

SafeMoneyMetrics

"Your Direct Risk Management Solution for Derivatives"

Dynamic Strategy#1 Daily - Demonstration

Courtesy of:

Advisor or Sponsor Name Here

Any investment in managed futures/options should ONLY and ALWAYS be considered within an entire portfolio strategy. When considered in isolation this investment is high risk and should probably be avoided at all costs. This part one and two of a four part presentation designed by SafeMoneyMetrics and Sanctity Capital Management. Part three is traditional risk management and part four is the Sanctity-80-20 Allocation. No part of this document should be considered apart from the CFTC Risk Disclosure and Explanations. Monthly Articles located at [www.sanctity.com/Monthly Articles](http://www.sanctity.com/Monthly%20Articles) are also useful. Reproduction without permission is prohibited.

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Name Client Name Here

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Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profit or losses similar to those shown. In fact there are frequently sharp differences between hypothetical performance results and actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefits of hindsight. In addition, hypothetical trading does not involve financial risk and no hypothetical trading record can completely account for the impact of the financial risk of actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

Explanations Part 1

A-Performance trends and potential actions are defined by quantifying relationships between ratios. For example: A high realized ratio relative to a low volatility ratio might signal profit distribution. A high volatility ratio and low realized can also indicate profit taking however since the latter indicates increased risk - there are other considerations. Differences between the Realized and Volatility ratio is defined by the RVR Internal Benchmark described below. (See: www.sanctity.com/ Monthly Articles # 39). SafeMoneyMetrics evaluates the relationship between ratios for each advisor within a multi-advisor strategy and then each market traded by each advisor. Imbalances are fundamentally defined as profitability relative to volatility, leverage and correlation under current market conditions. Imbalances are efficiently located at the level of cause so catastrophic losses can be prevented.

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. If an investment trades many markets prudent diversification only exists if "returns" produced by each market constructively correlate with each other. When a multi-advisor strategy is used, we require a constructive correlation between each advisor and then between each market traded by each advisor. The most important aspect of SafeMoneyMetrics is that the "Benchmark" is always INTERNAL or part of the investment rather than external to it - see [www.sanctity.com /](http://www.sanctity.com/) Monthly Articles - Standards for Advisor Evaluation.

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.

1. Capital at Risk (CAR): A formula that 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. Possibilities are numerous and limited only to an analysts creativity. Two examples are actual margin requirements for each trade, or when evaluating monthly data the advisors maximum margin. CAR is also used to evaluate capital waste built into the investment. For example - assume we are evaluating two advisors each having a \$1M required account size. The advisor using the least amount of capital at risk to produce the highest realized return relative to the lowest volatility would probably be a better choice. (Highest RVR)

2. Realized Ratio (RR): Realized profitability relative to real capital used to produce the return. (Net Realized Profits / Capital at Risk Formula.)

B - 3. Volatility Ratio (VR): Evaluates fluctuations of open trade positions relative to capital required to maintain the position. Wide fluctuations in the VR indicate increased account volatility. Increased volatility may or may NOT indicate increased risk. (Open Trade Equity / Capital at Risk Formula.)

4. Net Ratio (NR): Is the composite value of realized and open trade equity on capital at risk. (Realized Ratio + or - Volatility Ratio/ Capital at Risk Formula).

5. Funding Level Ratios (FLR): The Net Ratio is calculated using a formula that represents an advisor's minimum funding level. Account stability is indicated when the FLR is consistently below the NR, especially when the difference is wide. Leverage is too high when the NR begins to fall into and below the FLR. Remember that excessive account sizes hide volatility and management fees are paid on the entire account. This ratio is important when comparing advisors having the same account size.

6. 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. There is increased value when costs are evaluated 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 needs to exceed a 20% 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.

7. Notional Assets: Fully funded account size that the advisor "asks" for. We ONLY use this value in relationship to the volatility and realized ratios. WHY? Account size has no relevance to trading talent. Because clients pay management fees on the fully funded account we needed a method of analyzing fees relative to investment quality.

8. Traditional Rate of Return (TR): SafeMoneyMetrics uses the TR relative to the Net Ratio and Funding Level Ratio for evaluating account stability at variable degrees of leverage, comparing advisors and traditional presentations. The monthly TR for each advisor or investment is taken directly from a thirteen-column track record. The Daily or Custom TR equals the realized profit or loss plus the unrealized account value net of transaction costs (before advisor fees) divided by Notional Assets.

Explanations Part 2

C -9. *The Primary Benchmark - Reward to Variability Ratio (SMRVR):** Estimates the 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. We divide the Realized Ratio by a St.Dev of the Volatility Ratio. (RR/SDVR) – A high RVR indicates a higher return relative to the amount of risk taken. For example Assume the RR = 23%, a SD of the VR 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 RR decreases the RVR decreases. This ratio is expressed as one number and is applied to every aspect of analysis, including the comparison of investments. Time frames are variable.

10. Asset Growth Relative to RVR: If assets increase while returns decrease and/or volatility increases we should consider this with other indicators as a warning to decrease leverage/ reallocate assets or possibly replace the advisor.

11. *Secondary Benchmarks - Coefficient of Variation: (CV):** From statistics it 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 call the coefficient. When the average is close to zero, the CV is not useful $CV=S/A$ - The CV is used to monitor each ratio and compare advisors.

Cost/MA: Annual cost to the account relative to the Minimum Account Size (MAS) accepted by the advisor.

Cost/FLR: Annual costs as a percentage of the annual return earned on cash used to fund the account.

Cost/NR: Annual costs as a percentage of annual returns earned on actual capital at risk.

Minimum Acct Size (MA): Also fully funded or notional. Account size accepted by the advisor (Management fees are calculated on this account size).

Funding Level%: Cash used to fund an account expressed as a percentage of the Minimum Account Size.

Margin Minimum%: Margin used for trading expressed as a percent of the fully funded account size.

Margin Funding%: Margin used for trading expressed as a percent of actual cash funding an account.

Max: The best value of a ratio within the time frame specified.

Min: The worst value of a ratio.

D-ST.Dev: A Standard Deviation of all ratios within a time frame.

Time Frames: Ratios and benchmark over specified time frames.

Correlations: The RVR for each advisor within a strategy and then markets traded by each advisor are correlated.

Last: Last in any cell is of the presentation date.

51% Rule: Data points vary with each client. Number of profitable data points, percent, average of all profitable, average of all losing, ratio of profit to loss. (see www.sanctity.com/monthly articles # 38 Traditional Risk Management and SafeMoneyMetrics.

Allocation and Leverage: For Client Accounts. Shows what percent of the composite account was allocated to each advisor and at what degree of leverage.

Graphics: Time frames vary with strategy.

51% Rule: Average profit relative the percent of profitable periods during the time frame used. A comfortable NorthEast slope is desirable!

Correlations: FLR \$1000 Vami relative to a Traditional and Hedge Fund Index for the composite strategy, between each advisor within a strategy and finally between each group of markets traded by each advisor.

Capital Account Values: For Client Accounts. Capital Account Values can be formatted so that the starting value can be seen relative to current value. If the current value rises or falls below a specific percentage automated actions can be integrated. For Example: Take profits, add capital, leverage or de-leverage, change the advisor or strategy.

\$1000 FLR Vami: \$1000 = 100%. Multi-Advisor strategies graph the original allocation to each advisor and current value. Starting Value represents a specific percent of \$1000. For example: Capital allocated between three advisors at 30% 30% and 40% will have starting values of \$300, \$300 and \$400 and corresponding current values.

Realized to Volatility Ratio:

Net to Funding Level Ratio:

Decision Statements: Monitors a current RVR and ratios, relative to the Benchmark for each time frame. Client preferences dictate customized decision rules.

Client Name

Start Date: 4/30/2003
 Current Date:
 Total Data Points: 61
 Start Value \$50,000

Courtesy of: SafeMoneyMetrics
 E-Mail: sanctityone@msn.com
 Contact: Marlee-Jo Jacobson
 Telephone #: 212-777-3862
 Current Account Value \$52,709

Allocations
 %toA1 100% Leveraged at: 2:01 50K \$52,709
 %toA2 Leveraged at:
 %toA3 Leveraged at:
 %toA4 Leveraged at:

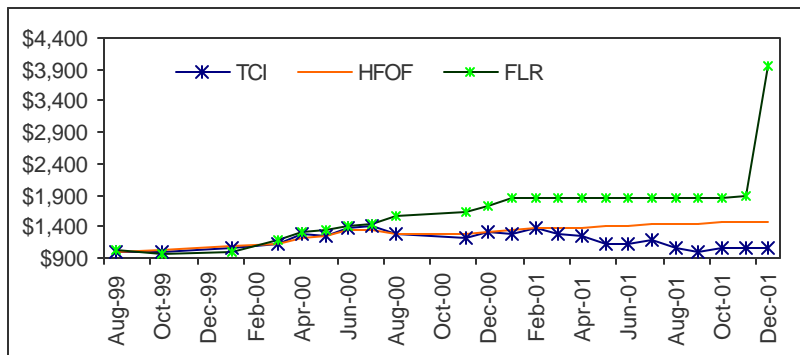
Part Two -Client Account

	7D	21D	28D	3Mo	6Mo	9Mo	12Mo	Capital Account Value				Capital Decisions	
								Start	Max	Min	Today	%+	%-
RVR	0.82	-0.24	0.00					\$50,000	\$63,943	\$46,187	\$52,709		
Max	10.52	1.32	1.20										
Min	-7.89	-2.40	-1.32										
StD	3.04	1.08	0.75										
Last	-0.35	-1.33	-1.25										
RR	3.22%	0.61%	2.50%										
Last	-14.25%	-8.61%	-11.05%										
VR	16.70%	12.42%	12.53%										
Last	6.05%	4.36%	3.19%										
NR	19.92%	13.03%	15.03%										
Last	-8.20%	-4.25%	-7.86%										
FLR	5.51%	4.20%	4.47%										
Last	-0.31%	-0.24%	-0.18%										

51%RuleComp7DataPoints Summary All				Decisions
	%of +	Avg+	Avg-	
StD	21.2%	5.6%	2.1%	
Avg	71.1%	9.8%	-1.7%	
Max	100.0%	16.5%	0.0%	
Min	71.1%	9.8%	-1.7%	
LastCell	42.9%	0.5%	-2.5%	
CV	29.8%	56.6%	-121.4%	

BenchmarkDecisions

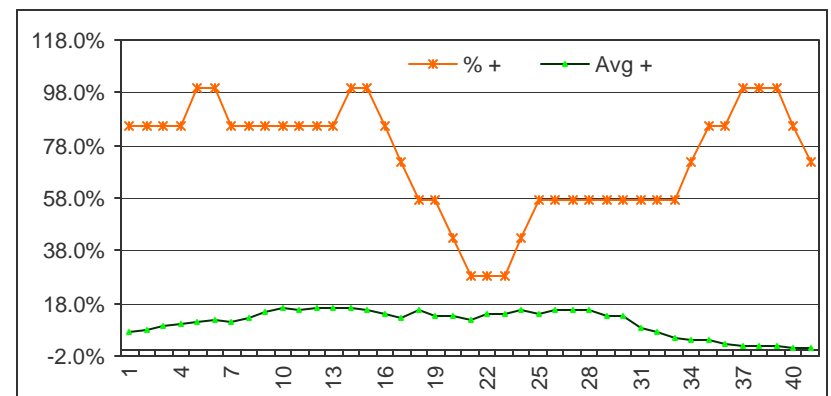
9. Correlation with Traditional Indices



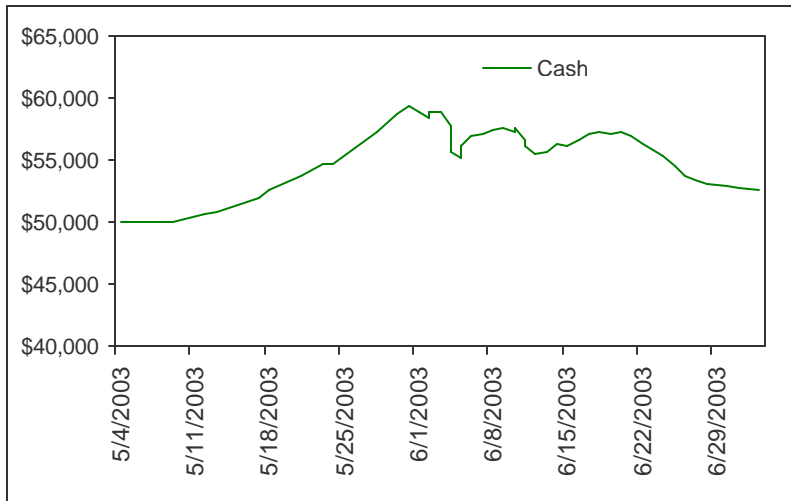
The advisors monthly performance is the FLR. The TCI is equal weight of the S&P500, NASDAQ, Russell 2000 Growth and Lehman Bond Index. The HFOF is the Tuna Hedge Fund of Funds Index.

10. 51%Rule: 7Data Points All Data

The average of every seven data points shows the number of profitable data points and average profit. The Funding Level Return is used. 51% of trades should be profitable and profits should exceed losses by at least 51%. Founder G.C. Jacobson.

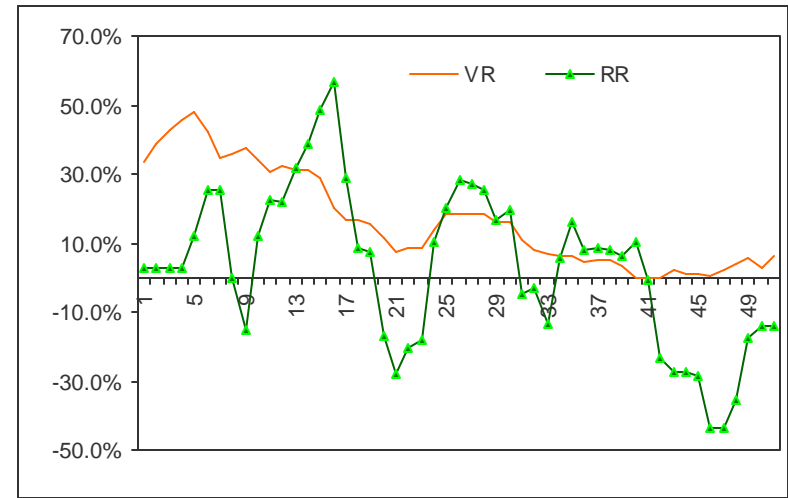


11. Capital Account Value - 7 Days



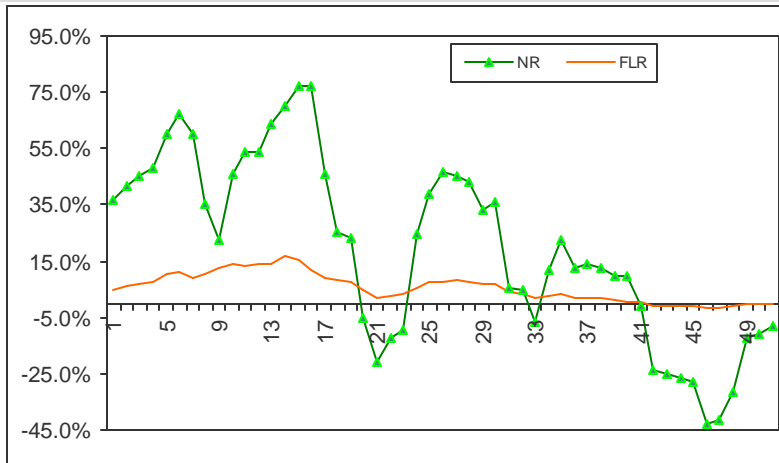
Using a 7 data point average, the Capital Account Value includes realized and unrealized return. Cash is net of commissions before advisor and Sanctity/SafeMoneyMetrics Fees. Time Frames are user friendly.

12. Realized to Volatility - 7 Days



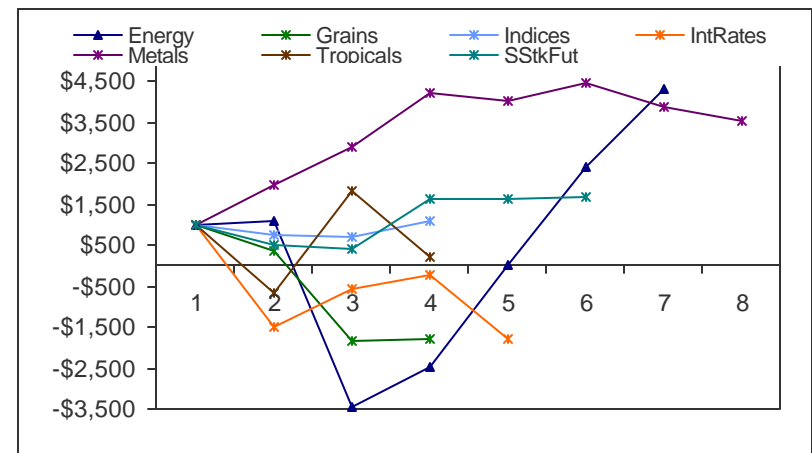
The Realized to Volatility Ratio over 7 data points. A high realized and low volatility ratio represents maximum profitability and comfort. You can request a change in time frames or other charts added that include different time frames.

13. Net to Funding Level - 7D



Seven day relationship between the Net and Funding Level Ratio (FLR). The Net should always remain well above the FLR. If the Net sharply declines or drops below **the FLR as shown here**, IMMEDIATELY COMPARE TO LONGER TERM TIME - LEVERAGE MAY BE TOO HIGH

14. Sector Correlation and Profitability



Trades are sorted by market and compiled by sector. A \$1000 Vami uses profitability for each trade within the sector. We see how each sector correlates with each other and how each contributes to composite profitability. More data is available with the passing of time