**Diversified FX Portfolio (DFX)**

The objective of this top-ranked Diversified FX Portfolio is to achieve capital appreciation with controlled draw downs. This professionally managed program is an intelligently designed, systematic investing methodology that has worked across various asset classes in all kinds of market environments. Applied to global currencies, this highly disciplined methodology is a viable investment alternative for both private and institutional investors, especially in today’s chaotic world.

**Minimum Deposit**: US$100

**Comparing the Program to the Market Averages**
Explanation of Alpha, Sharpe Ratio, and Sortino Ratio

**Alpha** = the rate of performance above that of the of the S&P500 index, on a monthly basis, since program’s inception (July 2003); for example, an alpha of “2″ means 2% a month more than the US stock market as defined by the S&P500.

**Sharpe Ratio** = Excess return (above T-Bill rate “Risk-Free Return”) / Annualized standard deviation of returns.

**Sortino Ratio** = A variation of the Sharpe ratio which differentiates harmful volatility from volatility in general using a value for downside deviation. The Sortino ratio is the excess return over risk-free rate (T-Bills) over the downside semi-variance, so it measures the return to only downside or “bad” volatility. This ratio allows investors to assess risk in a better manner than simply looking at excess returns to total volatility, since such a measure does not consider how often the price of the security rises as opposed to how often it falls.

**DFX trading methodology**: The systematic trading methodology attempts to capitalize on relatively short-term swings, trends and trend-exhaustions that occur in 18-22 currencies from six or more geographic sectors. Trades typically last between one to 20 days, with winning trades structured to last longer and make more money per trade than loosing trades, but this may not always be the case.

The methodology used in the managed portfolio is based on Technical analysis of the markets.

It was designed with the possibility of offering return characteristics having low correlations to both traditional portfolios of stocks and bonds, as well as long-term trend following CTA’s and hedge funds.

**Differentiation–”Adaptive Diversity”**: Its believed that the best way to achieve market success is through continual Adaptive Diversity at all levels of the business. Therefore it is the managers’ mission to collectively apply their individual market experiences and creativity in unique ways that continually adapt to change and bring diversity to virtually every aspect of the investment process. Hence the term, Adaptive DiversityT. The following highlights includes some of the various ways that Adaptive Diversity is applied to asset management.

**Program Summary:**

* **System used:** Trend System
* **Portfolio:** 18+ international currency pairs.
* **Geo-sectors:** Six or more logically sectioned regions of the world.
* **Trading methodology:** trading system based on Elliott Wave Theory, W.D. Gann principles, and statistically ranked proprietary indicators in order to generate entry and exit signals.
* **Entry strategies (3):** short-term swing, medium-term trend, and trend exhaustion trades counter-trend.
* **Exit strategies (4):** stop loss, trailing stop, stop & reverse and profit targets.
* **Signal ranking:** ATS trades the highest statistically ranked markets within each sector.
* **Long and short strategies:** the ability to profit from both up and down markets, regardless world’s economic environment.
* **Trade length-activity level:** Depending on the strategy, trades typically last one to approximately 20 days. On average the system generates 45 trades per year for each currency. The average trade including winners and losers is approximately 6 day
* **Data interval used in trading:** real-time daily price data. [The money managers](http://www.forex-day-trading.com/forex-money-manager/) plan to adopt both longer and shorter time frames into the trading methodology in the future, as a part of our Adaptive Diversity program.
* **Non Optimized:** Only fixed parameter indicators are incorporated into this algorithm – no computer aided optimization.
* **Money management**: A three tiered method that recommends trading position size adjustments based on equity growth, market volatility and system performance; at the discretion of the Forex managers.
* **Maximum margin deposits allocated per account:** 20.0% Average margin used verses available equity is approximately 14%.
* **Account size generally required to begin trading:** $100
* **Liquidity:** Monthly liquidity after initial 90 days (unless terminating), plus 7 days after each calendar month for accounting and billing purposes (see section 5 in the Managed Account Disclosure Document & Agreement).
* **Manager compensation:** 25% profit incentive fee on new net high profits, and a 2% annual asset management fee paid monthly. This is a typical fees structure in the managed futures and hedge fund industry.
* **Execution cost assumptions:** $100 per $100,000 R/T trade is factored into historical test results for potential commission and/or slippage costs.

**Diversified FX Portfolio in Action:** The managed DFX portfolio is currently comprised of over 18 global currencies from six or more foreign trade regions or sectors. Each country or region offers unique currency pairs which are determined by a country’s dominant merchandise trading partners. Current and future portfolio construction is at MVCM’S discretion.

The currencies in the current portfolio were selected because of the calculated beneficial relationships to the portfolio’s overall performance and potential risk reduction as well as potential market liquidity. The Portfolio will grow and evolve over time; it is currently made up of the following:

1. European (EUR/USD, GBP/USD, EUR/CHF, EUR/GBP, GBP/CHF, USD/CHF)
2. Canadian (USD/CAD, EUR/CAD, AUD/CAD)
3. Japan (USD/JPY, EUR/JPY, CHF/JPY, CAD/JPY, AUD/JPY, GBP/JPY)
4. SE Asia (USD/SGD)
5. Australia region (AUD/USD, EUR/AUD, NZD/USD, NZD/EUR)
6. Africa (USD/ZAR – South African Rand)
7. South America (USD/BRL – Brazilian Real-pending)
8. Gold (cash gold is available at some FCMs – as a hard currency).

**Strategic currency selection:** At least one market from each geo-sector is a potential candidate for trade selection at any given time. may trade more than one market from each sector at one time, but that depends on size of account and other proprietary factors. Trading candidates are currencies with the highest statistical probability of generating a profitable trade in either up or down, when compared to competing currency signals within the same sector. This proprietary selection technique is one of creative hallmarks that we use in an attempt to increase the portfolio’s return possibilities while concurrently trying to reduce drawdowns that are intrinsic to any free market investment.

**Not always in every sector and can be “flat”:** At any given time, the trading system may not have a current position in each of six to seven geographic sectors, and could be out of the market. This could be due to unfavorable market conditions, which can result in a low statistical confidence level for future tend-ability, or it could be because a recent trade has been exited without a subsequent new entry signal within that sector, or a new account begins trading during a period without a subsequent new entry signal within that sector.

**Brief description of the trading system used:**

**Swing and trend trading:** ATS\_FX stands for “Advanced Trend System”. The ATS\_FX system uses a proprietary computerized trading algorithm that provides swing trades lasting 1 to 5 days, and both trend and trend exhaustion trades lasting approximately up to 20 days.

**Combines three trading methodologies:** The computer system incorporates a combination of Elliott Wave Theory and Gann principles and statistically ranked proprietary indicators, in order to synergistically generate its entry signals.

**Three entry criteria – Filtered trend, breakouts and exhaustions** – To generate an entry signal, the ATS\_FX system first calls upon its “Filtered Trend” algorithm to statistically determine if there is a high confidence trend in progress and likely to continue, or a trend just forming which could likely be capitalized on, or a trend exhaustion which could provide enough counter trend movement to profit from.

If a currency has favorable trend probability reading, the system often looks to enter that currency on a tight breakout, but only in the direction of the projected trend or trend reversal, in either rising or falling markets.

**Stringent risk management:**

Each currency is automatically “micro managed” using dynamic self adjusting risk control measures that generate their unique initial protective stop, trailing stops and profit targets based on their individual volatility characteristics.

Once in a trade, the system will exit a position in one of the four ways:

1. **Initial protective stop loss** – to mitigate market exposure risk
2. **Trailing stop** - to reduced trade exposure and lock in profitable trades
3. **Profit target** – to attempt to capitalize on rapid or abnormal moves that might not otherwise be realized because at certain times markets will quickly return to previous levels. These quick market moves are usually the result of unexpected news events
4. **Stop and reverse** – to exit a market position and simultaneously enter a new position in the opposite direction.

**How risk control and profit objectives work:** At the time an entry signal is issued, an initial protective stop loss order is also issued. Once entered into a position, the initial protective stop loss helps control initial market risk. If a trade moves in the anticipated direction by a certain amount, a trailing stop order is generated that takes over from the initial protective stop and follows the price action to further reduce individual trade exposure. If a market continues to move the proper direction, then the trailing stop begins to lock in market profits. If the market makes a rapid or abnormal move in the correct direction or just a smoothed sustained move, a profit target may be reached. Conversely, if a market does not move in the anticipated direction, the position will be stopped out with a loss as a normal part of doing business. Finally, at times a stop loss or trailing stop is simultaneously a new entry order in the opposite direction. In this case, the protective stop would also be called a “stop and reverse” entry.

**Efforts to reduce volatility:** Reducing volatility and holding onto gains when trends quickly reverse is something many strictly trend-following money managers can have problems with. Quick reversals can often leave large gaps between a trade’s “high equity mark” and many trend-following method’s wide trailing stops. The managers have attempted to deal with this issue by combining three different trading methodologies together with three entry and four exit strategies along with only moderate use of margin leverage. Thus far, this has helped reduced our peak-equity drawdowns in both trending and in choppy markets. However, there is no guarantee this will continue to be the case or that losses will be prevented.

**Money Management – Optimal Contract System:** The Optimal Contract System is a three tiered money management overlay that adds to or reduces trading position size based on equity growth, market volatility and system performance to increase growth opportunities or reduce market risk.

**NOTES: PERFORMANCE RESULTS & MONEY MANAGEMENT**: For the purpose of conveying raw system performance, the “Optimal Contract System” money management system was not used for this report. Instead, only one currency unit from each of our original sectors (a maximum of six currency units of $100,000 USD each), were continually traded over time without the benefit of increasing the number of units traded as the account grew, as would normally be the case as an investment account grows. Simply using a conservative method of money management that doubles the number of currency contracts invested when the account has doubled its equity would have significantly changed the dollar results based upon our historical data sample tests.

The non-optimized historical data tests results were derived from the following currency pairs; one from each sector of our originally utilized sectors: EUR/USD, USD/CAD, USD/JPY, USD/SGD, AUD/USD, NZD/USD.

The performance results include the New Zealand dollar (“Kiwi”) in its own sector instead of the soon to be added South African Rand, Brazilian Real, Singapore and Hong Kong dollar. The New Zealand sector is now included as part of the Australian region. Developing market currencies tend to have strong trend characteristics and less correlation to developed nations currencies within the portfolio. Therefore, we have reasons to believe that their addition will add beneficial diversification to the Portfolio.

**Information and Stats on GDFX:**





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