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48.How SafeMoneyMetrics™Advisor Analysis Improves the Return Potential in Managed Futures.

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"Your Direct Risk Management Solution for Managed Futures"
Risk and/or Investment Management – Trading Manager -
Business Development – Investment Guides – Research – DataBase

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47. How SafeMoneyMetrics™Advisor Analysis Improves the Return Potential in Managed Futures.

How You Benefit

The direct benefit of integrating SafeMoneyMetrics™ Advisor Analysis into any other risk management strategy for managed futures offers the following:

- Prevents many ill-fated losses.
- Dramatically improves accuracy and quality of available information on managed futures.
- Increases prudent use of managed futures.
- Teaches people to recognize and only use analytical applications that make sense for managed futures.
- Mediocrity, inaccurate statistical and risk management applications are filtered from the environment.
- Raises the awareness of potential and current investors.
- Improves revenue from traditional services because the combination of managed futures and SafeMoneyMetrics™ provides a unique marketplace position for many financial professionals.

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The automation for Advisor Analysis is complete. The analysis will be on-line before year end allowing it to be offered as a private label profit center.

Understanding the Data Input

As the description progresses benefits begin to reveal themselves.

The analysis uses any public domain data for managed futures. Only the date and traditional rate of return is needed. The analysis customizes data to produce results for any account size chosen. Refer to the table below this text as you read it.

1. The minimum account size is required by the advisor. The advisor uses this account size to calculate their management fees.
2. The minimum funding level is minimum cash accepted by the advisor. It represents the maximum leverage you can use with the advisor.
3. Maximum margin represents the percent of a minimum account size that the advisor actually uses for trading margin. .
4. The approximate number of trades annually per million dollars traded by the advisor. If you have a $100,000 account, the number of trades will be 1/10th.
5. The commission rate you will pay the clearing firm to execute trades.
6. The starting value of your account.
7. Total number of data points used for this analysis. The number is taken as the last active row in the count column.

Input Cells		
Today's Date		6/3/2003
1. Minimum Account Size (MAS)		$100,000
2. Minimum Funding Level (MFL)		50.0%
3. Maximum Margin		15.0%
4. Round Turns Per Million		1800
5. Commission Rate		$20.00
6. Starting Value		$50,000
7. Total Data Points		92

Input Cells	(CTA Data)	
Date	ROR	Count
Jan-97	20.82%	1
Feb-97	35.08%	2
Mar-97	-1.46%	3
Apr-97	16.29%	4

The Traditional Index and Hedge Fund of Fund input cells can be used in several ways. We created a traditional index represented by equal value of the S&P 500, NASDAQ, Russell 2000 Growth and the Lehman Government Bond index. An advisor may prefer their traditional data or the client may prefer theirs. If an advisor or client uses their own traditional or hedge fund data the analysis has more personal value. The Rate of return is always translated into a $1000 Unit and is correlated with the futures investment.

Traditional Index			Input Cells
Date	TI Comp/4	$1,000	$1,000
Jan-97		$1,000	
Feb-97		$1,000	

Hedge Fund of Fund			Input Cells
Date	HFOF	$1,000	$1,000
Jan-97		$1,000	
Feb-97		$1,000	

That's the end of input – time for…

Understanding the Analysis

The start date provides a foundation for the number of data points being analyzed. The current date represents the latest data used in the presentation. When monthly data is used the last available data from any particular advisor may lag one or two months behind the current date.

Start Date:	Oct 97		
Current Date:	9/24/04		
Data PointsAll:	83		
Total Years:	6.92		

Below the total return for the time frame being analyzed is given at three different funding levels. Always look for advisors that offer "Narrow" differences between the Minimum Account (MA-Return) and the Funding Level (FL-Return) and "Wide" differences between the Funding Level (FL-Return) and Margin Return (Mgn-Return).

WHY? An advisor is paid a management fee on the minimum account size. A narrow difference between the Funding Level (actual cash required for trading) and the Minimum Account (account size that management fees are billed on), indicates a higher degree of integrity built into the financial structure. A wide difference between the Funding Level return and Margin Account return indicates "comfort and safety" trading at higher degrees of leverage. Graphics are used below so the verbiage will have more meaning.

Minimum Account		**Funding Level**		**Margin Account**	
MA Start:	$100,000	FL Start:	$50,000	Mgn Start:	$15,000
MA Last:	$332,117	FL Last:	$282,117	Mgn Last:	$247,117
Mgn Min:	15.0%	MgnFL:	30.0%	Mgn:	100%
Cost MA:	3.6%	Cost/FL:	7.2%	Cost/Mgn:	24%
MA-Return:	232.1%	FL-Return:	464.2%	Mgn-Return:	1547.4%

Below – In lieu of annual returns every 12 data points are summarized. Subtotal is the value of all 12 months, (or any time frame chosen). Maximum, minimum and last represent a single month within the 12 month time frame. The Reward to Variability Ratio (RVR) and Coefficient of Variation (CV) are calculated using 12 data points.

WHY did we do that? Annual returns are misleading. Presenting only annual returns sets up an expectation with little relationship to what the future can produce. We believe it wise to prepare people for negative or difficult conditions. The process removes fear from the environment. Fear based decisions are the largest cause for self-inflicted losses in any life arena. The sensitivity of using high leverage will magnify and negatively distort difficult trading periods. People are more likely to make bad decisions causing unnecessary losses. When the cause of a negative event is eliminated, the event ceases to exist. Like gravity, this is a Universal Law.

12 Data Points	SubTotal	Max	Min	Last	RVR	CV
1	$3,488	$8,668	-$12,970	$7,790	0.06	0.00
2	$53,990	$14,285	-$8,594	$13,662	0.73	0.00
3	$23,744	$20,321	-$14,326	$15,024	0.19	0.00
4	$18,906	$28,800	-$13,154	$28,800	0.15	0.00
5	$14,257	$29,410	-$17,274	-$11,640	0.09	0.00
6	$38,865	$38,865	-$21,717	$31,042	0.20	0.00
7	$70,116	$31,930	-$32,427	$30,117	0.32	0.00

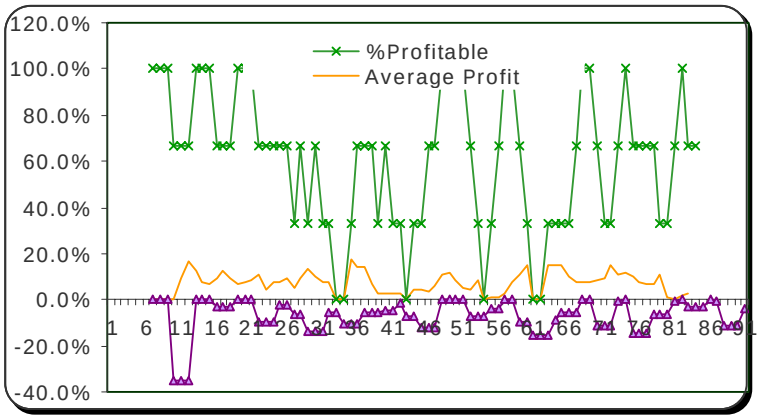
The 51% Rule

51%RuleComp 3 DataPoints Summary All					
	1. %of +	2. Avg+	3. Max-		
StD	29.8%	4.7%	7.3%		
Avg	62.2%	7.1%	-6.6%		
Max	100.0%	17.5%	0.0%		
Min	0.0%	0.0%	-35.0%		
LastCell	66.7%	0.9%	-3.6%		
CV	0.48	0.66	-1.10		
Count	89				

When using monthly data every 3 data points are used. The table above represents a summary of all data points in the analysis. Three columns are: 1. Percent of profitable trades: 2. Average profit per trade: 3. Maximum consecutive loss for all data points used in the analysis.

CV is a Coefficient of Variation originating from statistics. We use the CV as a secondary benchmark and to compare advisors. From statistics the CV measures absolute and relative dispersion. If the absolute dispersion is a standard deviation (S) and the average (A) is the mean, then the relative dispersion is called the coefficient. When a mean or average is close to zero, the CV is not useful CV=S/A – When applied to composite SafeMoney analysis the CV is a Benchmark, used to monitor the average of each ratio over time frames relative to the last for that time frame. The CV is also used to compare advisors. Assume two trading one returns 55% with a StD of 35% and the other returns 35% with a StD of 15%. 35/55=63.63% and 15/35=42.85% The second advisor is more efficient.

The Graph below represents each 3 data the average of Series 1 represents the percentage of profitable data points and Series 2 the average profit and Series 3 in purple is the maximum loss. Profits should exceed losses by 51% both for the number of data points and their profitability. The 51% Rule founder was George C. Jacobson.



1. The 51% rule has six fundamental parameters
   51% of all markets traded have to be profitable.
2. 51% of all trades within each market have to be profitable.
3. Profits have to exceed losses by at least 51% for each market traded.
4. 51% of the initial margin required for each market is the maximum capital at risk on each trade.
5. 51% of all markets traded at any time need to be profitable.
6. Profits have to exceed losses of the composite portfolio by at least 51% at any one time.

In-depth advisor analysis can be found in a complimentary investment guide called Standards for Advisor Evaluation. Link to download from http://www.SafeMoneyMetrics.com

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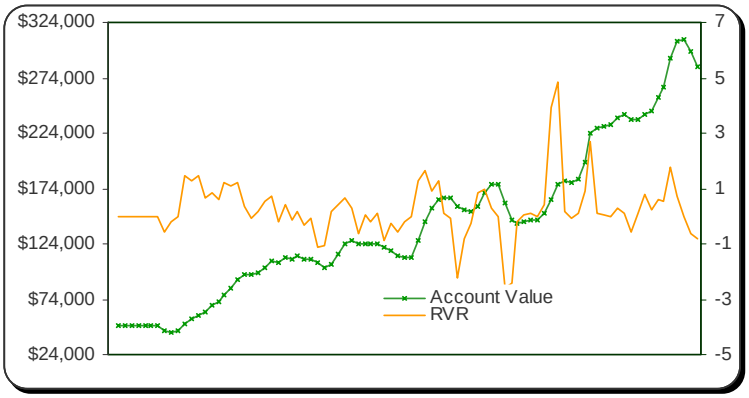
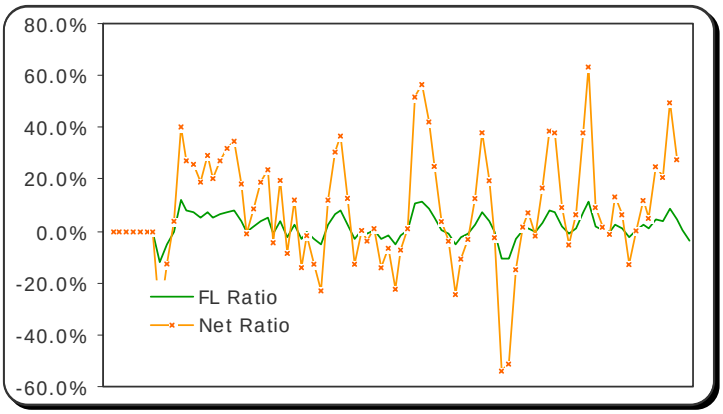
Below using 3 data points we averaged the hypothetical return relative to the Reward to Variability Ratio. The graph expresses account value and volatility or risk assumed to achieve the return. We prefer to see profits grow and the RVR stay high. The text box below the graph explains why.

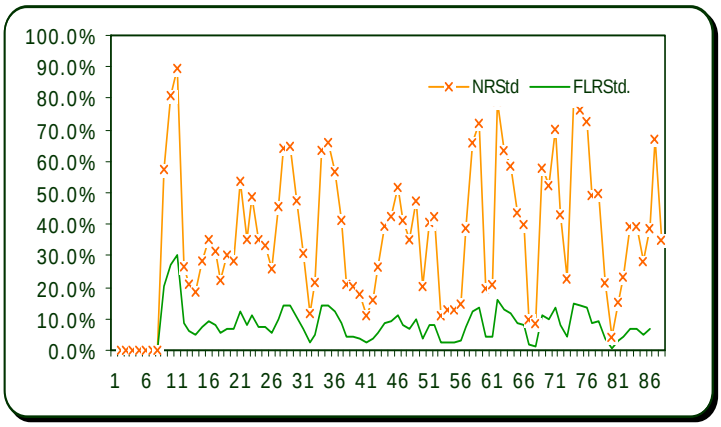


*****A Primary Benchmark: Reward to Variability Ratio (RVR): When used with SafeMoney risk and investment management services; the RVR estimates a capability to produce realized profits with respect to managing the risk of open trades. Traditionally the RVR is calculated by dividing the Risk Premium (RP is a return above the risk free ROR) by the Standard Deviation (SD) of returns. Since SD measures volatility and RP risk premium the result is a risk/reward ratio. For this advisor selection analysis we divide the average Net and Funding Level Ratios by their Standard Deviation (NR/StD and FLR/StD). A high RVR indicates a higher return relative to the amount of risk taken. For example Assume the NR= 23%, a SD of the NR for the same time frame is 30%, then 40% and 55%. 23/30=0.76%, 23/40=0.575% and 23/55=0.418% - As the SD increases or NR decreases the RVR decreases. This ratio is expressed as one number and is applied to every aspect of analysis, including comparison of investments.

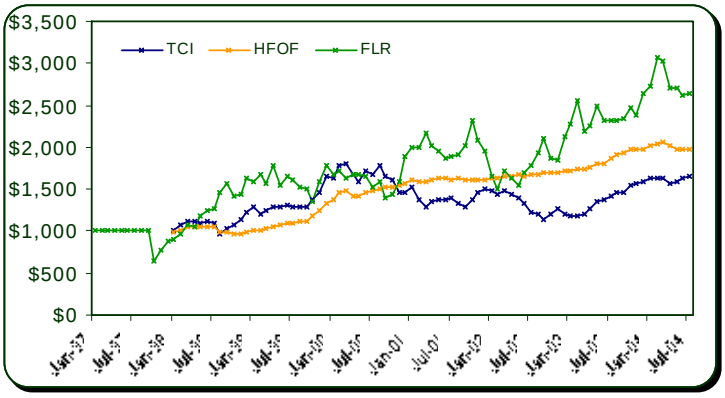
The chart below represents a three month average of the Net to Funding Level ratio. Remember the Net Ratio is return based on margin or actual capital at risk and the Funding Level Ratio is return on maximum leverage allowed by the advisor (minimum cash used to fund the account). Optimum risk control at current degrees of leverage is when the Net remains well above the FLR. If the net ratio sharply declines, or drops below the funding level ratio leverage is probably too high under current market conditions. The analysis is quite useful for timing capital allocations and when applied to daily data for client accounts.



Below is the Standard Deviation of the Net and Funding Level Ratios. They offer a "simplistic" volatility review for both ratios over three month time frames. Naturally seek LOW numbers within a narrow range. When used to compare advisors, we see WHO is more effective!



Finally the chart below represents $1000 Unit Monthly Values of the A) Traditional Index (TI) (or its' substitute). B) Hedge Fund of Funds (HFOF) - Tuna Index and C) Funding Level Return (FLR) of your account.



Remember to consider the correlation between returns generated from market sectors you're involved with. When diversifying, many people only consider the correlation between market movements. This is

because of Modern Portfolio Theory. However, MPT was originally applied to non risky investments. The MPT application for risky markets is only prudent when we can correlate returns from each sector, as well as market movements. What good is diversifying between 10 different market sectors that negatively correlate if they all lose money?

You can link to an advisor analysis presentation from
http://www.safemoneymetrics.com/analysis/analysis.htm

The End 1648 words

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Always Room for Improvement***
We appreciate your precious time sending constructive suggestions for change.

1. What do you want more of?
2. What you want less of (except God and philosophy)?
3. What needs more clarification?

Use the email link
mailto:mj@alwaysafemoneymetrics.com?subject=ASMSuggestions

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