



## Contributing Editor's Collection

### Hilary Till

Solich Scholar, J.P. Morgan Center for Commodities, University of Colorado Denver Business School; and Contributing Editor, [\*Global Commodities Applied Research Digest\*](#)

This collection of four articles covers issues that are relevant to the agricultural, metals, *and* energy markets, reflecting the J.P. Morgan Center for Commodities' commitment to include *all* commodity sectors in both its applied research and educational efforts.

Each of this collection's four articles is summarized below.

### The Fundamental Elements of a Commodity Investment Process

This digest article covers how to further distill returns in the commodity markets beyond that which is available through passive exposures to various commodity sectors. A manager can potentially do so through the use of well-chosen entry and exit rules, trade construction, and downside risk management. In addition, an actively managed commodity portfolio will tend to have dynamic exposures to the various commodity sectors, given the seasonal nature of a number of commodity trading opportunities.

*The article includes examples from the gasoline and copper markets.*

### A Brief Primer on Commodity Risk Management

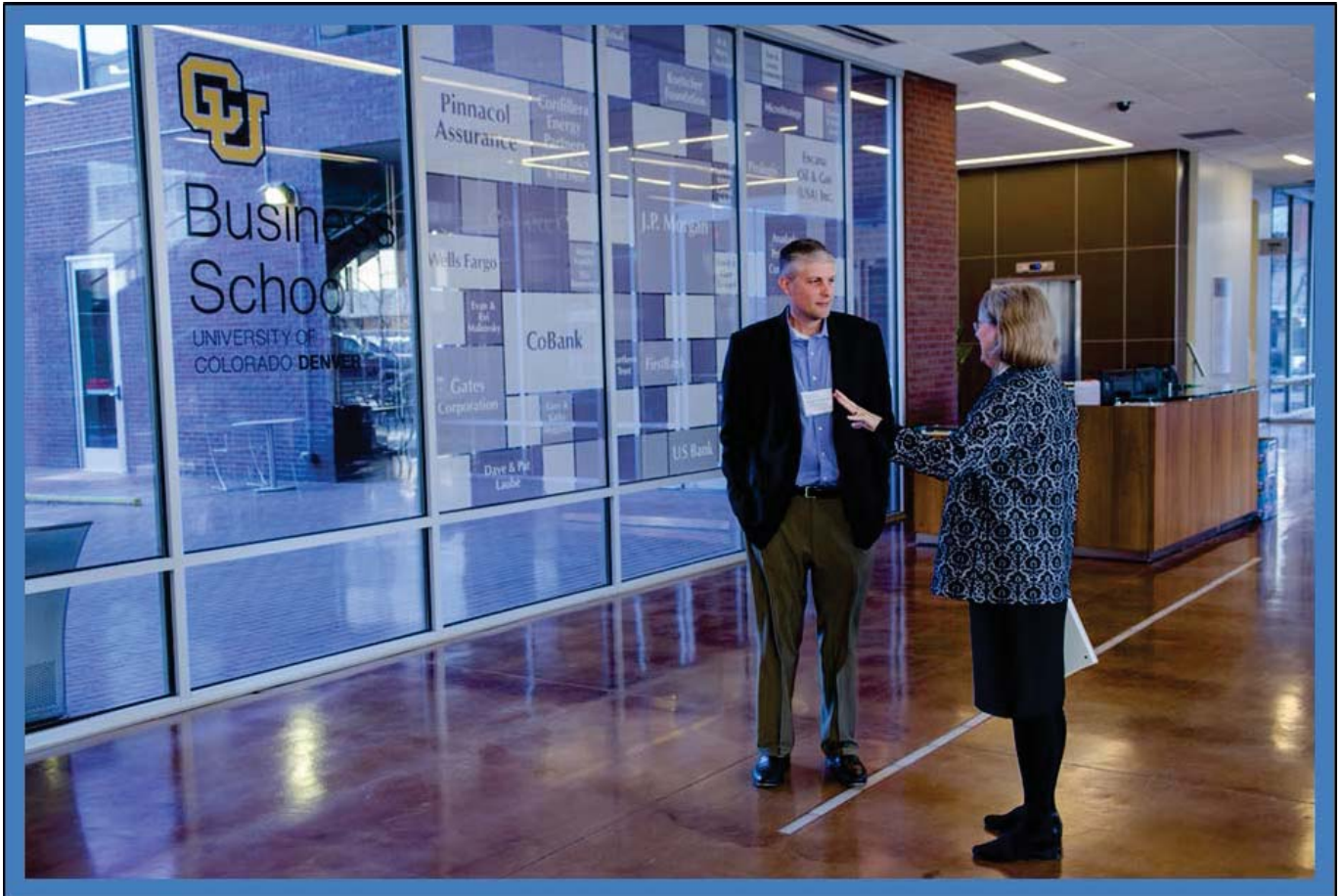
In covering the topic of commodity risk management, this practitioner-oriented paper proceeds as follows. A number of trading strategies exist because the trader is paid to bear risk: that is why the strategies can continue to exist, even if well-known. But then in order for a trading program to be viable in the long-term, a trader must implement disciplined risk management procedures. The key parameters for a risk-management program include quantifying a client's risk tolerance and attempting to ensure that one does not exceed that tolerance as well as understanding the price behavior of commodity futures prices and their potential for explosive behavior. Both of these parameters are essential for the choice of leverage level and hedging strategy for a trading program. Next the paper covers two types of useful risk metrics for a trading program, which include Value-at-Risk and historical worst-case measures. The article then discusses how to avoid inadvertent concentration risk, namely by understanding the fundamental drivers of a strategy. The paper also advocates the use of (a) out-of-the-money options to hedge against identifiable extreme scenarios and (b) disciplined exit strategies for when trading strategies exceed worst-case outcomes. Finally, the paper enumerates what should be included in a trading program's risk-management reports.

*The article includes examples from the corn and natural gas futures markets.*



## Why Haven't Uranium Futures Contracts Succeeded?

The [Spring 2016 "Contributing Editor's Collection" of articles](#) included an article on "Brief Case Studies on Futures Contract Successes and Failures." That article noted that even though the U.S. futures markets have evolved in a trial-and-error fashion, one can nonetheless identify the key elements that determined whether particular futures contracts succeeded or failed. In this issue, we add to this past analysis by examining why a particular metals futures contract has not succeeded thus far: the uranium futures contract. Such an analysis, as in this article, may be valuable for new financial centers as they build successful futures markets.



Hilary Till (right), Contributing Editor of the *GCARD*, discusses synergies with Thorvin Anderson, CFA (left) during the JPMCC's Research Council meeting on December 4, 2015. Anderson is the Content Director of the JPMCC's [Professional Education Program](#) and is also an Editorial Advisory Board member of the *GCARD*. In addition, both Till and Anderson are members of the JPMCC's Research Council.



## **Timing Indicators for Structural Positions in Crude Oil Futures Contracts**

Should an investor enter into long-term positions in oil futures contracts? In answering this question, this paper covers the following three considerations: (1) whether crude oil inventories are scarce or not; (2) how to avoid the risk of oil prices crashing; and (3) the use of financial assets for diversification purposes. The paper concludes that positions in crude oil futures contracts should (a) not only be actively timed, but (b) must also be twinned with financial assets in order to hedge against both the possibility of deflationary conditions and/or periodic oil-market-share price wars.