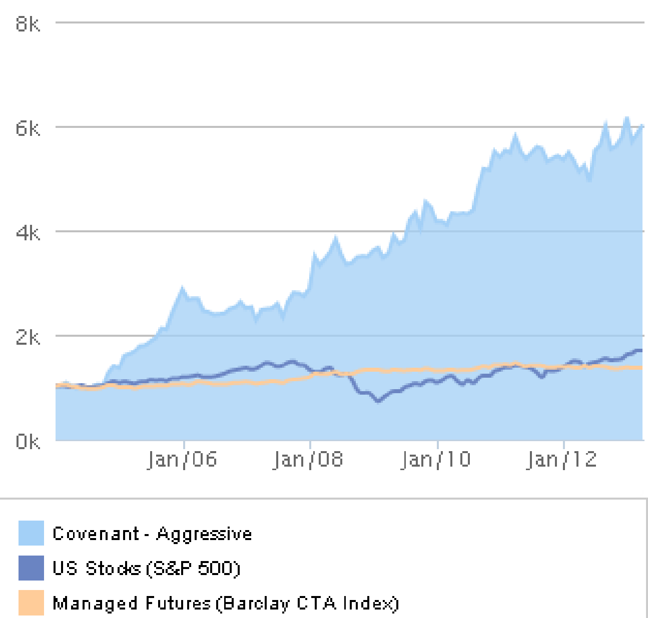
Overall, it is hard to argue with Covenant's success over the years. Since 2009, the Covenant Capital Aggressive Program has been ranked consistently high in our Semi-Annual Top 15 Rankings and is usually one of the top two trend followers on the list. We have watched the program grow up (so to speak) and enter a new phase as a manager with a ½ a billion dollars under management across three programs. With growth comes a new set of challenges, and how these challenges are managed, will be the key determinant of whether Covenant grows by another $500 million or if they slide back to the pack. For now, we think it will be the former. Scot and Brince are talented individuals and they have assembled excellent team of people to support the growth of the company.

COVENANT CAPITAL MANAGEMENT

Aggressive

Past Performance Is Not Necessarily Indicative Of Future Results

Growth of 1,000 - VAMI



Statistical Analysis

Definitions

Compound RoR	21.21%
Max DD	-20.41%
Longest DD Period (months)	23.0
Annualized Volatility	20.49%
Sharpe Ratio	0.94
Sterling Ratio	1.08
Sortino Ratio	2.02
MAR Ratio	1.04
% Months Profitable	63.39%
Average Month	1.78%
Avg Winning Month	4.97%
Avg Losing Month	-3.83%
Worst 12 Months	-15.11%
Correlation to CTA Index	0.628
Correlation to S&P 500	0.147

Monthly Performance (%) Net of Fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Year	Ann DD
2013	6.83%	-7.46%	2.56%	2.85%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.28%	-7.46%
2012	-1.42%	2.74%	-2.82%	-4.02%	2.36%	-5.89%	11.94%	1.99%	6.19%	-7.15%	0.98%	2.80%	6.34%	-10.15%
2011	-2.05%	2.40%	-0.89%	5.51%	-4.87%	-2.53%	2.20%	2.08%	-0.54%	-4.47%	1.14%	0.88%	-1.64%	-8.09%
2010	-5.88%	0.09%	-1.66%	5.42%	-0.45%	0.44%	-0.34%	1.76%	10.54%	6.82%	-0.61%	7.08%	24.45%	-7.36%
2009	3.27%	1.40%	-5.13%	2.82%	9.06%	-3.96%	1.89%	10.02%	3.40%	-6.92%	12.29%	-2.21%	26.75%	-6.92%
2008	5.26%	21.53%	-5.01%	3.92%	3.83%	6.38%	-7.46%	-5.42%	0.80%	3.40%	0.49%	-0.24%	27.55%	-12.48%
2007	-4.70%	0.81%	-9.69%	8.50%	0.60%	0.45%	3.66%	-9.69%	12.42%	6.15%	-0.03%	-2.02%	4.09%	-13.24%
2006	8.49%	-6.77%	0.57%	0.04%	-8.71%	-0.92%	-1.94%	0.40%	0.65%	3.36%	1.36%	4.15%	-0.48%	-16.80%
2005	-2.77%	17.12%	2.19%	2.85%	6.19%	0.97%	3.84%	3.72%	9.36%	-0.78%	14.15%	10.12%	88.52%	-2.77%
2004	0.00%	1.28%	6.97%	-5.57%	-3.60%	3.32%	-5.25%	4.46%	4.13%	-1.51%	23.11%	10.34%	40.50%	-10.88%

* Any values in blue are preliminary and could change

CTA SPOTLIGHT: BRIARWOOD CAPITAL

Briarwood Capital might not be what you'd expect out of a top-ranked CTA. Their program was not developed to rake in 30%+ returns on a monthly basis. They do not have a slew of computer programmers from MIT on their staff. They aren't a Winton or a Transtrend in terms of AUM.

No, Briarwood does not fit the mold of a typical managed futures superstar, but that may be exactly why they've got our attention. From a refreshing perspective on program creation to a no frills approach to trading, Briarwood has their ducks in a row, and offers, in our opinion, a solid opportunity for those looking for a trend following addition to their portfolio. Let's get into the details.

Assets Under Management
$210 Million

Founded
1996

Location
New York, NY

Minimum Investment
$1,500,000

The Manager

"Briarwood Capital might not be what you'd expect out of a top-ranked CTA."

Fred Schutzman and Paul DeMarco are two guys from New York who just happen to have a passion for commodity trading. The men grew up in Queens and Brooklyn, respectively, and fondly reflect on games of baseball in the streets with neighborhood kids. They didn't come from big money or anything of the sort, and both of them lamented the tedium of traditional schooling.

Fred did, however, have a thing for numbers. He went to school to study actuarial science, but as time went on, he realized that a practical application of the numbers was of way more interest to him. *The Zweig Forecast* newsletter turned his attention to stocks and commodities, and after a class with technical charting legend Ralph Acampora at the New York Institute of Finance(NYIF) in 1985, there was no turning back- he was hooked.

In 1986, Fred started working with one John Murphy, acclaimed author of some of the top technical analysis books on the market. He had no way of knowing it at the time, but he had just signed on with a man who was about to solidify his position as the worldwide leader in technical analysis, giving him the opportunity to learn from the best. In the beginning, he lived and died by the charts, serving only as an analyst, but Mr. Murphy knew that Fred was looking for an opportunity to expand into trading, and gave him his shot in 1988. By 1990, as a Chartered Market Technician with ample experience under his belt, Fred had made himself enough of a name to land a teaching slot at the NYIF.

In the meantime, a man from another borough was busy following in his father's footsteps. Paul DeMarco worked for 15 years with his dad in the New York City trading pits, but in the early days, it was baseball that held his attention. All of those days of neighborhood ball games culminated in a baseball reign at St. John's University, but when the final scores were in, trading was still calling his name. For Paul, the game changer was *Market Wizards* by Jack Schwager. The stories found within those pages revealed a world far beyond the frantic hustle of the pits, and he knew there was a better way to trade. Looking for more knowledge, he signed up for a class on at the NYIF - Fred's class.

This was the spark that would set the ball rolling. Bucky was enamored with the risk management techniques taught by Fred, and the two began talking about the possibilities in the markets. Sometimes, when you get two trading professionals together with similar priorities, the chemistry is palpable, and the intellectual connection here set off a chain of events that led to duo partnering to trade in 1991.

It's worth noting that the trajectory was not one of astronomical ascent. These guys started their trading in a one bedroom apartment they rented as an office, relying largely on a single administrative assistant for years, and that's what they wanted. They've been incredibly protective of their strategy and trading rules, prioritizing the program's health over the raising of assets. They never hired a computer superstar, opting instead to teach themselves programming in 1993. For two guys who joked that they didn't know how to turn on a computer when they started out, to see where they are now is a little mind-boggling.

In fact, it was not until recently that they made the decision to expand the staff fairly substantially, but even then, their hiring stayed true to their emphasis on protecting the program. These weren't young hot shots, but mentors of theirs, including John Murphy himself, and Dennis Hynes, another colleague from Fred's days under Murphy's tutelage. Both men come from extensive trading and business backgrounds, adding another layer of seasoned expertise to the operations as a whole. For Briarwood, as they put it, the expansion was about creating a development atmosphere that was "intellectually stimulating." If you ask us, that's the way to go.

The Program

The managers at Briarwood and the unique way they brought the program together is overshadowed only by the distinctive, if not deceptively simple, construction of the program itself. There are many CTAs that will describe sophisticated, complicated development processes, but for Fred and Paul, it was a very basic wind at their backs: how do we turn a profit on our own money? There would never be 15 different Briarwood programs. Instead, they've focused all of their time, resources, and efforts on making their singular program the best it can be.

One of the things we look for in our due diligence process is whether or not a manager has his own capital invested in a program, but for Briarwood, that was never a question - their entire program was based on what they wanted their own funds to do. This spurred them to create a program that was, in some ways, more conservative, but also a trend following option that doesn't quite march in line with the rest.

Briarwood trades 19 different markets, with their marketing materials describing as a split of 24% currency, 21% interest rate, 15% soft commodity, 15% grain, 10% energy, 5% base metal, 5% equity index, and 5% precious metal. It's worth noting that we're looking at the same core markets they've been using for the past ten years, which varies drastically from some of the larger trend followers trading upwards of 50 markets. The guys are quick to point out that, should a strong opportunity present itself in another market, they're willing to take it, but such a chance doesn't come about very often. As they see it, they're open to looking at new markets, but it's not a risk they're going to take lightly.

> **"They've focused all of their time, resources, and efforts on making their singular program the best it can be."**

Briarwood describes the program as, in practice, 70% systematic, 28% "rules" based, and 2% discretionary. The program trades the same three basic systems on each market, with each one based on their hefty experience in technical analysis. While basic technical analysis can rely on simple cross-overs to generate a signal, the more advanced side of technical analysis usually delves into multi-threaded charts where signals on top of signals are used to confirm market moves. For instance, they might look at something like volume behind a pricing move to determine the strength of a signal.

Here is where the rules and discretion come into play. Should the signal pass the programmed rules, Briarwood will also use what they refer to as a "checklist" of rules that can be exceedingly difficult to program as a means of determining whether or not they take the trade. Here, they consider how the systems have been performing recently in the same markets on similar types of signals, analyzing the equity curves of the systems to calculate out what they call a "mathematical probability of profit." If the trade hits 90% of the checkboxes, for instance, they assume a 90% probability of profit. This is by no means a guarantee of profit. After all, no one has a crystal ball. But it is definitely a unique way to view the trading.

These percentages separate the trades into three buckets - high potential to profit, average potential and low potential. They attempt to avoid the low potential trades altogether, but when the numbers place a trade on the fence between the buckets, they usually *will* take the trade. This approach relies on a great deal of experience in recognizing the trajectory of a chart and the past behavior of a system, but it's also not a purely discretionary call, which is probably why they use the description they do. In our minds, it might be easier to view such rules as "structured discretion."

Finally, unlike many trend followers, which tend to focus primarily on a long-term timeframe, two of Briarwood's systems focus on a more medium-term trading periods, with only one focusing on the long-term. As Fred explains, "We're medium-term in our entry, medium to short-term on the exit."

The different timeframes have helped contribute to a track record that's correlated to other trend followers and managed futures as a whole, but not always (see 2004 and 2009). They believe it's the combination of the systems that has helped to smooth out their equity curve during the tough times for other managed futures programs.

Risk Management

It's in risk management that Briarwood begins to separate itself from the pack. Some elements of their risk management are pretty standard- ideas such as trailing stops and the like. Of course, the use of stop orders does not guarantee one can get out of the market at a specific price, but these tactics are common safeguards built into systematic trading programs. Beyond that, however, things get a little more dynamic.

Beyond the entry rules, Briarwood also has a set of rules guiding their exits and position adjustments that will vary over time. This set of rules was created to address a pervasive lament among trend followers- the dreaded give back. Trend following can be infuriating at times. They'll benefit from a sustained trend in one direction, bringing in profits, but when the trend reverses, it can often take them a frustrating long time to get out of the trade, causing them to "give up" a good-sized chunk of the money they made.

For Briarwood, that was unacceptable. They wanted to find a way to "dampen" the give-back. Here, they're monitoring the movements in a given market and on each specific trade for parabolic activity, and adjusting their stops and exposure accordingly. It's about evaluating the potential for drawdown based on how overextended the markets trading might be, and while imperfect, the results of the strategy are evident in their track record.

"They understand that risk doesn't exist in a vacuum."

One of the more unique components of the Briarwood program, however, has little bearing on the performance of their program as a whole, and a lot more to do with the investors. They understand that the risk in a program doesn't exist in a vacuum; the people making allocations are investors who, much like themselves, are looking to bolster their portfolio. As a result, they developed a separate system which follows the equity curve of the program itself, attempting to evaluate the often cyclical performance of managed futures to help investors time their allocations.

As you'll often here us say, the best time to invest in a managed futures program, in our experience, is during a drawdown, and the system built by Briarwood has the sole purpose of helping investors to isolate such opportunities. Past performance is not necessarily indicative of future results, but according to Briarwood the system has been able to give investors quite accurate timing analysis for when to invest.

Attain Comments

If we had to sum up the Briarwood program in one word, it would be "solid," and much of this comes back to their risk management. From a portfolio construction perspective, this dynamic makes them an interesting addition for appropriate investors, especially those with stock market exposure. One of the highest scores they get within our ranking algorithm is their near perfect non-correlation to the S&P 500 of -0.10. On top of that, they have a quite high correlation to the Barclay Hedge CTA Index of .664, while having managed to avoid many of the downturns other trend followers fall victim to. They attribute this distinction to the methods they use in identifying exit points and opportunities to take money off the table.

This creates mixed results. For instance, in 2008, Briarwood's returns were not what some of their peers can claim, which may be attributed to those aggressive risk management tactics. To be sure, returns of over 8% are by no means *bad,* but they definitely pale in comparison next to the double digit gains nearly all other trend followers saw. It was after this point that the entry checklist came into play, and they credit that development for their performance in 2009. When many trend followers were struggling, these measures allowed them to effectively navigate some choppy waters, again bringing in returns of over 8%. Of course, past performance is not necessarily indicative of future results, and 2011 highlighted this. Not even Briarwood's risk management could dodge the volatility swings that plagued us last year, with performance coming in at -2.87%. The takeaway? It's traditional trend following-with a twist.

That being said, it's important to keep in mind that if you're looking for a 20%+ returns on an annual basis, Briarwood may not be the program to get you there. Briarwood, in our opinion, is an excellent choice for those looking for a more conservative trend follower to enter the managed futures space through, but may not appeal to more aggressive investors. It all comes back to your preferences, but on our end, we like to see this kind of aggressive *risk management* in place.

That being said, with a very low margin-to-equity ratio (3-5%), sophisticated investors who desire more aggressive returns can trade between 2 to 3 times leverage with notional funding. An account funded in this manner might have $1 million cash traded at a $3 million dollar trading level, for example. However, it's important to remember that trading on leverage increases risk metrics, as well, and drawdowns will be 2 to 3 times higher on a percentage basis than they would for investors who trade with a fully funded account.

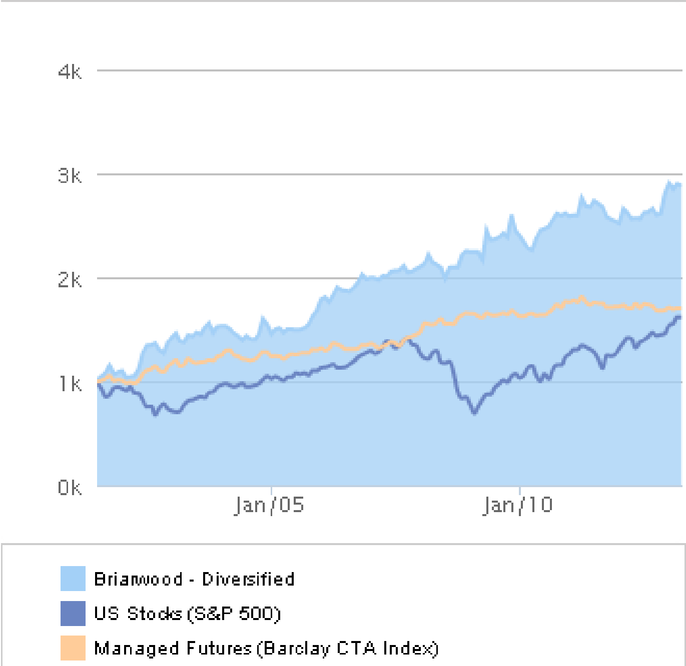
We're happy to see Briarwood sitting near the top of our rankings, if only as a source of self-affirmation- our rankings are doing their job. Here we have a program with a decent amount of consistency, robust risk management rules, managers with extensive experience, and development priorities that put the client first. It's hard not to like a program like that, not to mention managers that are so down to earth. There's no denying that Fred and Paul have made good since their days of street ball, and from our perspective, we love seeing hard work pay off like that. We'll be keeping a close eye on Briarwood as time goes on, and look forward to seeing what they have to offer in the coming years.

BRIARWOOD CAPITAL MANAGEMENT INC.

Diversified

Past Performance Is Not Necessarily Indicative Of Future Results

Growth of 1,000 - VAMI



Statistical Analysis

Definitions

Compound RoR	9.34%
Max DD	-13.00%
Longest DD Period (months)	19.0
Annualized Volatility	11.92%
Sharpe Ratio	0.62
Sterling Ratio	0.59
Sortino Ratio	1.21
MAR Ratio	0.72
% Months Profitable	56.34%
Average Month	0.81%
Avg Winning Month	2.98%
Avg Losing Month	-2.00%
Worst 12 Months	-7.80%
Correlation to CTA Index	0.657
Correlation to S&P 500	-0.094

Monthly Performance (%) Net of Fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Year	Ann DD
2013	3.52%	-1.94%	1.67%	-0.73%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.45%	-1.94%
2012	-0.81%	5.58%	-1.59%	-2.07%	0.25%	-0.24%	2.20%	0.20%	1.39%	-2.30%	0.37%	7.56%	10.54%	-3.63%
2011	-1.08%	0.41%	-0.03%	6.37%	-2.78%	-0.31%	2.16%	-1.01%	-1.16%	-3.51%	-0.86%	-0.77%	-2.87%	-8.04%
2010	-1.99%	-2.80%	-2.24%	-0.79%	5.00%	3.24%	0.58%	0.86%	2.76%	2.18%	-0.71%	0.85%	6.83%	-7.60%
2009	-0.29%	0.01%	-0.09%	-3.23%	12.91%	-3.70%	0.26%	0.93%	1.56%	-1.51%	8.87%	-5.84%	8.77%	-5.84%
2008	1.03%	1.40%	3.95%	-3.49%	-0.85%	-1.27%	-4.88%	5.11%	0.25%	-0.16%	5.76%	1.56%	8.14%	-10.14%
2007	0.70%	-0.23%	-0.79%	2.04%	-0.22%	2.23%	0.36%	0.18%	2.05%	-2.90%	0.40%	1.19%	5.01%	-2.90%
2006	6.54%	1.09%	-2.62%	3.94%	3.93%	-1.41%	-0.40%	-0.33%	2.18%	2.75%	3.63%	-2.26%	17.92%	-2.62%
2005	-5.96%	3.06%	0.86%	-2.86%	2.16%	-0.18%	-0.20%	0.06%	1.14%	2.19%	5.01%	3.55%	8.67%	-5.96%
2004	0.22%	-0.05%	-1.73%	-2.73%	-1.81%	-2.83%	3.01%	-2.26%	-0.34%	3.60%	10.22%	-3.28%	1.24%	-8.84%
2003	3.49%	2.77%	-5.00%	-0.72%	4.88%	-0.79%	2.44%	-1.02%	4.60%	2.63%	-5.84%	4.08%	11.34%	-5.84%
2002	1.29%	-5.92%	0.96%	0.62%	5.99%	14.39%	5.47%	0.36%	1.38%	-4.55%	-2.51%	7.87%	26.42%	-6.95%
2001	N/A	N/A	N/A	N/A	N/A	N/A	1.76%	2.97%	3.45%	6.24%	-7.13%	1.53%	8.59%	-7.13%

* Any values in blue are preliminary and could change

Disclaimer

The information contained in this report is intended for informational purposes only. While the information and statistics given are believed to be complete and accurate, we cannot guarantee their completeness or accuracy. Attain has not undertaken to verify the completeness or accuracy of any of the information and statistics provided by third parties.

As past performance does not guarantee future results, these results may have no bearing on, and may not be indicative of, any individual returns realized through participation in this or any other investment. The risk of loss in trading commodity futures, whether on one's own or through a managed account, can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market.

Any specific investment or investment service contained or referred to in this report may not be suitable for all investors. You should not rely on any of the information as a substitute for the exercise of your own skill and judgment in making such a decision on the appropriateness of such investments. Finally, the ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor performance.

We recommend investors visit the Commodity Futures Trading Commission ("CFTC") website at the following address before trading: http://www.cftc.gov/cftc/cftcbeforetrade.htm

Managed futures accounts can subject to substantial charges for management and advisory fees. The numbers within this website include all such fees, but it may be necessary for those accounts that are subject to these charges to make substantial trading profits in the future to avoid depletion or exhaustion of their assets.

Investors interested in investing with a managed futures program (excepting those programs which are offered exclusively to qualified eligible persons as that term is defined by CFTC regulation 4.7) will be required to receive and sign off on a disclosure document in compliance with certain CFT rules The disclosure documents contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA, as well as the composite performance of accounts under the CTA's management over at least the most recent five years. Investor interested in investing in any of the programs on this website are urged to carefully read these disclosure documents, including, but not limited to the performance information, before investing in any such programs.

Those investors who are qualified eligible persons as that term is defined by CFTC regulation 4.7 and interested in investing in a program exempt from having to provide a disclosure document and considered by the regulations to be sophisticated enough to understand the risks and be able to interpret the accuracy and completeness of any performance information on their own.

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