

## Trader Profile

BY YESENIA SALCEDO

# Riding the bull for profits

**J**ohn Hummel, president and principal of commodity trading advisor AIS Management predicts a very strong bull market in physical commodities for the next eight to 10 years, and he says the Multi Asset Allocation Portfolio (MAAP) 3X-6X program is going to take advantage of it. The program, which he and AIS vice president and principal Bradley Stern developed, is a systematic trading process employing applied intelligence software that embodies a wealth of human experience, historical prices and probability theory.

The MAAP program consists of a valuation methodology and a trend-following methodology. "What we're doing is really a combination of probably the best aspects of value investing by approaching it statistically and also growth momentum investing because we're combining the two approaches together," Hummel says. "We'll take a position on statistical undervaluation, but if a trend develops the trend becomes more important and we'll stay with the trend until it breaks down."

MAAP has a rate of return of 24.13% year-to-date through February 2004 with \$80 million under management. The program made a huge jump from -9% in 2002 to 55.76% in 2003. Hummel says the reason for the extreme change was because of how the physical commodity markets started to come alive in the second half of 2003. AIS also had gone through a difficult period in mid-1997 through 1998 when the program was only using one iteration in each of its markets. As a result of those drawdown years, multiple iterations of the trading system are now used. "We used slight variations from our original system. That was a major money management improvement that we introduced in the middle of 1999," Hummel says.

MAAP maintains long, short or neutral positions in equities, fixed income, currency, metals, agricultural products and energy products. The MAAP portfolio allocates approximately one-sixth of its total contract value to each of the six asset classes. Main representations of positions are the S&P 500 for equities, U.S. Treasury bond futures for fixed income, Japanese yen/U.S. dollar futures in the currency sector, gold futures in metals, soybean futures for agricultural products, and crude oil futures for the energy products.

"Having both physical commodities and financial futures in the portfolio gave us a much better balance on a long-term basis and also it sets us apart because most of the futures industry is heavily oriented toward financial, currency and

fixed-income futures," Hummel says. "The primary benefit for trading multiple markets within an asset class is the potential for moderation of portfolio volatility at major turning points for a specific asset class."

Generally, the MAAP program will enter into a long position only if the asset class is undervalued based on the program's application of probability theory and if a statistically significant price reversal also is evidenced while the same asset class is within the definition of undervaluation. Conversely, the valuation component will only indicate a short sale when a market is no longer defined as being statistically undervalued.

"We found when we were doing our initial research that you don't have a normal statistical distribution to prices — that you have very fat tails.... Markets will go to extremes and they'll stay at extremes for long periods of time," Hummel says. "We're great believers in the concept that price is the final arbiter of everything that's known and

expected by everyone who has a position in the market. The only thing we look at is historical price. One of the dangers of trying to do quantitative analysis is that people tend to look at a shorter time period than they should."

AIS was originally organized as a commodity pool operator in 1987 named Hummel Inc. In 1992 the firm also became registered as a commodity trading advisor and took the present name of AIS Futures Management when Hummel and Stern left Cowen and Co., a broker-dealer and investment advisor, to develop the business on a full-time basis.

"We've designed a system to take advantage of what we feel are significant secular investment tracks. We believe very strongly that we're in the very early stages of what could be an absolutely phenomenal bull market in physical commodities," Hummel says. "There are things going on worldwide that are extremely powerful in terms of the influence they can have on pricing."

He cites a weak dollar that is going to persist for a number of years, a leveraged financial system, as well as expansionary monetary policy that is stimulating economic growth and job creation worldwide. In addition, he sees little investment in expansion of raw material commodity production. And with China and India coming into a modern consumer entrepreneurial capitalist world, it will drive higher the demand factors in basic materials that will drive prices to levels that are unimaginable at this point, he says.



JOHN HUMMEL

BRADLEY STERN

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