

# SafeMoneyMetrics™

## Advisor Rankings

“Your Direct Risk Management Solution for Managed Futures”

SafeMoneyMetrics™ is applied to Barclay's data base. Rankings are updated once a month. Traditionally mid month people receive about 50% of the performance data for the previous month. At month end about 95% of the data is complete for the previous month.



January 15 – 50% of December  
January 30 – 95% of December  
Feb 15 – 50% of January  
Feb 28 – 95% of January

SafeMoneyMetrics™ Rankings are published at the end of each month (or the first few days of the next month) to capture at least 95% of the previous month's data. Our subscribers are notified when rankings are updated and where they can be downloaded from.

### Default Values

Some advisors do not report minimum funding level or round turn per million data. When the data is absent, we use default values. Minimum Funding Level is 75%, Margin/Equity is 25% and RT/Million is 1200. When advisors tell us that a funding level is between the Futures Commission Merchant and client, we use a formula of the advisors margin/equity value plus 10%. Obviously default values cause certain aspects of SafeMoneyMetrics™ to be erroneous. Default values are removed, when correct value is reported.

### Fundamental Weaknesses of SafeMoneyMetrics™:

If the Capital at Risk value is erroneous SafeMoneyMetrics™ will produce invalid results. When analyzing monthly data or any composite time frame, capital used to produce a specific result was NOT at risk all at the same time. When SMM is applied to every trade or composite daily data, this weakness does not exist.

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For complete details on inherent weaknesses in data underlying the rankings and how we compensated for it, please link to <http://www.safemoneymetrics.com/rank.htm>

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### Value and Benefit of SafeMoneyMetrics™

SafeMoneyMetrics™ efficiently locates strategy imbalances at the level of cause so catastrophic losses can be prevented. Strategy imbalances are fundamentally defined as relationships between:

1. The degrees of profitability at and between:
2. The net and funding level ratio relative to:

3. Volatility, leverage, and correlation between returns at the net and funding level ratios for each market within a strategy, and the composite strategy.
4. Cost relative to the Net and Funding Level Ratio under current market conditions relative to what the on-line advisor analysis revealed.

### Value and Benefit of SMM™ Advisor Rankings

The Advisor Rankings when reformatted allow people to initially select for in-depth analysis investments that can optimize capital at risk relative to volatility, return and cost.

A	B	C	D	E	F	G	H	I	J
Adv	Avg. Notional	Avg. Cash	Max Mgn.	Mgn. Used	Mgn. to Cash	Net Real/ Unreal	TR-ROR	Funding Level Ratio	Net Ratio
1	\$1,000,000	\$300,000	5%	\$50,000	17%	\$300,000	30%	100%	600%
2	\$1,000,000	\$500,000	10%	\$100,000	20%	\$300,000	30%	60%	300%
3	\$1,000,000	\$250,000	20%	\$200,000	80%	\$300,000	30%	120%	150%
4	\$1,000,000	\$700,000	15%	\$150,000	21%	\$300,000	30%	43%	200%
5	\$1,000,000	\$400,000	25%	\$250,000	63%	\$300,000	30%	75%	120%
6	\$1,000,000	\$600,000	8%	\$80,000	13%	\$300,000	30%	50%	375%
7	\$1,000,000	\$350,000	30%	\$300,000	86%	\$300,000	30%	86%	100%
8	\$1,000,000	\$800,000	15%	\$150,000	19%	\$300,000	30%	38%	200%
9	\$1,000,000	\$900,000	5%	\$50,000	6%	\$300,000	30%	33%	600%

The table above hypothetically represents nine advisors.

- They all having a 30% traditional rate of return (H).
- They all have minimum account sizes of \$1,000,000 (B).
- Column C “Average Cash” represents Funding Level Assets for each advisor.
- Column D represents maximum margin used as a percentage of A, Average Notional or the minimum account size.
- Column E is Max Margin \* Avg. Notional.
- Column F is Max Margin \* Average Cash.

What to Look for:	
Condition	Value
Low Column C Average Cash	Accounts can be funded with less money.
Low Column D or Maximum Margin	The 30% return was produced with less capital at risk.
A Low margin relative to <u>cash percentage</u> , represented by F.	At the minimum funding level there is less risk of additional funds being needed.
Column I Funding Level Ratio needs to be much lower than J Net Ratio.	<b>Value:</b> A net ratio is the rate of return on capital at risk, the funding level return is rate of return on minimum funding. We always want a higher Net Ratio. When the net ratio starts to fall into and below a funding level ratio, leverage was/is too high under whatever market conditions were/are represented by the data being analyzed.

In summary one can see that out of nine advisors having the exact account size and rate of return, the three best “superficially” appear to be 1, 3, and 9.

Advisor Rankings calculate the average Net and Funding Level Ratios; plus the traditional rate of return, for each advisor over the last 6, 12, 24 and 36 months. We publish the Top 100 in the Barclay data base every month.

According to Schaum's Statistics Course 36 data points are necessary for any analysis to be useful, unless data is used for sampling purposes. SafeMoneyMetrics™ Rankings may only be a starting point.

Monthly Advisor rankings can be formatted and sorted by:

1. Number of months
2. Account sizes
3. Minimum funding
4. Maximum margin

The value of monthly advisor rankings is complete except for the definitions, integrated below.

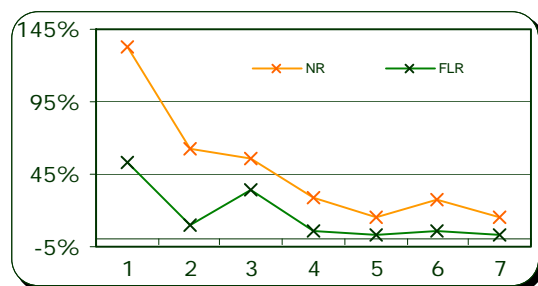
## Definitions and Advisor Analysis On-Line

Advisor Analysis is used before the account is opened. It is applied to ALL data on each advisor being considered for investment. Advisor Analysis is essential groundwork for building single or multi-advisor investments using SafeMoneyMetrics™.

Where Rankings offer only one number for each advisor, Advisor Analysis calculates and analyzes the monthly Net and Funding Level ratios for all monthly data and variable time frames as shown below.

## Definitions and Explanations:

Performance trends and potential actions are defined by quantifying relationships between ratios. For example: A high Net relative (NR) to a low Funding level (FLR) ratio indicates account stability at current funding levels and current market conditions. If the Net Ratio begins to drop into and below the funding level, leverage is too high under current market conditions. Although in the demonstration below, the NR always stays above the FLR, you can see how the difference narrows. That is early warning! When sensitive daily or weekly data is used, and related to monthly data the information becomes priceless for preventing ill-fated losses.



SafeMoneyMetrics™ ALWAYS monitors ratios in relationship to each other. Nothing lives isolation. For example: Evaluating realized returns relative to account volatility and capital at risk used to produce those returns, has more value than evaluating an isolated return.

Analyzing trends in the Net relative to Funding Level Ratio offers insight into the risk of leverage being used under current market conditions. Analyzing account costs relative to return has more value than viewing costs relative to account

equity. The most important aspect of SafeMoneyMetrics™ is that the “Benchmark” is always INTERNAL or part of the investment rather than external to it **WHY?**

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Universal Laws - Every form created from the beginning of time is self-complete – It’s just how God creates! Do you ever see a tree comparing it self to another tree so it “knows” how its doing? Do you see flowers in a field competing for air space – better yet do you ever see flowers taking petals or leaves from each other so they have more and the other flowers have less? How and why we apply Universal Truth and Law to investment analysis can be found in Standards for Advisor Evaluation – Download the Free guide at [www.safemoneymetrics.com](http://www.safemoneymetrics.com) or [www.sanctity.com](http://www.sanctity.com) .  
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## Definitions

1. **Capital at Risk (CAR):** Represents only capital used to produce a return. NOT the account size an advisor asks for, or the funding level. CAR is the foundation for all ratios. The formula is adapted for different situations. For example: the maximum margin formula does not work for foreign exchange traders, so it is replaced by a formula that does work.

CAR is also used to evaluate capital waste built into the investment. Below are three advisors. Their management fee is billed on the minimum \$1M account size. Superficially, Advisor C appears to have the most capital waste because they accept \$250,000 funding levels. Naturally a complete analysis is necessary because we can learn that Advisor C is really a great trader relative to the others.

Minimum Account	Funding Level	Maximum Margin (CAR)
A - \$1,000,000	\$500,000	5%
B - \$1,000,000	\$300,000	10%
C - \$1,000,000	\$250,000	15%

SafeMoney Advisor Rankings are compiled from public domain data (database). The advisors maximum margin is used as a foundation for CAR. The maximum margin is public knowledge. For example: An advisor has a \$1,000,000 minimum account size, they accept 25% as minimum funding level (4 times leverage) and they use 15% of the minimum account size as margin. (Advisor C in the table above).

Clearly: 15% of \$1M is \$150,000. That same \$150,000 is used when the account is funded at \$250,000. The \$150,000 represents 60% of the \$250,000. That 60% “may” or “may not” be too high. This is determined by watching the difference between the Net and Funding Level Ratios over time.

Learning to evaluate investment returns and advisor fees on a SafeMoneyMetrics™ foundation reveals weaknesses that would otherwise remain hidden. The SMM process of advisor evaluation and monitoring after the account is open is paramount for allowing optimum risk management to dictate our decisions.

2. **Net Ratio (NR):** Is the composite value of realized and unrealized open trade equity on capital at risk/ or maximum margin.
3. **Funding Level Ratios (FLR):** The funding level ratio is calculated using minimum funding level and Net Returns. Account stability is indicated when

the FLR is consistently below the NR, especially when the difference is wide. Again, leverage is too high when the NR begins to fall into and below the FLR.

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Excessive account sizes became fashionable when institutions started complaining about volatility! (Maybe 20/25 years ago, ask someone over 65!). When I was a child trader (18-21) nobody cared about volatility. We wanted profitability. To us there was no useful relationship between volatility and profitability!

**Remember that** excessive account sizes hide volatility. Remember that management fees are paid on the entire account while, the funding levels may be 25% and only 3% to 10% of total assets may be used for trading.

We hope that we supported everyone looking for a less expensive method of dealing with irrational fear!

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4. **Cost Ratio (CR):** Defined by a relationship between account costs relative to the Net or Funding Level Ratio. Traditionally costs are evaluated as a percent of the fully funded account value annualized.

The value of cost analysis is increased when costs are analyzed relative to return and capital at risk. For example - one of the industry's greatest traders had a 20% cost factor. People "perpetuate the assumption" that he needed to exceed a 20% return before clients benefit. This thinking is 100% inaccurate. The trader earned over 100% annually on the fully funded account using 25% margin (Capital at risk). Now we "see" that he earned 400% on capital at risk and his costs were 20% relative to the 400% or Net Ratio.

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SafeMoney Rankings are published monthly at  
[www.safemoneymetrics.com/rank.htm](http://www.safemoneymetrics.com/rank.htm)

Cost Ratios are included with any SafeMoneyMetrics™ Advisor Analysis. Analysis is available now at \$30.00 for single advisor and \$45.00 for multi advisor analysis by request.

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