WealthCE

Managed Futures

A managed futures hedge fund focuses on securing profit from trading futures. Futures are used for varying assets, and managed futures funds can target any underlying futures target. Funds may diversify or solely trade one singular area. Hedge funds trading futures may rely on human or automatic trading, basing selection choices on economic outlooks, technical analysis, or other guidelines. Automated systems can trade day and night, as long as markets are open. They are not subject to human limits or desires.

If funds are traded via automated systems, the requirements for trading selections are custom programmed by software engineers. The software systems trade in real time, actively choosing based on their instructions. Programs search the market for conditions matching the specified risk, pricing trends, and potential earnings requirements. The software will buy, hold, sell, or short sell futures depending on how they interact with the program's various profile requirements. Risk and reward potential are programmed through technical movements, recognizing these patterns allow software to start and end long or short positions when conditions change. If a manager wishes to change or modify the selection of futures they will instruct the handlers to modify the variables which control future selection.

If the conditions programmed do not appear the model cannot initiate trades. If the model selects conditions poorly, or conditions selected are inappropriate to the trade, the model could generate losses. In this sense, a manager's alpha is generated by the ability to accurately identify and program the market patterns which will result in long and short position profit. Software models can additionally be designed to react to the current price direction or anticipate a directional reversal. Automated models are built on a database of economic and technical analysis signals, with some historically indicating changes in market direction. If market conditions identified as reversal indicators appear, the software will initiate trades to capitalize on the hypothesized reversal. If the change in the directional trends actually occurs, the software will have already moved into position to seize profits. Certain models are even more intricate, programmed to identify and expect performance returns to a constantly adjusting performance average.

The inclusion of trading costs is vital to the success of automated trading systems. If trading costs are too high and the system trades frequently, a substantial amount of returns go straight to brokerage fees and expenses. This erodes profits, and increases losses. Hedge funds can resolve this issue by negotiating lower trading fees, including commission fees into the automated trading platform's programming, and adjusting settings that impact the trading frequency. Programming which trades at a high frequency rate will have a high sensitivity to market condition changes. This results in a higher rate of buys, sells, and short sales. Higher frequencies are good for gathering profit from short term market conditions, but at higher total trading costs due to more incurred commissions. Programming which trades at a lower frequency rate has a low sensitivity to market condition changes. This results in a slow rate of buys, sells, and short sales. Lower frequencies are good for gathering profit from long term market conditions, at a lower total trading cost.