

COVER STORY

GLOBAL EXECUTION

Stealth alpha

How the top brokerage firms rank around the world

NASDAQ TRADING	07/03-06/04 rank	Brokerage firm	Principal traded (\$ millions)	Difference vs. E/M universe (basis points)
	1	B-Trade Services	\$2,595	32.3
	2	M.J. Whitman	596	25.5
	3	Morgan Stanley	1,961	20.3
	4	Liquidnet	1,704	19.2
	5	Bridge Trading	1,100	19.0
	6	Pershing	1,405	17.9
	7	Archipelago	538	15.7
	8	Knight Trading Group	670	14.5
	9	Instinet	6,699	14.2
10	Goldman, Sachs & Co.	9,611	14.0	

BRIDGE TRADING

A REUTERS COMPANY

MEMBER NASD



PROVEN INVESTMENT APPROACHES

- Strong short-term alpha producing strategies utilized in complex real-world circumstances
- As ranked **5th** by *Elkins/McSherry*, in a research survey for *Institutional Investor Magazine*.
- Strategy implements capital preservation first, through the use of trailing stop-loss protection, and seeks to ride trends in deep and liquid market indices, long or short, for growth.
- Strategy is designed to be 100% directionally positioned in the market at all times and employs strict risk controls and hedging techniques to protect capital.

Institutional Investor
November 2004

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ABOUT THE FUND MANAGER

Michael E. McMurtrey is the chief architect of Baron Point Short-Term Strategies. Formerly the Head of NASDAQ Trading for Bridge Trading Company (a then division of Reuters). Mr. McMurtrey has nearly twenty years of financial services experience with some of the top money managers in the world. *Elkins/McSherry*, in a research survey for *Institutional Investor Magazine*, ranked his institutional desk 5th in the world in terms of alpha production. Mr. McMurtrey holds a Masters of Finance and a BS in Management from Saint Louis University.



OVERVIEW

The algorithms employed by Baron Point Short-Term Strategies were developed and used for over a decade by Michael McMurtrey in an attempt to integrate the best quantitative and qualitative features of both purely automated rules-based index investment strategies and purely discretionary strategies, while avoiding the hazards of each.

Over his eighteen-year institutional trading career Mr. McMurtrey has come to believe that rules-based index investment methodologies generally offer the most consistent returns by eliminating much of the noise and human error that accompany discretionary day-to-day trading.

Unfortunately, every systematized strategy has at least one type of market condition in which it operates sub-optimally, often with great cost. For most systems, this condition is the same: volatile non-trending whipsaw markets, which lead to an abundance of trades that generate little but losses and transaction costs.

As such, after much research and deliberation, Mr. McMurtrey determined that he would implement a system that would operate in all markets, incorporating the intervention of human judgment to provide additional risk management during non-trending conditions and to mitigate overnight/weekend risk.

Baron Point Short-Term Strategies is the fruit of his labors.



SHORT-TERM STRATEGIES METHODOLOGY

Rules-Based Directional Indicator

Short-Term Strategies (“STS”) is a long/short index-based strategy that employs a systematic approach to follow short-term trends in highly liquid exchange traded securities (primarily index ETFs). STS is 100% directionally positioned at all times, either long or short, in broad market indices. The long/short indicator utilizes proprietary rules-based algorithms to determine whether it will position long or short of a given index.

These proprietary algorithms and their underlying model yield a dynamic buy and sell “value,” which provide the basis of the system’s trading decisions; indicated positions are generally held for a period of days to weeks. The buy/sell value is compared to the current price of the index, and when the index’s current price crosses above the “buy” value, STS goes long of the Index; when the index crosses below the “sell” value, the long position is liquidated and STS goes short of the Index. Additionally STS utilizes predetermined techniques to lock-in profits, decrease exposure, and cut losses.

Discretionary Risk Management

In addition to the purely rules-based directional indicator, STS’s models also generate a daily “pivot” value. This value is used by Mr. McMurtrey to help determine an exact exit or entry point, as well as whether to hold a position over night and/or open a protective hedge position.

The introduction of a human element into the risk management process differentiates STS from purely automated strategies and is, we believe, a significant component of its track record of alpha generation.

Mr. McMurtrey also maintains a hard price-based stop-loss of 1% on all positions.



CONCLUSION

As evidenced by the Dow's steep 900 point drop and almost immediate 550 point retracement on May 6th, 2010, we are living in volatile times. On the same day the S&P 500 ETF opened at 116.26, traded as high as 117.00 on the day, sold off 12 **full points** to an intraday low of 105.00, and then ultimately closed the day at 112.95. STS was short the market coming into this day.

Political and economic drama in the European Union, wildly fluctuating currencies, multi-trillion dollar bailouts, gold trading at historic highs, and a massive oil spill with as yet unknown effects on energy pricing are creating an environment of trader anxiety and investor unease that is unlikely to abate anytime soon.

This confluence of disruptive events has created market conditions that are treacherous for purely discretionary strategies and potentially disastrous for purely automated strategies.

STSs' combination of rules-based investing and discretionary risk management offer protection from volatility while enabling the Strategy to seek significant returns as trends develop.



APPENDIX: SHORT-TERM STRATEGIES' BUY & SELL VALUE INDICATORS

STS's buy and sell indicator values are generated by simple algorithms which yield robust results.

These algorithms are:

$$\text{Buy Value} = ((\text{previous Buy Value} * 4) + \text{current day's close}) / 5$$

$$\text{Sell Value} = (\text{Buy Value} * .99).$$

In the example below, STS generates a first "Buy Value" signal after the 04/10/08 close. The opening price on 04/11/08 of 152.72 gaps below 04/10/08's Sell Value of 153.00.

Therefore, the STS sells short at the opening price of 152.72, based on the previous 153.00 Sell Value.

It holds this short position during the subsequent two days on 04/14/08 and 04/15/08 because the highs during both of these days never touch or cross the Buy Value.

<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
04/10/08	34160321	151.13	155.42	150.6	154.55	154.55	153.00
04/11/08	43216946	152.72	153.30	146.40	147.14	153.07	151.54
04/14/08	30189396	146.77	149.25	144.54	147.78	152.01	150.49
04/15/08	24929883	149.40	149.72	145.72	148.38	151.28	149.77

(In the table above, the first Buy Value on 04/11/08 is the "Close" price on 04/10/08, or 154.55. The 2nd buy Value is $((154.55 * 4) + 147.14) / 5 = 153.07$ and so on.)



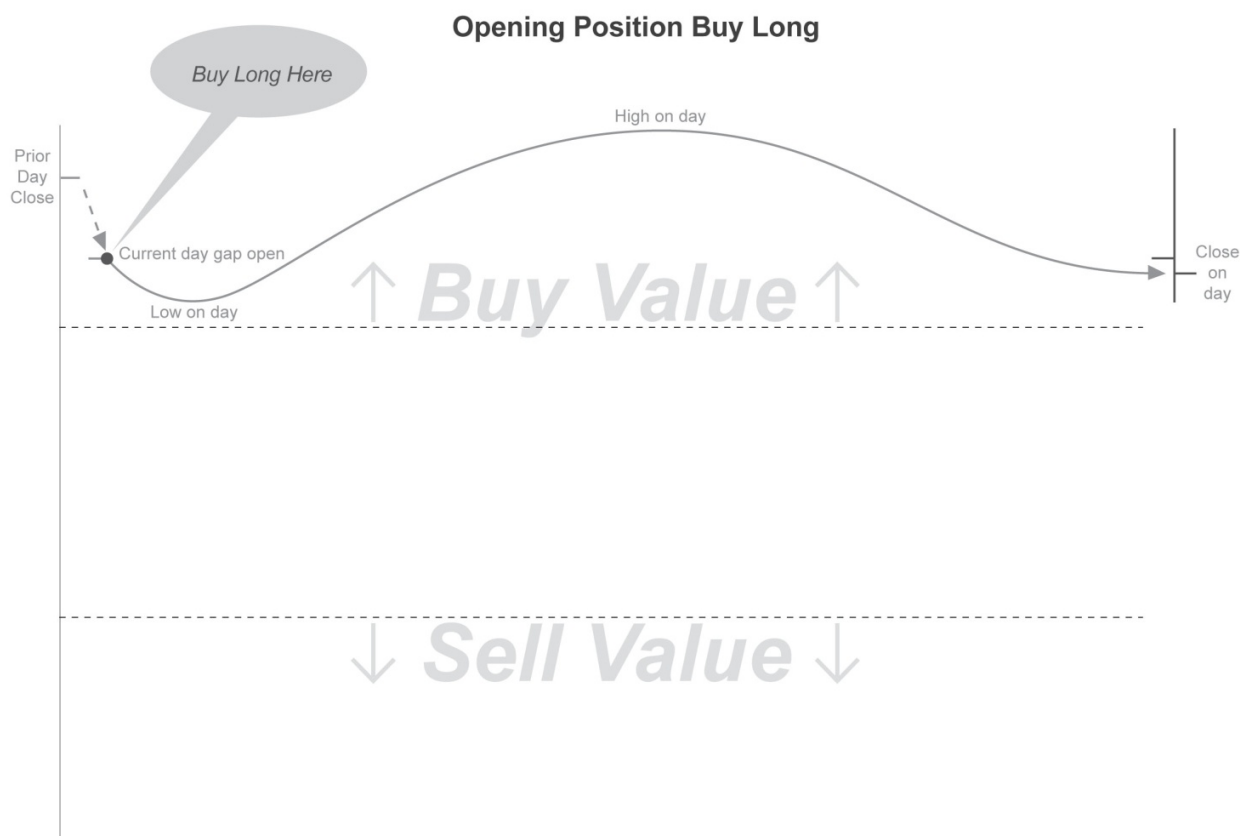
EXAMPLES OF SHORT-TERM STRATEGIES INDICATED ACTIVITY

Example #1: Initial Position: Buy Long

If either the opening or high prices are above the Buy Value signal, and the low does not cross below the Sell Value signal, the initial position of the Strategy would be long.

In the following example, the Strategy would take a long position on 08/07/08 at the opening price of 162.71, since it is above the Buy Value generated on 08/06/08 of 160.17, and since the low on the day of 161.50 does not reach or cross below the Sell Value of 158.57.

<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
08/06/08	28266458	159.97	167.40	158.00	164.19	160.17	158.57
08/07/08	24017815	162.71	166.15	161.50	163.57	160.85	159.24





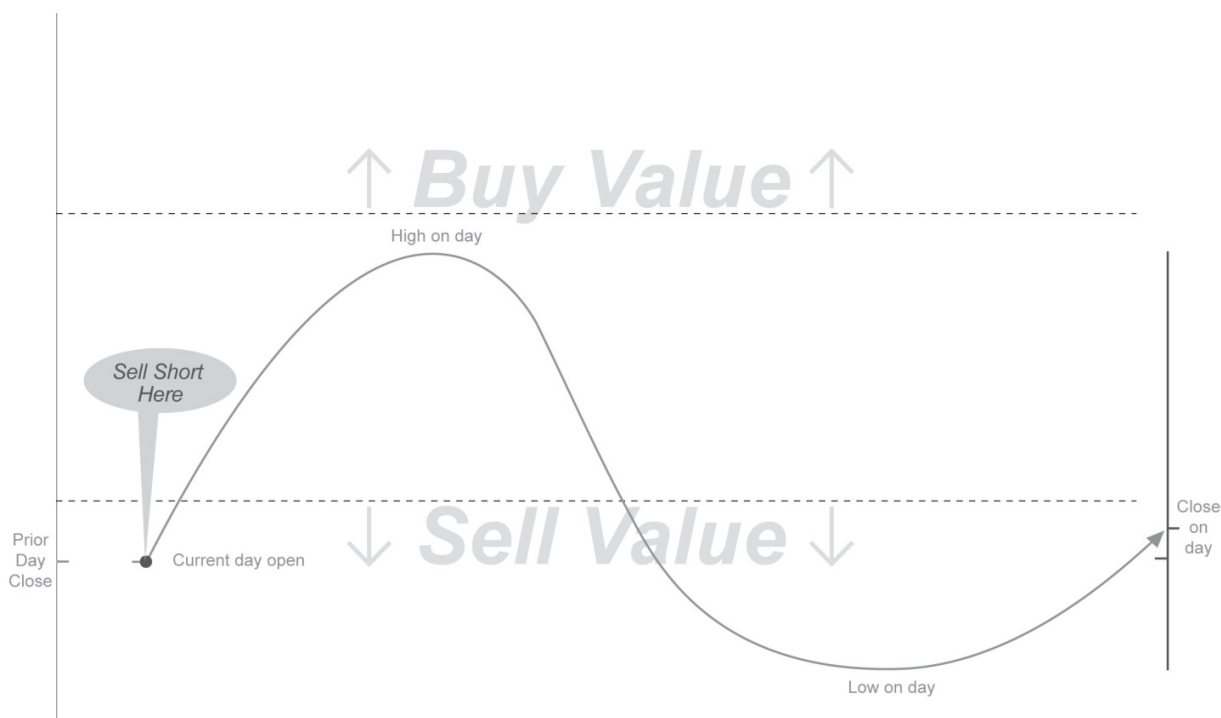
Example #2: Initial Position: Sell Short

If the opening or low prices during the day cross below the Sell Value, and the high does not cross above the Buy Value, the Strategy would take an initial short position.

In the example below, the Strategy would take an initial short position at the opening price of 152.72 on 04/11/08, because the opening price crosses the Sell Value of 153.00 and the high of 153.30 does not cross the Buy Value of 154.55.

<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
04/10/08	34160321	151.13	155.42	150.60	154.55	154.55	153.00
04/11/08	43216946	152.72	153.30	146.40	147.14	153.07	151.54

Opening Position Sell Short





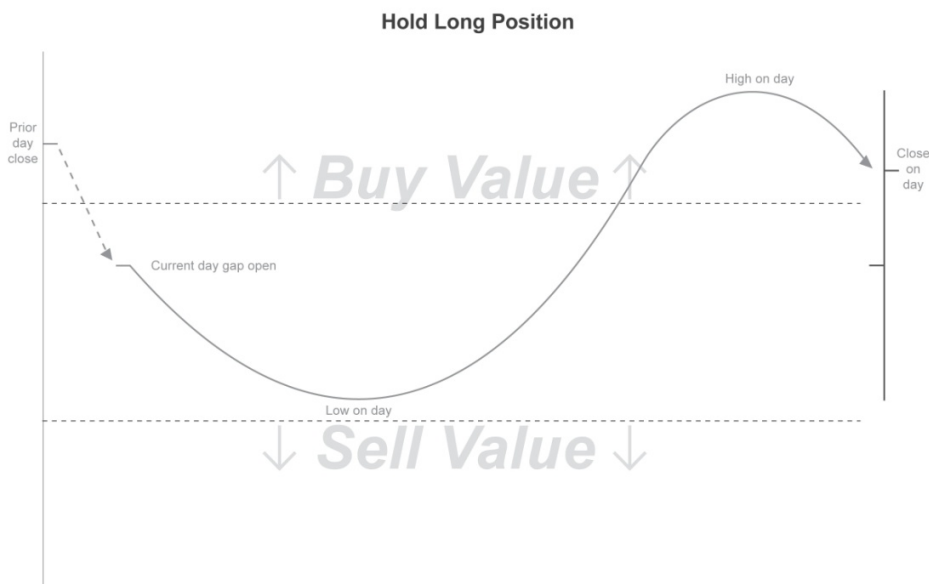
Example #3: Current Long Position, No change During Trading Day

If the open price does not gap below the Sell Value and the Low during the day remains above the Sell Value, then the previous long position is held (e.g. no further action taken during trading day).



As an example, on 05/11/09, the Strategy would hold its long position because the closing price of 129.57 and low on the day of 127.42 are both above the Sell Value of 127.31.

<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
05/08/09	16715152	129.04	131.2342	126.26	129.19	128.60	127.31
05/11/09	14456531	127.57	130.96	127.42	129.57		

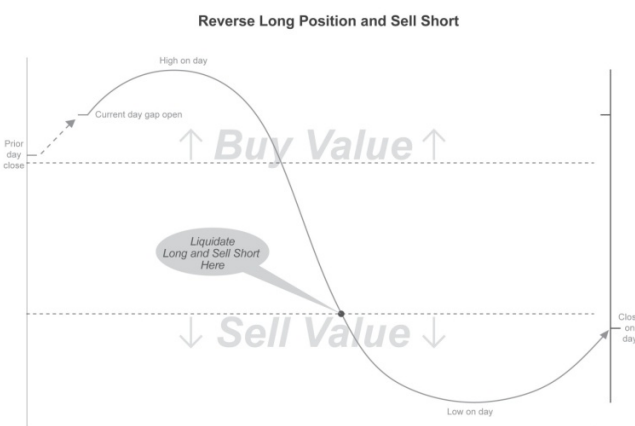




Example #4: Current Long Position, Reversing To Short

If the high is above the Buy Value and the low is below Sell Value, then we must look at the opening and closing prices on that particular day to determine the action to be taken by STS. STS would reverse its initial long position and sell short after the price crosses the Sell Value and the closing price remains below the Buy Value.

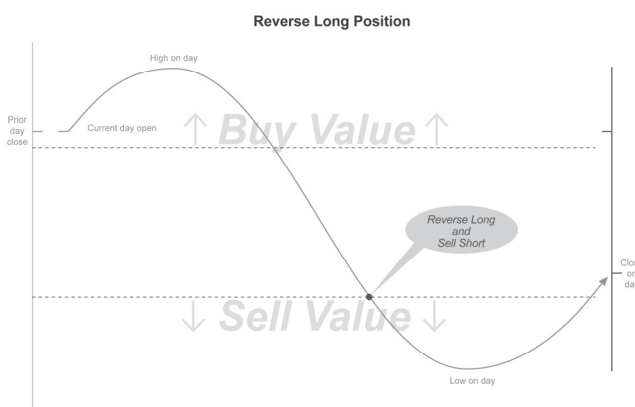
In the example below, on 09/02/08, the Strategy would liquidate its initial long and sell short after crossing the Sell Value of 171.39. If the Close is below the Buy Value (in the case below it actually closes below the Sell Value), then it would hold its short position because the Sell Value was crossed and the closing price remained below the Buy Value.



<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
08/29/08	21405304	172.96	173.5	169.0401	169.53	173.12	171.39
09/02/08	27908193	172.4	173.5	165	166.19	171.73	170.01

If the STS comes into the day long and the opening price is above the Buy Value, but the Low penetrates the Sell Value during the day and it closes lower than the Buy Value, then the Strategy would reverse and remain short at the end of the day.

In the following example, on 06/22/09, the Strategy would reverse its initial long and sell short since it crosses the Sell Value of 136.43 during the day (low is 136.33) and closes at 137.37, which is below the Buy Value of 137.81.



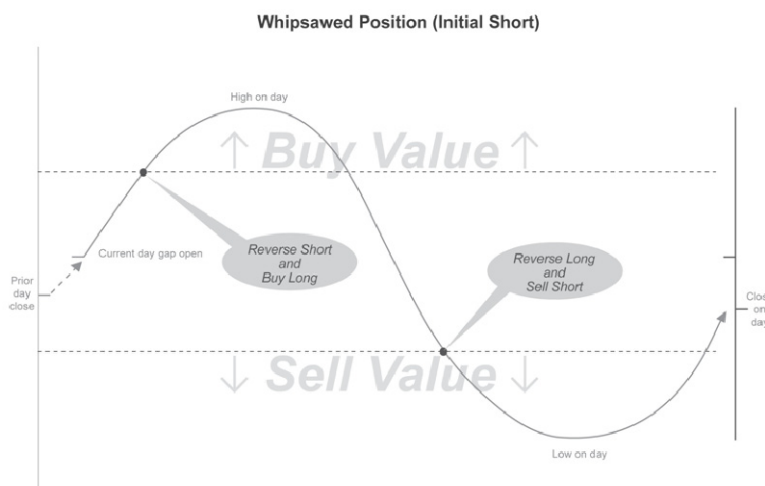
<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
06/19/09	25780518	138.07	139.5	136.9	139.48	137.81	136.43
06/22/09	22675441	140.67	141.56	136.33	137.37	137.72	136.34



Example #5: Current Short Position, Whipsawed During Trading Day (i.e., reverse to long and then re-reverse to short)

If the Strategy is short coming into the day and the Opening price is below the Buy Value or between the Buy and Sell Values (as in the example below), the Strategy would hold its short position.

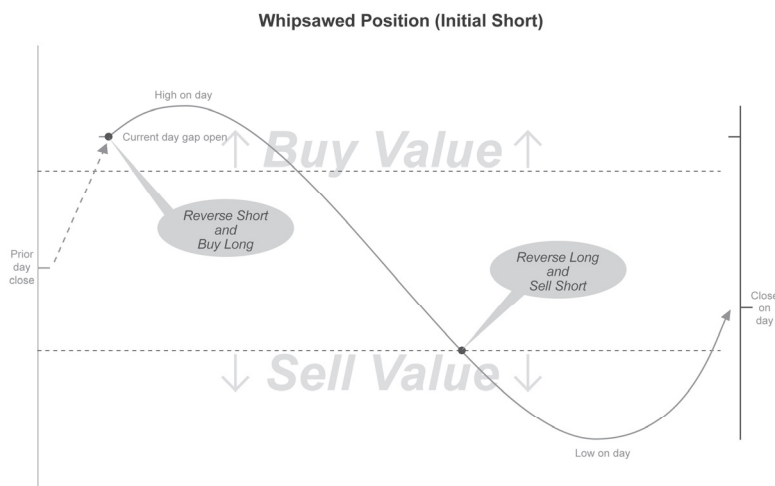
However it would cover the short position and reverse to long after it crosses the Buy Value. In a whipsaw environment, it would re-reverse again during the day and sell short, after it crosses the Sell Value. The Short position would be held at the end of the day because the close remains below the Buy Value.



In the following table, on 06/04/09, the Strategy would hold the short position despite the whipsaw conditions during the day, since the closing price of 185.19 remains below the Buy Value 185.45.

<u>Date</u>	<u>Volume</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Buy Value</u>	<u>Sell Value</u>
06/03/08	27049567	186.86	188.20	182.33	185.37	185.45	183.60
06/04/08	25981128	184.02	187.09	183.23	185.19	185.40	183.55

In the following example, the Strategy would cover its initial short position and reverse to long at the Open price, after gapping above the Buy Value. It would then, after it crosses the Sell Value during the day, re-reverse back and sell short again, It would hold this short position at the end of the day since the close remained below the Buy Value.



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