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How to Run A CTA

The allure of becoming a successful trader endures bull and bear markets alike. The reasons for this are diverse: financial freedom, potential outsized output in relation to input, and the ability to play an endless strategy game with the rest of the world as a way to boost personal ego and provide healthy intellectual challenges.

However, would be traders must initially set aside romanticism and financial dreams and treat this endeavor as any other project or business enterprise. Background research must lead to a precise plan upon which proper implementation must be built along parameters of accountability. In simple words, the new trader will have to be committed to *“work the plan and plan to work.”* And work hard indeed.

The CTA universe is a classic magnet for the aspirations of men and women deeply driven by “alpha.” The managed futures arena provides a clear and efficient blueprint to enable a trader with a good idea to move proficiently and cost-effectively from the drawing board to a professional enterprise. However, the low barriers of entry and the relatively low start-up costs should not be misinterpreted; the poorer the preparation – potentially induced by the lower entry barrier – the higher the potential rate of failure and eventually the higher the cost, material and emotional, of such failure.

From a project management perspective, there are three areas that need to be carefully addressed:

- Business and Operations
- Compliance
- Risk Management

Assuming a trader already has a trading idea which is workable from an expected rate of return perspective as well as from a personal profile and logistical point of view, the next step requires an assessment of skills and resources needed and a personal inventory of such requirements. The trader will discover what might be the missing ingredient and therefore analyze the most cost effective way to fill such necessity.

A good business plan should allow for a mix of scalable basic infrastructures and outsourced services. Avoiding too many overheads at the beginning of the journey and yet having a structure that can easily grow is key for long term success. In this light, one may want to analyze partnership opportunities. Finding the right partner may help significantly in allowing the trader to focus on what she/he does best – trading and making money – and it can create important synergies that can turbo-boost the business. A classic approach is a trader and an operations partner with the marketing function being implemented via a mix of internal resources and outside money raisers.

Deciding on a partnership solution is a very important step in the process. It implies giving up equity, albeit in exchange for potentially faster and more significant growth, and even more importantly it implies that a solid trust bridge between partners was successfully built, often a difficult accomplishment.

On the subject of marketing, a new trader must be realistic; it is going to require a lot of resources: time, technology, money and creativity. While performance is indeed the driving force behind any trading enterprise, it is only a necessary but yet non-exclusive component. The market for funds is highly competitive; a new CTA competes with other more established CTAs, with traditional financial advisors, with Hedge Funds and a plethora of ever growing alternatives. Good performance will be the element that draws attention but a comprehensive, multifaceted and well supported marketing campaign is essential for a CTA survival and long term success. This will require internal effort, relationships with outside money raisers, a development of soft strategies such as profile enhancement activities – conferences, white papers, editorials, magazine appearances – and an established budget fully dedicated to marketing.

In terms of regulatory issues and compliance, a trader should start by envisioning what kind of firm he/she would like to run. For example, the type of potential clients that the trading strategy may attract will influence to an extent the legal structure and the compliance framework. In this realm, the major distinctions are between domestic and international clients, retail versus institutional backers and what kind of minimum investment one would want to target. In any case, the choice a new trader makes, greatly changes the set-up: CTA versus CPO, what exemption to use, what reporting requirements, what kind of legal structure and so on.

Last but certainly not least, is the subject of risk management. This area is of utmost importance for the longevity of the trader as it helps uncover any potential imbalance in the strategy as well as being a major contributor toward building that bridge of trust between the new trading outfit and the capital allocators. A comprehensive review of the strategy's risk management is practically the first obstacle a new CTA will face when building relationships with money raisers and serious investors. The areas that are most scrutinized revolve around the following pivotal points:

- Transparency and style drifting
- Performance analysis and attribution
- Trade confirmations and reconciliations
- Key man risk
- Fairness of allocation across accounts
- Custody risk (i.e. excess cash collateral)

Furthermore, it is important to stress the need for initial working capital. A new trader will need to be capitalized adequately as far as trading funds but also for infrastructures and living expenses up to two years. Trading under financial stress usually forces bad decision-making and significantly undermines the long term success of even the most talented traders. In this case as well, a good plan and an honest budgeting process can go a long way toward improving the odds of success of the trading outfit.

In conclusion, a cocktail of romanticism, competitive spirit and “rational creativity” will lead a trader toward pursuing a CTA solution, but long term success will reside greatly in detailed and sensible planning.

Source:

CME Group, “Issues and Insights for Starting a CTA Business,” 2009

CTG CTA Services

Our professional services are designed to make every aspect of your CTA business as efficient as possible. Our operations will be configured to help make your life easier so you can focus on what you do best: Trade.

CTG will oversee allocations –We'll help you set up your electronic or pit execution, and establish a single block trading account that will enable NFA required APS pricing across all FCMs. We'll make every one of your accounts, across any and all FCMs, receive their respective trades. Every day we reconcile each client account for accuracy: positions, equity, margin, fees, etc.

CTG customizes Position and Equity reports to just how you, the CTA, want to see them. We include the information that you want to see every day. Our position reports are updated in real-time throughout the trading day, so you always know exactly what positions you have on overall, and in each respective account.

Lastly, CTG has a relationship with our money managers in efforts to help grow their business. We provide front, middle and back office administrative services but most importantly we focus on helping gain exposure to outside investors and raise money.

Principal - Nell Sloane

Nell Sloane is a principal and co-owner of Capital Trading Group (CTG). Nell began her career over 30 years ago at the Chicago Futures Exchanges. She initiated her introductory to the industry by working for a grain trader at the CBOT. As she continued to handle the trade execution, reconciliation and capital raising, she moved on to becoming a featured contributor to various online industry related publications. Nell eventually launched her own commodity newsletter providing fundamental and technical analysis entitled "The Opening Belle".

Her registrations include the Series 3 and 7. Ms. Sloane presently is a member of the Vistage International, which is the world's leading chief executive organization helping business owners make better decisions and becoming better leaders in their communities. She is an active participant in raising money for charities such as American Cancer Society, Mercy Home for Boys and Girls, Diabetes foundation and Make-a-Wish. Nell previously volunteered with the international au pair agency matching host families with childcare and was previously an Executive Member of Chicago Finance Committee.

**If you have any questions about this article, please feel free to call CTG at
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