

## July Commentary & Performance

The Auspice Diversified Program was up 1.17% in July\*.

Hail Natural Gas!

July is one of those months that is often a dichotomy. While we are trying to relax, enjoy some summer holidays, our families/ kids etc, the markets are often very challenging. However, this year July provided some great opportunities as the markets normalized and calculated risk was rewarded.

The traditional equity markets followed the strength in June with somewhat muted gains in July while commodities bounced back aggressively. While the strategy ended June positioned defensively (tilted short), protecting from downside in many commodities and equities, we have started to shift the other way. We have reduced shorts, crystallized some significant gains (see Interesting Trades below), and added new long positions in a number of sectors including Energy, Grains, Soft Commodities, and to a lesser extent in Equity Indices.

As mentioned last month, if you consider the market still at risk and/or are looking for non-correlated diversification from commodity agility, this may be an entry point to consider. We have been shifting our stance from long to short and back again while controlling downside risk and capturing significant trends along the way.

### Monthly commentary:

The Auspice Diversified Program was profitable in 4 of the 7 sectors traded with solid gains from Interest Rates, Currencies and Grains and small gains from Metals during the month.

**Interesting Trades:** We exited two very profitable short trades of note. First, we exited a long standing short in Natural Gas crystallizing remaining gains. We also exited a short trade in Coffee capturing the bulk of a recent move down that started in February.

The 5 year statistics (Aug 07 - Jul 12) are: +8.47% annualized return with 13.20% volatility. The worst drawdown for the period is 13.93% with an average Margin to Equity ratio of 6.4%. The global equity markets remain down (-1 to -5% annualized) over this same period with 20-35% more volatility and deep drawdowns of 40-55%. Over the long run, the performance of the Auspice Diversified Program highlights not only the non-correlation and absolute return characteristics of the strategy, but the lower risk profile from traditional investments due to stringent risk management and downside protection.

### Key Points Regarding our Positions

**Energies:** The move higher in Energies started late in June which included Natural Gas and caused us to lighten up significantly on the short side of Energy. We covered our positions in Crude, Natural Gas and Heating Oil and added a new long position in Gasoline. While by no means a long term trend yet, it is a significant shift from the trend lower experienced since February. While this sector wasn't profitable in July overall, the shift from short to neutral and long while moving to flat natural gas is notable.

Natural Gas was exited capturing approximately 9.5 times the dollar risk taken in August 2008. The position closes one of the longest trades we have taken in our careers. If you would have told us 10 years ago that it would be in natural gas and from the short side, we wouldn't have believed it! However, this trade really highlights the non-fundamental trend following approach we take works in volatile markets like natural gas.

For those with specific interest in this sector alone, please contact Auspice regarding the launch of our Energy focused strategy in collaboration with Pulse Capital Partners. The program went live on March 1st.

**Metals:** The Metals sector was marginally profitable holding the same positions. Most of the gain came from the short in Copper. In general the Metals sector has been consolidating the last two months and is one to watch for direction soon. This sector remains tilted short at this time.

**Grains:** Grains provided the bulk of sector gains during the month. While we remain on the sidelines in Wheat, we added a long Corn position to compliment Soybeans. Both were very profitable in July. This sector is now tilted long.

**Soft Commodities:** We came into the month short all the Softs and have covered all but Cotton. Lumber and OJ were covered into strength for small losses while Coffee was covered returning over 2 times risk taken. Softs were not profitable in July.

**Currencies:** While Currencies have bore the brunt of various interventions and policy shifts in the last year, July provided a welcome opportunity. Gains were made long the US Dollar Index and Aussie dollar while adding a new long position in Japanese Yen. We remain short the Euro and re-entered a short in Swiss Franc. All were profitable in July. We are on the sidelines in British Pound, and Canadian Dollar.

**Interest Rates:** Rates were positive in July. We have re-entered long positions in US 2 and 5 year Notes and remain long 30 year Bonds and US 10 year Notes (since early 2011).

**Equity Indices:** While we left June with some markets short and some long - net neutral, July inspired some changes. First, we covered our short in the CAC 40 and replaced it with a new short in Japan's Nikkei. While we remain on the sidelines in Hong Kong's Hang Seng and the Nasdaq, we have added new long positions in the S&P 500 and Russell 2000 markets. As such, we have tilted slightly long with a small loss on repositioning in July.



### Additional References

[Advisor.ca](#) article dispels some of the myths regarding managed futures.

[Listen](#) to a podcast interview with Michael Covel, a leading author specializing in Managed Futures and trend following, and Tim Pickering. Tim discusses his background and the unique aspects that make Auspice a Next Generation CTA.

For those interested in more ideas about investing in alternatives, please check out the [www.amfmblog.com](http://www.amfmblog.com).

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\*Returns represent the performance of the Auspice Managed Futures LP Series 1.