

# Partnerships term paper examples

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## **Report on internship as a commodity trading advisor**

### Introduction

In my term as a commodity trading advisor, I have come to the realization that the position involves managing other people's money and thus each client should be treated as a new business venture. For every client, a commodity trading advisor should ideally write a comprehensive business plan for that client. A business plan for each client serves the important purpose of identifying the strengths and weaknesses that may be present to a given situation, and it serves as an important point of mitigation against potential losses that may arise as a result of weaknesses that are not dealt with on time.

Within the ten weeks I have worked as a commodity trading assistant, I have gained invaluable experience in the field and I believe a chance to continue working under the same capacity will be most desirable. I have gained invaluable lessons on the management of risk, development of research to aid in the trading, Communication in the most clear and concise manner and most important the necessary skills that are requires for associations with interested parties such as clients, financial analysts and other stakeholders in the firm.

Partnerships have been very essential in the delivery of quality services as a commodity trading advisor. The services of attorneys and partnerships with other CTA's have enabled me to have a principal focus on the investment of the amount committed to me for investment in the futures and commodities market. These partnerships have played a central role in ensuring that I get

alternative opinion regarding my investment decisions, and more often than not resulted in the making of the most optimal decision.

While working under this program, I have sought to gain experience from diverse sources to enable me polish my skills and experience as a commodity trading advisor. Since I was operating with a single pool of funds provided to me, I was of the opinion that it will be wise to investigate a variety of other sources of funds available. Through interactions with a number of futures commission merchants, I have been able to realise the need to develop partnerships which can lead to the daily processing of trades, reports and positions in regards to the commodities trading market.

## **Research**

Research has been an integral part of my trading as a commodities trading advisor. Development of a research strategy for the trading of the amount allocated has been dependent of two factors; whether to use the mechanical systems strategy or the discretionary strategy. The use of the mechanical systems result in the generation of trading signals through use of technology, mostly computers using specified algorithms and using the signals generated for trading. The use of discretion required me as the trader to employ a personal analysis of the factors in play in the commodities market to generate trading. A mix of the two is the most optimal method for trading in the commodities markets; using computer generated market signals coupled with a well informed level of discretion to make trading decisions.

My trading in the commodity market has been in the form of investment based on hard facts and management of risk. This has been heavily relying

on facts that have been gathered through market research and market figures. Risk management has been a key factor in the development of an investment policy to undertake.

## **Risk Management**

My risk profile has been based on several factors. Though I have used the Sharpe ratio, I have always sought to develop other methods of managing risk so that I bear the minimum risk possible while seeking to optimize the earnings from trading in the market. The Sharpe ratio is the rate of return earned divided by the standard deviation. I have made my investment rather liberal by seeking to have a Sharpe ratio on the higher of 1.7. This, I believe, is the most realistic ratio considering the market conditions and expected future movements.

Through diversification, I have been able to minimise the market exposure. Those assets under my management have been diversified among different commodities, notably silver and gold. This has had the effect of reducing the standard deviation and increasing the rate of returns and greatly aided in the improvement of my market capacity. I have also sought to confine my trading in the markets that I have a reasonable understanding; the futures market and the commodities market that are based in United States. This has also involved using the services of experienced advisors within the organization to objectively monitor any investment strategy undertaken. Since management of risk requires a delicate balancing of profit opportunity and vulnerability, I have developed a risk per trade profile ratio of 2.5%. This is the amount of equity that will be utilised for every trading transaction. In the futures market, this risk per trade percentage was at a lower 1%

considering that the futures markets have more exposure. This move seeks to limit the risk exposure of the trading that I undertake. This risk per trade was being reviewed every week to ensure that the investment does not forfeit high return opportunities due to a rigid risk per trade.

Another method of managing risk that I employed was the keen management of position size and risk exposure. Since my trading could be defined as being a high return high risk trading, I employed the following method when making a new position; from my trading system, I determined the trading entry price, followed by a determination of the stop-loss ratio and making a conversion of the difference between the entry and stop-loss point into an amount per contract. Afterwards, the risk per trade as a percentage of the equity was determined and from this, the risk per trade and risk per contract were compared to determine the number of contracts for buying or selling at that position.

Trading in units was another method of risk management that I used. This method involved making use of identical and equal units for both commodity trading and futures trading. The number was arrived by shrinking the value of the accounts to the least denominator.

The use of stop orders was also an integral method that I employed to manage risk in trading. Using stops required the determination of a level of price at which trading in a particular commodity would stop. The use of stop orders was closely related to the exit strategy, which was formulated to be used when the trading encountered unfavourable conditions. Stop orders are very important controls to ensure that traders are not carried away by

seemingly profitable trading without making a consideration of the risk involved.

## **Trading**

### Challenges

Risk management is probably the largest challenge that I encountered as a commodity trading advisor. The risk involved in any transaction represents the threat for a loss, and at the same time an opportunity for a profit.

Management of risk is central for the development of an optimal mix of risk and return, and the methods used for risk management are discussed earlier.

Research on market trends was a major challenge in the trading of commodities. Making the most optimal trading decisions require the presence of the most up to date information which is free of bias and speculation. Availability of such information, against a backdrop of thousand sources of information currently available from the media and the internet, is a difficult process. The use of traditional methods of research are time consuming and expensive. To deal with this challenge of researching for relevant information, I employed data mining tools which I used together with discretionary methods to develop information sets which I could employ in trading decisions.

Working within the regulatory framework that governs commodity trading is another challenge that I had to deal with. There is an intricate legal and policy framework that governs the commodity market, and as an advisor, weaving through this proved to be a challenge. To effectively deal with these, I develop partnerships, which should develop into the long term with players

in the industry and in the firm who have a deep understanding of these regulations. From them, I received professional advice and opinions to aid in my decision making. As a result, I managed to wade through the labyrinth of legalese that governs the commodity market successfully.

## **References**

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