

## **Informative Overview**

### **Livestock CTA (LCTA)**

#### **LCTA's Trader**

Roger Show is LCTA's president and sole trader. His more than 25 years of experience in the livestock industry is rather unique. Upon graduation from the University of Illinois with a BA in Economics in 1982, Roger was accepted into a management training program with Swift Independent Meat Packer, at the time the largest of its kind in the world. His training was comprehensive; it was the first time in the firm's history they recruited business graduates for the purpose of teaching them the agricultural side of the business. The intensive 18-month program took place at Swift's Marshalltown, IA plant, training him in every facet of operation, each for a period of two weeks, from buying hogs to boning hams.

After completing the requisites of the program, he was promoted and transferred to corporate headquarters in Chicago where he served as product manager in charge of pricing all the company's major cuts of meat. It was at this time that Swift, with Roger at the helm, created the firm's first cross-basis hedging program. Responsibilities focused on the refrigeration of literally millions of pounds of pork product prior to hedging inventory in the futures markets by employing historical pricing and industry wide statistics. His intended goal: to profit when pork-cut pricing got out of line with the futures markets. The program proved highly successful during his two-year tenure and is now common practice in the meat industry. In 1985, he left Swift and took a trading position with a large global exporter of meat products. Equipped with valuable experience learned in the meat packing industry, he formed Peacock Trading Inc. in 1987. In 1989 Peacock Trading Inc. became registered as an IB.

#### **Peacock Trading**

Peacock Trading is an affiliate of the Commodity Trading Advisor (CTA), LCTA, specializing in cash hog trading. In addition to trading in the Chicago-based futures markets, **Roger has specialized in the cash meat brokerage industry for more than 20 years.** Owing to his focus in the cash livestock marketplace, he brings to investors an intimate understanding of a variety of market forces in play including packer demand, buyer reactions, wholesaler supply/demand and historical seasonal patterns. Investors should be aware that past performance is not indicative of future results. Fundamental factors, seasonal and weather trends, and current events may have already been factored into the markets.

Peacock's mission is to function on an optimal level and excel as one of the premier cash meat brokers in the US. In this capacity, the company has been operational for the

past 20 years and continues to provide vital cash meat and livestock information to its trading advisor affiliate, LCTA.

## **LCTA Competitive Edge**

For the past 20 years Roger has traded primarily in cash hogs through his company Peacock Trading, which, on average, sells roughly three million pounds per month of fresh and frozen pork. Over that period, he has developed an extensive pipeline of extremely knowledgeable contacts culled from the cash livestock markets including major packers, processors and large hedge accounts.

As required by law, Peacock reports all cash trades to the USDA who in turn disseminates these price changes to the major brokerage firms at the end of the day. The brokerages then release it to newspapers, radio and trade publications which many traders use to base their trading decisions. **In effect, Roger is able to obtain vital trading information most professional futures traders then rely on to help make their trading decisions before this data filters down to the “herd.”**

**The lean hog futures and the hog cash index HAVE to be exactly the same at contract expiration. This fact underlies the importance of knowing the fundamentals of the cash market in hogs!**

Accordingly, it is stated in their disclosure document:

***Livestock believes, being well connected in the cash side and on top of the fundamentals in the livestock markets gives them a distinctive edge in trading livestock futures markets. The fundamentals effecting livestock accounts for roughly 75% of Livestock’s trading decisions.***

## **Changing Fundamentals and Asian Demand**

There are only so many hogs that can be produced enabling a sharp increase in demand to outstrip supply. Any dislocation in the hog market affecting production or sharp increase in demand may send prices sharply higher. With a rapidly growing commodity-consuming middle class among 3.4 billion Asians, we believe one could reasonably conclude hog prices will have strong underlying support for years to come. **LCTA with their intimate knowledge of cash hog prices and cash market connections can potentially offer a distinct advantage in identifying both buying and selling trading opportunities due to changing fundamental factors influencing hog prices!**

## Trading Approach

The cash hog market ultimately affects the hog futures market. As stated above roughly 75% of LCTA trading decisions are made based on Mr. Show's fundamental knowledge of the hog market. The other 25% of their decision process is based on technical and statistical analysis. They employ neural networks and Elliott Wave analysis for timing and use statistical analysis for seasonal tendencies, crop report estimates and import export figures. Relative value is used for spreading one contract against another within the livestock futures markets.

## Prudent Money Management

Putting these fundamental, statistical and technical factors together constitutes LCTA's decision making process for determining trades. LCTA believes determining potential trades is only one important part of what separates successful CTAs from unsuccessful ones. The other important part is risk management. **LCTA takes risk management very seriously and follows a specific routine to determine whether a decision to trade meets their stringent risk parameters.** This process begins by determining where their maximum stop loss would be with the total dollar amount to risk on each trade. They then determine position size based on a maximum of 2% risk per trade. In the following calculation, LCTA takes a look at projected target levels and tries to establish a minimum price target for taking profits. They then determine the reward-to-risk ratio which must be at least 1.5 : 1.0 with the goal of the risk being no greater than 2% of the accounts balance. If the risk is too great or the reward is too small then the trade is passed. Also, if the reward is potentially huge but the risk per trade is greater than 2%, the CTA will pass on the trade. LCTA uses this method of determining whether to accept or reject a trade regardless of fundamentals and technical factors. This gives them the luxury of only needing to be correct a little more than 50% of the time to be potentially successful. Investors should be aware that trading in futures and options involves substantial risk of loss, no matter who is managing your money.

## Conclusion

**Volatility and risk is increasing in the stock market. Financial, brokerage, homebuilding and other stocks are experiencing 25% to over 50% drawdowns. While volatility has always been present in the commodities market it's now also a way of life in the stock market. Mr. Show possesses a unique amalgamation of talent, expertise, knowledge and two decades of experience trading cash livestock markets and futures. After better understanding Mr. Show's credentials, track record, and competitive trading edge, we believe suitable investors have reason to conclude the risk of opening an account with LCTA may be worth the reward. Finally, the fact that an investment with LCTA is uncorrelated with the stock market and can add valuable diversification to an overall portfolio makes**

**investing with LCTA that much more compelling! Read LCTA's disclosure document and you be the judge! Investors should be aware that past performance is not indicative of future results. There is substantial risk of loss in trading futures and options and such an investment is not suitable for everyone.**

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