



Sanctity/SafeMoneyMetrics/Stark
20 East 9th Street Ste 15A
New York, N.Y. 10003

MJ (EST) 212-777-3862
Dan (PST-South) 619-702-1230
Christian (PST-North) 916-233-6010

44. First Cause Risk Management for Optimal Profitability in Managed Futures

"Your Conservative Approach to Managed Futures"
Risk and/or Investment Management - Trading Manager -
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This article introduces and defines 'First Cause Risk Management'. The significant value 'First Cause' provides for optimizing returns is illustrated by a simple application to managed futures indexes and benchmarks. 'First Cause' is easily integrated into every aspect of risk management and investment analysis.

First Cause Risk Management Defined

A trader's ability to produce positive returns under unknown market conditions is the ONE fundamental factor influencing future investment returns. From that focus point, capital at risk, time, volatility, and cost relative to return are 'unmistakably' defined and evaluated. Nothing else matters!

The word 'unmistakably' is essential because 'beliefs' that have no relevance to 'Truth' permeate traditional analytical processes. Financial losses are inevitable unless 'belief' and 'Truth' are unified.

First Cause is defined as consciousness driving an action. All human action is preceded by the energy of a thought based in a 'belief.' These are Eternal and Universal laws of creation, having no opposition. The physical world is built with human action driven by 'beliefs'. A 'belief' is not necessarily 'Truth'. 'Truth' eventually and always reveals itself. Because physical reality is re-created by the 'Truth', losses occur in the physical reality built with erroneous 'belief's'. When risk management includes a process of unifying 'belief' with 'Truth', the gap between both, is eliminated. That gap is the primary cause of ill-fated losses.

When the cause of a negative event is eliminated, the event ceases to exist. This 'Truth' has no opposition and becomes integral to prudent risk management.

What we call a 'First Cause' risk management process reduces and in many instances can probably eliminate the cause of unwanted or ill-fated losses. The principal is Universal and can successfully be applied to all professional endeavors. Any application will significantly improve the quality of service offered. Cost and risk is always lowered and profitability for everyone involved is always improved.

When laws of physics and physical science, are integrated into any risk management process, decisions can be aligned with the most favorable conditions currently available to mankind.

A simple non-financial example is that people once erroneously 'believed' that the world was flat. This belief was eventually negated by 'Truth' that the world is round. The 'Truth' was always available, but remained hidden from human consciousness. It was eventually revealed through the consciousness of ONE person and became a Universal Truth. Universal is defined as, having no opposition. The erroneous 'belief' of a flat world evaporated.

Erroneous risk management models currently 'believed' as 'Truth' used to determine investment value may actually cause unwanted losses.

We are talking about major issues on an enormous scale. If we build reality by means of 'belief' being unified with 'Truth' or Universal laws (Eternal Truth), risk is managed at the causal level.

A First Cause Application and Managed Futures Indexes

Conversation with Dan Stark prompted this example. A few years ago Daniel told me that Charles Dow originated the Dow Index for the sole purpose of timing his stock trades. An explosion of stock, interest rate, energy, and a myriad of other indexes including managed futures indexes permeate the financial services industry. Many indexes are used as benchmarks for evaluating portfolio performance. The original application for indexes is lost. Many applications used as benchmarks can probably be categorized as 'erroneous beliefs'.

There is no relevance between the price movement of an index and the price movement of past performance data.

1. Changes in index values are caused by price changes in specific financial instruments.
2. Changes in performance returns are caused by the human ability to profit from price changes in specific financial instruments.

How can accurate decisions evolve from a foundation of inaccurate analytical applications?

Now, let's evaluate futures. The 'idea' of indexes for managed futures began with Commodity Research Bureau's Commodity Index and maybe Goldman Sachs Commodity Index. I'm not sure what came first, and for our purpose it does not matter. An index of commodities is useful. We live in a world of cash commodities. Similar to how Charles Dow timed his stock trades, cash market indexes or averages were evaluated in relationship to futures prices for the purpose of timing hedge strategies.

We can probably agree that timing placement of a hedge position is somewhat similar to timing the placement of stock trades.

Futures markets now exist on the Dow, Goldman's Commodity Index, S&P, Russell Indexes, NASDAQ and a myriad of other equity index contracts. These futures markets serve a valuable economic purpose for institutions. They can manage portfolio risk by using the futures markets to hedge.

Now for managed futures indexes. The index idea for managed futures was originated by Mount Lucas Investment Management in the 1980's. They created the MLM Index. It was the first index that included both long and short positions in commodities. Their intention was to emulate an investment in managed futures and to teach institutional investors the value of adding managed futures to their portfolios. The presentation proved that managed futures were an excellent inclusion into a traditional portfolio. Rightfully so, the MLM Index was not presented or used as a benchmark.

The managed futures industry grew. We now have sector and style indexes. Sector indexes may include energy, stock index, diversified, and grain traders. Style indexes might be systematic or fundamental traders. These indexes include the past performance data of traders in a data base and categorized. The indexes are 'erroneously believed' to be valuable benchmarks for determining CTA performance.

Relevance, Relevance, Relevance!

How can we create an index of performance data when the only commonality may or may not be the markets traded? How can the past performance of a managed futures investment realistically be compared to a managed futures index?

A gap between the 'erroneous belief' underlying the application and 'Truth' is quite wide and can definitely cause ill-fated losses! Ill-fated is defined as a 'set-up' that can lead to financial loss, in the environment that we cannot see.

'First Cause Risk Management' eliminates the cause of ill-fated losses, so the negative event ceases to exist!

The Value of Philosophy When Applied to Risk Management

We choose to integrate philosophy relevant to the topic being discussed for several reasons.

1. It's fun and having fun is more important than you may think!
2. The philosophical process of comparing the unseen to material reality, raises our awareness. It brings us closer to understanding the vital connection between 'Eternal Truth' and our physical world.
3. When self-trust is increased, we feel better.
4. We become critically selective when we 'know' that the expert is within each of us.
5. We enjoy sharing a process of defining and setting higher standards. Let the industry meet higher standards set by the marketplace. Many good traders can and will when challenged.
6. Mediocrity will dissipate like fine mist.

A specific use of philosophy: the following is a dedication in one investment guide called "How to Improve the Profit Potential of Managed Futures Investments".

"And it is easier for heaven and earth to pass away than for one tittle of the law to fail". Luke16: 17

"God's world is perfect and this is the Principle we have to demonstrate. A new light is coming into the world. We are on the borderland of a new experience. The veil between spirit and matter is very thin. The invisible passes into visibility through our faith in it. True thought deals directly with First Cause, that Invisible Essence that Ultimate Stuff and Intelligence from which everything comes, the Power back of creation. The Thing Itself called GOD." Ernest Holmes - Science of Mind pg60

Now, you may ask "How does this relate to risk management and money"?

To which I cheerfully reply: First Cause risk management evaluates the cause of events, which is consciousness. We (all people, everywhere) currently evaluate effects or form. Returns are the effects of human consciousness operating in a trading environment. Risk cannot successfully be managed by evaluating 'after effects' or forms already created. Power for constructive change will always evolve from First Cause.

Since the First Cause of all life is eternal, infinite, omnipotent, and omniscient; one could conclude that First Cause is the only method of risk management that truly allows the unlimited upside of life with much less risk to simply flow into our environment!

Our only job is to get out of the way!

The End

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**Are you optimizing the unsurpassed potential of managed futures investments?**

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Marlee-Jo Jacobson (EST) 212-777-3862 [sanctityone@msn.com](mailto:sanctityone@msn.com)

Daniel Bruce Stark (PST 619-702-1230 [dbstark@starkonline.com](mailto:dbstark@starkonline.com)

Christian Ramsey (PST 916-233-6010) [Christian@advisorpage.com](mailto:Christian@advisorpage.com)

Alonso Acuna (Costa Rica) Managed Affiliate Programs

[alonso@managedaffiliateprograms.com](mailto:alonso@managedaffiliateprograms.com)

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