THE STORY of the BULL

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I get so many compliments and questions about the company's logo. A logo should do more than just look good. It should picture the company's beliefs and passions; what the company stands for. Anyone who has undertaken this task realizes it is difficult to graphically image beliefs.

We set out to design a logo symbolic and representative of Chadwick. Our bull is meaningful from the tip of the tail to the front of its hoof. In fact the logo represents a problem facing most investors and how Chadwick seeks to solve them. The tail represents the problem and the bull, ready to charge but with the tentative front foot, is illustrative of our potential solution.

The tail is symbolic of 'Tail Risk' which many investors unknowingly accept. What is tail risk? Tail risk is the possibility an investment will move more than three standard deviations from the mean or average. While often described as remote possibilities, the impacts of these events can be devastating for long index investor portfolios. Our analysis revealed that equity market tail risk is not symmetrical, and occurs mainly on the downside, placing long only equity investors at risk.

To illustrate, we sampled monthly returns of the S&P 500 Cash Index (S&P 500) from January 1993 through December 2012, 240 months of data over 20 years. The data revealed the following:

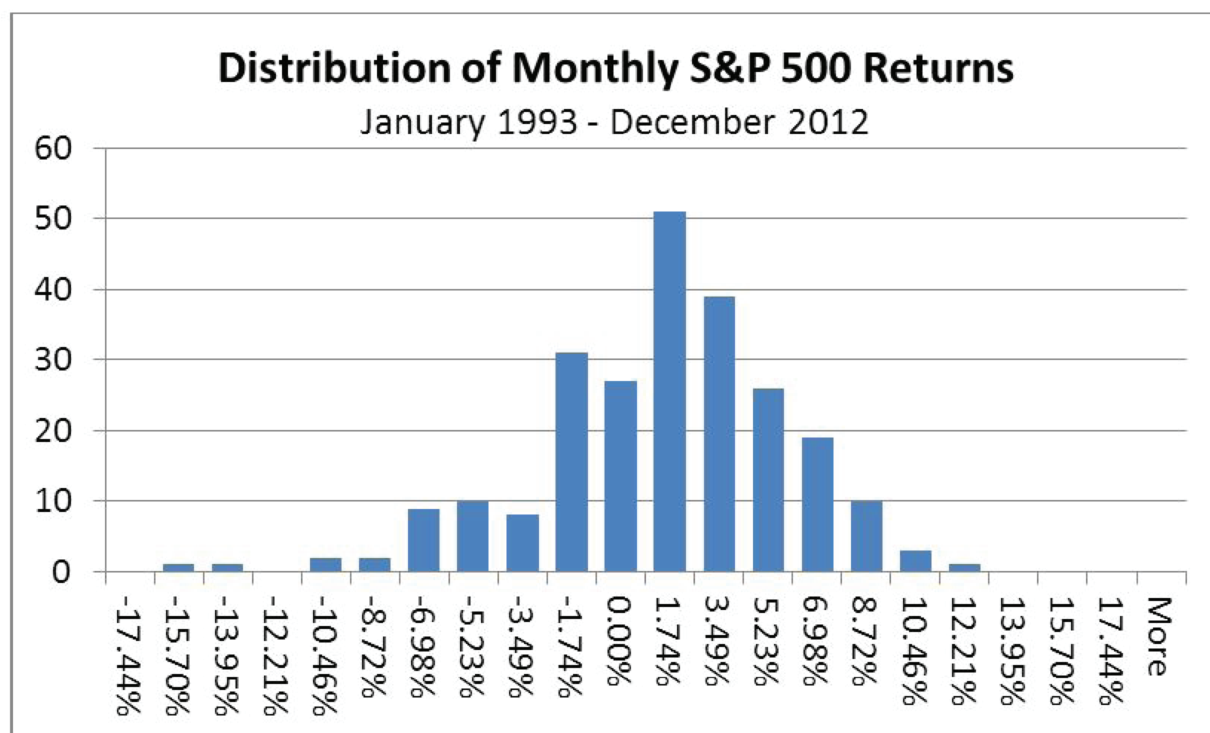
Average Monthly return:	0.59%
Standard Deviation of Monthly Returns:	4.36%
Three Standard Deviation Up Threshold:	**12.49%**
Three Standard Deviation Down Threshold:	-13.67%
Period Covered: January 1993 – December 2012	

Bell Curve analysis of the data provides a general outline for presentation of monthly returns. Given 240 data points, Bell Curve Analysis assumes 99% of the data fall between -13.67 to +12.47% using three standard deviations from the mean. The 99% confidence interval suggests 2.4 months as outliers as 1% of 240 is 2.4.

Bell Curve analysis is typically presented using Normal Distribution. Normal Distribution assumes values are presented in a symmetrical pattern, an even number of data above and below the mean. In our case one outlier would be above 12.49% and one below -13.67% provided two outliers as shown above. In real-time the data did produce two outliers; however, the character of these outliers is crucial; as it points to the risk that most investors blindly agree to take.

Number of Occurrences above 12.49%	0
Number of Occurrences below -13.67%	2
Period Covered: January 1993 – December 2012	

The chart above shows the number of occurrences above and below the three standard deviation threshold. The data reveal all outliers were to the downside, below three standard deviations from the mean at -13.67%. There were no outliers greater than three standard deviations above the mean.



The distribution chart of monthly S&P 500 returns (above) shows downside tail risk. There are more occurrences of outliers left of the zero line, those big downside months, than those outliers on the right side of zero.

If we sum the total returns of the outliers we see another interesting outcome.

Summation of monthly returns for returns above 12.49%	0.00%
Summation of monthly returns for returns below -13.67%	-31.52%
Total Return over the period	227.33%
Period Covered: January 1993 – December 2012	

Most investors are unaware of these details. Long only investors in the S&P 500 lost nearly one third of their accounts on two losing months, representing over 13% of the total return generated over this period. Tail risk, like other economic statistics, only means something when it happens to you. The unemployment rate is useless unless you are the one who cannot find a job. If your retirement date was December 2008 then tail risk could have meant substantial losses for your portfolio and ultimately postponing your plans as equity markets were chaotic during the fall of 2008. To discount tail events is like walking blindfolded across a lightly traveled road. Most of the time you will make it, but the one time you are wrong could be the last decision you make.

If we open our criteria to Two Standard Deviations, the 95% confidence interval, we see the pattern continue with more impact.

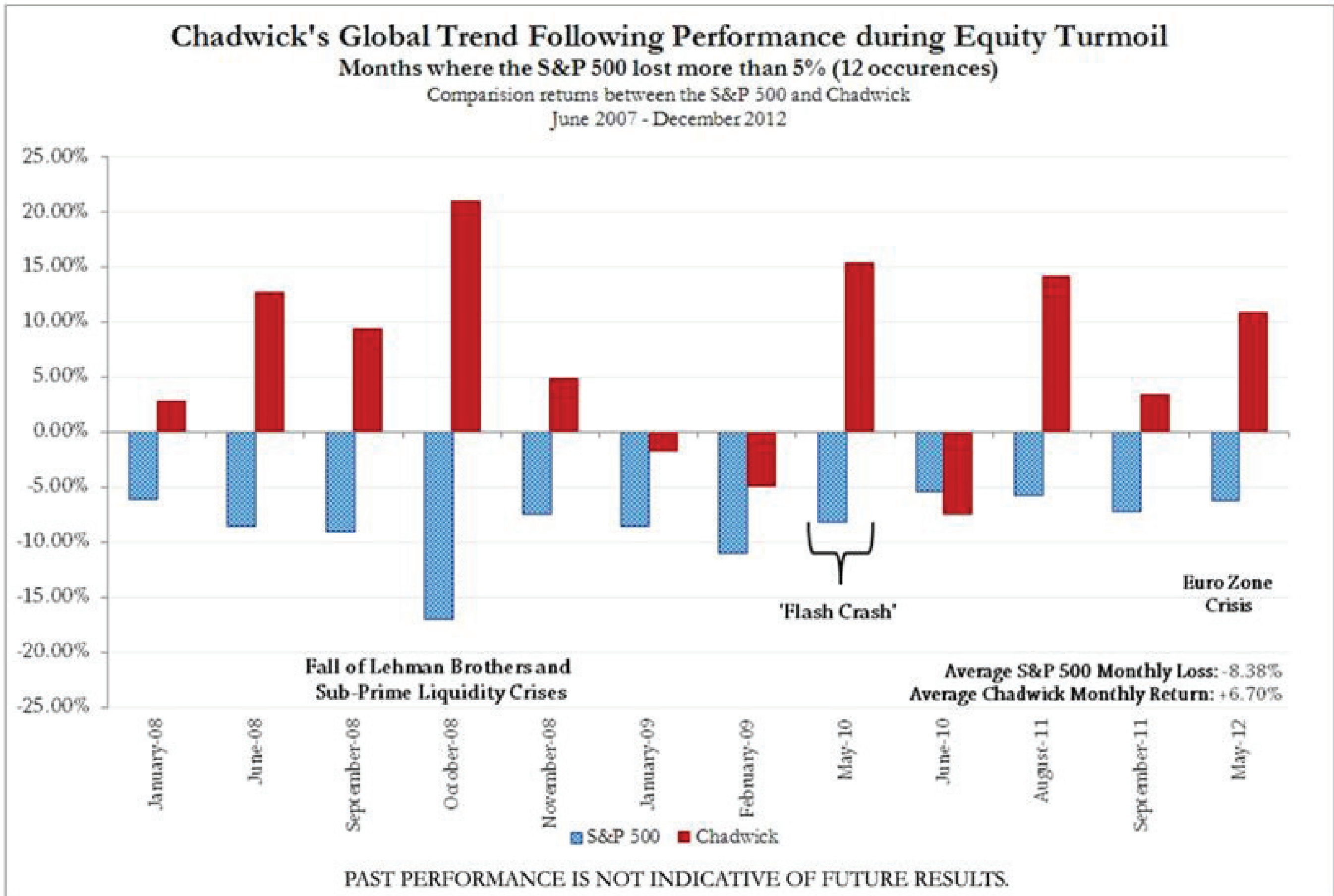
	Threshold	Occurrences of Monthly Returns	Summation
2 Standard Deviation Up	9.31%	3 – 1.25%	29.83%
2 Standard Deviation Down	-8.13%	10 – 4.17%	-105.36%

Period Covered: January 1993 – December 2012

The number of downside events occurred three times more frequently and the summation of returns for these months was three times larger when compared to upside events. One does not want to be on the wrong side of this downside event.

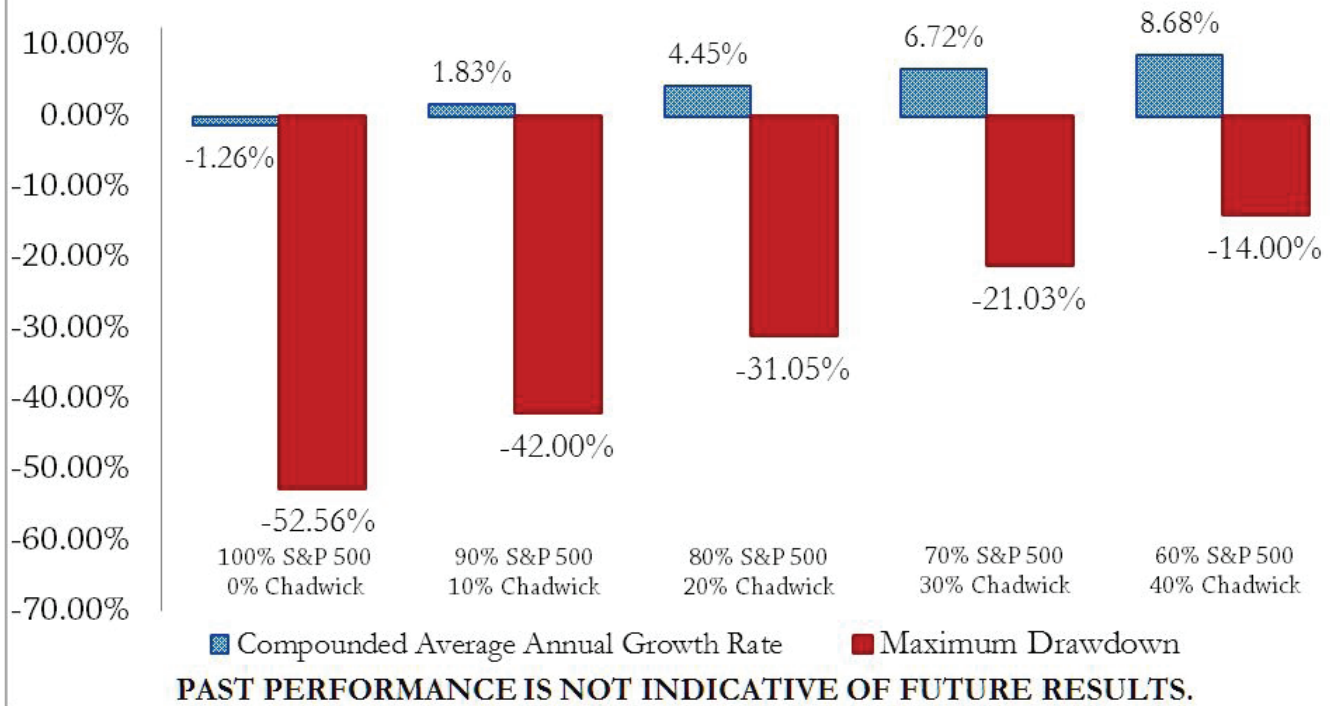
How does Chadwick deal with Tail Risk? We seek to reduce tail risk in investor portfolios by three methods. First, we position accounts in a variety of global markets with the goal of being poised to take advantage of worldwide disorder. Traditional investors do not normally have access to broadly diversified instruments. Our program tracks and reviews 69 global markets ranging from European Wheat to interest rates in Japan. Second, we allocate contracts based on current market risk and projected profit, and third our exit levels are placed at critical points with the goal of limited portfolio exposure. We strive for low value at risk with the highest profit opportunity.

One important consideration to our program was to create a program that was primarily concerned with making money with limited trade risk. The Bull we use in the logo is aggressive. He appears poised to charge. This is the attitude we take with the markets. Our goal is to realize long-term capital appreciation through compound growth.



Since June 2007, our track record shows we tended to profit during periods of equity turmoil. In fact some of our largest winning months occurred when equity markets were down substantially. Since inception (June 2007), Chadwick's program has achieved a total return of 128.21% with a compound average annual growth rate of 15.93% compared to the S&P 500's total return of -6.82% and -1.26% average annual growth rate respectively (Past performance is not indicative of future results) .

In summary, Chadwick's program has taken steps to attempt to eliminate the extreme downside risk that is frequently seen in general indices as demonstrated with the past performance of the S&P 500. Chadwick performs as the logo suggests; ready to charge at the right moment but always aware of its tail.



The chart above is a hypothetical illustration assuming various levels of funding in the S&P 500 and Chadwick's trading program beginning June 2007 through December 2012. Percentages allocated to each are shown below each bar grouping.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN; IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK OF ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL WHICH CAN ADVERSELY AFFECT TRADING RESULTS.

INVESTORS MUST READ THE CURRENT DISCLOSURE DOCUMENT BEFORE THEY INVEST. THE RISK OF LOSS INHERENT IN A FUTURES TRADING PROGRAM IS SUBSTANTIAL AND IS NOT SUITABLE FOR EVERYONE. AN INVESTOR COULD POTENTIALLY LOSE MORE THAN THE INITIAL INVESTMENT. THERE IS NO GUARANTEE OF PROFIT NO MATTER WHO IS MANAGING YOUR MONEY. A COMPLETE DISCUSSION OF FEES AND CHARGES ARE REPORTED IN THE CTA's DISCLOSURE DOCUMENT. SPECIFICALLY, ONE SHOULD RECOGNIZE THAT AN INTRODUCING BROKER MAY CHARGE A FRONT-END START UP FEE OF UP TO 6% OF THE INITIAL CONTRIBUTION. PLEASE NOTE THAT THIS CHARGE IS NOT REFLECTED IN THE PERFORMANCE OF THE COMMODITY TRADING ADVISOR AND COULD HAVE A SIGNIFICANT IMPACT ON THE CUSTOMERS ABILITY TO ACHIEVE SIMILAR RETURNS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

[i] The S&P 500 Index ® is an equity index created from the prices of 500 large-cap common stocks actively traded in the United States. S&P 500 ® is a trademark of The McGraw-Hill Companies.

[ii] The subprime liquidity crisis was characterized by a rise in subprime mortgage delinquencies and foreclosures, and the resulting decline of securities backed by said mortgages. Several major financial institutions collapsed in September 2008, with significant disruption in the flow of credit to businesses and consumers and the onset of a severe global recession. The largest corporate bankruptcy to date is Lehman Brothers, which filed for bankruptcy protection on September 15, 2008.

On May 6, 2010 the Dow Jones Industrial Average dropped approximately 9% with a few minutes of trading. This drop is commonly referred to as the 'Flash Crash'. It is the largest one day point drop in the Dow Jones Industrial Average to date.

The European sovereign debt crisis made it difficult or impossible for some countries in the euro area to repay or re-finance their government debt without the assistance of third parties. In May 2012 the Euro Currency dropped more than 6.5%.

[iii] Statistics shown are from June 2007 through December 2012

CHADWICK
INVESTMENT GROUP