

# Sanctity/SafeMoneyMetrics

Your Direct Risk Management Solution for Derivatives  
Limited Risk Managed Futures/Option Investments

#41

## SafeMoneyMetricsä for Clients

Marlee-Jo Jacobson ©

This article demonstrates how SafeMoney contributes to account profitability from several viewpoints. It builds communication and credibility between the advisor and every client. It allows analysis of "a process of profitability," and it provides early warning of strategy imbalances. Pre-determined automated decision rules can be built into any analysis.

### The Seed of Perfection is Hidden Within

This original life is infinite. It is good, filled with peace. It is of the essence of purity. It is the ultimate of intelligence, power and law. It is life and it is in us. In that inner sanctuary of our own nature, hidden perhaps from objective gaze, "nestles the seed, perfection."

In our ignorance of the truth, we have misused the highest power we possess. And so great is this power—so complete is our freedom in it, so absolute the domain of law through it — that the misuse of this power has brought upon us the very conditions from which we suffer. We are bound because we are first free; the power that appears to bind us is the only power in the universe which can free us. Simply stated: "It is done unto you as you believe." From The Science of Mind – Ernest Holmes Pg 37

Everyone should know that determining future profitability of any managed futures account has NO relationship to past performance. (See [www.safemoneymetrics.com](http://www.safemoneymetrics.com) Why SafeMoney?) Profitability is basically determined by four simple conditions.

1. Trading discipline and talent need to profitably flow under current market conditions.
2. Every client needs comprehensive understanding of the investment and how it may or may not perform under variable market conditions.

The first year "managed futures experience" can parallel the first year "marriage experience". Personality quirks or habits of each partner may be disturbing to each partner. Life "feels easier" after one year, not because anyone changed, but because we adapted to the environment. Anyone that lives through year one of a managed futures investment can do well annually. Choose good people be thorough in your initial selection process and go enjoy life!

3. Client expectation and preparation should be realistic relative to what the investment may or may not deliver over a predefined time frame.

Someone gets involved with an investment based on an expectation of how the investment should perform. Because the investment did NOT perform relative to the expectation, the client closes their account, probably losing money. The cause of loss was expectation relative to reality. Simple huh?

4. The investment should be integrated into a total portfolio rather than used in isolation. Any managed futures/option investment should always increase the potential return of a stock market portfolio and reduce the composite account volatility.

# 4 is THE major reason for even considering managed futures.

Without being cynical, we believe that clients should only commit what they can comfortably live without. WHY? When an absolute emotional and financial downside is covered, success usually follows.

### Traditional Managed Futures

A few places to access managed futures traditionally are [www.managedfutures.com](http://www.managedfutures.com) , [www.iasg.com](http://www.iasg.com), Lind-Waldock, Carr Futures or search managed futures and follow the yellow brick road. You probably need the traditional experience to understand the difference!

### SafeMoney for Client Accounts

Performance in any endeavor is purely a function of human consciousness expressing itself. Therefore our primary task is to understand the consciousness of the trader. SafeMoney allows us to isolate advisors that offer a "superior process of creating returns" relative to their peers over any market condition.

The initial selection process is detailed at [www.safemoneymetrics.com](http://www.safemoneymetrics.com) Advisor Analysis – Descriptions. That process describes and teaches you how to apply SafeMoney ratio and cost analysis to and all public domain data. Once a client account is opened: SafeMoneyMetrics™ provides the following:

Client Name	
Start Date:	4/30/2003
Current Date:	7/14/2003
Total Data Points:	61

Trades are analyzed and compiled daily. Total data points represent the number of trades during the time frame described. The information flows into several formats offering the following information:

**1. Allocations:** How capital was allocated to each advisor within a mix and at what degree of leverage was used. What the starting value of each allocation was relative to its value on the presentation date. Allocations are initially decided by proprietary formulas used in Excel's solver. From a small group of advisors we can ask Solver to maximize the Reward to Variability Ratio by allocating assets at each advisors minimum funding level. Solver can currently allocate assets among five advisors. We evaluate and track the best four allocations for that group of advisors over time. Specifically, assume we choose an allocation and we notice that another allocation proves to be more beneficial during a specific time frame. We can easily reallocate assets.

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

## 2. Capital Account Decisions

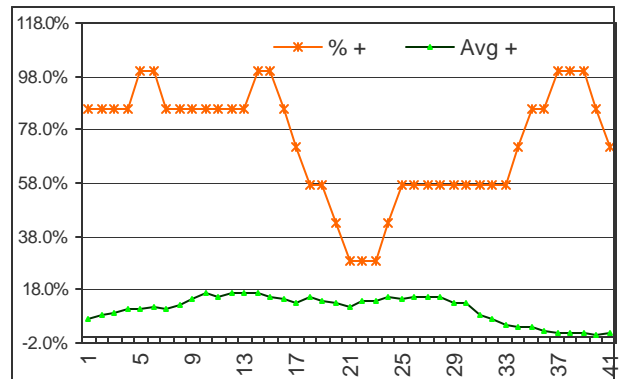
Capital Account Value				Capital Decisions	
Start	Max	Min	Today	%+	%-
\$50,000	\$63,943	\$46,187	\$52,709		

Rather than move with market flow, many clients want capital removed or added at variable percentages relative to the accounts starting value, or other methods of making decisions. Specifically, we believe that people should withdraw at least 50% of their profits annually. Some people withdraw partial profits when the advisor is paid an incentive fee. SafeMoney automates these decisions. The capital account data is also a direct method of monitoring draw-downs.

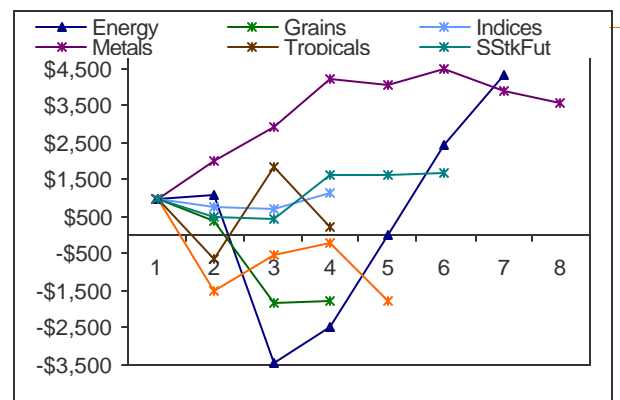
## 3. The 51% Rule

51%RuleComp7DataPoints Summary All			
	%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%

The data table above and chart in the next column are 51% rule results. For every 7 data points we calculate the percent of profitable and average profit of trades as they occur. We then sort trades by market and then compile by sector.



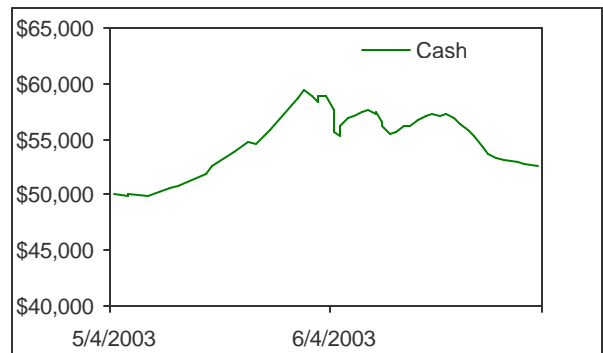
## 4. Sector Profitability and Correlation



From the initial 51% rule analysis, trades are then sorted by market and compiled by sector. A \$1000 Vami reveals profitability for each trade within the sector. Over time we see how each sector correlates with each other and how each contributes to composite profitability. Naturally more data is available with the passing of time. Remember we can back into the profitability for each market within the sector when necessary.

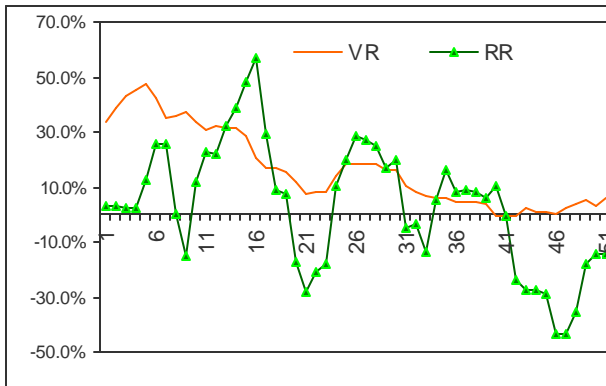
We believe sorting and the feedback it offers is a superior filter and risk management strategy for trading advisors. They can learn about the quality of each trade by the ratio it produces. They can code trades before they are taken, see results and look to model trades with higher ratios.

## 5. Capital Account Value – 7 Day Time



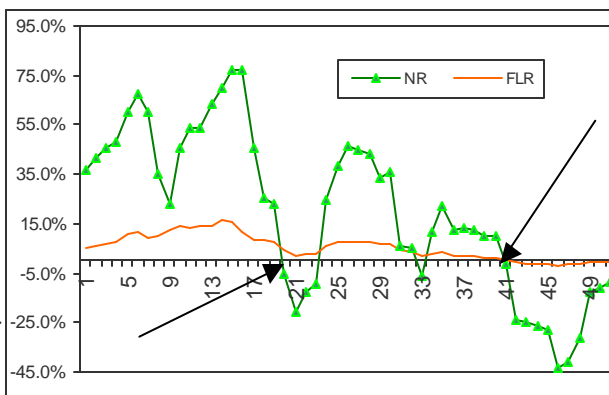
The capital account value is averaged every seven days. People can learn about themselves by paying attention to their reactions of money flowing around!

### 6. Realized to Volatility Ratio



Every 7 data points the realized to volatility ratio is averaged. Volatility is open trade equity relative to margin or capital at risk and realized is capital at risk relative to the advisors ability to translate their open trade equity into realized profits. Obviously the realized ratio should remain well above the zero line and the volatility close to it. If the volatility ratio increases and the realized decreases we believe adjustments should be considered especially after short-term time is evaluated relative to monthly data. Also observe the relationship between the net and funding level ratios. They determine profitability under current market conditions at specific degrees of leverage.

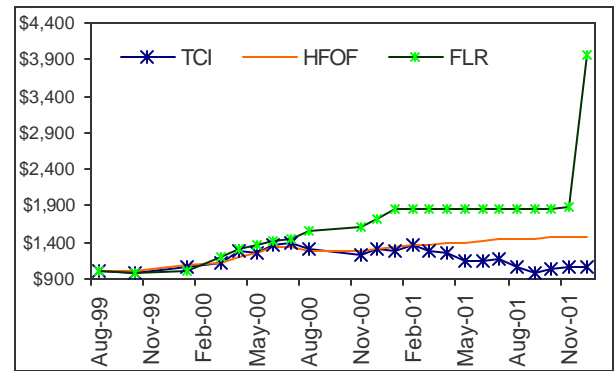
### 7. Net to Funding Level Ratio



The net ratio expresses realized and unrealized account equity based on capital at risk. The funding level expresses realized and unrealized based on the advisors minimum funding level or maximum allowable leverage. The NET should always remain well above the funding level. When the net ratio moves into and below the funding level, leverage being used is too high. We would adjust the leverage being used, IF the excessive degree of risk expressed by short-term time is confirmed by in monthly data. The leverage would be adjusted by degrees Degrees

depending upon what is revealed BETWEEN short and longer term time.

### 8. Monthly Performance and Traditional Returns



The advisors monthly performance is represented by 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. \$1000 Unit Values represent traditional index values before costs and the managed futures after transaction costs, advisor fees but before Sanctity/SafeMoneyMetrics fees.

This entire presentation as a client would receive it can be seen at <http://www.safemoneymetrics.com> For Investors and at [www.sanctity.com](http://www.sanctity.com) Investments for All People

**Until Next Time  
Live and Love Well !**

[www.safemoneymetrics.com](http://www.safemoneymetrics.com)  
Advisor Analysis  
Monthly Advisor Rankings

Services offered by  
Sanctity/SafeMoneyMetrics.

**Kim Hunter** – editor of Risk and Reward magazine is also a Freelance Writer. – Kim 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 international audience.

Kim's first article on SafeMoneyMetrics™ was published in Risk and Reward Magazine. You can access the magazine FREE at [www.fow.com](http://www.fow.com)

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**For All People:** SafeMoneyMetrics™ risk management services. Analysis is applied to the advisor, or composite investment under consideration and after the account is open to all activity in the account. Frequency of reporting is optional. See <http://www.safemoneymetrics.com> For Investors and at [www.sanctity.com](http://www.sanctity.com) Investments for All People and the Sanctity Capital Management Disclosure Document for details.

**For Hedge Funds of Funds** –As a Trading Manager we design, monitor and repair managed futures and options strategies. SafeMoneyMetrics™ is integrated into every aspect of the service and working with the industry's most prominent traditional companies allows a cooperative endeavor to evolve that offers less risk than what traditional alone can probably provide.

**For Broker Dealers, Banks and Other Financial Institutions** 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 vigorous 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. ALL RISK MANAGEMENT MARKETING AND CLIENT EDUCATION STRATEGIES

**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 because we are compensated by the client or FCM sponsoring your services.

**For Electronic and Print Media** - SafeMoneyMetrics™ designs investment models teaching prudent integration of managed futures into a traditional portfolio and with other alternative investments. Services can be supported with monthly articles, research and simple ratios on a data-base of advisors. See [www.safemoneymetrics.com](http://www.safemoneymetrics.com)

**For National and International Commodity Exchanges and Associations** - SafeMoneyMetrics™ education 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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"Let's raise a standard where the good and wise can repair. The Rest is in God's hands."  
George Washington