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A Two-Way Wager On Commodities

Rydex' new fund allows investors to play the ups and downs of the futures market. **BY LEWIS BRAHAM**

FUTURES TRADERS MAKE money by following trends, buying contracts on the commodities that are rallying and short-selling those in decline. The few commodity-based mutual funds, barred from speculating in futures, invest in bonds whose prices are linked to gold, oil, corn, and the like. The problem with that approach: You are making a bet that commodities are only going to go up.

Now, with the help of some clever financial engineering, Rydex Investments has found a way to play the downs as well as the ups of the futures market in a mutual fund format. Its newly launched Rydex Managed Futures Fund, now with about \$75 million, invests in bonds linked to the performance of the Standard & Poor's Diversified Trends Indicator (S&P DTI) index, a benchmark that tracks the futures market. Unlike other

commodity funds, this one includes financial contracts. Even more important, the index includes short sales, which go up in value as the price of the commodity goes down. The largest short positions now are in Japanese yen, U.S. Treasury bonds, and gold (table).

Although the Rydex fund opened in March, the index it's based on was launched in January, 2004. S&P (like *BusinessWeek*, a division of The McGraw-Hill Companies) has back-tested the index's performance for an additional 20 years. While hypothetical performance is no guarantee of future returns, the results are impressive: From January, 1984, through December, 2006, the index delivered an 11.04% annualized return with less than half the volatility of stocks and only slightly more than bonds.

The index's performance had almost no correlation to that of stocks or bonds, which means it should be a good diversifier. "In an environment where stocks and bonds look overpriced, this strategy makes a lot of sense," says P.J. DiNuzzo, chief investment officer of DiNuzzo Investment Advisors in Beaver, Pa. Because the fund's volatility is similar to bonds', DiNuzzo is substituting 10% of the bond portion of his client's portfolios with the Rydex fund.

Although pricey by index fund standards, the new offering's 1.65% expense ratio for investors buying its H share class is much less than the fees typically levied by managed futures funds, usually 2% of assets plus 20% of profits. And the Rydex fund's low minimum investment of \$2,500 can be matched by few managed futures funds.

It's too soon to tell whether the Rydex fund will perform as advertised. But the cost savings and easy access to futures make it one investors should watch. ■

Trend Spotting

The Rydex Managed Futures Fund is linked to Standard & Poor's Diversified Trends Indicator index, which tracks both long and short positions in the futures markets.

	PERCENTAGE OF INDEX*
LARGEST LONG POSITIONS	
EURO	13.00
CRUDE OIL (LIGHT)	8.34
10-YEAR U.S. TREASURY NOTES	7.50
LARGEST SHORT POSITIONS	
JAPANESE YEN	12.00
30-YEAR U.S. TREASURY BONDS	7.50
GOLD	3.51

Data: Standard & Poor's

*As of Apr. 3