

Average Annual Return

A percentage figure used when reporting the historical return, such as the three-, five- and 10-year average returns of a managed account. The average annual return is typically stated net of management, incentive and trading fees.

Calmar Ratio

A ratio used to determine returns relative to downside risk (drawdowns) in a managed account. The Calmar Ratio is determined by dividing the compounded annual return by the maximum drawdown, using the absolute value. Generally speaking, a higher ratio is better. Most Calmar Ratios utilize 36 months of data.

The **MAR Ratio** is identical to the Calmar Ratio except that it uses all performance data available.

Correlation

Is a measure of the interdependence or strength of the relationship between two investments. It tells us something about the degree to which the variations of returns from their respective means move together. If two investments are positively correlated, when one performs above its mean return it is likely that the other will also perform above its own mean return. If two investments are negatively correlated, when one performs above its mean return it is likely that the other will perform below its mean return. Note that correlation says nothing about the mean returns themselves – they could both be up, or both down, or one could be up and one down. To measure the strength of the relationship, we use the correlation coefficient. These values range from -1 (perfect negative correlation), through 0 (no correlation or uncorrelated) to +1 (perfect positive correlation). From a risk management perspective, it is generally favorable if two investments are uncorrelated because it means that there is no identifiable directional pattern or proportional relationship between the deviations of their monthly returns. The general idea is that a portfolio consisting of uncorrelated assets should produce a smoother overall return profile than a portfolio with assets that have a positive correlation with each other.

Drawdown

An investment is said to be in a drawdown when its price falls below its last peak. The period between the peak level and the trough is called the "Length" of the drawdown. The period between the trough and the recapturing of the peak is called the "Recovery". The worst or "Maximum Drawdown" represents the greatest peak to trough decline over the life of an investment.

Incentive Fee

Often referred to as a "Performance Fee", this is the fee earned by a manager on new profits that surpass the previous high-water mark (high in equity).

Kurtosis

Kurtosis characterizes the relative peakedness or flatness of a distribution compared with the normal distribution. Positive kurtosis indicates a relatively peaked distribution. Negative kurtosis indicates a relatively flat distribution.

Sharpe Ratio

A measure of risk-adjusted performance that indicates the level of excess return per unit of risk. In the calculation of Sharpe Ratio, excess return is the return over and above the short-term risk free rate of return and this figure is divided by the risk (standard deviation). In general, the greater the Sharpe ratio the greater the risk-adjusted return.

Skewness

A measurement that characterizes the degree of asymmetry of a distribution of returns around its mean.

Sortino Ratio

A measure of risk-adjusted performance that indicates the level of excess return per unit of downside risk. It differs from the Sharpe Ratio in that it *recognizes investors' preference for upside ('good') over downside ('bad') volatility*. It uses a measure of 'bad' volatility as provided by semi-deviation – the annualized standard deviation of the returns that fall below a target return (typically the risk free rate).

NOTE: This is different from the Sharpe Ratio in that it penalizes only those returns falling below a user-specified target, while the Sharpe Ratio penalizes both upside and downside volatility equally. In our opinion, the Sortino ratio is a more meaningful measure of risk-adjusted returns than the Sharpe Ratio.

Sterling Ratio

A comparison of historical reward and risk. The Sterling Ratio is equal to the average annual rate of return for the past three calendar years divided by the average of the maximum annual drawdown in each of those three years plus 10%.

Systematic vs. Discretionary

Systematic trading is a mechanical set of rules covering entry and exit orders based on a pre-established and predefined plan. Discretionary trading relies on the manager's judgment for entry and exit orders, typically based on a pre-established and predefined plan.

Value-Added Monthly Index (VAMI)

VAMI is defined as the growth in value of an average \$1000 investment. VAMI is calculated by multiplying $(1 + \text{current monthly ROR}) \times (\text{previous monthly VAMI})$. VAMI assumes the reinvestment of all profits, less incentive, management and trading fees.

Data Source: Barclay Group, CTA.PFGBest.com

THE RISK OF LOSS IN TRADING FUTURES, OPTIONS AND OFF-EXCHANGE FOREX CAN BE SUBSTANTIAL.
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

ALTAVRA Inc. | 390 SE Mizner Boulevard #1809 Boca Raton, FL 33432 | 1-800-998-7870 | ALTAVRA.com