

# Financial Commodity Investments, Inc. Newsletter

October 2009

Volume 3

## The Option Writer's Report

### In This Issue

[About FCI](#)

[The FCI-OSS Strategy](#)

[The FCI-CPP Strategy](#)

[Time as an Asset Class](#)

### About FCI



Financial Commodity Investments, (FCI), is now a wholly owned subsidiary of the Financial Investments, Inc. family.

FCI is a commodity trading advisor (CTA), a member of National Futures Association (NFA), and registered with the Commodity Futures Trading Commission (CFTC).

FCI executes investment strategies on behalf of an investor directly in the investor's own account. FCI trades options in a diversified range of commodities including energies, grains, softs, metals, and financial commodities. FCI is open to non accredited investors with a minimum of \$50,000. Participants in FCI have unlimited risk.

### Disclosure:

There are substantial risks involved in trading options on futures and equities. The high degree of leverage that is often obtainable in options trading can work against you as well as for you. The volatile nature of the futures and high degree of leverage used in options may result in clients losing more than their original investment. Please consider carefully whether options are appropriate to your financial situation. Only risk capital should be used when trading options on futures and equities. Past results are not necessarily indicative or a guarantee of future results. Futures/options products are not suitable for all individuals.

### FCI Reports Returns for September 2009

Returns with each program for the month of September, 2009 and YTD returns are as follows:

	Sept. 2009	YTD
FCI-Option Selling Strategy (OSS)	+2.06%	+19.81%
FCI-Credit Premium Program (CPP)	- 2.07%	+21.55%
S&P 500 Index	- 0.00%	+18.27%

Returns are net of all fees. Past performance is no indication of future results.

The market size of option trading strategies has gone through significant change. A compilation of data provided by Autumn Gold gives some insight into how the market place has changed.

The following graphs offer a quarterly snap shop of the assets under management for option traders. Autumn Gold has provided this information which is accepted for display with the following biases. A significant degree of survivorship bias is present. All programs that have been tracked by Autumn Gold are present and during the time frame of the study, some programs have ceased and some new programs have been initiated. Reporting bias is also present in that each reporting program chooses to report actual or nominal assets under management. No verification of the asset reporting is conducted.

For the period beginning March 31, 2007 and measured quarterly through and including June 30, 2009, the group asset under management chart is a total sum of all assets reflected in the Autumn Gold report of all option programs. The high water mark for assets took place on the quarter ending June 30, 2008. The reported amount was \$693.66MM. Six months later after the significant loss of asset values in all asset classes, the size of the option traders market was reduced to \$248.83MM. This deterioration continued through the last quarter covered in the study and assets at June 30, 2009 was reported as \$208.07MM.

You can learn more about FCI at [www.financialcii.com](http://www.financialcii.com) or call (703) 435-2777

FCI uses a pro-active management style of monitoring and managing investments in relation to risk, return, capital requirements, and market directions. Policies are in place to adjust positions as needed. FCI uses conservative money management exposure guidelines.

FCI provides personalized attention to our institutional investors with customized reporting. FCI is totally dedicated to the needs of both Institutional and Individual clients.

Harry Markowitz, published Modern Portfolio Theory, won the Nobel Memorial Prize in Economic Sciences in 1990, advocates that a portfolio should have exposure to commodities as a form of non-correlated asset diversification.

**Contact Us:**

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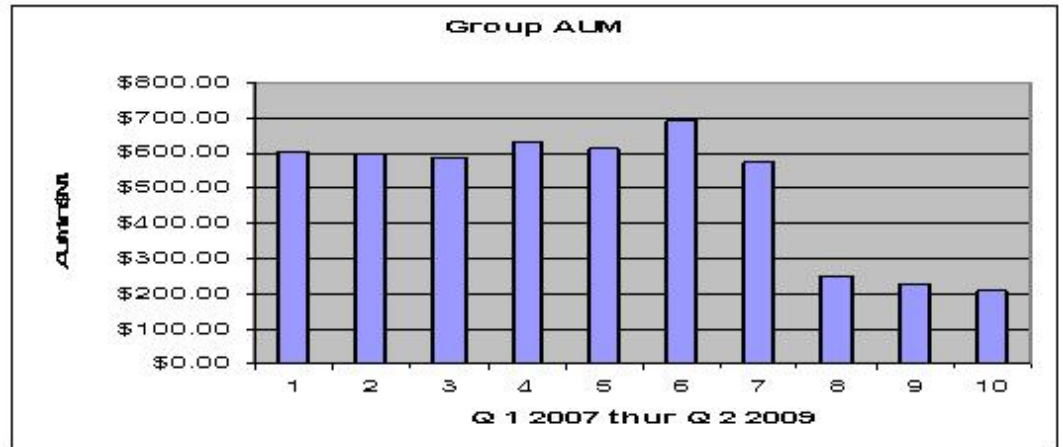
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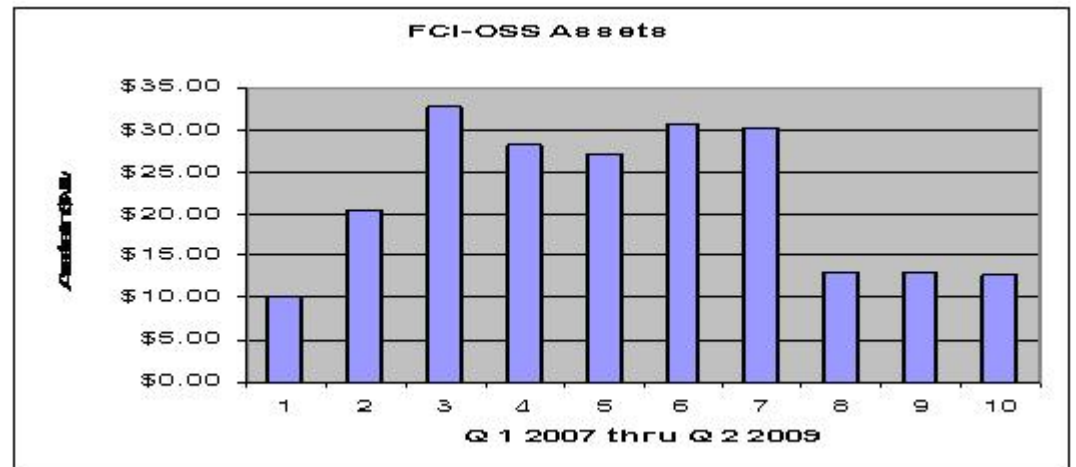
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**The FCI Option Selling Strategy (OSS)**



The FCI-OSS program change of assets over the same period of time shows a high degree of correlation with the market in general. During the first four quarters, OSS assets were growing based on a combination of new assets to be managed and program performance. OSS had its peak in the period ending September 30, 2007, with a second peak observed in the quarter ending June 30, 2008. OSS followed the same general pattern of asset loss due to market conditions. What is interesting is that on a relative basis the percentage of assets in OSS as compared to the assets of the overall group in the period ending June 30, 2008 was measured at approximately 4.42%. The same comparison of market share measured period ending June 30, 2009 was measured at approximately 6.08%. This gives an indication that while OSS has lost assets on an absolute basis, it has retained a larger share of the market on a relative basis.



The FCI-CPP program change of assets over this measurement period displays a different pattern. Because this was a proprietary account until the beginning of 2009, asset under management changes were based solely on account performance. It is interesting to note that in the subsequent two quarters, the assets under management changed from \$1.48MM, ending Dec 30, 2008 to \$4.51MM, ending June 30, 2009. This represents a growth that is based on the acceptance of new accounts. Using the same relative measurements, CPP had approximately 0.58% of the entire group assets and for period ending this relative measure has grown to approximately 2.17% of the entire group.

The combination of assets of OSS and CPP combined, measured on a relative basis to the entire group adds another dimension. The combined relative measure for period ending June 30, 2008 is approximately 4.66% and the combined relative measure for period ending June 30, 2009 is

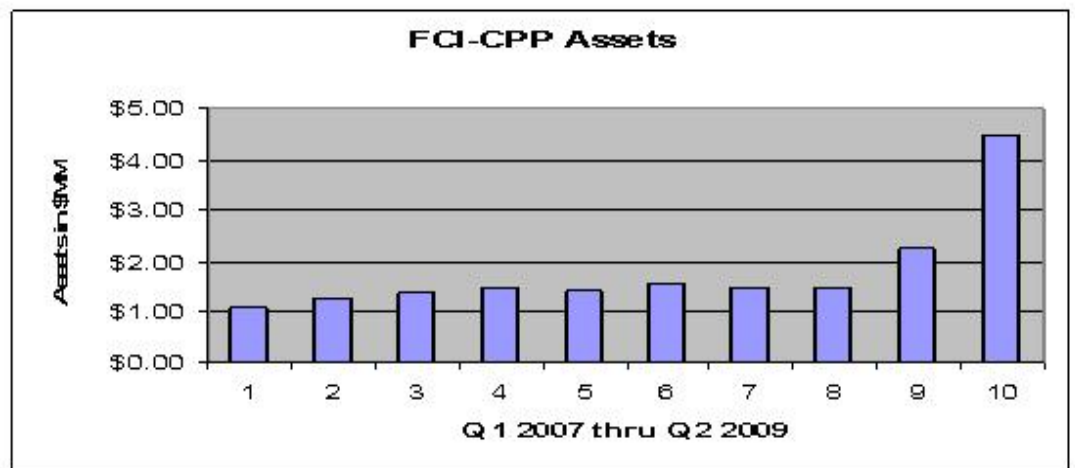
FCI Option Selling Strategy (OSS) is an option selling strategy based on selling options that are far out of the money and keeping the premium at expiration. This is a pure short volatility program that is managed by keeping a watchful eye on the positions. Please see our Disclosure Document on this program, which is posted on our website.

### The FCI Credit Premium Program (CPP)

FCI Credit Premium Program (CPP) is an option selling strategy. It is designed to capture net premiums from options sold and will use hedges to protect against significant adverse market movements. The options sold will be closer to the money of the underlying asset in comparison to the OSS program. Day to day management watches these positions. Please see our Disclosure Document on this program, which is posted on our website.

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approximately 8.25% of the entire group.



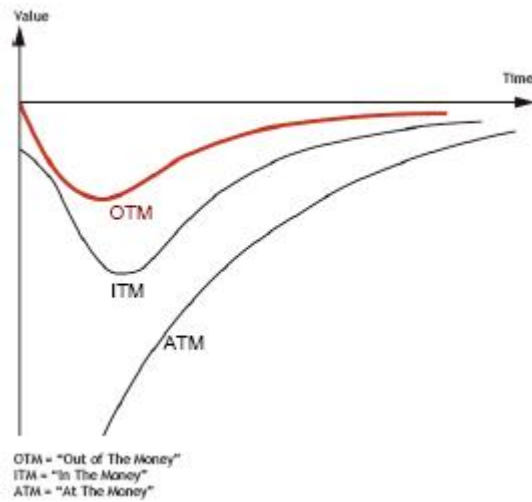
The conclusions drawn from this study indicates the as a whole FCI has endured the downdrafts of the overall market conditions that began in the second half of 2008 and has emerged this period with a larger market share as measured at the end of the first half of 2009. The aforementioned biases, especially survivorship are predominant in this conclusion.

### Time as an Asset Class

Time value is the essence of the FCI option writing programs. As an option seller, seeking options to sell that have the greatest value in relation to the remaining amount of time until contract expiration is the main ingredient in our programs. Regardless if the options sold are outright as in OSS or hedged as in CPP, the collection of the premium is the goal of each program. This process is repeatable as new options are created and changes in values occur during the contract lifespan.

The selling of options involves unlimited risks. Naked or hedged positions are subject to losses greater than the returns. Only by closing open option positions will the assumed risk be reduced. Option positions that expire worthless will allow the retention of the premium received when the position was opened.

The chart below gives an indication of the values we seek to collect. The negative peek represents the exposure we have in terms of where the option stands in relation to the underlying and decreases with the increase in time.



This graphic presentation shows how uncorrelated option selling is to the underlying markets. As underlying prices change, the shift in values is observed by an option moving through the three main states, ITM, ATM or OTM. The positions chosen in this list of choice is based probabilities of where the underlying price will be at a certain point of time, as well as where it will not be. The choices of where the underlying will not be by a certain time frame are greater. These possibilities are the driver in seeking those that offer the greatest reward in relationship to the probability of adverse movement in connection with the capital committed to seek this return.

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