LongView Investment Trust
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General Philosophy:

Even though past performance may not be indicative of future results, we believe that analyzing a market's historical behavior is an integral part of developing a solid business plan. Therefore, a substantial amount of backtesting is employed to assess the viability of a trading approach and measure its profit & risk factors. However, backtesting is used more to establish risk parameters than to project profitability.

We believe that exits are more important than entries, so we focus on creative exit strategies that enhance profitability and minimize drawdown. We believe that position sizing is more important than almost anything, so we also focus on maximizing return and managing risk from that angle.

We trade in lot sizes that will allow us to put on multiple positions in the same direction before they are closed out. We anticipate an accumulation or distribution in our entries each time we take a signal. This may sometimes be seen as trading too small or taking stabs at the market. We don't try to call tops and bottoms, so we scale in and scale out.

We believe in almost always being in the market so that we don't miss the big moves. We are system traders, employing completely automated strategies with multiple backup capabilities. There is rarely any discretionary intervention in our trading.

The containment of risk is at the forefront of our trading philosophy. Therefore, there are occasional changes made to the system parameters that control risk. We continually analyze performance to optimize risk control. Therefore, our systems take each trade with the caution that we believe is required to keep us "in the game" and achieve profitability in the prevailing environment. That environment is assessed constantly, and changes are made if necessary.

The System

Our lead trading strategy looks for weakness in a short term trend to make its entries. When the weak trend changes direction to establish a move in the other direction, it exits at the first sign of weakness (as qualified by our proprietary indicators). Therefore, it often takes multiple positions against a current trend and exits after the new trend is established or the market begins chopping and moving sideways.

The Platform

This is the MetaTrader 4™ platform that we use for trade execution. We have employed numerous platforms in the past – TradeStation, CQG, and MetaStock among them – in all types of markets. We are not in any way affiliated with MetaTrader except as a user, but our experience has been that it is the most powerful and efficient trading platform available today for the Forex market.

When you log in to your account, you will be able to customize your screen and highlight whatever parts of the platform you want. You can even change colors, backgrounds, and indicators on the chart. Excellent technical support is available to teach you how to do this, if you have an interest. At the bottom, you can click on each tab to see open trades and your balance. You can also see your account history and daily news up to the minute.

We have added a layer of technology to this already strong platform with our “ping-pong” back up system. We have incorporated the use of multiple internet connections as well as multiple ISPs. If one computer misses a trade due to a lost connection, another one makes the transaction. Therefore, you can sleep at night with the assurance that your account is being managed with the best technology available.

Expectations for Your Trading System, Risk, & Understanding Draw-downs

It is important to understand that trading parameters must be adjusted to reflect how they relate to current conditions in the market. "Current conditions" means volatility more than anything else. If the system is not producing positive returns in current market conditions, the risk parameters must be tightened. This often means that you will see a slowdown, or lull, in trade results.

Some excitement may be missing during these periods because it will seem like the account is going nowhere – losses as well as profits become smaller. This is a necessary function of good money management. Do not despair during these times; rather, take heart that caution is not being thrown to the wind.

We make these adjustments depending on what we see in backtests that take into account all the trades in our history. Since this includes our most recent positions, the history is being constantly revised. We do not give more weight to the most recent activity for the following reason:

A trader never knows when the most disastrous move against him or her will occur. Therefore you must find those biggest disasters, assess their impact on your system in the past, and trade in the present like they may happen to you in the next instant. The amateur often ignores this history, believing "it won't happen to me." The professional uses history as an instrument of survival. One blows up; the other thrives. You must accept this philosophy to be happy with our management style.

When you commit your money to an investment manager you run the risk of suffering from "trader's remorse" at the very outset of the commitment. All of us want to see an equity chart that takes off immediately from the amount we've invested and climbs steadily thereafter. If that is your expectation from Forex trading, you may be better off in some other kind of investment.

If you are lucky, you might place your money in a system that builds equity immediately and steadily for some period of time. However, it is inevitable that a string of losses will occur at some point which will cause your equity to decline. This is quite simply the nature of system trading. Oddly enough, it is also the nature of discretionary trading.

It is important to understand two primary things about this phenomenon so that you don't become a "checkerboard trader" – jumping from one system to another or one broker to another when the inevitable happens.

1) Strings of losses are destiny in trading; they are not necessarily indicative of poor execution or logic. And they can happen at any time. Sometimes they happen at the outset of your investment, and this is when you might feel the most dismayed. You must put this in perspective by understanding that if you encountered this drawdown later in the game (after you had accumulated profits) it wouldn't be nearly as painful, though it would still be a string of losses.

Note:
Since we are counter-trend traders, our accounts start off with losses more often than not. Therefore, it is more by design than by accident that your account will suffer a drawdown before becoming consistently profitable. It is part of our strategy and can be misunderstood by the average investor.

2) Drawdowns of this nature are directly related to the amount of risk you are taking in your account and the return you expect. Sheldon Knight is a gentleman trader who opened his first account with $75,000 and turned it into more than $1 million in a year. In a Futures magazine article that profiled his amazing story he said "If you don't have 40% to 60% drawdowns every once in a while, you're not trading to make the most money." This is true and is repeated by many well known traders.

It is entirely possible to make a steady 15% in Forex with drawdowns of no more than 10% or 15% with proper money management. However, you could see even greater returns in this arena, but this entails taking on more risk. You simply cannot achieve the high returns you might expect on your investment without this less palatable aspect of the plan.

It is comforting to know that if you become a temporary loser you are in the best of company. Consider this quote from Michael Marcus: “The typical pattern is: Lose, fight like hell, lose again, then cut back . . . until [you] get on a winning track.” Michael is the first supertrader featured in the landmark book, Market Wizards. He turned a $30,000 account into $80 million.

Risk

The risk of loss in trading foreign exchange can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in foreign exchange trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

A most important measure of risk is drawdown. Drawdown is defined as the percentage relationship of equity to balance at any given time. For example, if the balance in your account is $50,000 at the end of the day and the equity in the account falls to $40,000 because of losses (whether on paper or booked), the drawdown is 20% ($10,000 divided by $50,000).

This drawdown can be controlled by manipulating the risk parameters of the system. By lowering the potential drawdown, you can minimize your risk; however, you also lower your potential return.

Risk can be controlled in any size account. We can regulate risk in a $5,000 account as effectively as we can in a $50,000 account. However, the chance that you will make an overall profit is directly and significantly related to the amount of money you have at risk.

Client Relations

You will always have access to your account and can even watch the trading occur. A statement is available from your broker at any time.

We have no ability to draw funds from your account, only to make the trades. Our performance fee is paid out of the account by the bank where your account is held.

We recommend you give this opportunity a full year of trading, since annual return is what should matter to you the most. As your account builds, the amount of lots traded increases thereby escalating your profit potential. However, you are welcome to withdraw any or all funds at any time.

www.harooki.com

Visit our website and let us know if you have any other questions.

See our article in **Futures Magazine** on money management strategies titled "**Know When To Get Out!,** in the March issue,

Sincerely,

Brian R. Lee – client relations / systems development

Raleigh R. Lee – systems development / technological advisor

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10% of our net profit goes towards our non-profit organization – www.charitywestpalm.com