

# Colby Algorithmic Trading System - Volatility

Robert W. Colby Asset Management, Inc.

## Colby Algorithmic Trading System–Volatility (CATS-V) Aims for High Returns.

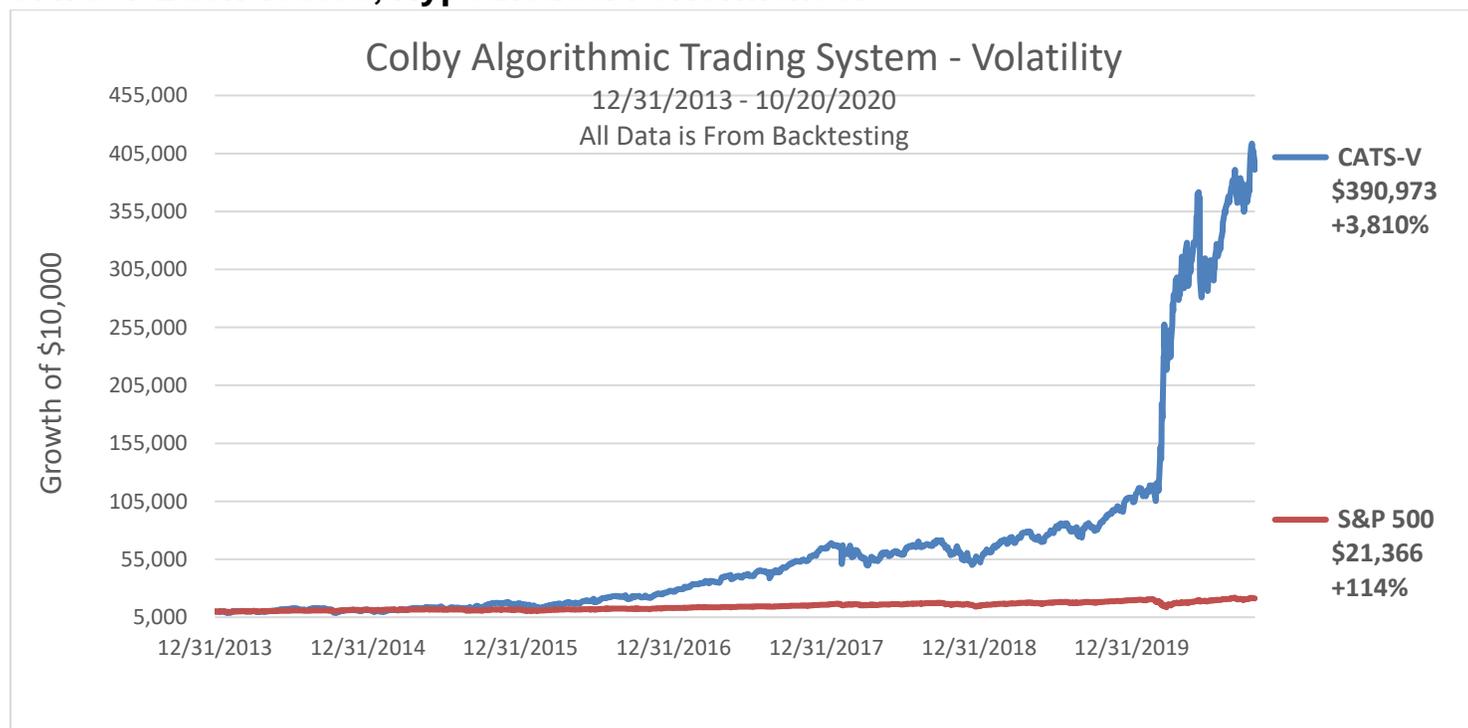
CATS-V is only for speculators who can tolerate a high degree of risk (trading losses). Although the CATS-V system does have built-in risk controls, the risks of trading volatility cannot be controlled to the same extent as more traditional investments, such as stocks and bonds.

Algorithmic trading systems utilize back-tested and optimized computer programs to determine when to enter and exit a trade. Apart from system design, development, and testing, there is no human judgment or human emotion involved in the execution of actual trades. CATS-V employs a variety of active strategies in order to maximize trading flexibility. In order to fully capitalize on two-way price volatility, CATS-V executes both long and short trades.

Trading frequency can be highly variable, depending on market volatility, with trades lasting from a day to weeks or even months. Percentage swings in account equity can be extremely large--**both up and down**--much larger than with ordinary stocks and bonds.

CATS-V is available only to clients who open a dedicated margin account at Interactive Brokers (interactivebrokers.com), one of the few independent broker/dealer custodians that meets our requirements for security and active trading capabilities.

## **CATS-V Back-Tested, Hypothetical Performance:**



## **CATS-V Back-Tested, Hypothetical Performance, Annual Returns:**

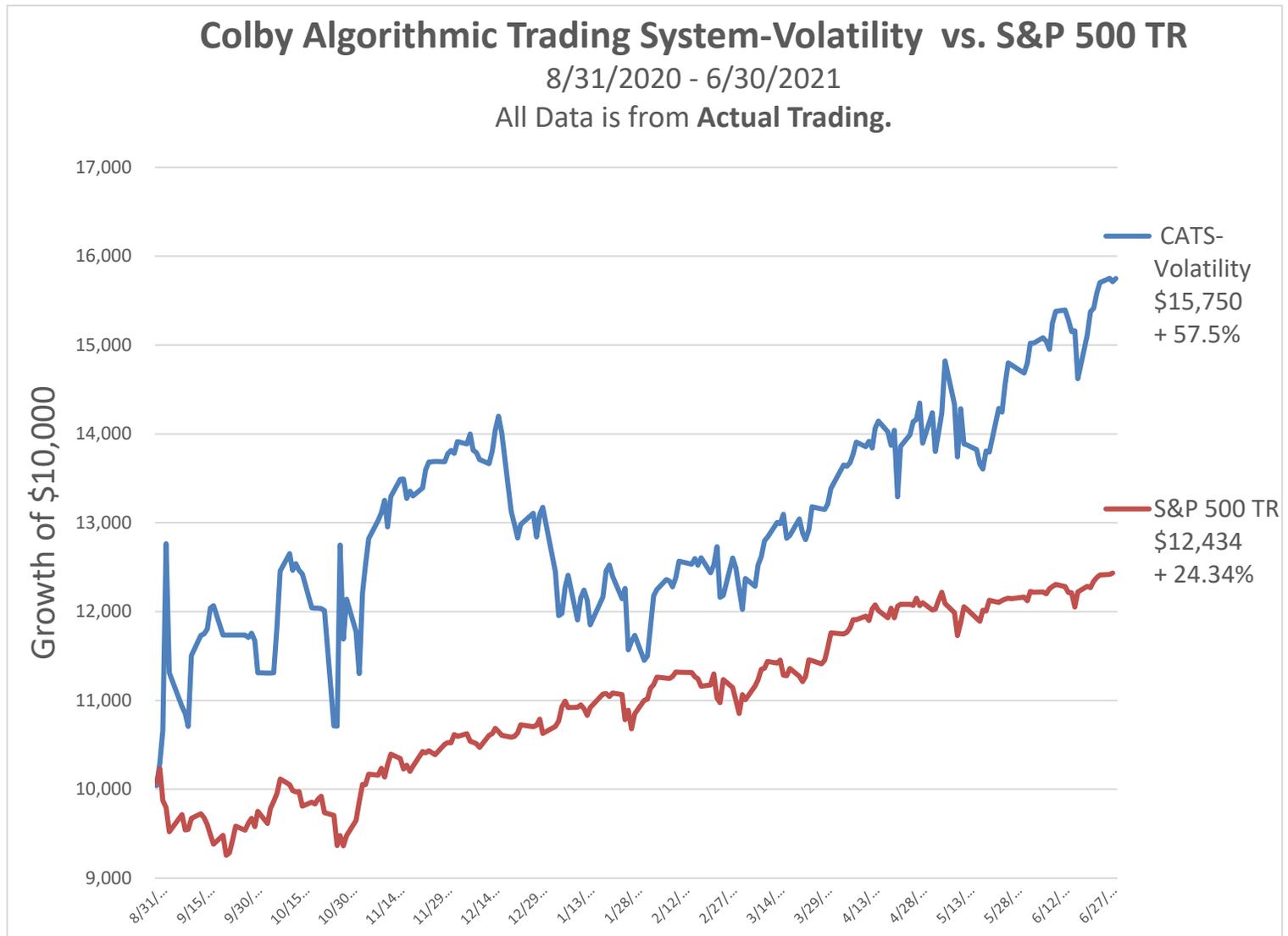
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>10/20/20</u>	<u>CAGR</u>	<u>Std. Dev.</u>	<u>Largest Draw Down</u>
CATS-V	14%	44%	66%	138%	-16%	98%	266%	71%	94	-34%

Backtested returns. CAGR is the Compound Annual Growth Rate. Standard Deviation is since inception through 10/20/2020.

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## CATS-V Actual Performance:



## CATS-V Returns from Actual Trading (Inception Date 8/31/2020):

	<u>8/31/2020-12/31/2020</u>	<u>YTD Through June 2021</u>	<u>CAGR</u>	<u>Monthly Std. Dev.</u>	<u>Largest Draw Down</u>	<u>Since Inception</u>
<b>CATS-V</b>	31.7%	19.55%	72.90%	8.80	-19.36%	57.5%
<b>S&amp;P 500 TR</b>	7.89%	15.25%	30.03%	4.30	-9.52%	24.34%

Inception August 31, 2020. CAGR is the Compound Annual Growth Rate since inception. Standard Deviation is monthly since inception through latest month.

**CATS-V Actual Performance** is based on all discretionary accounts that are fully invested in the CATS-V program and held at our recommended custodian, Interactive Brokers.

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**CATS-V Goal:** To achieve high absolute returns. CATS-V is not designed to track the general stock market, and CATS-V is not correlated to the broad stock market indexes. Risk may be substantially higher than the S&P 500. CATS-V was designed to capitalize on stock-market volatility trends, which can be highly variable at times, resulting in large variations in account equity. There can be no assurance that future market behavior will resemble historical market behavior on which the CATS-V algorithm was developed. CATS-V was designed to be maximally flexible, require buying long and selling short in a margin account. CATS-V and margin accounts are not available for retirement accounts.

## Portfolio:

**Long-term holdings:** CATS-V will usually hold a longer-term *long or short* position in Exchange Traded Funds (ETFs) that track the performance of the S&P 500.

**Medium-term holdings:** CATS-V will usually hold a medium-term *long or short* position in *Leveraged* Exchange Traded Funds (ETFs) that track the performance of the S&P 500 in a bullish state, or will sell these ETFs short in a bearish state. The S&P 500 has a tendency to trend upward over the long-term, so our algorithm buys long more often than it sells short in order to profit from this tendency.

**Shorter-term holdings:** CATS-V will also trade *Leveraged* ETFs that track VIX Futures, long or short, based on Colby's proprietary algorithm. During each trade, profits will be taken at pre-determined levels to lock in gains and to attempt to minimize volatility. VIX Futures have a tendency to trend downward over time, so our algorithm sells short more often than it buys long in order to profit from this tendency.

**Timing:** Colby reserves the right to begin investing clients' funds gradually, or immediately, depending on the current state of the markets and the CATS-V algorithm.

## Returns:

Portfolio return is based on the change in the value of portfolio due to trades generated by the CATS-V algorithm, expressed as an annual return over the time period specified. Returns include interest, dividends, capital gains and other earnings. The results were obtained over a variety of market and economic conditions and continuously fluctuating market prices. The performance of a specific individual account may vary from the stated performance results. Past performance may not be indicative of future results, and no current or prospective client should assume that future performance will be profitable or equal the performance results reflected herein. No strategy, asset allocation, diversification, or other method can guarantee performance or eliminate the risk of investment losses.

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## Who Can Invest, and What are the Minimums and Limits?

**Non-Accredited Investors:** No Minimum. Maximum investment cannot exceed 10% of your total assets under management at Robert W. Colby Asset Management-reviewed annually.

**Accredited Investors:** No minimum, and no limits. Investor must meet the minimum requirements for an accredited investor as specified by the SEC--one must have a net worth of at least \$1,000,000, excluding the value of one's primary residence, or have income at least \$200,000 each year for the last two years (or \$300,000 combined income if married) and have the expectation to make the same amount this year.

**Trading Program Limits:** The CATS-V program will initially be capped at \$25 million invested.

## What are the Risks?

**Risk of Loss:** All investing has risk of loss. The CATS-V hypothetical simulation using back-testing of historical data experienced a maximum drawdown of 34%. Future drawdowns may not be similar. CATS-V trades two volatile and leveraged ETFs, *UPRO* and *UVXY*. Please read and review the product information for *UPRO* - ProShares UltraPro S&P500 (<https://www.proshares.com/funds/upro.html>), and *UVXY* - ProShares Ultra VIX Short-Term Futures ETF (<https://www.proshares.com/funds/uvxy.html>). We are also trading a non-leveraged ETF, ticker symbol *SPY* - SPDR® S&P 500® ETF (<https://www.ssga.com/us/en/institutional/etfs/funds/spdr-sp-500-etf-trust-spy>).

**Tax Inefficiencies:** Frequent trading may create wash sales, which may impact your taxes. Colby may suspend trading at times for a 30-day period to avoid a large wash sale, or a wash sale near the end of a calendar year.

## What are the Account Requirements?

Margin account at Interactive Brokers (No IRA Accounts).

Account must have extended hours trading.

Account must be accessible to Robert W. Colby Asset Management, Inc. for trading only.

## Fees:

Returns presented on this report are net of actual fees and expenses. Client accounts are charged a fixed investment management fee based on the amount of assets in the account: 2.0% per year (assessed quarterly at 0.5% per quarter) for margin accounts held at our recommended custodian, Interactive Brokers. Trading commissions and other fees are as specified on the Interactive Brokers website.

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## How do I Get Started?

Go to our “Get Started” page at <https://www.colbyassetmanagement.com/getstarted.html>. Complete and return Colby’s “New Account Form.”

Contact our firm to open and fund an account at Interactive Brokers—we can send you an invitation linked to our firm at Interactive Brokers—just call 646-652-6879 or email [anderson@colbyassetmanagement.com](mailto:anderson@colbyassetmanagement.com) to request the email invitation.

This document is not intended as, and does not constitute, an offer to sell or solicitation to purchase securities.

Investment decisions should not be made solely on information in this document. Ask your advisor and tax professional for additional material.

## About Our Results

All data and measures are based on return data for the Colby Algorithmic Trading System (CATS-V) Program since inception--results from back testing are clearly stated. All statements herein are intended to be accurate and complete and to disclose all material facts necessary to avoid any unwarranted inference. Any and all investment performance data shown reflect all margin accounts held at our recommended custodian, Interactive Brokers. (Some clients, at their own choosing, may hold securities that are not included in our CATS-V Program, or they may choose to deviate from our program in some other way; therefore, their performance results may deviate from our recommended investment program, for better or worse, and are not included in our performance data.) Our performance data reflects the deduction of advisory fees, brokerage and other commissions and fees, and any other expenses that accounts have actually paid. Our performance data reflects the reinvestment of dividends, interest, and other earnings. Our investment strategies and all fees are explained on our website and in our disclosure documents and also are available on request. The industry standard benchmark for performance comparison is generally the S&P 500 Index, although that and all other price indexes have certain limitations in that they differ from our recommended investment program in volatility, asset mix, diversification/concentration, dividends, interest, trading costs, fees, and other factors. Unlike the S&P 500 Index, which passively reflects the price performance of 500 large-capitalization stocks, our recommended investment program is concentrated in relatively few securities and actively aims first for capital appreciation. We work continuously to achieve these goals. We try to anticipate and adapt to change. Regulators point out that there can never be any guarantees in investing; there is always risk and the possibility of loss; changing market conditions are beyond anyone's control; and past performance is not a guide to future performance.