Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.
01-EINV-1232
**TABLE OF CONTENTS**

- Introductory Letter.......................................................... 1-2
- The Professional Versus the Amateur Trader.......................... 3-4
- The Value of Professional Management.............................. 5
- Managed Futures Compared to Mutual Funds........................ 5
- Reason For Growth of Managed Futures.............................. 6
- Independent Research on Managed Futures' Impact on Securities Portfolios......................... 7-9
- Studies on Commodities In a Stock and Bond Portfolio.................. 9
- Diversified Traders Portfolio .............................................. 9
- What to Look for When Constructing Your DTP ..................... 10
- Our CTA Selection Process.................................................. 11
- An Insight Into the Value of Portfolio Diversification............. 12-14
- Last Year’s Stock Market Analyses and Forecasts.................. 14-16
- 2002 Stock Market Forecast and Beyond............................. 17-22
- Is Your Portfolio Violating Modern Portfolio Theory?................ 23
- Sobering Statistics from Robert Shiller................................ 23-24
- About Stock Risk and Professionally Managed Futures........... 24-25
- Graphs of Bear and Bull Stock Market vs Futures.................. 26
- Questions and Answers......................................................... 27-28
- Conclusion............................................................................. 29-30
- Copyright.............................................................................. 30

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ATTENTION

If you invest in stocks, bonds, or mutual funds, this may be the most useful brochure you have ever read. Get ready to be fascinated, educated, and better informed. In the process, you should learn new suggestions and ideas that could make you a better investor.

January 2002

THE MANAGED FUTURES REVOLUTION

Revolution! That’s what we believe can best describe what is now transpiring in professionally managed futures. Investors, just like you, are pouring money into managed futures at unprecedented speeds and in record amounts. Illustrating managed futures’ popularity is the fact that the assets invested in managed futures have grown to over forty billion dollars!

Today, investors are becoming better educated and informed about the numerous benefits of participating in professionally managed futures. In the process, the walls of misconception and myth concerning managed futures are crumbling.

Until recently, managed futures have primarily been used by better-informed pension fund managers and sophisticated investors seeking to help protect and better diversify their portfolios. The investing public, for the most part, has held the belief that all futures are highly risky, without differentiating between the efforts and abilities of an individual making his own trading decisions (amateur) and the professional Commodity Trading Advisor (CTA).

So why is there a common misconception that the majority of people who trade commodity futures lose money? It’s because studies show that the majority of individuals who trade futures on their own do lose. And there’s a logical reason for this: insufficient training, time, and experience. If an unskilled person attempted to practice law or medicine part-time, he or she would probably perform quite poorly, just like many non-professional, unskilled futures traders. So it comes as no surprise that in the highly complex and challenging field of commodity futures trading, the vast majority of non-professional, amateur traders fail.

The false and misleading image of the high rolling commodity trader, as portrayed by the actor Eddie Murphy in the movie “Trading Places,” is being replaced with hard-core facts and reality. Many professional Commodity Trading advisors (CTAs), like Max Ansbacher, have been shown to achieve substantial, highly attractive returns through prudent money management.

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management!

Not only can managed futures provide an attractive stand-alone investment, but Managed Futures also can add profound diversification, potentially increase performance, and balance an overall investment portfolio!

The “buzz phrase” among today’s investors for financial prosperity, and perhaps survival, is “diversification through different asset class allocation.” With practically a zero correlation to stocks, professionally managed futures is considered by many to be the ideal investment to properly diversify a stock and bond portfolio! Particularly today, with many believing the boom times in the stock market to be over, diversification with managed futures is that much more attractive!

The purpose of this 2002 edition is to present the facts and allow you to make an informed decision based on those facts. In the process, we hope to present useful investment tips while providing you with a level of comfort that has enabled many people just like you to participate in the Managed Futures Revolution!

Sincerely,

VISION L. P.

Bob Boshnack
Chairman & CEO
THE PROFESSIONAL VERSUS THE AMATEUR TRADER

Studies show that the majority of amateurs who trade futures on their own lose. However, there is a logical reason for the amateur's losses. If a non-professional attempted to practice medicine or law, he or she would probably perform quite poorly, similar to many non-professional futures traders. From monitoring amateurs who trade futures on their own, we have observed most base their trading decisions on rumors, tips from friends, gut feelings, or part-time research; some just trade for the fun of it. **We believe most amateurs who trade futures on their own are making a serious error in judgement.**

Amateurs are not professionals and, in our opinion, are doomed to fail even before they begin—just like a non-trained person would if he or she attempted a complex medical procedure. In most professions, there is a vast difference in performance between those equipped and those non-equipped to perform specific functions in life. This applies especially to futures trading. We must ask ourselves: Isn’t it logical that successful futures trading requires full-time professional preparation, participation, focus, and natural aptitude? It should come as no surprise that, in the highly complex and challenging field of commodity futures trading the vast majority of non-professional or amateur traders fail.

While professional management can in no way insure success, and the risk of loss exists no matter who is managing your money, studies have shown professional Commodity Trading Advisors do, in fact, experience an appreciably higher success rate than amateur traders.

The chart on page 4 should help you better understand the applicable differences between the amateur and the professional as they relate to the futures markets.

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### THE PROFESSIONAL VERSUS THE AMATEUR TRADER

<table>
<thead>
<tr>
<th></th>
<th>Commodity Trading Advisor*</th>
<th>Amateur Trader</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definitive Strategy</strong></td>
<td>Follows a long-term plan based on extensively tested research; limits losses on losing positions while letting profits run on profitable positions. This patient, disciplined approach can pay big dividends though, as with any investment, risk exists.</td>
<td>Usually in the markets seeking instant gratification. Lacking a definitive game plan, he often changes his approach midstream, resulting in impatience and creating chaos. Quick to take a profit and let losses run.</td>
</tr>
<tr>
<td><strong>Equity Management</strong></td>
<td>Often diversifies into trading positions covering as many as 25 markets while typically committing only 10%-40% of an account's equity to the markets.</td>
<td>Tries to &quot;break the bank,&quot; often committing 100% of an account's equity to the markets. Commonly trades only one commodity resulting in a lack of diversification and increased risk.</td>
</tr>
<tr>
<td><strong>Trading Decisions</strong></td>
<td>Commits full-time attention to following a definitive system which may look at market prices and trends, therefore acting immediately upon signals and market knowledge.</td>
<td>Usually able to pay only part-time attention to the markets. Misses news and often makes decisions based on rumors, hunches, gossip, or the opinions of others.</td>
</tr>
<tr>
<td><strong>Discipline</strong></td>
<td>Realizes the markets “owe him nothing” and &quot;take no hostages.&quot; He expects his share of both winning and losing trades. Neither result will influence him to deviate away from prudent money management and his trading plan. Cuts losses short while allowing profits to run. Realizes capital preservation is a prerequisite to capital appreciation!</td>
<td>Believes his destiny is to predict the direction of the markets rather than to manage risk. When losing, feels he is due for a win. This win-it-back-at-all-costs mindset inevitably leads to downfall. Hangs onto losing positions hoping they will come back. Conversely, takes profits prematurely to validate his prediction.</td>
</tr>
</tbody>
</table>

*Studies have shown that professional CTAs experience returns greater than the individual investor. Nevertheless, the risk of loss exists in futures trading and past results are not necessarily indicative of future results, regardless of who is trading your account.*
THE VALUE OF PROFESSIONAL MANAGEMENT

Professional management brings to the futures markets benefits similar to those experienced with mutual funds and investment advisors. These benefits include:

- Full-time dedication to markets.
- A disciplined trading approach.
- Money management techniques that seek to control losses and protect profits.
- Strategies that attempt to balance risk and reward.

CHARACTERISTICS OF MANAGED FUTURES

- Returns are usually independent of U.S. stock and bond market trends.
- Opportunity to participate in virtually all sectors of the world economy.
- Flexible enough to profit as easily in rising markets as declining markets. (The potential for loss is, of course, also equal.)
- Potential to perform well in both inflationary and deflationary periods (unlike stocks).
- Provide direct access to markets unavailable in traditional investment portfolios. These include:
  - Currencies
  - Credit Instruments
  - Grains & Seeds
  - Food & Fiber
  - Indices (Stocks & others)
  - Petroleum Products
  - Livestock & Meats
  - Metals
  - Viability of managed futures is enhanced, given the trend towards globalization of world economies.

MANAGED FUTURES COMPARED TO MUTUAL FUNDS

Managed futures bring to investors many of the same benefits as stock fund managers bring to mutual funds:

<table>
<thead>
<tr>
<th>MUTUAL FUNDS</th>
<th>MANAGED FUTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversification</td>
<td>Diversification</td>
</tr>
<tr>
<td>Professional Management</td>
<td>Professional Management</td>
</tr>
<tr>
<td>Highly Regulated: SEC &amp; States</td>
<td>Highly Regulated: CFTC &amp; NFA</td>
</tr>
<tr>
<td>Liquidity: Daily</td>
<td>Liquidity: Daily</td>
</tr>
<tr>
<td>Potential Profit in Bull Markets: Yes</td>
<td>Potential Profit in Bull Markets: Yes</td>
</tr>
<tr>
<td>Potential Profit in Bear Markets: No</td>
<td>Potential Profit in Bear Markets: Yes</td>
</tr>
</tbody>
</table>

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01-EINV-1232
REASONS FOR GROWTH OF MANAGED FUTURES

A number of factors have been responsible for the growth in managed futures trading:

- Sophisticated investors have long sought more effective methods of diversification. With practically a zero correlation with stocks, professionally managed futures can be an ideal asset class to profoundly diversify an overall securities portfolio.

- The tremendous expansion of futures to encompass stock indexes, debt instruments, currencies, and options as well as conventional commodities has created new categories of profit opportunities. The global nature of today’s futures markets also has expanded the scope of investment possibilities.

- Managed futures accounts have proven to be considerably more profitable on the average than accounts that individuals trade on their own. Please note that there is substantial risk of loss in trading futures, regardless of who is managing your money.

- Studies have shown a portfolio of stocks and bonds performs less and is actually more volatile without, than with, managed futures. Simply put, the addition of managed futures can increase performance and reduce volatility when added to a portfolio of stocks and bonds! (See page 13.)

CHARACTERISTICS OF MANAGED FUTURES INVESTORS

Investors in professionally managed futures share common attributes and goals:

- They are changing with the times and have broadened their selection of investment alternatives to take advantage of global opportunities.

- They seek the expertise of professional money managers, knowing this gives them an opportunity for success.

- They have recognized managed futures as a legitimate investment and are aware of its features and benefits, potential rewards, and inherent risks.

- They have chosen to invest in a managed futures program because of its ability to complement their overall investment goals.

- As independent thinkers, they make intelligent decisions based on facts and logic.
INDEPENDENT RESEARCH ON MANAGED FUTURES' IMPACT ON SECURITIES PORTFOLIOS

THE LANDMARK LINTNER STUDY: AN HISTORICAL PERSPECTIVE

In 1983, Prof. John K. Lintner of Harvard University presented a landmark paper, "The Potential Role of Managed Commodity-Financial Futures Accounts (and/or Funds) in Portfolios of Stocks and Bonds," to the Financial Analysts Federation. The paper stated that, "The improvements from holding an efficiently-selected portfolio of managed accounts or funds are so large--and the correlation between returns on the futures portfolio and those on the stock and bond portfolio are so surprisingly low (sometimes even negative)--that the return/risk tradeoffs provided by augmented portfolios...clearly dominate the tradeoffs available from a portfolio of stocks alone or from portfolios of stocks and bonds."

Using the composite performance of 15 trading advisors, Lintner showed that the return/risk ratio of a portfolio of trading advisors (or futures funds) is higher than a well-diversified stock/bond portfolio. Furthermore, he found a low correlation between the returns of trading advisors and those of stocks, bonds, or a combined stock/bond portfolio. Lintner examined the period July 1979 through 1982.

MANAGED ACCOUNT REPORTS FOLLOW UP ON DR. LINTNER'S STUDY

Managed Account Reports (MAR) is widely recognized by investment professionals as a primary source for Commodity Trading Advisor (CTA) performance statistics. Their performance analyses of CTAs and futures funds are often quoted in such financial publications as Barron's, Wall Street Journal, Forbes, Futures Magazine, and other leading financial publications. The studies cited were conducted to specifically examine the effect of managed futures in an overall portfolio.

MAR STUDY

MAR combined a portfolio of managed futures with (1) a portfolio of stocks; (2) a portfolio of bonds; (3) an efficiently-selected portfolio of stocks and bonds; and (4) an efficiently-selected portfolio of stocks, bonds, and treasury bills. Managed futures investments were tested in two ways, through a) futures trading advisors; and b) futures funds/pools. MAR conducted the analysis for the period January 1980 through December 1992.

What is the Ideal Mix of Stocks and Managed Futures?

Table A shows the specific returns and standard deviations of various combinations of stocks and managed futures along the minimum variance frontier as well as portfolio allocations.

To illustrate the procedure used for each analysis, let's look at the minimum variance portfolio (denoted within bold print on table A, page 8); it has a return of 16.50% (column 1) and a standard deviation of 12.69% (column 2). The reward/risk ratio of this portfolio is 1.30 (column 3) which is greater than the 1.00 reward/risk ratio of the S&P 500.

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The allocations for the minimum variance portfolio are 61.80% (column 4) in stocks and 38.20% (column 5) in managed futures. For this level of return, the standard deviation decreases from 15.99% to 12.69% (column 2)--a 3.3% reduction in standard deviation. The global minimum variance portfolio has a standard deviation 20.64% lower than a stock portfolio alone. In order to get this reduction in standard deviation, one has to invest about 38% of the assets with managed futures.

**TABLE A**  
**MINIMUM VARIANCE FRONTIER FOR S&P 500 INDEX AND MAR TRADING ADVISOR QUALIFIED UNIVERSE INDEX**

<table>
<thead>
<tr>
<th>Return (%)</th>
<th>Standard Deviation (%)</th>
<th>Return Std. Dev.</th>
<th>Allocations S&amp;P 500 Index (%)</th>
<th>Allocations MAR Trading Advisor Qualified Universe Index (%)</th>
<th>Risk Reduction (%)</th>
<th>Percent Risk Reduction (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.96</td>
<td>15.99</td>
<td>1.00</td>
<td>100.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>16.04</td>
<td>15.56</td>
<td>1.03</td>
<td>97.15</td>
<td>2.85</td>
<td>0.43</td>
<td>2.69%</td>
</tr>
<tr>
<td>16.08</td>
<td>15.07</td>
<td>1.07</td>
<td>93.75</td>
<td>6.25</td>
<td>0.92</td>
<td>5.75%</td>
</tr>
<tr>
<td>16.14</td>
<td>14.46</td>
<td>1.12</td>
<td>89.20</td>
<td>10.80</td>
<td>1.53</td>
<td>9.57%</td>
</tr>
<tr>
<td>16.23</td>
<td>13.70</td>
<td>1.18</td>
<td>82.35</td>
<td>17.65</td>
<td>2.29</td>
<td>14.32%</td>
</tr>
<tr>
<td>16.32</td>
<td>13.13</td>
<td>1.24</td>
<td>75.50</td>
<td>24.50</td>
<td>2.86</td>
<td>17.89%</td>
</tr>
<tr>
<td>16.41</td>
<td>12.79</td>
<td>1.28</td>
<td>68.65</td>
<td>31.35</td>
<td>3.20</td>
<td>20.01%</td>
</tr>
<tr>
<td><strong>16.50</strong></td>
<td><strong>12.69</strong></td>
<td><strong>1.30</strong></td>
<td><strong>61.80</strong></td>
<td><strong>38.20</strong></td>
<td><strong>3.30</strong></td>
<td><strong>20.64%</strong></td>
</tr>
<tr>
<td>16.59</td>
<td>12.84</td>
<td>1.29</td>
<td>54.95</td>
<td>45.05</td>
<td>3.15</td>
<td>19.70%</td>
</tr>
<tr>
<td>16.67</td>
<td>13.23</td>
<td>1.26</td>
<td>48.10</td>
<td>51.90</td>
<td>2.76</td>
<td>17.26%</td>
</tr>
<tr>
<td>16.76</td>
<td>13.84</td>
<td>1.21</td>
<td>41.25</td>
<td>58.75</td>
<td>2.15</td>
<td>13.45%</td>
</tr>
<tr>
<td>16.85</td>
<td>14.64</td>
<td>1.15</td>
<td>34.40</td>
<td>65.60</td>
<td>1.35</td>
<td>8.44%</td>
</tr>
<tr>
<td>16.94</td>
<td>15.60</td>
<td>1.09</td>
<td>27.55</td>
<td>72.45</td>
<td>0.39</td>
<td>2.44%</td>
</tr>
<tr>
<td>16.97</td>
<td>15.98</td>
<td>1.06</td>
<td>25.09</td>
<td>74.91</td>
<td>0.01</td>
<td>0.06%</td>
</tr>
</tbody>
</table>

Source: MAR

As you can see from the chart above, the ideal mix, in order to potentially get the greatest risk reduction and highest return, is a portfolio consisting of 62% stocks and 38% managed futures. Please note that the ideal mix still carries the risk of loss.
SUMMARY OF MAR FINDINGS

“We concluded that the inclusion of managed futures in a traditional portfolio of stocks, bonds, and Treasury Bills consistently lowered the standard deviation for a given return." A detailed 52-page study on "The Role of Managed Futures in Investment Portfolios" can be purchased for $10 dollars from MAR. They can be reached at 220 Fifth Avenue, New York NY 10001.

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OTHER STUDIES SUPPORTING THE USE OF COMMODITIES IN A STOCK & BOND PORTFOLIO

The ability of futures to enhance the returns of traditional investments has been documented in a study conducted by Goldman Sachs. Covering a 25-year period, the study concluded that by "allocating only 10% of a securities portfolio to commodities, investors can vastly improve their performance." Goldman Sachs' conclusion, concerning the value of commodities, was supported by another study published by the Chicago Mercantile Exchange, one of the world’s preeminent futures exchanges. According to the CME study, "Portfolios with as much as 20% of assets in managed futures yielded up to 50% more than a portfolio of stocks and bonds alone." (See Page 12.)

The Chicago Board of Trade's booklet, Managed Futures, Portfolio Diversification Opportunities, shows a portfolio with the greatest risk and least returns comprised of 55% stocks, 45% bonds, and 0% managed futures while a portfolio exhibiting the greatest returns and least risk, comprised 45% stocks, 35% bonds, and 20% managed futures. (See Page 13.)

Most importantly, the value and validity of the studies mentioned have been substantiated by the application of professional Commodity Trading Advisor’s (CTA’s) management to asset allocation.

DIVERSIFIED TRADERS PORTFOLIO (DTP)

No matter how good a CTA may be, or how much he or she may return to investors, at some point in the CTA’s trading cycle, he or she will be subject to periods of poor performance (drawdowns).

In a Diversified Traders Portfolio (DTP) with each trader having a different trading approach, it's possible to have equity peaks (highs) and valleys (lows) simultaneously, leading to a smoother growth curve. By matching CTAs with different trading styles, we believe it's possible to capture, with efficiency, major market moves with reduced drawdowns and less volatility. The multi-advisor approach might be thought of as illustrating the concept of not placing "all your eggs in one basket."

WHAT TO LOOK FOR WHEN CONSTRUCTING YOUR DTP

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When grouping your CTAs together, we recommend selecting CTAs with independent, diverse trading systems that show a tendency to perform well and poorly at different times. For example, let's assume you are selecting two advisors, both of whom on a yearly basis may have achieved similar returns. By examining individual performance on a quarterly basis, you may find a strong tendency for one to outperform the other. We believe this would be an ideal combination in which to incorporate DTP since their uncorrelated performance could lead to reduced drawdowns and less volatility without sacrificing performance.

Ideally, each CTA's Real Time Performance record should show:

a. Recovery from all drawdowns, with subsequent new highs in equity.

b. Periods of flat or poor performance (drawdowns) being outweighed by periods of profitable performance to achieve net positive returns.

c. No drawdown should have been so severe that there was inadequate capital left to make a recovery. Simply speaking, each advisor's performance record should show when they perform well they do substantially better than when they perform poorly, while exhibiting prudent money management.

d. Select an advisor for what you believe he or she can do over the course of years, not weeks or months. If you invest with an advisor because of what you hope will happen in a matter of a few weeks or months, you are attempting to time the markets. Being a successful investor as a market timer, whether in stocks or commodities, is a lot harder than holding for the longer term.

SOUND ADVICE

If you don't have speculative capital to diversify with several CTAs, a managed futures specialist from an Introducing Broker that clears through Vision can help you select one CTA. If you are in the financial position to have enough speculative capital to diversify with more than one CTA, we strongly advise you to do so. It is also sound advice to fully understand that any futures investment is risky and you could possibly lose more than your initial investment.

When first investing in managed futures, some investors may have a tendency to adopt the stance, "Let's see how one CTA does before I invest with another." We believe this stance is erroneous and counterproductive. In our opinion, a client waiting to see how one CTA does before investing with another is equivalent to a stock investor who bases a decision to buy stock in Yahoo only if General Motors performs well. We believe that would not make good business sense because the performance of one has nothing to do with the other.

In the same vein, one CTA's performance has absolutely nothing to do with another's, particularly when they have independent, diverse trading systems. We strongly believe if an individual is in a position to have enough risk capital to invest with more than one advisor, it would be to his or her best advantage!

OUR CTA SELECTION PROCESS

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01-EINV-1232
On behalf of its guaranteed Introducing Brokers and clients, Vision spares no expense or effort in finding CTAs. On an ongoing basis, Vision monitors the potentially successful CTAs and Professional Traders in order to find the best possible trading talent.

Our selection process is primarily guided by seeking traders who practice sound money management while producing attractive returns. To us, capital preservation is a prerequisite for capital appreciation! Some of the specific criteria we generally look for in selecting CTAs are:

1. Favorable drawdown-to-return ratios.
2. Recovering from all drawdowns to produce new highs in equity.
3. Worst case drawdowns weren't so severe that an account didn't have enough equity left to make a recovery that subsequently produced a new high in equity.
4. Annual average returns above 20%.
5. CTAs who will negotiate or waive management fees for our clients.

We believe, for the benefit of investors, we have assembled a dynamic and diverse group of potent trading talent. Before a CTA is placed on Vision’s Recommended CTA List, our Compliance Department conducts an on-site audit of the CTA’s books and records. This is done in order to confirm the accuracy of the performance record presented in the CTA’s disclosure document.

Besides meeting the majority of criteria previously outlined, we believe a desired advantage to the CTAs offered by Vision is the relatively low minimum account size they require. Many other CTAs with similar performance records require a minimum account size of two hundred thousand to over one million dollars.

Consult your Vision Introducing Broker for the CTAs who best satisfy your investment goals, affordability, and suitability. It is important to discuss with your broker the substantial risks involved in trading futures. Please note that only risk capital should be used as you can potentially lose all or more than your initial investment.
AN INSIGHT INTO THE VALUE OF PORTFOLIO DIVERSIFICATION

With practically a zero correlation with stocks, one of the most attractive features of managed futures is its ability to add profound diversification to an overall investment portfolio.

The ability of futures to enhance the returns of traditional investments has been documented in a study conducted by Goldman Sachs. Covering a 25-year period, the study concluded that by “allocating only 10% of a securities portfolio to commodities, investors can vastly improve their performance.” Goldman Sachs’ conclusion, concerning the value of commodities, was supported by another study published by the Chicago Mercantile Exchange, one of the world’s preeminent futures exchanges. According to the CME study, “Portfolios with as much as 20% of assets in managed futures yielded up to 50% more than a portfolio of stocks and bonds alone.”

![The Impact of Portfolio Diversification](image)

The Chicago Board of Trade’s booklet, *Managed Futures, Portfolio Diversification Opportunities*, shows a portfolio with the **greatest risk and least returns** comprised of 55% stocks, 45% bonds, and 0% managed futures while a portfolio exhibiting the **greatest returns and least risk**, comprised 45% stocks, 35% bonds, and 20% managed futures.

Hypothetical Examples

The following hypothetical examples should prove quite helpful in better understanding how a relatively small investment in managed futures can increase overall portfolio performance:

Let’s assume your total portfolio is $250,000 and you invest 80% in stocks and bonds ($200,000) and 20% in managed futures ($50,000). Let’s assume at the end of the year you realize a 5% return on your stocks and bonds and a 25% return on managed futures. The result would be as follows:

<table>
<thead>
<tr>
<th>$250,000 Portfolio</th>
<th>% of Portfolio</th>
<th>Return</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks &amp; Bonds</td>
<td>$200,000</td>
<td>80%</td>
<td>5% Profit $10,000</td>
</tr>
<tr>
<td>Managed Futures</td>
<td>$ 50,000</td>
<td>20%</td>
<td>25% Profit $12,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Profit $22,500</td>
</tr>
</tbody>
</table>

Now let’s assume you earn 10% on the 80% of your portfolio invested in stocks and bonds, but lose 25% in managed futures. The results would be as follows:

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01-EINV-1232
<table>
<thead>
<tr>
<th>$250,000 Portfolio</th>
<th>% of Portfolio</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks &amp; Bonds</td>
<td>$200,000</td>
<td>80%</td>
</tr>
<tr>
<td>Managed Futures</td>
<td>$ 50,000</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

You can see, in these hypothetical examples, by investing only 20% of your portfolio in futures, if you were to earn 25%, it would outperform 80% of your portfolio invested in stocks and bonds if the stocks and bonds earned 5%.

You can also see that a 25% loss in futures would still leave you with a net profit of $7,500 if your stock and bond allocation returned 10%.

Note: No matter what the size of your portfolio, 80% invested in stocks and bonds and 20% invested in managed futures, with the same percentage returns, would produce the same percentage results in our hypothetical examples.

Important Disclaimer: The above hypothetical examples are strictly for illustration purposes only, to help you better understand the potential impact of portfolio diversification.

In no way are the examples to be construed as the returns you might receive in stocks and commodities. Of course, in actual investing, your results can be better or worse. The risk of loss exists in futures trading.

“2000 AND 2001 STOCK MARKET ANALYSES AND FORECASTS”

Anyone reading our yearly publication of *Managed Futures, A Balanced Approach* and numerous issues of *Special Vision Reports* knows how accurate our market analyses and forecasts have been. We were cautious but bullish on stocks in 1999. In 2000, we predicted a high in the Dow of around 12,000, which the Dow teased by reaching 11,750. We then turned bearish near the market peak in 2000 and, in a series of reports in 2000 and 2001, repeatedly warned investors of more losses to come in stocks, while many other brokerage firms advised, erroneously, to buy the dips. In our January 2000 edition of *Managed Futures, A Balanced Approach*, we warned investors of the following:

“MANAGED FUTURES, A BALANCED APPROACH, JANUARY 2000 EDITION”

A REALITY CHECK ON THE STOCK MARKET’S PERFORMANCE

Astute investors know economic cycles must eventually complete themselves. What goes up eventually must come down. Sometimes cycles last so long they desensitize us and lead us to think the cycle will never end. **To judge only an upward cycle is to see only half of the picture and can lead to economic ruin.**

As awed as we are by the strength of the stock market’s rally, we also know it shows the classic signs characteristic of “bubble behavior.” This century has witnessed other markets with telltale traits of similar behavior: overvaluation, rampant bullishness, broad public participation, and an unyielding conviction that prices have nowhere to go but up. They include the 1929 stock market crash, the 1973 stock market, the 1980 gold market, the 1989 Japanese stock market and, of course, our current

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01-EINV-1232
“bull” market. In past markets, when the bubble finally burst, it led to unexpected, punishing, relentless, and unforgiving declines that lasted years and wiped out 41% to 86% of the markets’ value. The major difference between bubble markets of the past and our current stock market is that its bubble has yet to burst! **Bear in mind, there has never yet been a market bubble that didn’t eventually burst!**

Many investors now have blinders on. But don’t be deluded. We strongly believe the risk and exuberance in the market is as high, if not higher, as in any market bubble in history. With the market “priced for perfection,” at record valuations relative to earnings, any big worry—real or imagined—could send stocks tumbling! **At any point in time, investor psychology can turn on a dime, or an unforeseen event could happen, leading to a severe market correction or bear market, literally wiping out the gains of many years in a relatively short period of time!**

Remember, all markets must complete their economic cycles. No market goes straight up forever. There have been many other periods in history where investors felt “this time was different,” which history proved wrong. Needless to say, if you never had electricity, listened to the radio, viewed a television program, or traveled in a plane, these inventions, when they were first discovered, could be viewed as heralding a new era, different from any other.

Like Internet and technology stocks today, stocks of the past, which capitalized on the “new” technologies, initially soared. However, even with the bright future of many inventions and technologies, the market bubbles connected with them eventually burst! The primary difference between the current and past market bubbles, we believe, is that our current market bubble hasn’t yet burst. Bear in mind, there has never been a market bubble in history that hasn’t burst. The lessons here are clear. Occasionally, groups of stocks associated with new technologies get caught in a speculative bubble, and it appears that the sky is the limit. But in each case, the laws of financial gravity prevail and market prices eventually correct. The same is likely to be true of the dazzling stocks in today’s market.

As is quite evident to most stock watchers, many technology stocks have surged to unimaginable levels in spite of the fact that many are operating at a loss and have yet to realize profits.

In a world where technology and its fads change so rapidly it’s difficult to predict market directions days in advance let alone months, investing in “techs” and “.coms,” whose market valuations have gone through the roof while operating at a loss and not expected to show profits for years, seems to us clearly a classic example of “irrational exuberance” carried to the nth degree.

No matter what further profit potential may exist with technology stocks, the risks are immense and downright frightening. Being caught in the biggest speculative bubble in history when it bursts, we believe, will become “the investor’s worst nightmare come true.”

We may be old fashioned, but at these current, sky-high levels, we don’t believe that it’s prudent to invest in stocks that have few concrete assets, operate at a loss, and have never seen a profit. In the long run, we believe it’s much safer and prudent to invest in companies with substantial concrete assets and real earnings!

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01-EINV-1232
We believe investing in stocks that have primarily gone up on momentum is about as risky as one can get and is the equivalent of building a house with straw. Eventually, that “house” will fall down! Remember, momentum works both ways!

One day, when calmer heads prevail, we predict history will look back with amazement to how investors could ignore a stock’s fundamentals and invest just because the stock is going up!

In our January 2001 edition of Managed Futures, A Balanced Approach, we advised investors the following:

“As our readers know, we have never sugarcoated our stock market forecasts, even though, through our affiliate Vision Brokerage Services, we are also actively engaged in stock brokerage. As unsettling as our analyses may be, we have and will continue to tell it as we see it!

“The devastating “waterfall declines” we forecasted in 2000 unfortunately materialized with many well-known stocks suffering losses in excess of 50%. However, many other stocks, particularly in the Dow and S&P 500, held relatively stable. While we believe the worst may be over for many stocks, the worst is yet to come in 2001 for many others with relatively high P/E ratios in relation to their share price. Why? We believe the velocity of the contraction of economic growth will take the market by surprise, having a greater adverse effect on earnings than most analysts anticipate and, in turn, negatively impacting the market. Simply put, we believe earnings expectations are too high for 2001 in view of the magnitude of the slowing economy that we foresee!

“However, we do see “light at the end of the tunnel,” with the market reaching bottom in the second half of 2001. In our opinion, the contracting economy and impending credit crisis it will generate will break the spirit of the market bulls, and finally ring their excess expectations out of the market.”

How far down will the market go in 2001 before it reaches bottom? That all depends on how much the economy contracts. If Morgan Stanley Dean Witter’s Chief Economist is right and we see GDP contracting threefold from the second quarter of 2000 to the middle of 2001, that will most probably exacerbate the already tenuous situation in the credit markets. In this scenario, the major indices, we believe, could drop in excess of 20% before the market’s bottom is reached!

As you can see, our market forecasts have been extremely accurate. The bear market we forecasted in 2000 that would “wipe out many years’ gains,” came to pass. In 2001, our forecast that “the velocity of the contraction of economic growth would take the market by surprise, having a greater adverse affect on earnings than most analysts anticipated, and, in turn, have a negative effect on the market,” also came to pass—as did our forecast of the major indices dropping in excess of 20% before the market’s bottom is reached!
2002 STOCK MARKET FORECAST AND BEYOND

As we begin 2002, it appears many investors have not learned their lessons from the irrationally exuberant days of not too long ago. Back then, we warned investors it was only a matter of time before high-priced, over-valued tech stocks would drop sharply to prices reflecting more realistic P/E levels. In those days, during the early part of 2000, we tried to explain the exorbitantly inflated price of many stocks with this simple analogy: "A Lexus is a great car, but it’s not worth a million dollars. Similarly, many tech companies like Intel, Yahoo, and EMC are great companies, but their earnings certainly don’t justify the sky-high prices of their shares."

Our warnings in early 2000 proved prophetic, with Intel, Yahoo, EMC, and many other tech stocks suffering steep declines in excess of 50%. Since we began writing our Special Reports in 1999, our market forecasts have generally been very accurate. In 1999, for instance, we were cautiously bullish on the market, turning bearish near its peak in January 2000, only to warn investors of more losses to come in 2001.

No, we are not oracles, nor do we have the benefit of divine intervention. And, no, we don’t have all the answers. But we do pay very close attention to economic and market history, which we believe can be a very important guide as to the future direction of the markets. We believe studying the history of the markets is of little use in forecasting day-to-day or short-term market movement, but extremely useful in helping forecast the intermediate- to long-term trend of the markets! Why? History is created by the actions of people, and people have generally repeatedly reacted in a predictable fashion since modern civilization began! People don’t change; only circumstances and events do!

With history and human nature as our guide, we will continue to strive to provide investors with accurate market forecasts that can prove useful for their financial well being. Bear in mind, past performance is not necessarily indicative of future results.

More recently, with investors, we believe, putting the “cart before the horse,” and anticipating a strong recovery in the first half of 2002, many stocks have returned to nose-bleed valuations. Once again, we must warn investors that we believe it’s only a matter of time before over-valued tech stock prices drop to reflect more realistic P/E levels. However, as you will read later in this report, we aren’t as bearish as we were back in January 2000 or in 2001.

Many of these “over-valued stocks” have little or no earnings and have doubled or more in as little as a week. Their share prices have raced so far ahead of their earnings that only a sustained, booming economy could justify their current prices. While we see some improvement in the economy during 2002, we expect it to be moderate, at best, and nowhere near as strong as current share prices indicate.

As an example of a return to “irrational exuberance,” consider Neoforms, an unprofitable software company. From a split adjustment high of $745 in February 2000, the stock collapsed to $5.50 in August 2001. But in November 2001, based on a favorable report from an analyst, the stock jumped 100% in one week.

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Here is strong support for our belief that tech stocks are once again overvalued. According to Steve Galbraith, a market strategist for Morgan Stanley, the tech sector is trading at virtually the same levels as at the peak of the March 2000 tech mania.

It appears as though the “herd” of investors are once again listening to the majority of major wirehouse analysts whose advice to buy beaten down tech stocks proved to be so miserably wrong in the past. As in the past, we believe their advice is either premature or too late.

Consider the advice major wirehouse analysts gave on Enron, which is now almost worthless. In an October 2001 article in *Money Magazine*, Goldman Sachs’s well-known analyst, Abbey Joseph Cohen, said of Enron, “The stock has stumbled lately and now has good value.”

In March 2001, when Enron’s stock was trading between 55 and 62, Prudential Securities reiterated a “strong buy,” Merrill Lynch, recommended a “near term buy,” and Commerzbank recommended “accumulate.”

In October 2001, after the stock fell around 50% from March 2001 levels, First Albany issued a “strong buy for Enron and Merrill Lynch changed the “near term buy” it issued in March 2001 to “long term buy.”

**COLD HARD FACTS**

According to Douglas Cliggott, U.S. Market Strategist at J.P. Morgan Securities, “Going back through history, we can’t find another example of a market bottom that was reached at such high valuations as that of September 21. On September 21, the Standard & Poors 500 stock index components traded at 34 times net income for the most recent 12 months. In past market bottoms, that valuation hasn’t topped 16.5 times trailing net income. Today, the market is valued at a whopping 40 times earnings.”

According to Bill Bonner, editor of the *Daily Reckoning*, an investor buying a stock at 30 times earnings is buying at the very top of the P/E range. Bonner says, “Prices go higher, from time to time, but never for a very long period of time.

It’s not just brokerage analysts who are very bullish. Barton Biggs, an equity strategist at Morgan Stanley, cites a survey by the Securities Industry Association conducted from August 23 to September 25, 2001, that found remarkably high stock market expectations among investors. Only 2% expected to lose money in stocks and 82% expected to profit. In view of that period being a particularly bad one for stocks, where new lows were made, we find investors’ excessive bullish expectations incredible.

Our study of market history has shown us that the market rarely lives up to investors’ expectations. We believe one’s evaluation of market performance should be based on hard-core fundamentals, not wishes, hopes, and expectations!

If you need any more “hard core facts,” as to why we believe high-priced stocks will drop sharply to more realistic P/E levels, consider this: Dr. Robert Shiller, in his book, “Irrational Exuberance,”

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concluded that whenever P/E ratios have risen to today’s levels, the average investor has never made a profit over the next ten years! Dr. Shiller was one of the first noted economists to correctly call the top in the previous bull market!

AN ADMONITION FROM HISTORY

After the stock market crash of 1929, the Federal Reserve Board tried to stimulate the economy with a series of steep interest rate cuts. The Fed cut the discount rate from 6% to 5% on November 1, 1929; then to 4.5% on November 15 and 4% on January 30, 1930. The Fed didn’t stop there. By mid-1931, the Fed cut rates to 1.5%. The market responded to the Fed’s cuts in the discount rate by having five rallies in excess of 20%. As powerful and convincing as each rally appeared, none held. The Dow made new lows by 1932, dropping from its first rally high after the crash of October 1929, approximately 80%.

In response to a sagging economy, the Japanese lowered rates even more than the U.S. Federal Reserve Board, to almost zero. Like the U.S. stock market, in 1929 and 1932, the Japanese stock market, the Nikkei, experienced five rallies of 20% or more during the 1990’s. Like the rallies in the U.S. between 1929 and 1932, none held. The Japanese stock market has now made new lows. From its peak of 39,000, it is now around 10,500!

The similarities between what is happening now in the U.S. economy and what happened in 1929-1932 and in Japan are alarmingly similar.

We sincerely hope history doesn’t repeat itself here; but being objective, the very real possibility exists. Even the remote possibility of having a repeat now as to what happened in the U.S. in 1929-1932, and with Japan during the 1990s, we believe necessitates prudent investors to take some form of protective actions in diversifying their portfolios.

2002 MARKET FORECAST

For almost 20 years, the stock market has been booming. Sure, there have been ups and downs. There have been scares like the 1987 crash, when blue chips lost more than 20 percent in a single day. But every market setback has been followed by a swift rebound. You couldn’t go wrong by investing more whenever share prices dipped and focusing on the same stocks that had been hot before the downturn.

We strongly believe that era is finally over. It may look as though the current market is just a more painful edition of the pullbacks that occurred throughout the 1980s and 1990s. On the contrary, we believe the past year’s slump marks a fundamental turning point and a “new era” in stocks. The behavior of share prices for the next several years will probably be very different from what it has been since 1982.

The key to understanding our market forecast is to understand that the bigger the boom, the bigger the bust and the longer it takes for the stock market to recover.

Let’s not forget the speculative boom that lead to our current bear market was the biggest in history. Concerning bear markets, the past eleven took the Dow an average of seven-and-a-half years just to

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outperform three-month T-bills. The three strongest bear markets in history, 1901, 1929, 1966, saw returns for 20 years average a scant 1.9% down to a negative 0.2%. The bear market over the past 20 months has done more financial damage than any of these markets.

**Why should the recovery period for this bear market be any shorter than those previous bear markets just mentioned when this bear market has been even stronger than all of them?**

Emotionally, we would like to think that enough damage has been done and enough time has passed where a new bull market should begin. But using one’s emotions is a very bad way to analyze a market! From an unemotional, objective, and historical perspective, we believe it will take years for the stock market to recover from the substantial damage inflicted since March 2000.

Consider this:

- The loss of wealth in this bear market has been greater than any bear market in history according to James Stack, editor of *Investech*. From the broad market’s performance from March 24, 2000, through its last low on September 21, 2001. Over $5.85 trillion in paper value was wiped out. That’s more than the entire U.S. market was worth only six years ago.

- We are still in the liquidation phase from the excesses of the previous bull market. In 2001, we had 230 public companies with assets of more than $182 billion file for bankruptcy, excluding Enron. These companies are in the process of selling off their inventory, receivables, real estate, and other valuables for almost any price.

- According to Bill Bonner, of the *Daily Reckoning*, quoting Martin Weiss: “We’ve seen the worst collapse in corporate profits since the great depression.”

- Every penny of the total profits earned by 4,000 plus Nasdaq companies since mid-1981 has been wiped out.

- Junk bond issues are defaulting in record numbers. Even excluding Enron, U.S. companies have defaulted on $75.2 billion in junk bonds—more than 57 percent above the record $47.8 billion recorded in 2000.

- Personal and corporate debt are now at record numbers. U.S. non-financial, non-farm companies had a record $4.9 trillion of debt as of the end of the third quarter 2001, according to figures released by the Federal Reserve. America’s household budgets are stretched to the breaking point with a record $2.5 trillion in debt. All this corporate and consumer debt could very well curtail the spending needed to stimulate the economy. This, in turn, will limit the strength of any economic recovery in 2002.

- In 2001, there were three times as many downgrades in corporate credit ratings as upgrades, according to Moody’s Investors Service. The fourth consecutive yearly drop in credit quality and the steepest decline in credit worth in over a decade. That means that balance sheets are shakier, making it tougher for companies to weather the current slowdown, continue to service their debt, and find financing to spur growth.

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We believe all of the above will inhibit the market’s rise, similar to a large speculator selling into the market each time it rises. We don’t agree with analysts like Fred Hickey, editor of the *Tech Strategist*, who sees a sharp drop in stock prices, with the Dow falling to 5,000 and Nasdaq below 1000. We also don’t agree with the preponderance of analysts calling for a new bull market in stocks.

**Rather, we see the overall market essentially going nowhere over the next several years, providing returns from slightly negative to the upper, single digits.** Our views are echoed by Greg Smith, Investment Strategist for Prudential Securities, who believes the days when the global economy was constantly expanding and stocks were rocketing to spectacular multiples are over. Our view of a stagnant stock market, providing paltry to modest returns is also shared by Jeremy Grantham, who *Barron’s* describes as renowned and revered as the “philosopher king” of the investment world, William Gross, who the *Wall Street Journal* described as the nation’s most prominent bond investor, Max Ansbacher, one of the leading authorities in S&P 500 options, the renowned Sir John Templeton, and other prominent Wall Street analysts! As you can see, we have good company in our market forecast!

**CONCLUSION**

We believe it will be very difficult for many investors to come to terms and accept a “new era” in stocks. Why? Because according to the *Wall Street Journal*, more than half of all stock investors began investing during the 1990s, a time of unprecedented stock market strength. From 1995 through 1999, the Dow industrials averaged a gain of 24.7% a year and the Nasdaq composite averaged a 41.9% annual gain. Many investors have mistakenly come to view such enormous gains as normal. But the indexes have never before been able to sustain gains like that and, we doubt, they ever will in most of our lifetimes.

For the multitude of investors who just started investing in the ‘90s and/or who are not old enough to remember the long-term performance of the stock market, we strongly address them now for their financial well being to tone down their stock market expectations. The “new era” we foresee in stocks is really not a new era at all, but rather a return to normality with the market providing its historical, long-term, yearly average returns of around 7% to 10%.

We believe 2002 will be the transitional year in a “return to normality.” Investors will probably have to endure a sharp setback at some point in time, bringing stocks down to realistic levels that reflect their earnings.

If the market ended 2001 near its September low, we would have been a lot more optimistic concerning its 2002 prospects. But at year-end levels, with sky-high valuations and the Dow and Nasdaq up 22% and 37%, respectively, from their September lows, we believe much of the economic recovery is already factored into the market. With this in mind, if we don’t get the recovery investors are anticipating in the first half of 2002, “look out below!” **On the other hand, if the recovery does in fact materialize, we believe it is already factored into the market, particularly with valuations near record highs. Consequently, we see any future gains in stocks to be limited and quite modest from current levels.**

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While we fully expect good opportunities in selected stocks, we believe the overall outlook for the market to be lackluster. Based on our expectations of the economy finally improving in 2002, albeit not as strong as many anticipate, we believe the Dow will end 2002 not from where it began, to less than a 10% gain, ending the year between 10,500 and 11,000.

We advise more aggressive investors, possessing the proper investment temperament and risk tolerance, and seeking higher returns, to place 10% to 40% of their portfolios with professional money managers whose investing approach can potentially capitalize on the market whether it stagnates, rises, or falls.

The best money manager we know to diversify and to potentially capitalize on any stock market environment is Max Ansbacher, financial author, money manager, and one of the leading authorities on S&P 500 options. If you review Mr. Ansbacher’s disclosure document and examine his ten-year performance record, particularly during the past two years when the S&P suffered losses, we believe you’ll be most impressed, not only with Mr. Ansbacher’s performance record but also his prudent money management.

For a highly informative feature article on Ansbacher, refer to the July-August edition of Bloomberg’s Wealth Manager, “A Master In Rough Waters.” Bear in mind, Mr. Ansbacher’s investment strategy involves writing options, which potentially involves profits as well as unlimited risk. For a complete breakdown and understanding of Mr. Ansbacher’s performance record, read his filed disclosure document.*

This report is issued by Vision LP, a registered futures commission merchant, based upon reliable sources believed to be accurate. The views expressed herein may differ from those of Vision LP's brokerage or investment management affiliates, whose investment policies and outlook may not coincide with those of Vision LP or its officers and principals. The historical information referenced above is for illustrative purposes only and is not meant to forecast, imply or guarantee the future performance of the indices mentioned or any transaction. Futures traders should be aware that daily market volatility may cause loss despite prevailing trends in the stock market.

* Review of Mr. Ansbacher’s Disclosure Document is necessary before participating in his investment program. It points out the risks of an investment, management fees, his performance results, and other pertinent information.
IS YOUR PORTFOLIO VIOLATING MODERN PORTFOLIO THEORY?

The premise of Modern Portfolio Theory is the risk of any investment can be reduced and performance increased by holding a number of uncorrelated investments in different assets classes which don’t move in lockstep with each other.

Do you think you are diversified if your portfolio comprises bonds, stock funds, international stocks, individual stocks, and utility stocks? If you answered “yes” to this question, you are in direct violation of Modern Portfolio Theory and your portfolio may be at risk. These investments are all part of the same asset class and don’t move independently from one another. They generally parallel each other in the same direction.

This was made painfully clear during the third quarter of 1998, which proved to be a watershed in many investors’ attitudes concerning stocks. Many investors, seeking so-called diversification in overseas stock markets, suffered substantial losses, exemplified by Russia and Brazil, which in only two months fell 72% and 41%, respectively. Meanwhile in the U.S., the average NASDAQ and New York Stock Exchange stocks were down almost 50% from their peaks.

In 2000, and again in 2001, the need for different asset class allocation was underscored with stocks experiencing a bear market and many stocks suffering declines in excess of 50%! Investors, heavy in technology stocks and ignoring diversification, generally suffered devastating losses. In fact, the losses many stocks experienced were greater than the worst ever losses of many established professional CTAs.

The “buzz phrase” of investors today for financial prosperity, and perhaps survival, is “diversification through different asset class allocation.” In achieving this goal, with practically a zero correlation to stocks, professionally managed futures is considered by many to be the ideal investment!

SOBERING STATISTICS FROM ROBERT SHILLER

Robert Shiller, Yale University Professor and author of the best selling book, Irrational Exuberance, brings out some very sobering stock market statistics investors should take to heart. According to Shiller, the recent long-running bull market has instilled several beliefs in the investing public that will likely be cruelly dashed in the years ahead. The most common belief is that market drops are always transitory and great buying opportunities. This false notion is empirically destroyed by Shiller’s research findings.

Shiller goes back 120 years in stock market history and uncovers three market peaks similar to the one we are in now: 1901, 1929, and 1966. However, “The latest measure of speculative fervor dwarfs the previous record hit in September 1929 on the eve of the Crash. Likewise, today’s reading makes molehills out of the 1901 peak of what was then known as the Age of Optimism and the 1966 highwater mark of the Kennedy/Johnson New Economics era.”

“For in the 20 years following 1901, the stock market lost 67% of its real value as stocks (even with dividends taken into account) delivered a negative return of 0.2% a year. Nor were the 20 years following the disaster of 1929 much better by Shiller’s reckoning, the Great Crash cost the S&P 500Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.
80.6% of its value in real terms by January 1932. The 20-year return following 1929 averaged a paltry 0.4% per year. And the 20-year average real return, following the January 1966 peak measured a disappointing 1.9%.” It seems to us more than coincidental that each major market peak was followed by 20 years of paltry returns!

Think, too, about this: The worst bear markets historically have depressed stocks not for months but for years. From 1926 to 1940 and from 1960 to 1973, people who bought and held stocks for ten years achieved single-digit average returns. In the worst ten-year periods beginning in 1928, 1929, 1930, 1931, and 1965, investors didn’t even make 2% per year.

There can be no denying that the speculative stock market bubble of the 1990’s, which culminated in March 2000, was similar in intensity to, if not more intense than the previous market peaks of 1901, 1929, and 1966. With history as our guide, we believe, like in all the other major market peaks, where the stock market produced negative to lackluster returns in the years thereafter, the same will hold true in the years ahead!

ABOUT STOCK RISK AND PROFESSIONALLY MANAGED FUTURES

The risk in stocks was particularly underscored in 2000 and again in 2001. Investors in Internet stocks like Garden.com, Mortgage.com, Pets.com, Living.com, etc. lost 100% of their investment as these stocks ceased to exist. Other high-growth prodigies, including Lucent Technologies, Dell Computer, and Worldcom. Even Wall Street’s “can’t lose” favorites of Cisco Systems, Intel, and Sun Microsystems were cut in half. Then, in 2001, to the surprise of many investors, these stocks suffered further substantial losses before recovering somewhat.

Prudent investors may wish to consider this: Better performing Commodity Trading Advisors (CTAs), like Max Ansbacher, have never experienced declines as acute as the 40%-plus free falls sustained in the stocks of many well-known, supposedly rock-solid companies.

Technically speaking, futures are riskier than stocks because of the greater leverage in futures and potential for unlimited risk. Over-leveraging a futures trading account without utilizing prudent money management, could result in potentially substantial losses or profits. In our opinion, that would constitute high stakes gambling, not investing.

In over twenty years of observing traders and seeing many millions of dollars made and lost, we believe the unprofessional use of leverage and the lack of prudent money management are the culprits that can render futures riskier than stocks. Place futures in the hands of an accomplished CTA, and we strongly believe the risk in futures becomes no greater than with stocks. Bear in mind, the potential for unlimited risk in futures is present no matter who is managing your money.

Truth be told, it’s not the investment vehicle that makes or loses money, but rather the individual or individuals managing it. Stocks and futures are both investment vehicles employed by money managers as a means of earning profits. Some managers succeed where others fail, regardless of the conveyance. Doesn’t it then stand to reason: It’s the money manager’s skills, abilities, and investment acumen that will determine investing results, not the investment vehicle? Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.

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IRRATIONAL DECISION MAKING

Sometimes investors can be highly irrational—at the wrong time! A broker related to us a conversation he had with an investor. The investor decided to buy a particular stock rather than invest with a particular CTA. (The CTA has an outstanding long-term track record that the investor admitted outperformed his previous investments.) When the broker asked why the investor chose the stock rather than the CTA, the investor responded that he felt investing with the CTA was too risky. When the broker then asked the investor the level at which he would liquidate his holdings if the stock dropped, the investor indicated a level which represented a 40% loss. In fact, that level was double the worst loss the CTA ever incurred! The broker then asked the investor to name an investment in his portfolio that could potentially capitalize on both bull and bear stock markets. The investor said he could not; he didn’t have any. We believe the investor not only failed to scrutinize the CTA based on the CTA’s individual accomplishments, but made no effort to distinguish between amateurs and professionals trading futures, nor did he even consider the need for portfolio diversification. Uninformed, emotional decision making is generally never wise, particularly when it comes to investing!

Professionally managed futures can potentially be an extremely attractive, stand-alone investment, as well as an excellent means of diversifying a portfolio. Please note that regardless of whether you use futures as a stand-alone investment or to diversify your portfolio, there is a substantial risk of loss and you may lose more than your initial investment.
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QUESTIONS AND ANSWERS

Q: What is a CTA Managed Futures Account?

A: A CTA managed futures account is one where a registered Commodity Trading Advisor (CTA) is given responsibility to make all trading decisions. This authority is delegated by the account holder to the CTA through a limited power of attorney which may be withdrawn at any time.

Q: How can I track the performance in my managed account?

A: Three ways. One, a complete accounting of the activity in your account, including your account balance can be seen on Vision’s Internet web site 24 hours a day. Ask your Managed Futures Specialist for more details. Two, you may call your Managed Futures Specialist who receives a daily equity run detailing all your open positions, netting out profit and losses, showing the exact daily balance in your account. Three, whether you call or not, a purchase and sale statement (P/S Statement) automatically will be sent to you on every single trade, showing the date and price entered; when you exit a trade, the date, price, and net profit or loss on the trade as well as your account balance. Besides receiving confirmation on each individual transaction, a summary of all transactions showing their results are sent each month for the entire month's transactions. Therefore, even without calling, you will have a written, detailed breakdown of the CTA’s transactions and performance in your account. However, we strongly advise that you not evaluate the performance in your account on a trade-by-trade or day-to-day basis. We believe a managed account is a long-term investment and should be evaluated as such.

Q: How does my CTA get paid for managing my account?

A: Most CTAs receive an on-going management fee on the account balance in the range of 2% to 6% per year, whether the account is profitable or not, and an incentive fee that varies widely depending on the CTA. These fees are usually paid either monthly or quarterly which is detailed in each CTA’s disclosure document. However, Vision has negotiated with the majority of its CTAs, for the benefit of Vision's Introducing Brokers' clients, that the CTAs waive or reduce their on-going management fees. THE MAJOR SOURCE OF INCOME FOR THE MAJORITY OF VISION'S CTAS IS AN INCENTIVE FEE THAT CAN ONLY BE EARNED BY PRODUCING ON-GOING NEW PROFITS FOR AN ACCOUNT! (Net of all costs.)

Q: How accessible are my funds in a managed account?

A: A managed account offers a high degree of liquidity. Although we strongly advise you to view your managed account as a long-term investment, part or all of your funds are usually available on one day's notice.

Q: If I am an experienced futures trader, why should I have a managed account?

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.

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A: There are numerous top-performing CTAs who have managed accounts with other CTAs. When you are trading your own account, you are limited to your trading system and style. By diversifying with CTAs who have good performance records, you are, in effect, constructing a diversified trader's portfolio of your own, the merits of which are discussed in this brochure.

Q: How much money should I invest in managed futures?
A: Only risk capital should be used in managed futures or any speculative investment. We recommend the amount you invest should depend on your own individual preferences. You must take into consideration that you may be exposed to losses greater than your initial investment when determining you investment amount.

Q: Where is my money kept?
A: Your money is held in a Customer Segregated Account at Vision, a well-established and strongly capitalized Futures Commission Merchant (FCM). Vision currently holds the customer equity and is the FCM of choice of over 130 Introducing Broker offices as well as numerous professional traders and CTAs. According to the December 2001 issue of Futures, Vision ranks among the top fifty largest FCMs in the U.S. Since its inception, Vision has maintained substantially more regulatory capital than is required to maintain its customer equity. Vision's President and Chief Financial Officer is Howard Rothman who served on the Board of Directors of the National Futures Association for three consecutive terms. Mr. Rothman was also a director and founding member of the National Introducing Broker Association. Vision's auditors are the national accounting firm of Grant Thornton.

Q: Can I use retirement funds in a managed account?
A: Absolutely. You can use IRA, trust, pension, and other retirement monies.

Q: How do I open a managed account?
A: Before opening a managed account, you must be supplied with a copy of the CTA's disclosure document. Read it carefully before you invest. Go over questions you may have with your Managed Futures Specialist. After any questions you may have are answered, have your Managed Futures Specialist help you fill out the management agreement with the CTA and Vision's customer agreement forms, both of which should be sent to your Introducing Broker for processing.
Managed futures, along with stocks and bonds represent individual asset classes. When considered on a stand-alone basis, each has merit. When combined, studies have shown they have the potential for producing the highest returns with the least volatility!

There are many proponents of the role played by commodities in diversification. One standout is Jack Meyer, Chief Executive Officer of Harvard Management who, in alluding to Harvard University’s huge endowment fund, offered that "Commodities are the most diversifying part." Myers bears credible witness. Back in 1990, when he arrived at Harvard from the Rockefeller Foundation, one of his most important decisions centered on making diversification a key theme in Harvard's portfolio. His actions were highlighted in a December 2, 1996, *Barron’s* article:

"Relying on techniques of modern portfolio theory, he decided that to get the best returns with lowest level of risk, Harvard needed to cut its exposure to publicly traded U.S. stocks and bonds, and increase its investments in foreign stocks, commodities, and private companies. Result: Right now the Harvard endowment has about only half its portfolio in U.S. stocks and bonds, versus about 75% for the typical university endowment."

Meyer added, "The benefits of diversification are indisputable. Diversification rules. It's powerful and our portfolio is a good deal less risky than the S&P 500."

This notable endorsement regarding the role and value of managed futures in a portfolio is strongly supported by others including the experiences of the City of Detroit’s Retirement Fund, which has successfully employed managed futures in helping to balance its portfolio for 11 years.

With so much validation of the research findings on the value of participating in managed futures, we firmly believe professionally managed futures is essential for most traditional portfolios. Managed futures offers the potential to increase total portfolio returns while reducing volatility. In virtually any economic environment--rising or falling interest rates, recession or a strong economy--unlike stocks, managed futures provide the opportunity to perform.

Registering virtually a zero correlation with stocks, many informed investors believe professionally managed futures to be the optimum choice in helping to diversify and protect a portfolio traditionally comprised of stocks and bonds. Many individual CTAs have highly attractive performance records, reason enough to invest with them. On their own, they represent attractive stand-alone investments. However, when the advantages of portfolio diversification are considered, we believe the value of incorporating CTA-managed futures programs within an equity-based portfolio becomes even more compelling.

Now, we suggest, is the time to come to grips with reality. The boom times for the stock market are over. We have good company concerning our opinion of the stock market for 2002 going forward. The eminent Yale Professor and economist, Dr. Robert Shiller, Jeremy Grantham, who *Barron’s* described as the “philosopher king of the investment world,” William Gross, who the *Wall Street Journal* described as “the nation’s most prominent bond investor,” the famous money Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.
manager, Sir John Templeton, and other highly respected analysts believe that for years ahead, the stock market will offer lackluster returns.

Bear in mind, the purpose of bear markets is to ring out the excess from previous bull markets. The past bull market was, arguably, the most excessive in the history of the stock market. As depressing as it is, we believe one must face the distinct possibility that the years ahead for the equity markets may produce the same anemic returns that occurred after the market peaks of 1901, 1929, and 1966. (See page 20).

This is not a time for denial or wishful thinking. We must face the distinct possibility that the years ahead may see a stock market capable of producing relatively meager returns. For this reason, we strongly believe investors would be prudent to diversify their portfolios with an investment like managed futures, thereby providing the potential to prosper, even if or when stocks rise, fall or simply languish.

It is important to discuss with your broker the substantial risks involved in trading futures. Please note that only risk capital should be used as you can potentially lose all or more than your initial investment.

We hope this brochure has been both informative and enlightening and wish you the best of luck in your investment endeavors!

Vision Limited Partnership is a registered Futures Commission Merchant with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA"). According to Futures Magazine, December 2001, Vision is ranked among the top 50 largest FCMs in the futures industry.

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