Sanctity Capital Management
Your Solution to Profit and Peace of Mind
Alternative Investments for Risk Management and Business Development
#32

# Benchmarks, SafeMoneyMetrics™ and Managed Futures

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**This month we'll demonstrate how SafeMoneyMetrics™ can function to define an advisor's benchmark and how the strategy improves on traditional methods of using benchmarks for managed futures.**

SafeMoneyMetrics**™** is built on a foundation that aligns natural laws that sustain all life with principles used for designing hedge models over the past century. We believe that a direct integrated risk management process allows optimal decisions to evolve. Increased probabilities for profitable results are a scorecard nothing else is possible! (See *www.sanctity.com* Monthly Articles – A Unified Foundation for Investment Selection).

## Inherent Risk of Traditional Benchmarks

At the simplest level, when one advisor is compared to another, or group of advisors we also need assurance that capital at risk and account sizes are similar. Comparing an advisor who trades $50,000 accounts with one who trades $1M accounts both in financial futures has little value to any investor.

Benchmarks currently used with managed futures are compiled using traditional rate of return calculations from a database of trading advisors. Account size, capital at risk and other less obvious, but significant details needed for prudent risk management are usually not considered. Advisors are sorted into groups to create indexes. Examples may be grain, energy, stock, financial, options, diversified, trend-following etc. Index values are calculated using equal or equity-weighted averages. Performance data for each advisor in the index is ALWAYS traditionally calculated and supplied by each advisor.

Let's look under the surface –

1. We currently choose our initial investment based on a foundation of erroneous performance data that has no relevance to capital at risk relative to volatility and realized returns under current or future market conditions. (see *www.sanctity.com* / Monthly Articles - #15 Reality Relevance and Return)
2. We then compare our initial decision with a benchmark – nothing more than a compilation of similar erroneous information extended to encompass a group of advisors.
3. The same data is then used to create statistical scenarios that only bring another layer of erroneous information into the environment.
4. Comfortable with all the work done (we earned our decision), we commit capital to an account expecting a positive outcome!

**Risk Management From Within = Increased Probability for Success**

> While walking around Washington Square Park this morning, there was a boy about three years of age. He was stomping his feet trying to make his shadow stop behaving so badly. No matter what the boy did his shadow would mirror his movements – the angrier he got, the more upset his shadow was and so on – I watched smiling until he looked up and saw me – He shyly pulled his shirt over his face almost smiling: "Like oops I didn't know anyone was watching me;" All I said to him was – "Look your shadow is happy now!" He looked down at his quiet shadow and his mood shifted from frustration to peace. His big blue eyes smiled at me and he ran off to catch up with his Mother.

Generally speaking the industry's current method of marketing itself and managing risk is no different from that small boy and his shadow. We did the best we could from the level of consciousness we created the strategy from. However, maybe it's time we evolved. It is physically impossible to create a positive outcome when decisions are made on erroneous information. Like the shadow, our decisions will ALWAYS mirror the correctness of information we allow into our environment and condition of consciousness within ourselves that we use as a filter. That one natural law is responsible for creating all of material reality. Nothing escapes the statement and the law has no opposition, therefore it cannot be argued.

Many of us continually use invalid information filtered through a consciousness permeated with fear and expect a constructive result. When events become amiss – we blame the environment giving away our power to someone or something outside of ourselves.

Seldom do we realize that we caused our own losses by inaccurately evaluating incorrect information then filtered it through a belief system that actually increased our own risk. The gift in our loss is awareness to a fact that if we caused the loss, we can also cause the opposite. The power to make great choices always lies within us. We have God given power to make any environment meet a higher standard rather than allow ourselves to be diminished by out-dated ineffective risk management standards currently permeating much of the industry and then perpetuated as "ULTIMATE TRUTH" through electronic and print media.

**I'd like to quote a passage from Joel Goldsmith**
" If we have a fruit tree, which at this moment is barren and has no fruit on it, we don't ask anybody to fasten peaches, pears, or apples on our barren fruit tree. We do not expect that one tree in the orchid is going to supply another tree, or that one branch will provide fruit for another branch. Each tree bears fruit from within itself. To a person who has never seen the miracle of a fruit tree, it must seem strange that from inside the tree, fruit comes forth through the branches. Reason would ridicule such a possibility. Here is an empty branch and here is an empty trunk; now how are peaches going to come up from inside the trunk and hang themselves on the branches. It may be a mystery, but the fact is that it is a regular phenomenon of nature.

It is incomprehensible to the human mind to say that our supply does not come from one another, that our neighbors, friends or relatives do not provide for our needs; but that we, individually, through our contact with "The ONE Source" receive our supply from within our own being. Just as a spider spins its' web from within itself; so does our good unfold from within our own being." **Practicing the Presence – Pages 87-88**

## Simple Strength of an Internal Benchmark

We created the "internal benchmark" application. It represents a criterion defined and previously delivered by the advisor. Similar to sports, each athlete competes only with his personal best. The benchmark is applied to three time frames of SafeMoneyMetrics™ performance information. Always defined by the advisor – we either like it and can live with it - or we can find another advisor.

**For Example**: Assume we contract an advisor that delivered between 20% and 35% annually with specified parameters that we are comfortable with. The realized relative to volatility ratio, whether applied to monthly performance data or individual trade information is within boundaries over variable time frames that we are comfortable with. All other parameters for prudent risk management defined by us, including when the advisor will give up on themselves have been quantified, qualified and we are at peace with the initial decision.

Below are two time frames used with monthly data for one advisor – start to current and annual – We also create weekly or 3, 6, 9, 12 24, 36 month and more. SafeMoneyMetrics™ can work with daily, monthly or any type of trade data, including live intra-day. Individual trade data affords increased accuracy however it's inefficient to work with during the initial selection process and probably unnecessary if the advisor is really good. See www.sanctity.com / Investments for All People – Mini Index SafeMoney Analysis Demonstrates monthly time frames.

**Start to First Quarter 2002**

| Sep-99 | Realized Ratio | Volatility Ratio | Net Ratio |
|---|---|---|---|
| Average | 14.80% | -0.09% | 14.05% |
| Minimum | -26.73% | -7.83% | -26.78% |
| Maximum | 200.96% | 22.91% | 200.96% |

**Same Advisor Annual Time Frames**

| | | Average | Minimum | Maximum |
|---|---|---|---|---|
| 1999 | Realized | 32.70% | 11.55% | 68.11% |
| | Volatility | -0.11% | -5.53% | -0.11% |
| | Net Ratio | 32.59% | 16.65% | 68.11% |
| 2000 | Realized | 19.18% | -16.45% | 200.96% |
| | Volatility | 0.01% | -7.83% | 7.99% |
| | Net Ratio | 32.59% | 16.65% | 68.11% |
| 2001 | Realized | 12.57% | -23.84% | 51.23% |
| | Volatility | 1.90% | -2.80% | 22.91% |
| | Net Ratio | 10.65% | -23.84% | 51.23% |
| 2002 | Realized | -17.66% | -26.73% | -9.21% |
| | Volatility | -0.03% | -0.06% | 0.00% |
| | Net Ratio | -17.69% | -26.78% | -9.21% |

The most effective time frames for a specific investment can only be decided upon and evaluated when we have knowledge of the trading strategy. Time has no value when considered in isolation – time always offers value when considered relative to the strategy used and current market conditions.

Without wasting energy processing information that we have no control over such as how the strategy was built, will it function in current and future market conditions and numerous other factors I won't bore you with; we track current monthly realized profits relative to volatility and capital at risk. ONE RELATIONSHIP BETWEEN TWO RATIOS – nothing more is needed!

The exact strategy is built for the composite investment, it filters into each aspect of the investment if traded by more than one advisor and finally into each market traded within each aspect. Any market and time frame can be tracked and monitored individually from the composite and we can even see the value it added or detracts from the composite. If current results deviate from the initial "internal benchmark" by pre-defined values, either up or down, particular decision rules trigger specific actions. Choice of actions could include, distributing profits, adding capital, leveraging or de-leveraging the account and possibly changing the advisor.

If we ever decide to change the advisor – remember that it was pre-defined by when the advisor would give-up on themselves. (Unless physical crisis such as death of a loved one, divorce or severe health problems occur. Those events usually cause a series of physical losses in anyone's life – in managed futures – the quality of trading suffers until the person has time to heal).

We see NO need for a Benchmark outside of the investment. We believe it weakens not only the trader, but distorts the quality of information needed for prudent risk management. More important SafeMoneyMetrics™ aligns with natural laws. Remember the difference between universal beliefs and natural law. Natural Law has more power than universal belief because there is less of a negative human element involved.

Again natural laws have no opposition. Nothing alive can ever improve on God's eternal design for life -

> Comparing ourselves to someone or something external to our highest potential (benchmark) weakens us because it goes against the power of nature. If we can teach this to others, the planet will change in an hour.
>
> "An Oak tree need not compare itself with an Elm to know it's own greatness as an Oak." MJJ

## Monitoring the Current Performance Relative to the Benchmark and Client Accounts

Although our automated risk management model is not complete - Here's what SafeMoneyMetrics™ does!

The initial selection process for any advisor is always based on several relationships between ratios and the 51% Rule (*www.sanctity.com/* Monthly Articles Standards for Advisor Selection). Once the advisor (s) are selected and we settle into what we truly hope is a long-term relationship – Monthly performance for the advisor is monitored relative to the composite past. Weighted averages of monthly data are used to measure current reality relative to the benchmark defined in the initial selection process.

Two levels of risk management directly related to the advisor using the exact process are constantly monitored. It's simple and nothing else matters beyond a relationship between a realized and volatility ratio. If the relationship weakens or shifts beyond pre-defined parameters the exact relationship within every market traded is analyzed for the weakness. One or two markets will prove to be causing weakness in the composite performance.

For the Advisor:

1. "Internal Benchmark"- Ratios and the relationship between ratios produced from historical monthly data.
2. "Current Reality"- Weighted averages of monthly data are used to monitor performance under current market conditions relative to the parameters defined by the "Internal Benchmark."

Every client account opened is monitored using the exact process – however ratios are built using daily account information. Compiled and sorted the accounts are always compared to # 1 & 2 above.

1. Composite account value is easily evaluated.
2. Every market traded within the composite, all use the exact risk management system. Weaknesses within the strategy are easily detected hopefully preventing catastrophic losses to the composite account.

For SafeMoneyMetrics™ traditional rate of return calculations only serve one purpose – they are used in relationship with SafeMoneyMetrics™ Ratios to evaluate investment risk. WHY? If an advisor can maintain their balance between realized and volatility ratios, account profitability is a byproduct of exceptional risk management. Nothing else is possible -

**END**

**Services From Sanctity/SafeMoneyMetrics**

**Kim Hunter** – editor of Risk and Reward magazine is also a Freelance Writer. – She is available to write about SafeMoneyMetrics™ for print and electronic media. Based in London Kim's skills are exceptional for people interested in communicating the benefits of SafeMoneyMetrics™ Risk Management Services to the International and Institutional marketplace. My esoteric state of consciousness, incorrect grammar and excessive wordiness is automatically removed from the writing, allowing SafeMoneyMetrics™ to reach a larger audience.

Data support and research is contributed by MJ Jacobson /SafeMoneyMetrics™ and Sol Waksman/ Barclay Research.

Kim's first article on SafeMoneyMetrics™ was or will be published in the next issue of Risk and Reward Magazine. You can access the magazine FREE at www.fow.com

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**Sol Waksman** of Barclay Research and Sanctity/SafeMoneyMetrics™ will design and support profit centers for broker-dealers, futures commission merchants or any group interested in managed futures and options. The process begins with management and filters into a dynamic marketing strategy for advisors and educational process for clients of each participating advisor. Compensation is negotiable and includes revenue sharing or annual retainer paid monthly. Broker- dealers and other institutions may be exempt from registration if managed futures are under 10% of their gross revenues.

**For Traditional Financial Advisors or Introducing Brokers** – we act as Risk Managers and General Partners for private label limited risk partnerships beginning at $500,000.

**For Trading Advisors** –SafeMoneyMetrics™ can be offered as a third party risk management and marketing strategy. Trading Advisors have no out of pocket costs. The client or FCM sponsoring your services compensates us.

**For Electronic and Print Media -** SafeMoneyMetrics™ designs investment models teaching prudent integration of managed futures into other alternative investments and a traditional portfolio. Services can be supported with monthly articles, research and simple ratios on a data-base of advisors.

**For National and International Commodity Exchanges and Associations -** SafeMoneyMetrics™ can be integrated into managed futures and options marketing. Services can be offered through the exchange as a benefit to clearing member firms and their clients.

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**Thanks to Blackthorne Capital Management**

Timothy Morge is responsible for data and performance information used to demonstrate the value of SafeMoneyMetrics™ He is the first advisor in the industry to offer SafeMoneyMetrics™ to clients who have interest in the service.
www.sanctity.com/ Investments for All People
www.blackthornecapital.com