

There is a substantial risk of a loss in futures and options trading, and individuals should determine the suitability of such investments based on their financial situation and risk tolerance levels.

Questioning THE WAY YOU VIEW IRA Investments

Discover a different approach to investing with your IRA (Individual Retirement Account) and perhaps a whole new way to view the potential benefits of an IRA. This approach to investing with your IRA is nothing new, but it may be news to you.

PERHAPS YOU ARE LOOKING AT YOUR IRA THE WRONG WAY...

Is your IRA a savings vehicle for retirement or a tax shelter for your income and investments?

Some individuals view their IRA as a vehicle for savings that can be utilized during the latter years in life, a nest egg for their retirement. Other individuals may view an IRA as a tax shelter for taxable income or capital gains from investments, as the federal government has provided a tax break on IRA contributions in order to encourage savings. After all, it makes sense that most individuals that can afford to contribute regularly to their IRA are the same people that may have a substantial tax burden each year. IRAs provide a unique opportunity to shelter income each year, but a retirement account can also be used as an instrument to reduce or eliminate capital gains tax on investment gains that are achieved inside of the IRA. There are several types of Individual Retirement Accounts; Traditional, Roth, Simple, Education and SEP, each of which have unique rules, advantages and disadvantages that you should discuss with a financial and tax professional.

If you simply view your IRA as a savings plan for your retirement then it may make sense to have low risk investments that are aimed at helping those goals rather than risking your savings for additional gains. Alternately, if you view your IRA as a tax shelter for a portion of taxable income and potential capital gains, then you may try looking at your IRA in a different light.

If you were to invest your IRA in treasury bonds offering a 3% annual return you might consider that to be a safe investment with low returns. If the IRA avoids capital gains tax then you would only be saving a nominal amount. If, by contrast, you invested in a high risk/high return investment then you could potentially leverage the beneficial capital gains tax avoidance on a larger scale. So that begs the question: Would you rather have a high risk/high return investment inside of a tax sheltered vehicle or outside of it, which would then be subject to capital gains tax on the profits? On the flip side, if the investment lost money inside of the IRA you would not be able to use it to offset capital gains outside of the IRA. This is a critical point to consider in determining whether you should invest some or all of your IRA funds in a high risk/reward investment like stocks, FOREX or futures.

FUTURES TRADING WITH YOUR IRA

Many investors are unaware that their IRA can be invested in futures or options on futures. In fact there are special Trust companies that handle IRAs for investing in futures, making set-up as easy as can be for qualified investors.

Are their limitations to trading futures with an IRA?

When trading futures and certain options on futures there is the potential for unlimited risk, and investors may lose more than their initial investment. Because of this potential risk, combined with the government's restrictions on maximum annual contributions to an IRA, additional margin is typically required when investing your IRA in futures. Typical margin is as much as double the exchange minimum margin or SPAN margin assessed on a given futures contract or position, but you should check with your futures broker for specific details.

This additional margin is simply a way of reducing the leverage provided in the futures industry, and even with the additional margin required the leverage allowed is still far greater than that of the stock market. It is important that you understand the benefits and drawbacks of a leveraged investment.

What is leverage?

In futures trading, only a portion of the whole value of the contract is required to be able to buy or sell the contract – the position is leveraged. The portion you are required to have in a trading account to initiate a futures trade is known as margin. There is also a margin level you have to maintain in the account while you have an active trading position. It is your responsibility to keep your account's margin level up, even if the account sustains a loss. Those losses can be exponentially greater than the margin required because the whole value of the contract is often many times greater than this deposit – that is part of leverage.

MANAGED FUTURES AND YOUR IRA

Today's investor has several options and avenues through which to diversify his portfolio. Mutual funds, stocks, exchange-traded funds, and more are available to explore for various investment goals and risk tolerance levels. Managed futures are one way you can access the world of futures markets and commodities.

What are managed futures?

Managed futures are professionally managed accounts that trade investor funds in the commodities markets. They include commodity pools, commodity funds, or individually managed accounts. The professional manager is called a Commodity Trading Advisor (CTA). A CTA may have a program or technique that can potentially produce profits by buying and selling futures contracts on licensed exchanges, including markets in Chicago and New York. These contracts can include commodities like corn, wheat, gold, silver, crude oil or coffee. Futures contracts are also offered on diverse financial instruments like Treasury bonds and stock indices like the S&P 500.

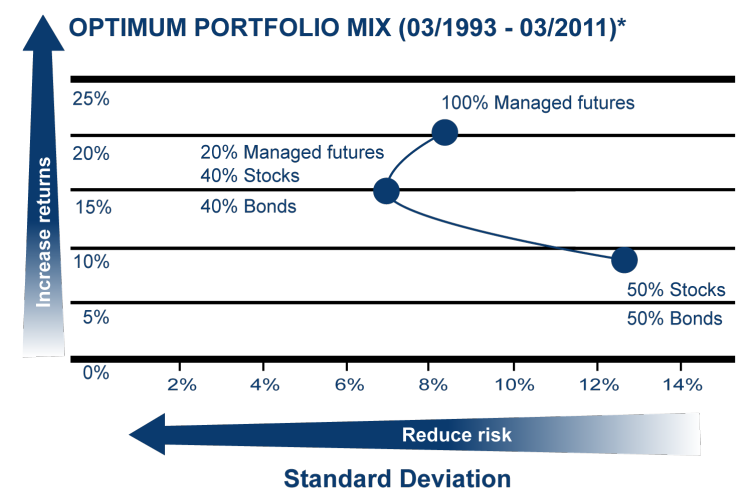
Individual managed futures accounts have segregated funds and the CTA places trades on behalf of the account owner. To this end, the investor normally gives the CTA a limited power of attorney over the funds, and this is where the "management" part of managed futures comes into play. It is important to note that having your trades managed does not relieve you of responsibility. There is a substantial risk of a loss in all futures and options trading, no matter who is managing your money. There are also fees and commissions associated with trading outside of the management fees that a CTA may charge.

What kind of investing exists in managed futures?

Futures contracts offer a variety of trading strategies including the ability to both buy and sell when initiating an active trading position. There are options contracts for most markets, and CTAs may use various spread techniques as well. There are unique risks associated with all strategies, and investors may lose all of or more than their original investment.

Why trade futures?

Futures contracts and options on futures contracts present interesting diversification opportunities for your IRA. Proponents of an idea referred to as Modern Portfolio Theory suggest that when your portfolio is made up of several non-correlated investments, the losses sustained during downturns in any one market may not be echoed in all of your assets.



* Based on a period from 3/93 to 3/11. Managed Futures CASAM CISDM CTA Equal Weighted Index. Bonds JPM Global Government Bond Index USD Hedged. Stocks MSCI World Index. Source: Bloomberg.

It is believed that the fundamentals that affect a downturn in say, stocks, are not the same ones that affect the price of gold, oil or cattle. Likewise, the market forces that might propel equities higher might also bring selling pressure to wheat or the US dollar. Having all of your investment tied to a single set of fundamentals, rather than a basket of several, could increase overall portfolio risk exposure.

In Modern Portfolio Theory, futures and options on futures contracts help fill in the gaps for creating a diverse portfolio. Futures markets contain a wide range of products and means to trade those products. You can buy or sell outright futures contracts, write options to try to collect premium, or buy options as part of a risk management strategy – all this on products like cocoa, sugar, livestock, and more! They also offer the potential to hedge other portfolio constituents like stocks.

Consider how futures may work with your IRA investment goals

Managed futures are not the only means to access this type of investment and portfolio diversity – there are other vehicles like commodity related stocks or funds – but they do offer one way to tap into the world of commodity and futures markets. Speak to a broker or licensed representative and find out how managed futures may work as part of your balanced portfolio. Review the available CTAs and discover trading strategies that may fit in with your investment goals and risk tolerance levels. A smart investor is one who looks at the whole picture for the investment world, so find out if the investing tools a CTA can offer make sense for your IRA.