

## Colby Algorithmic Trading System – Volatility / Opportunity (CATS-VO)

### Disclosures and Accredited Investor Representation Questionnaire

November 30, 2022

Robert W. Colby Asset Management, Inc.

[www.ColbyAssetManagement.com](http://www.ColbyAssetManagement.com)

Before you invest, you want to review these disclosures and accredited investor representation questionnaire, which contain more information about the program and its risks.

### Investment Objective:

The Colby Algorithmic Trading System – Volatility (CATS-VO) seeks profits from speculative algorithmic trading systems.

### Portfolio Turnover:

Clients pay transaction costs, such as commissions, when CATS-VO buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes. Transaction costs are reflected in our performance data, but taxes are not.

### Principal Investment Strategies:

The goal of CATS-VO is to achieve high absolute returns. CATS-VO is not designed to track the general stock market, and CATS-VO is not correlated to the broad stock market indexes. Risk may be substantially higher than the S&P 500. CATS-VO 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-VO algorithm was developed. CATS-VO was designed to be maximally flexible, require buying long and selling short in a margin account. CATS-VO and margin accounts are not available for retirement accounts.

### Portfolio:

**Long-term holdings:** CATS-VO will usually hold a longer-term *long or short* position in Exchange Traded Funds (ETFs) that track the performance of the S&P 500. CATS-VO is currently 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>). We may, at times, use an inverse ETF instead of selling short.

**Medium-term holdings:** CATS-VO 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. CATS-VO is currently trading ticker symbol ‘UPRO’ - ProShares UltraPro S&P500 (<https://www.proshares.com/funds/upro.html>.) 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. We may, at times, use an inverse ETF instead of selling short.

**Shorter-term holdings:** CATS-VO will also trade *Leveraged* ETFs that track VIX Futures, long or short, based on Colby’s proprietary algorithm. CATS-VO is currently trading ticker symbol ‘UVXY’ - ProShares Ultra VIX Short-Term Futures ETF (<https://www.proshares.com/funds/uvxy.html>.) During each trade,

profits may be taken at pre-determined levels to lock in gains and to attempt to lower 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. We may, at times, use an inverse ETF instead of selling short.

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

## **Principal Investment Risks:**

The principal risks of investing in CATS-VO are summarized below. As with any investment, there is a risk that you could lose all or a portion of your investment in the program. Some or all of these risks may adversely affect the program's total return and/or ability to meet its objective.

The principal risks are presented in alphabetical order to facilitate finding particular risks and comparing them with those of other programs. Each risk summarized below is considered a "principal risk" of investing in the program, regardless of the order in which they appear.

- **Associated Risks of Short-Term Signals.** Because CATS-VO expects to change its exposure frequently based on short-term performance information, (i) CATS-VO's exposure may be affected by significant market movements at or near the end of such short-term period that are not predictive of such asset's performance for subsequent periods and (ii) changes to CATS-VO's exposure may lag a significant change in an asset's direction (up or down). Such lags between an asset's performance and changes to CATS-VO's exposure may result in significant underperformance (loss).

- **Cybersecurity Risk.** With the increased use of technologies such as the Internet to conduct business, CATS-VO is susceptible to operational, information security, and related risks. Cyber incidents affecting CATS-VO or its service providers may cause disruptions and impact business operations, potentially resulting in financial losses, impediments to trading, the inability of shareholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs.

- **General Market Risk.** Economies and financial markets throughout the world are becoming increasingly interconnected, which increases the likelihood that events or conditions in one country or region will adversely impact markets or issuers in other countries or regions. Securities in CATS-VO's portfolio may underperform in comparison to securities in the general financial markets, a particular financial market, or other asset classes, due to a number of factors, including inflation (or expectations for inflation), interest rates, global demand for particular products or resources, natural disasters or events, pandemic diseases, terrorism, regulatory events, and government controls.

- **High Portfolio Turnover Risk.** CATS-VO may actively and frequently trade all or a significant portion of the securities in its portfolio. A high portfolio turnover rate increases transaction costs for clients. Frequent trading may also cause adverse tax consequences for investors in CATS-VO due to an increase in short-term capital gains, losses, or wash sales.

- **Management Risk.** CATS-VO is actively-managed and may not meet its investment objective based on the Adviser's success or failure to implement investment strategies for CATS-VO.

- **New Trading Program Risk.** CATS-VO has been actively traded since August 31, 2020, and has a short operating history. As a result, prospective investors do not have a significant track record or history on which to base their investment decisions.
- **Non-Diversification Risk.** Because CATS-VO is “non-diversified,” it may invest a greater percentage of its assets in the securities of a single issuer or a smaller number of issuers than if it was a diversified trading program. As a result, a decline in the value of an investment in a single issuer or a smaller number of issuers could cause CATS-VO’s overall value to decline to a greater degree than if CATS-VO held a more diversified portfolio.
- **Recent Market Events Risk.** U.S. and international markets have experienced significant periods of volatility in recent years and months due to a number of economic, political and global macro factors including the impact of the novel coronavirus (COVID-19) as a global pandemic, which has resulted in public health issues, growth concerns in the U.S. and overseas, layoffs, rising unemployment claims, changed travel and social behaviors, and reduced consumer spending. The lasting effects of COVID-19 on the global economy and the recovery from COVID-19 are uncertain and may last for an extended period of time. These developments as well as other events could result in further market volatility and negatively affect financial asset prices, the liquidity of certain securities and the normal operations of securities exchanges and other markets.
- **Short Stock Buy-Ins and Close-Outs.** Clients holding short stock positions are at risk of having these positions bought-in and closed-out by our brokerage firm oftentimes with little or no advance notice. This is a risk which is inherent to short selling and outside the control of Colby. It is also subject to regulatory rules which dictate the timeframes by which brokers must act. Buy-Ins and Close-Outs could result in losses in client accounts.

While similar in their effect, the term buy-in refers to an action taken by a third party with a close-out being one taken by our brokerage firm. These actions typically result from one of three events:

1. The shares required to be delivered when a short sale settles cannot be borrowed;
2. The shares which were borrowed and delivered at settlement are later recalled; or
3. A fail to deliver with the clearinghouse occurs.

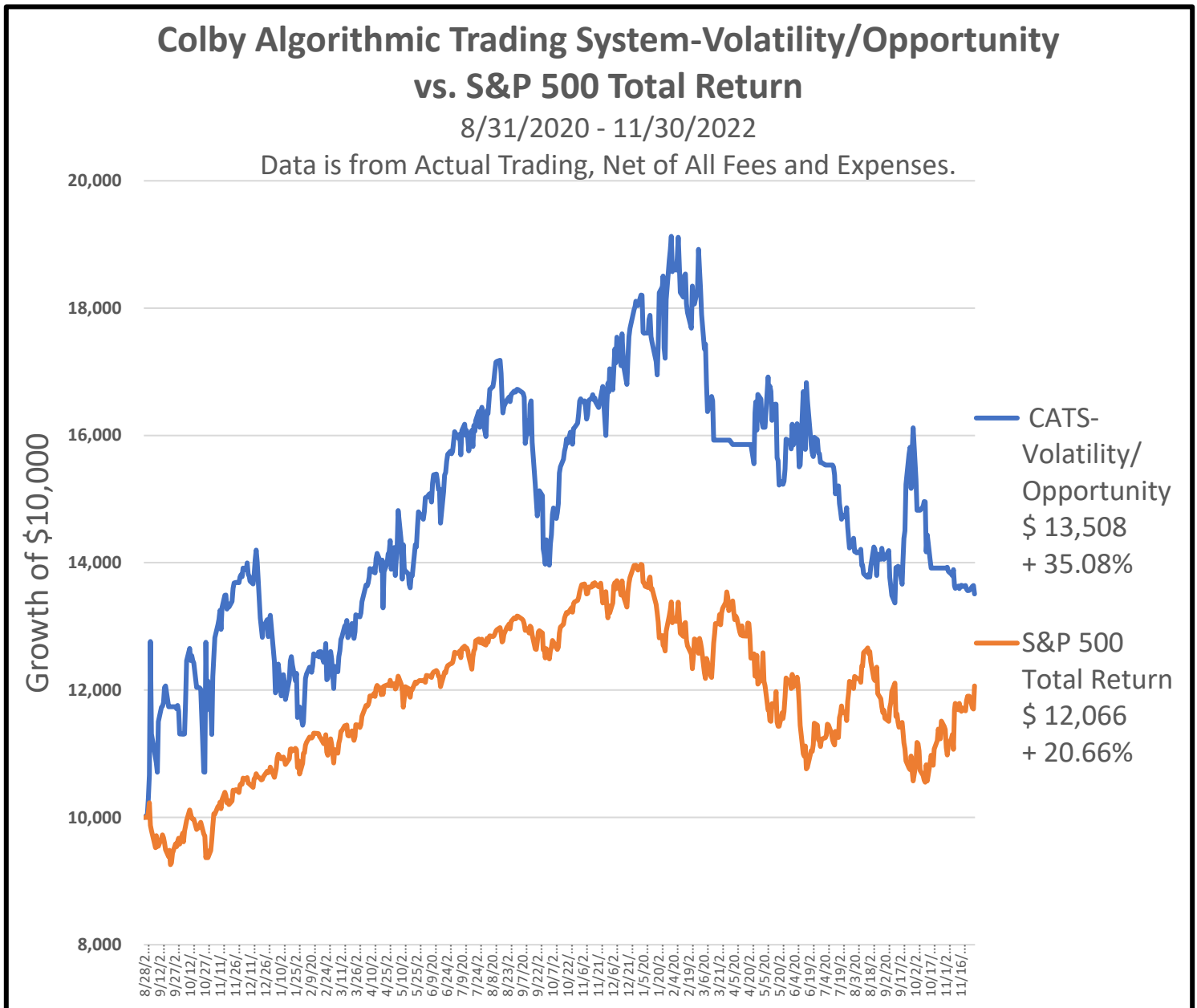
Additional information can be found at <https://ibkr.info/article/845>.

- **Underlying ETFs Risks.** CATS-VO will incur higher and duplicative expenses because it invests in underlying ETFs. There is also the risk that CATS-VO may suffer losses due to the investment practices of the underlying ETFs. CATS-VO will be subject to substantially the same risks as those associated with the direct ownership of securities held by the underlying ETFs. Additionally, the market price of the shares of an underlying ETF in which CATS-VO invests will fluctuate based on changes in the net asset value as well as changes in the supply and demand of its shares in the secondary market. It is also possible that an active secondary market for an underlying ETF’s shares may not develop, and market trading in the shares of the underlying ETF may be halted under certain circumstances.

# Colby Algorithmic Trading System – Volatility / Opportunity

Robert W. Colby Asset Management, Inc.

**Performance:** Performance for CATS-VO will be updated monthly on our website. All of our published performance data for CATS-VO include all accounts that are fully funded in the program, and are net of all management fees, trading commissions, margin loan payments, and any other fees assessed by Interactive Brokers.



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

	<u>8/31/2020-12/31/2020</u>	<u>2021</u>	<u>YTD Through Nov 2022</u>	<u>CAGR</u>	<u>Monthly Std. Dev.</u>	<u>Largest Draw Down</u>	<u>Total Return Since Inception</u>
CATS-VO	31.7 %	36.92 %	-25.12 %	14.31 %	9.11	-20.57 %	35.08 %
S&P 500 TR	7.89 %	28.71 %	-13.10 %	8.71 %	5.44	-22.99 %	20.66 %

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

Robert W. Colby Asset Management, Inc.

646-652-6879

[www.ColbyAssetManagement.com](http://www.ColbyAssetManagement.com)

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## **Fees and Expenses of CATS-VO:**

Robert W. Colby Asset Management, Inc. (*Colby*) charges CATS-VO accounts a fixed investment management fee based on the value of assets in the account: 1.0% per year (assessed quarterly at 0.25% per quarter) for margin accounts held at our recommended custodian, Interactive Brokers. Trading commissions, margin loan fees, and other fees are as specified on the Interactive Brokers website. All fees are included in our performance numbers.

## **Management:**

*Investment Adviser:*

Robert W. Colby, CMT, serves as investment adviser to CATS-VO.

*Portfolio Manager:*

William K. Anderson is responsible for the day-to-day management of CATS-VO and has been the portfolio manager of CATS-VO since its inception in August, 2020.

## **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.

## **Minimum and Maximum Investment:**

Minimum investment: \$50,000.00

Maximum investment is not to exceed 10% of a client's total investable assets.

## **Tax Information:**

CATS-VO distributions are generally taxable as ordinary income or capital gains (or a combination).

## **Financial Advisor Compensation:**

If you are working with a financial advisor who is a solicitor of Robert W. Colby Asset Management, Inc., Colby may pay the advisor for certain activities related to CATS-VO, including participation in activities that are designed to make advisors more knowledgeable about exchange-traded products, or for other activities, such as marketing, educational training, or other initiatives related to the promotion of CATS-VO. These payments may create a conflict of interest by influencing the advisor to recommend CATS-VO over another investment. Any such arrangements do not result in increased CATS-VO fees to the client, however. Your advisor should disclose any such relationship with Colby, and a list of Colby's solicitors is contained in our Firm Brochure.

## **Additional Information:**

If you have additional questions or need more information, please contact us at 646-652-6879 or [info@colbyassetmanagement.com](mailto:info@colbyassetmanagement.com) to set up a call with a member of our firm.

## Accredited Investor Representation Questionnaire

To: Prospective investors of the Colby Algorithmic Trading System – Volatility (“CATS-VO”) separately managed account offered by Robert W. Colby Asset Management, Inc., (“Colby”).

The Purpose of this Questionnaire is to solicit certain information regarding your financial status to determine whether you are an “Accredited Investor,” as defined under applicable federal and state securities laws, and otherwise meet the suitability criteria established by Colby for participating in CATS-VO. ***This questionnaire is not an offer to sell securities.***

Your answers will be kept as confidential as possible. You agree, however, that this Questionnaire may be shown to such persons as Colby deems appropriate to determine your eligibility as an Accredited Investor or to ascertain your general suitability for investing in CATS-VO.

***Please answer all questions completely and execute the signature page***

### A. Personal

1. Name: \_\_\_\_\_

2. Address of Principal Residence: \_\_\_\_\_

\_\_\_\_\_ County: \_\_\_\_\_

3. Residence Telephone: (\_\_\_\_\_) \_\_\_\_\_

4. Where are you registered to vote? \_\_\_\_\_

5. Your driver’s license is issued by the following state: \_\_\_\_\_

6. Other Residences or Contacts: Please identify any other state where you own a residence, are registered to vote, pay income taxes, hold a driver’s license or have any other contacts, and describe your connection with such state:

\_\_\_\_\_

\_\_\_\_\_

7. Date of Birth: \_\_\_\_\_

8. Citizenship: \_\_\_\_\_

## B. Occupations and Income

1. Occupation: \_\_\_\_\_

(a) Business Address: \_\_\_\_\_  
\_\_\_\_\_

(b) Business Telephone Number: (\_\_\_\_\_) \_\_\_\_\_

2. Gross income during each of the last two years exceeded:

(1) \_\_\_\_\_ \$25,000 (2) \_\_\_\_\_ \$50,000

(3) \_\_\_\_\_ \$100,000 (4) \_\_\_\_\_ \$200,000

3. Joint gross income with spouse during each of the last two years exceeded \$300,000

(1) \_\_\_\_\_ Yes (2) \_\_\_\_\_ No

4. Estimated gross income during current year exceeds:

(1) \_\_\_\_\_ \$25,000 (2) \_\_\_\_\_ \$50,000

(3) \_\_\_\_\_ \$100,000 (4) \_\_\_\_\_ \$200,000

5. Estimated joint gross income with spouse during current year exceeds \$300,000

(1) \_\_\_\_\_ Yes (2) \_\_\_\_\_ No

## C. Net Worth

1. Current net worth or joint net worth with spouse (note that “net worth” includes all of the assets owned by you and your spouse in excess of total liabilities, including the fair market value, less any mortgage, of your principal residence.)

(1) \_\_\_\_\_ \$50,000-\$100,000 (2) \_\_\_\_\_ \$100,000-\$250,000 (3) \_\_\_\_\_ \$250,000-\$500,000

(4) \_\_\_\_\_ \$500,000-\$750,000 (5) \_\_\_\_\_ \$750,000-\$1,000,000 (6) \_\_\_\_\_ over \$1,000,000

2. Current value of liquid assets (cash, freely marketable securities, cash surrender value of life insurance policies, and other items easily convertible into cash) is sufficient to provide for current needs and possible personal contingencies:

(1) \_\_\_\_\_ Yes (2) \_\_\_\_\_ No

## D. Affiliation with Colby

Are you a director or executive officer of Colby?

(1)\_\_\_\_\_ Yes (2)\_\_\_\_\_ No

## E. Investment Percentage of Net Worth

If you expect to invest at least \$50,000 in CATS-VO, does your total purchase price exceed 10% of your net worth at the time of investment, or joint net worth with your spouse?

(1)\_\_\_\_\_ Yes (2)\_\_\_\_\_ No

## F. Consistent Investment Strategy

Is this investment consistent with your overall investment strategy?

(1)\_\_\_\_\_ Yes (2)\_\_\_\_\_ No

## G. Review of Colby's Firm Brochure and Investment Management Agreement

The undersigned has been presented, has reviewed, and agrees to Colby's *Firm Brochure* (<http://www.colbyassetmanagement.com/PDF/Colby Firm Brochure.pdf>) and *Investment Management Agreement* (<http://www.colbyassetmanagement.com/PDF/Colby Investment Management Agreement and Privacy Statement.pdf>).

## H. Prospective Investor's Representations

The information contained in this Questionnaire is true and complete, and the undersigned understands that Colby and its counsel will rely on such information for the purpose of complying with all applicable securities laws as discussed above. The undersigned agrees to notify Colby promptly of any change in the foregoing information which may occur prior to any investment by the undersigned in any account managed by Colby.

Prospective Investor:

\_\_\_\_\_  
Signature

Date: \_\_\_\_\_, 2021

\_\_\_\_\_  
Signature (of joint investor if investment is to be made as joint tenants or as tenants in common)