Alpha Z Advisors offers an alternative to options investing

(GLOBALINTELHUB.COM) – Dover, DE 8/8/2017 – *Global Intel Hub exclusive interview* – Elite E Services sat down with Mike Connor, Principal and Senior AP of Alpha Z Advisors, LLC – a trading advisor offering alternative investments based on strategies incorporating research on price anomalies, behavioral biases and institutional practices. In November of last year, Alpha Z Advisors LLC was ranked #1 Options Strategies Category by Barclay Hedge, a service that tracks funds' strategies. So we wanted to learn more about on the Alpha Z Advisors strategy, as we have always supported options as a great way to not only hedge investments but also provide additional alpha to any portfolio. Also, futures options are generally traded on regulated exchanges – unlike FX which are mostly traded over the counter (OTC).

Who is Mike Connor?

Professional risk manager and former member of the Chicago Mercantile Exchange, who has more than 40 years' experience in the futures and options industry.

What is the story behind Alpha Z Advisors?

Professor William Ziemba started Alpha Z Advisors, LLC with trading capital from friends and family. The initial investors were individuals he knew from the academic world in addition to a few referrals from the initial investors. The fund has grown in size from trading profits from the initial capital without attracting new investors.

How has the performance been?

2015 had great performance, more than 100% return, but it probably will never happen again due to a management decision to reduce initial margin to equity risk.

Why has it been so consistent?

The fund primarily trades options based on CME's S&P 500 E-mini contract. Trading centers around the extreme prices of puts on the E-mini contract. The big money in trading options is made from being long, but returns are inconsistent (but the risk is usually very well controlled). The consistent money is made by being short options, but it comes with risk, and to stay in the game the risk has to be controlled.

How do you control the risk?

By properly hedging the positions either with other options or a futures position, and by margin to equity control. Short (selling) options positions are no different than an insurance company policies – you are selling price insurance. Like any insurance company, we're going to have occasional disasters, like Katrina – but they should be manageable. Over a long time horizon, well managed market disasters should not prevent us from continuing to perform. We have had our share of ups and downs, and fortunately we have been able to survive all drawdowns. Good risk control and position sizing are the most important factors in any trading campaign.

What factors may impact the strategies' performance?

Implied Volatility. Volatility is opportunity, but left unchecked it can be a horrible threat.

Considering the results, why do you think there's not larger AUM?

Until recently we have not solicited publicly. This is our first concentrated effort at soliciting investors. In addition, we put together a minimum account size so high

($250K for the managed account, $100K for the fund). Our account size should eliminate many potential investors. We are looking for sophisticated investors that can take a part of their portfolio and take greater risk for a higher return.

How can investors 'prove' that the performance is 'real' – is there an institutional My FX Book ? There's been a lot of CTA frauds that were real CTAs but used fake performance to lure investors – what assurances can we offer them about Alpha Z?

All the accounts – all the funds' assets – all the performance results are compiled every month by an independent CPA firm. The statements themselves can be verified by the FCM.

Positions are manually stress-tested intra-day.

What makes Alpha Z Advisors LLC different than other CTAs?

I'm not sure if that's the case, we have a very professional trading plan. You can go to Amazon and buy books published by our founder Dr. William Ziemba, actually he's published more than 50 books on statistical abnormalities and opportunities in the stock market. It certainly does not mean we cannot lose, or have losing open positions – we are going to have losing positions there is no way around it. But overall, if we can control the risk and keep margin to equity at a reasonable level we should be able to survive during the bad times. We have, I think, enough excess margin to sit through a significant rise in implied volatility and still survive, if the positions and margin to equity can be properly controlled. Like any market position whether it is options or futures an unexpected giant gap opening is always a threat to open market position's stability.

What makes the strategy different?

Trades are well positioned and I believe are market entry timing is very good. Our exposure is laid out over a broad time horizon (we don't trade in nearby month, for example). If futures were a bullseye, you'd have to hit the target almost dead center to make a profit, with options, you can just hit the wall and still make a profit – of course, only with properly controlled risk and other parameters. I do not know how other CTA's manage their positions and stress test their market risk, but I am confident our process is robust. What we do is not magic, it's simply neutralizing the risk as much as possible, and there is a number of ways we accomplish that. It is all about understanding what the options can do if they move against you, and how you can respond adverse market activity.

The execution is done by a professional service. One way we keep our costs down other than accounting, is to try and soft dollar expenses through a soft dollar basis.

Customers are free to choose any brokerage house they want that clears at the CME. If customers do not have any preference, we are happy to set them up with our preferred FCM.

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Investors should only invest money they can afford to lose.

Summary1: Options investing is a difficult subject few dare to explore. In this candid interview we explore the innards of a real life options CTA.

Billionaires are hoarding piles of cash

Billionaires are holding mountains of cash, offering the latest sign that the ultra-wealthy are nervous about putting more money into today's markets.

According to the new Billionaire Census from Wealth-X and UBS, the world's billionaires are holding an average of $600 million in cash each—greater than the gross domestic product of Dominica. That marks a jump of $60 million from a year ago and translates into billionaires' holding an average of 19 percent of their net worth in cash.

"This increased liquidity signals that many billionaires are keeping their money on the sidelines and waiting for the optimal moment to make further investments," the study said.

Indeed, billionaires' cash holdings far exceed their investments in real estate. Their real-estate holdings average $160 million per billionaire, or about one-fifth of their cash holdings.

Simon Smiles, chief investment officer for Ultra High Net Worth at UBS Wealth Management, said that the billionaire families and family offices he talks to are focused largely on the same question: What to do with all their cash.

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“The apparent safety of cash, reinforced by the painful psychological experience of the 2008-09 global financial crisis and the subsequent troubles within the European Monetary Union, likely reinforces the tendency to favor this cautious allocation strategy,” Smiles said in the report.

But he said creeping inflation threatens to erode cash values, so he’s advising clients to take on “considered amounts of risk” with interest rate swaps, credit default swaps, or selling rates or foreign exchange derivatives.

Read More[Chinese millionaires plan to leave in droves: Poll]

Yet in today’s increasingly frothy market environment, and after the hangover of 2009, today’s billionaires prefer a return of their assets rather than a return on assets. And in fact, they may be happy with a small loss rather than risk a larger one.

Smiles said that the large cash holdings aren’t specific to billionaires—millionaires and multimillionaires are also holding cash hordes, on the order of 20 percent to 30 percent of their net worth.

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The wealthy are still traumatized by the financial crisis in 2009, when many wealthy families were scrambling for cash, he said. What’s more, many wealthy families missed out on the big financial-market rallies in 2012 and 2013 and feel like they missed the best chance to invest.

“It’s the combination of many people having been under-invested in equities and under-invested in wide risk assets having seen rallies and missed those rallies,” he said. “Things are no longer cheap, and it’s emotionally hard to get invested now.”

http://www.cnbc.com/id/102021996

An incremental approach to investing

Typically, potential investors receive an 'elevator pitch' which can lead to a presentation, and finally some offering memorandum such as a private placement memorandum. This has been industry standard for a long time, and certainly since the concept of Venture Capital became popular. But it leaves investors with very shallow on the surface information. Of course some of them take greater due diligence measures, but the model itself is a pay and you will see model. It's simply not possible with many of these companies to have an insiders view, because you are not an insider.

As an alternative, Structured Consulting proposes a new incremental approach to investing. It involves a multi-phase process that first is a process of education about the industry, then a phase of participation, and finally investment.

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To break it down on a capital basis, it should be an incremental phase approach, such as $1,000 – $10,000 – $100,000. At any point, the investor can choose to stop. In this example, $1,000 is a reasonable fee for training and education in the financial services industry. Why not do it with a project you might invest in or participate in some way, rather than attending a weekend seminar at a conference center packed with students?

This concept of an incremental approach involves integration (synthesis) of the project with participants. Capital participants can be called investors, but the word 'investor' suggests the pay and do nothing model.

We're outlining this approach for Project FinSyn, with concepts such as crowdfunding a financial institution (with a $1,000 investment, investors receive training & education course bonus).

Join Global Intel Hub for more concepts like this.