

# SafeMoneyMetrics®

## Advisor Analysis Definitions and Explanations

“Your Direct Risk Management Solution for Managed Futures”



### Value to Investors:

SMM reveals information that would otherwise remain concealed. When this information is integrated into any traditional analytical process, many unforeseen losses can be dramatically reduced or maybe even prevented.

SMM® is a simple cost effective strategy that easily integrates into other risk management strategies. SMM® Advisor Analysis is client driven. Select

- composite account size,
- capital allocation to each advisor,
- select advisors from our data base or enter your own advisors in a personalized private database.
- traditional data used in the analysis accommodates any two data sources. They are graphically compared to the managed futures investment.
  - Investment professionals can use the analysis as a business development service.
  - Investors can compare the managed futures strategy to any other two investments.

### Cost:

- Single advisor analysis is \$45.00
- multi-advisor (2-5 advisors) is \$65.00.

Weaknesses and strengths defined below are as comprehensive as I am capable of perceiving and giving at this time. (MJJ).

### Overview and Purpose:

Advisor analysis is designed to accommodate data easily accessible to everyone. Use monthly returns from any online resource, a traditional managed futures database, and capsule performance data from the advisors disclosure document; or be bold and request a 13 Column track record. Enjoy the experience and please email us with ideas on how the service can be improved.

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### Basic Weaknesses:

This report is designed to accommodate public domain data.

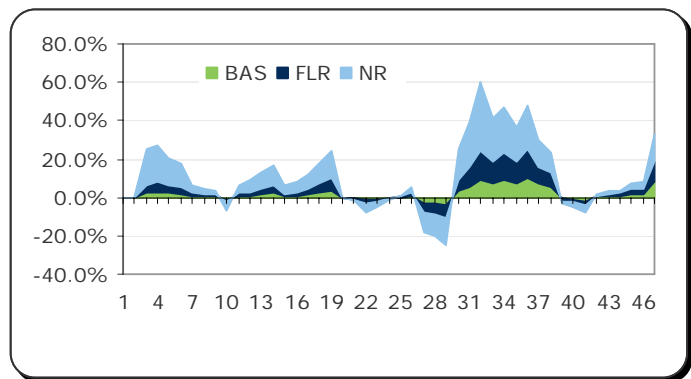
- Data nets out realized and unrealized returns into one number, therefore only Net and Funding Level ratios can be produced.
- When using the multi-advisor service, the report analyzes the composite rate of return, determined by the client's capital allocations. Analysis on each advisor within the composite does not exist. To compensate for the weakness we created [CTA-Reports. It's Free](#)
- The analysis reports what a client inputs. It does not optimize. This weakness is offset by [SMM® desktop and custom analysis](#).
- This report only analyzes past monthly data before an account is opened. This weakness is eliminated when investments are finally chosen. Clients can elect [Client](#)

[Risk Management](#). CRM is applied to the composite strategy, each advisor within the strategy. Investor accounts are then analyzed relative to an “internal benchmark.” For details read [the CRM PDF demo and related content](#).

- When trades are compiled into one monthly number, ratios are imprecise because the summary of capital at risk has no relationship to capital at risk relative to consecutive on individual trades.
- Intra-day and intra-month account volatility cannot prudently be analyzed in this report. ([Client Risk Management also offsets this weakness](#)).
- IF the Capital at Risk value is erroneous SafeMoneyMetrics® will produce invalid results.
- Default Values: Sometimes advisors do not report their minimum funding level, margin to equity or round turn per million values. We ask each advisor for the information via email. When left unreported, we use a default value of 75% for the minimum funding level, 25% as margin to equity and 1200 RT per million. The default values obviously contribute to erroneous aspects of SMM® reports. When accurate information is reported, the default values are automatically replaced.

**Fundamental Benefits:** This report defines the following and more:

1. Net, Funding Level and Billing Account Returns: Net return earned on capital at risk relative to net return earned on minimum capital required. A net ratio should remain at a comfortable level above the funding level ratio. If and when the net moves into and below the funding level, leverage is too high for the account at the accounts minimum funding level. The analysis reveals potential risk of an account when funded at the minimum funding level over variable market conditions.

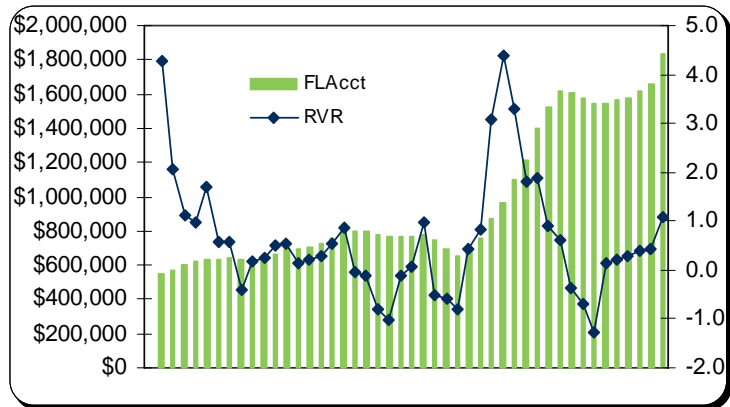


2. Capital Waste – Excess capital required by an advisor. **REMEMBER:** Excessive account sizes hide volatility. **High volatility does NOT necessarily infer high risk!** Trading results can be volatile however if profitability is high WHO Cares? Be aware that management fees are paid on a notional account size with a possibility that only 5 or 10% of total assets are used for trading. **We labeled the Notional Account Size a Billing Account Size or BAS**

3. The Net (NR) and Funding Level Ratio (FLR) relationship allow higher levels of truth to be revealed.

4. We evaluate the quality of investment return defined by;
- a) Net Ratio (NR) relative to Funding Level Ratio (FLR);
  - b) A 51% rule applied to the monthly FLR;
  - c) Annual and total cost relative to the Billing Account Size, Net and Funding level returns.
  - d) Volatility of return at the Net and FLR level.
  - e) Profit and Loss – Average, maximum, minimum and last for every 12 data points in the analysis.
  - f) Returns relative to two traditional index values.

5. Hypothetical Account Value when invested over a time frame that you choose, relative to a "trend in risk assumed to generate that return." The RVR. This model does not account for additions, Distributions, or Sanctity/SafeMoneyMetrics™ fees.



6. Total Return and Cost: The data table below reveals the annual and total cost for three funding levels relative to return.

- billing account is the minimum account size required by the advisor,
- funding level is the maximum leverage a client can use and,
- margin account represents actual capital at risk.

Most important when this data table is compared with the Net to Funding Level Ratio defined by #1 and #2 above – we understand the risk of using higher leverage with any advisor or composite strategy. HOW? Look at the chart to the right of #1 above.

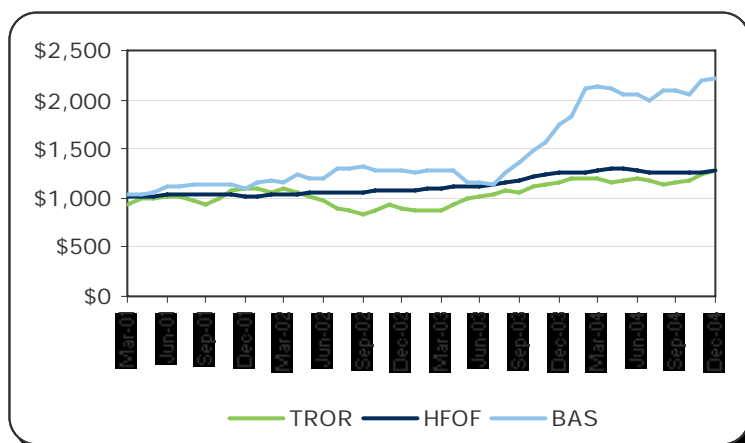
- Risk is defined between the Net and Funding level ratio.
- Remember that the Net Ratio is calculated using margin or capital at risk. It should ALWAYS maintain a healthy and stable distance above the Funding Level Ratio. (See Benefit #1)

9. Billing Account		Funding Level		Margin Account ( NR)	
<b>BASStart:</b>	\$1,000,000	<b>FLStart:</b>	\$500,000	<b>MgnStart:</b>	\$97,000
<b>BALast:</b>	\$3,206,900	<b>FLLast:</b>	\$2,706,900	<b>MgnLast:</b>	\$2,303,900
<b>MgnBA:</b>	50.0%	<b>MgnFL:</b>	19.4%	<b>Mgn:</b>	100%
<b>An.CostBA:</b>	0.9%	<b>An.Cost/FL:</b>	1.8%	<b>An.Cost/Mgn:</b>	3.0%
<b>Total Cost:</b>	3.53%	<b>Total Cost:</b>	7.05%	<b>Total Cost:</b>	11.75%
<b>BA-Return:</b>	<b>220.7%</b>	<b>FL-Return:</b>	<b>441.4%</b>	<b>Mgn-Return:</b>	<b>2275.2%</b>

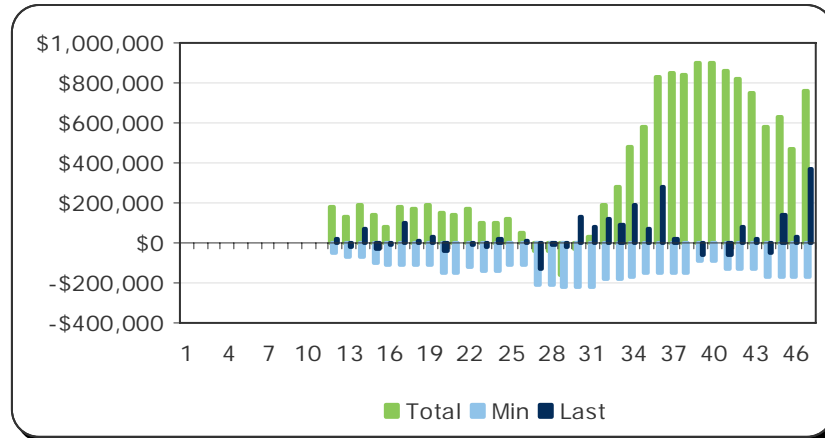
7. To your right is past performance relative to a traditional and hedge fund of funds index. Can this investment actually lower the risk of a traditional or hedge fund investment?

If the managed futures/options or other alternative investment moves in the opposite direction of a Traditional and Hedge Fund Index, diversification is good. Specifically notice that the TROR and HFOF basically move together, when one loses money so does the other

\*\*\*These indexes can be replaced with your traditional data.



8. 12 Month Return Chart: **Investors can visualize profits relative to maximum losses for specific time frames.** For every 12 month time frame, total maximum profits, total losses and last single value are charted. Since very few people invest in January and close their account in December, we believed that 12 month return tables were more useful.



9. 12 Month Data Tables: Below, a 12 Month time frame summary was created in lieu of annual returns. The Total and Minimum represents a sum of all twelve months for that time frame. Last is the last data point for the time frame. The RVR and CV are defined below.

12. Twelve Month Profit or Loss - Last 12 Time Frames					
	Total	Min	Last	RVR	CV
1	\$14,051	-\$6,589	\$2,680	0.49	2.04
2	\$13,029	-\$6,589	\$126	0.45	2.23
3	\$14,007	-\$6,589	\$2,382	0.47	2.13
4	\$15,920	-\$6,589	\$2,498	0.52	1.91
5	\$21,700	-\$2,907	\$2,098	0.93	1.08
6	\$19,812	-\$2,907	\$1,845	0.89	1.13
7	\$19,659	-\$2,907	\$1,799	0.87	1.15
8	\$19,066	-\$2,907	\$1,162	0.83	1.21
9	\$19,327	-\$2,907	\$2,051	0.83	1.21
10	\$20,129	-\$2,907	\$1,578	0.86	1.17
11	\$23,971	\$0	\$935	1.55	0.64
12	\$22,634	\$0	\$3,482	2.12	0.47

### Definitions and Explanations

This section is repeated in all SafeMoneyMetrics® demonstrations. Definitions used in each aspect of analysis are taken from the composite SafeMoneyMetrics® Risk Management definitions. Not all applications are used in every aspect of analysis. However fundamental consistencies are inherent throughout all aspects of SafeMoneyMetrics®.

SafeMoneyMetrics® ALWAYS monitors ratios in relationship to each other. Nothing lives isolation. For example: Analyzing the trend of a Net relative to Funding Level Ratio over different time frames provides insight into the risk associated with leverage being used under variable market conditions. If an investment trades many markets prudent diversification only exists if "returns" produced by each market constructively correlate with each other. The two most important aspects of SafeMoneyMetrics® are:

- 1) Analysis is based on a direct relationship to trading talent and results. Nothing else matters!

2) 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 it's 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? The ocean tides and air simply flow, everything is part of and supported by God' in God's universe – life flows all self-complete and will be this way for eternity! The [Standards for Advisor Evaluation investment guide is FREE](http://research.safemoneymetrics.com/guides.html). It details how and why we apply Universal Truth and Law to investment analysis. You can download it at <http://research.safemoneymetrics.com/guides.html>

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**1. Capital at Risk (CAR):** A formula that represents capital used to produce a return; NOT the account size an advisor asks for, or minimum funding level. CAR is the foundation for all ratios. The formula is adapted for different situations. 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. Simply stated, assume we evaluate 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 and Lowest CV- see#9 below)

**2. 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).

**3. Funding Level Ratios (FLR):** Represents an advisor's minimum funding level relative to return. Account stability is indicated when the FLR is consistently below the NR, especially when the difference is wide. Current leverage is too high when the NR begins to fall into and below the FLR.

**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. Cost analysis is improved when 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 illusion" that he needed to exceed a 20% return before clients benefited.

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.

**5. Traditional Rate of Return (TR):** SafeMoneyMetrics™ uses the TR relative to the Net and Funding Level Ratios for evaluating account stability at variable degrees of leverage.

**6.\*\*\*\*\*A Primary Benchmark:** Reward to Variability Ratio (RVR): When used with SafeMoney risk and investment management services the RVR 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. 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.

**7.\*\*\*\*\*Secondary Benchmarks:** Coefficient of Variation (CV): 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 advisors, 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.

**Billing Account size (BAS):** Also called a notional account size accepted by the advisor (Management fees are calculated on this account size).

**Minimum Funding Level (FL):** Cash used to fund an account expressed as a percentage of the billing account size.

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

**Margin Funding%:** Margin used expressed as a percent of the minimum funding level.

**An.Cost/BA:** Annual cost relative to the Billing Account Size (MA) accepted by the advisor.

**An.Cost/FL:** Annual cost relative to the Minimum Funding Level (FL). See # 4 Cost Ratio.

**An.Cost/Mgn:** Cost relative to capital at risk used to produce returns.

**Total Cost:** The analysis offers annual cost at each funding level and total cost over the time frame analyzed. An opportunity to prudently evaluate the annual and total return relative to annual and total cost is presented.

**BA and FL Total Return:** Based on the hypothetical account size for time frame being analyzed.

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

**Min:** The worst value of a ratio.

**12 Data Points:** A subtotal return, maximum minimum and last P&L for every 12 data points.

**Time Frames:** Ratios and benchmark over specific time frames.

**Correlations:** Using three-month time frames the RVR for each advisor within a strategy and then markets within each advisor are correlated.

**Last:** Use the presentation date to determine time frame of data in this column.

**51% Rule:** Based on the accounts minimum funding level, we track the number of, percent and average of all profitable data points relative to maximum and largest losses.

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