



Portfolio Analysis of  
Joe's IRA  
for  
Joe Public  
May 27, 2009

SAMPLE REPORT

## **Table of Contents**

- **Introduction - page 3**
- **Portfolio Returns Studies - page 4**
- **Portfolio Risk Studies - page 5**
- **Up / Down Capture Study - page 6**
- **Portfolio Statistics - page 7**
- **Investment Advisor Skill Ratios - Page 8**
- **Risk/Reward Scatter - Plot Studies - page 9**
- **Excess Return Studies - page 10**
- **Quarterly Returns and Drawdown Data - page 11**
- **Disclaimer**

## **Introduction**

We believe that all investors are entitled to investment performance that justifies the fees! This analysis uses "Returns Based Style Analysis" - employing the same software that major financial institutions use to determine the effectiveness of their investment advisors. We use your Asset allocation Model's returns in all calculations - not some major stock index. We feel this is the best way to create an apples-to-apples comparison of your returns and the returns of your Asset Allocation Model. As far as we know, no major brokerage computes their client reports like we do!

The goal is to demonstrate the level of skill of your investment advisor's recommendations - are they adding or subtracting value from the portfolio? However, it should be used as only one factor when determining the total effectiveness of your investment advisor. You may also wish to consider, among other things, their tax and estate planning recommendations, their possible unique access to specific securities, and their ability to service your needs.

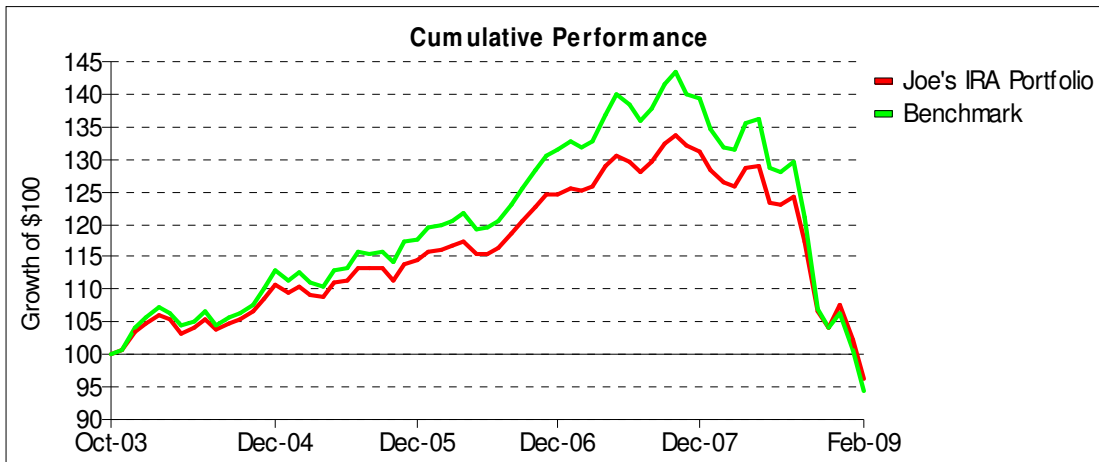
We thank you for trusting us with this important aspect of your financial life. If you have any questions, please do not hesitate to contact us through our website.

Norman D. Pappous  
President  
Investment Performance Evaluations LLC

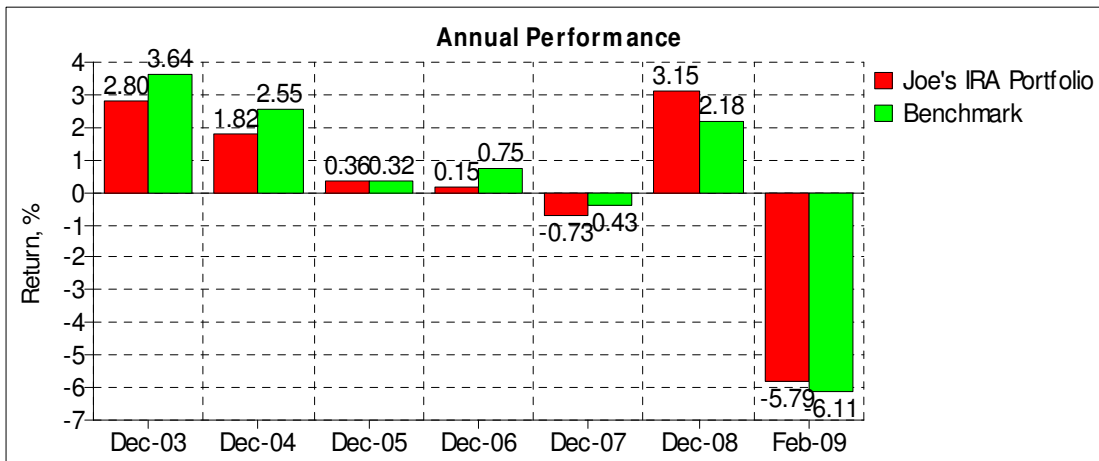


The Cumulative Performance graph demonstrates the growth of \$100 based on your portfolio's monthly returns and the returns, without fees, of your Asset Allocation Model (your benchmark). It is more desirable for your portfolio's line (red line) to always be above your benchmark's (green line).

The Annual Performance chart shows your portfolios return (red) year-by-year and the year-by-year returns of your benchmark (green). Of course, a higher return is more desirable.



Created with mpi Stylus



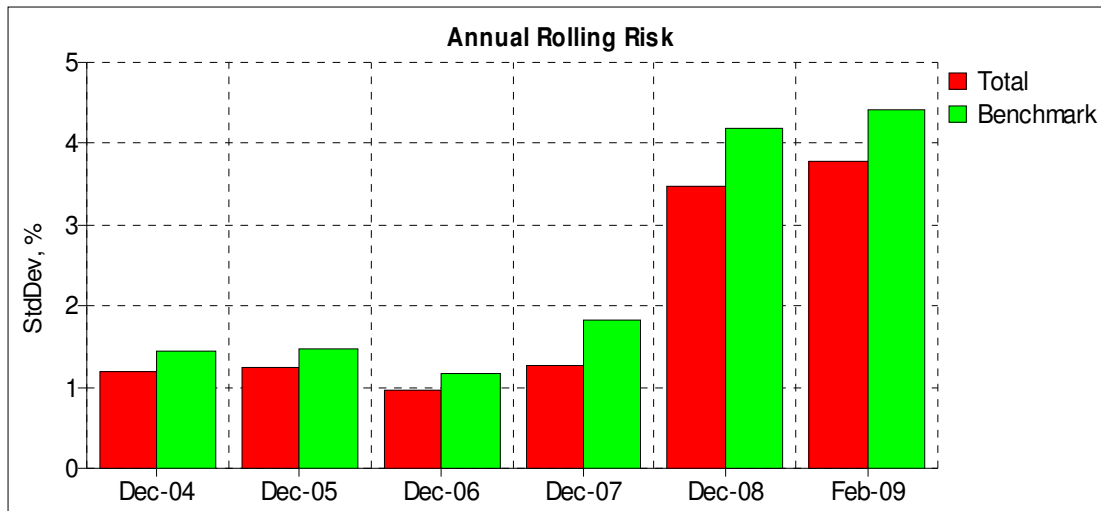
Created with mpi Stylus

While good returns are a wonderful thing they are not so wonderful if you take additional, unwanted risk to achieve them. Similarly, if you are taking too little risk, your portfolio's returns may suffer.

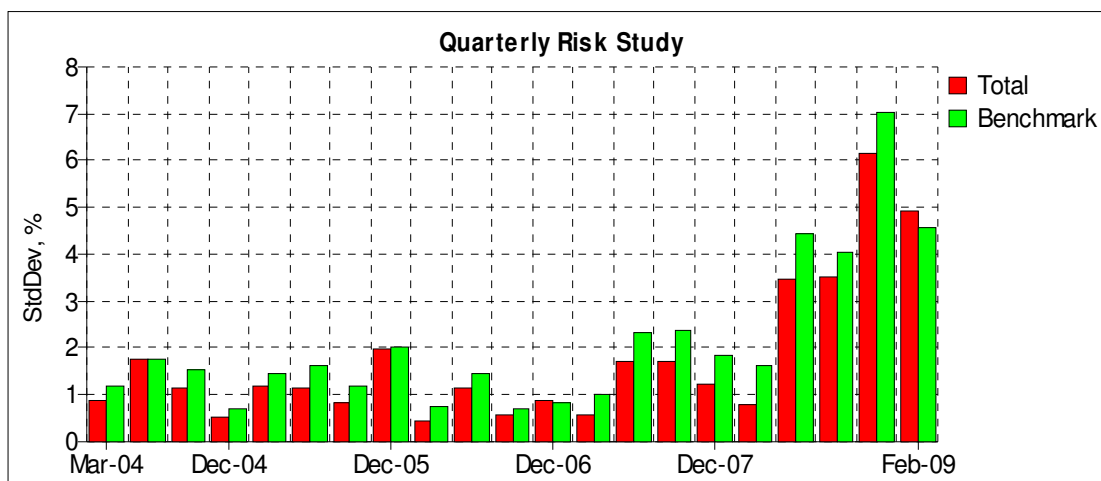
Risk is normally expressed in terms of "Standard Deviations" (in simple terms - the volatility of the portfolio's returns). Returns that are highly volatile are more risky than returns that are more consistent.

Your portfolio's risk is represented by the red bars; your benchmark's risk is represented by the green bars.

An investment advisor is considered skilful if they can produce returns that beat the benchmarks and do it with less risk.



Created with mpi Stylus



Created with mpi Stylus

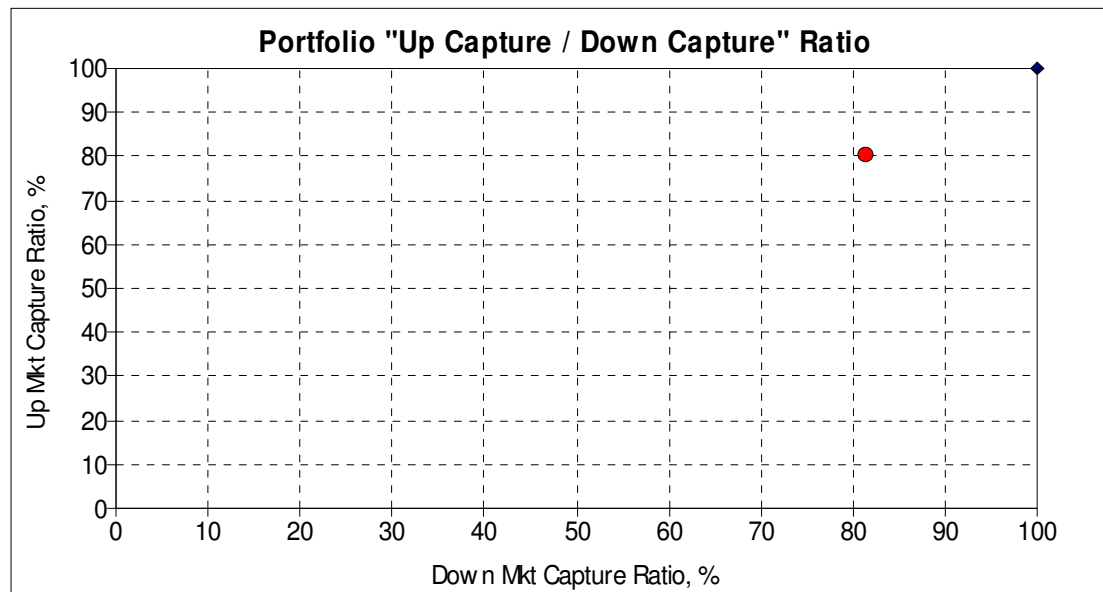
**Up Capture / Down Capture** is a wonderful study to determine how your portfolio reacts to up or down markets. The Up Capture number represents how much of the move your portfolio "captures" when the market is going up. The Down Capture number represents how much of the move your portfolio realizes when the market is going down.

Example:

The market moves from 10,000 to 11,000 - a 10% positive move. If your portfolio also gained 10% that would demonstrate a 100% "Up Capture"; if your portfolio gained only 8% it would demonstrate an 80% "Up Capture".

Similarly, if the market moves from 10,000 to 9,000 that would be a -10% move. If your portfolio also lost 10% that would demonstrate a 100% "Down Capture"; if your portfolio only lost 8% it would demonstrate an 80% "Down Capture".

**You want to see an "Up Capture" figure larger than the "Downside Capture" figure!**

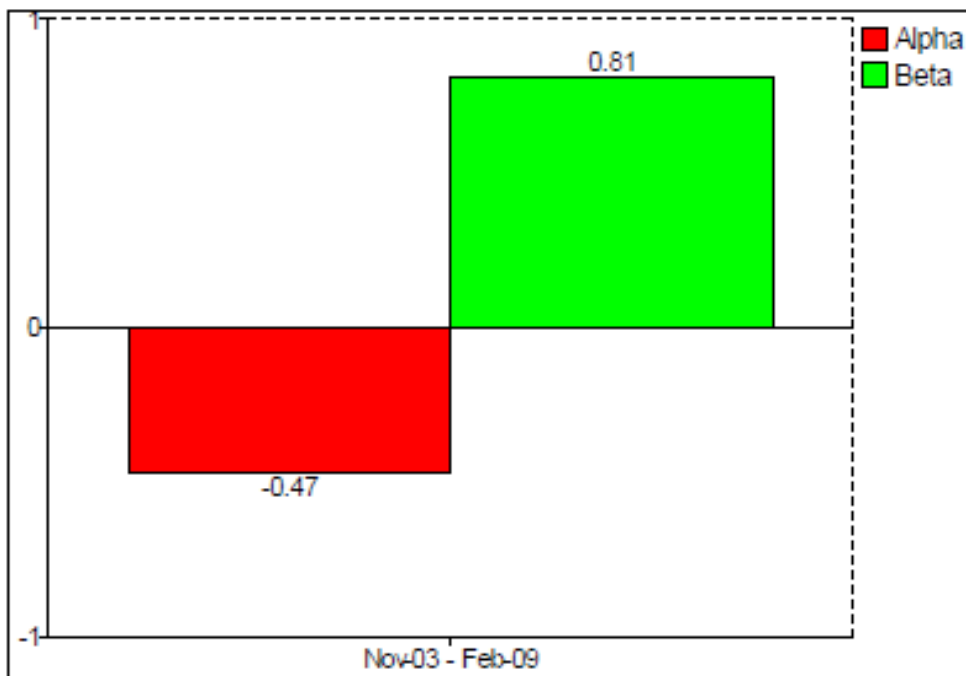


Created with mpi Stylus

Below are two measures that are used to determine the risk/return characteristics of investment portfolios. The numbers in the chart were calculated using your portfolio's returns and the returns of your Asset Allocation Model. Mutual funds normally use returns from a single index in their calculations but for an investment portfolio with an Asset Allocation Model, you should compare apples-to-apples.

**Alpha** is a measure of performance on a risk-adjusted basis. Alpha takes the risk of your portfolio and compares its risk-adjusted performance to your Asset Allocation Model's risk adjusted performance. The excess return of your portfolio relative to the return of the benchmark index is a fund's alpha. Portfolios with positive Alpha are desirable and portfolios with negative Alpha are considered undesirable.

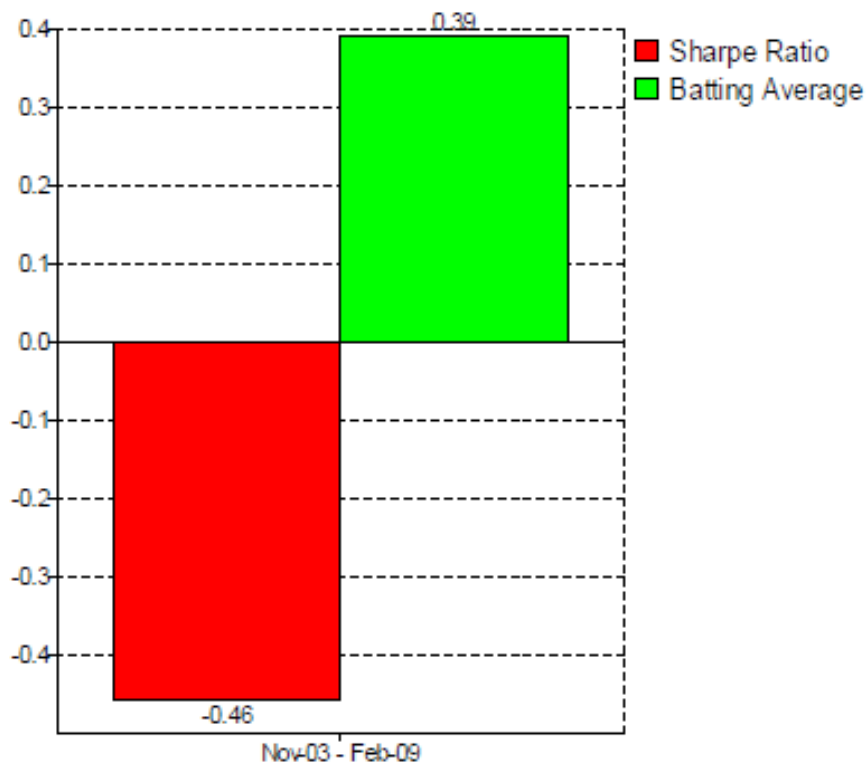
**Beta** is the tendency of a portfolio's returns to respond to your Asset Allocation Model's (your benchmark) moves. A beta of 1 indicates that your portfolio's percentage change will move "perfectly" with your benchmark. A beta of less than 1 means that your portfolio will be less volatile than your benchmark. A beta greater than 1 indicates that your portfolio's value will be more volatile than your benchmark's. For example, if your portfolio's beta is 1.2, it's 20% more volatile than your benchmark. Beta is also used as a measurement of risk in comparison to the benchmark.



Below are two ratios used by institutions to determine the effectiveness of their investment Manager. A gain - the ratios are calculated using your own Asset Allocation Model which helps answer the question "Is my investment advisor adding or subtracting value from my portfolio "?

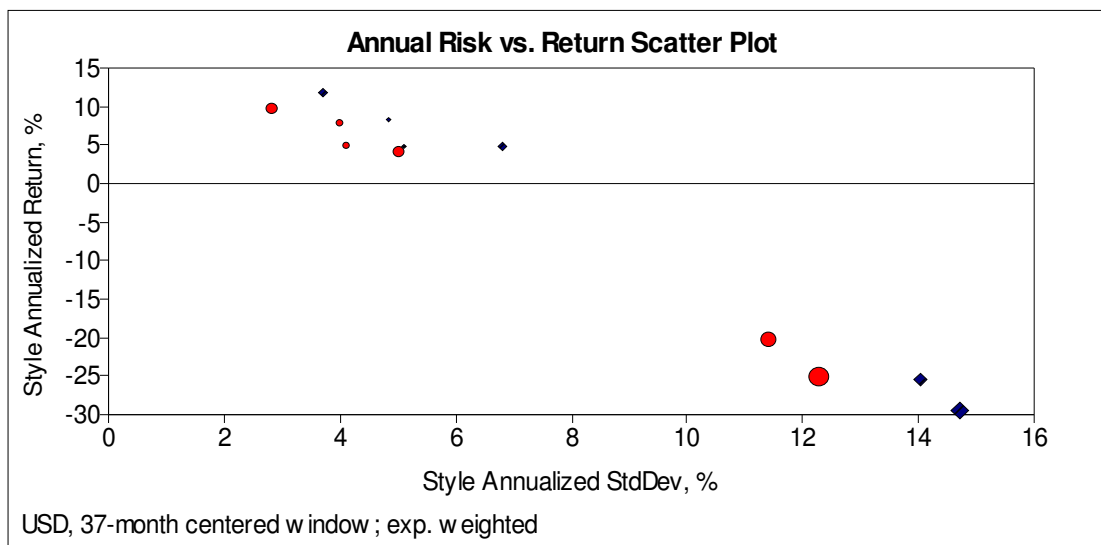
**Sharpe Ratio** tells you if your portfolio's returns are due to smart investment decisions or are the result of excess risk. Your portfolio can achieve higher returns than its benchmark but if the higher returns bring higher risk then no "added value" has been achieved. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. A positive Sharpe ratio is very desirable - a negative Sharpe ratio is not.

**Batting average** is a measurement of how often your portfolio's returns be at the returns of your benchmark. In this case it is a ratio of how many months your portfolio's returns beat your benchmark's monthly returns divided by the total number of months in the study. A Batting Average above .50 is usually desirable.

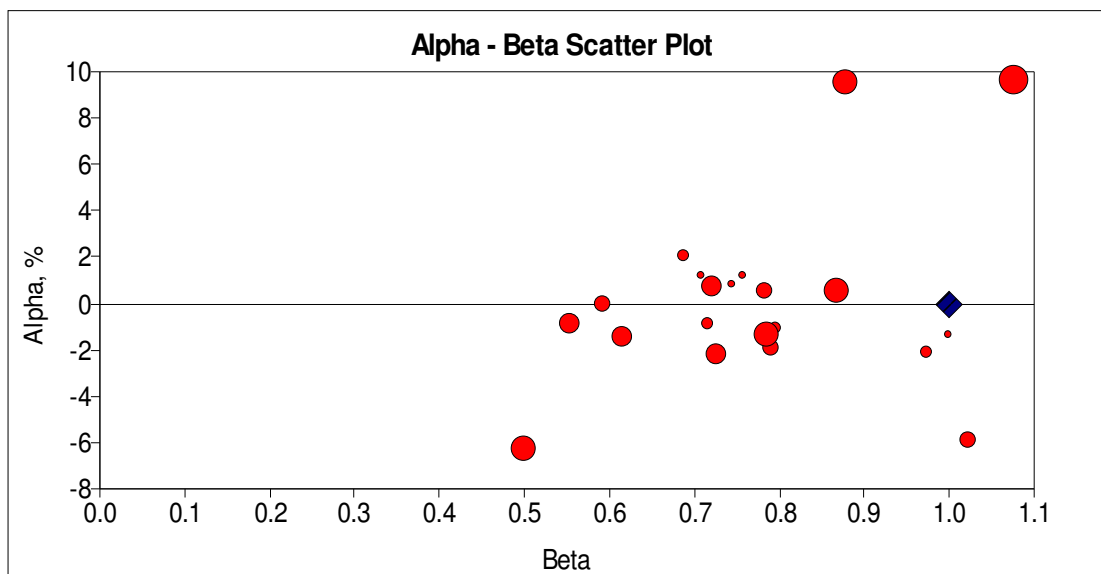


**Annual Risk vs. Return Scatter Plot** has two symbols of varying sizes. The red symbol represents a specific year of risk/return data from your portfolio. The blue symbol represents a specific year of risk/return data from your Asset Allocation model. You want to see your red symbol above and to the left of the blue symbol of the corresponding size.

**Alpha - Beta Scatter Plot** - please review previous explanation of Alpha and Beta. The Red symbols represent your portfolio during specific time periods. The larger the symbol, the more recent the time period. It is desirable to have all the red symbols above and to the left of the blue symbol.



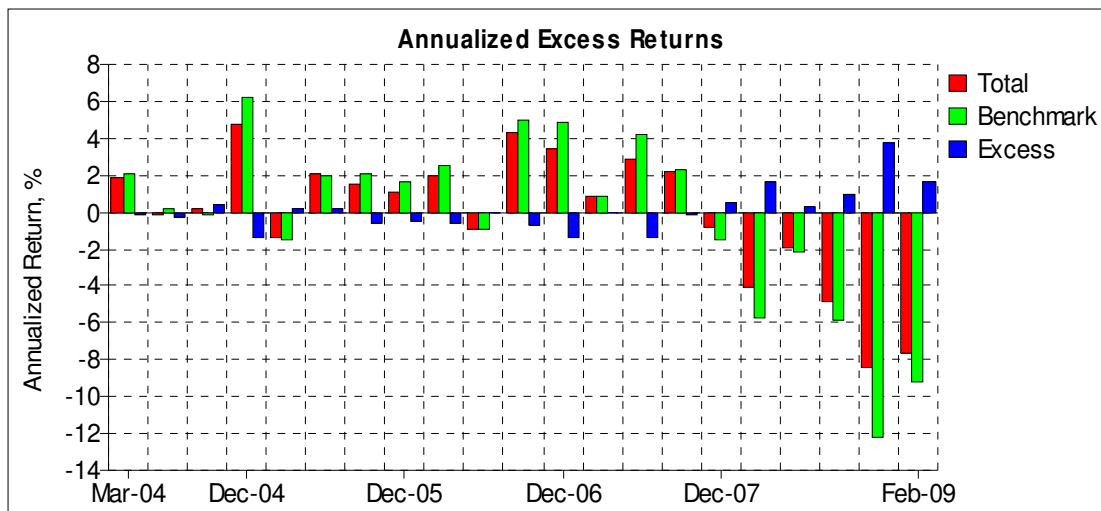
Created with mpi Stylus



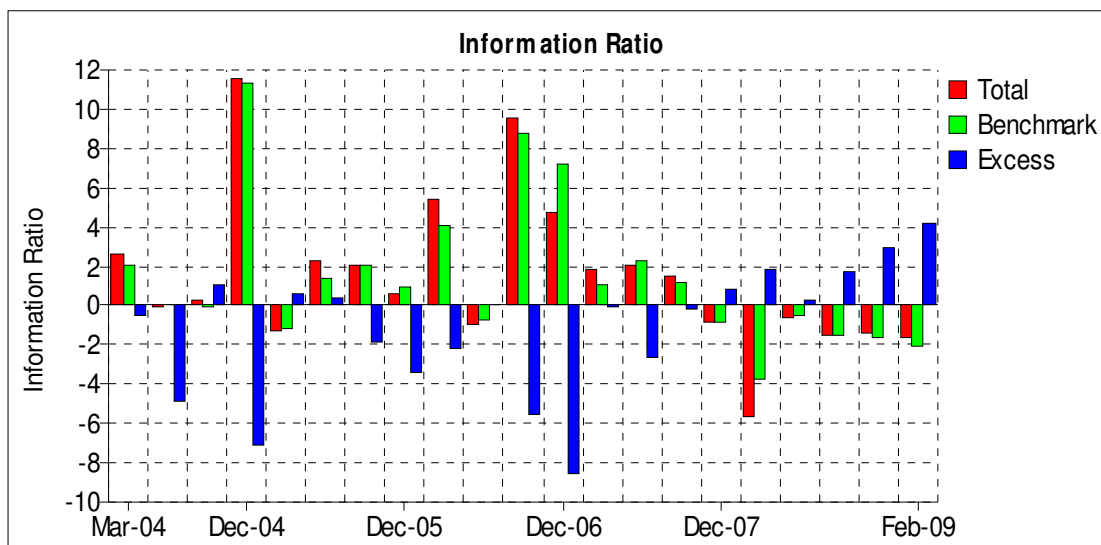
**Annualized Excess Returns** represents how much, if any, returns were earned by your portfolio in excess of your Asset Allocation Model's returns. The red bar represents your portfolio's return; the green represents your Asset Allocation Model's returns; and the blue bar represents any excess returns. You want to see the blue bar above zero - if the blue bar is below zero it represents underperformance of returns for that period.

**Information Ratio** is an efficiency measure. It measures how much value has been added by the investment manager per corresponding unit of risk. It is represented by the blue bar - blue bars above zero are desirable.

As a useful exercise, you may wish to count the number of times the blue bar appears above zero and divide it by the number of times the blue bar appears below the zero line - you want the result to be greater than 1.

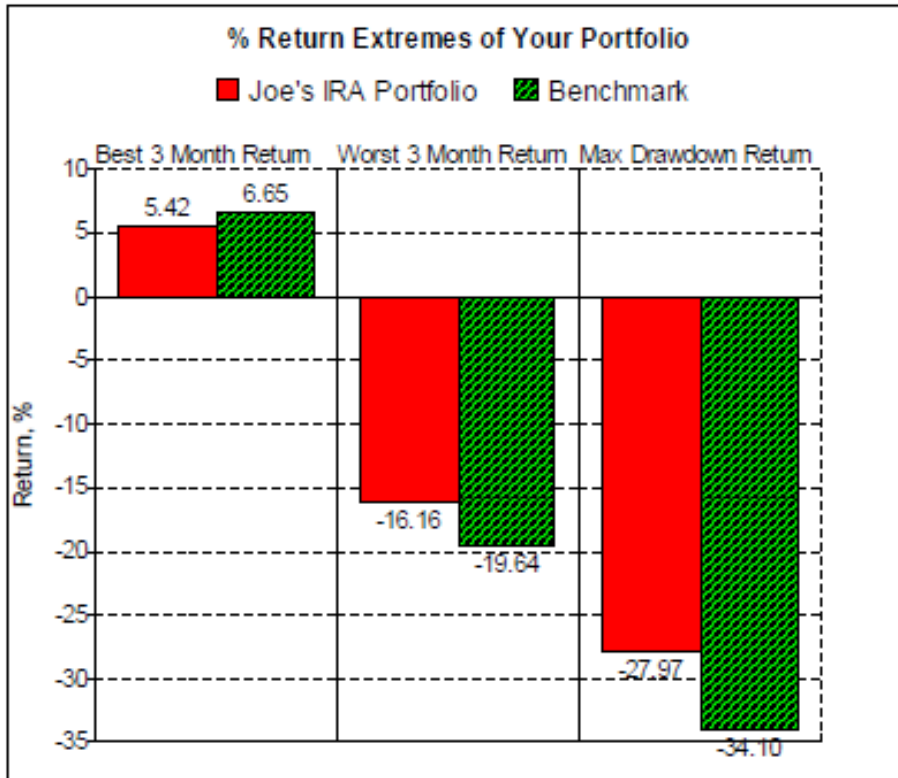


Created with mpi Stylus



These are some return statistics we thought you might find useful.

**Max Drawdown Return** is the peak-to-trough decline during the period for which you have supplied your portfolio's data. A drawdown is usually quoted as the percentage between the peak portfolio value and the lowest value following that peak without a new peak being reached. It is used in a few of the more exotic risk/reward ratios.



Created with epi Stylus

## **Disclaimer**

The information is provided by Investment Performance Evaluations LLC and while we endeavour to keep the information up to date and accurate, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the website or the information, products, services, or related graphics contained on the web site for any purpose. Any reliance you place on such information is therefore strictly at your own risk.

In no event will we be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of data or profits arising out of, or in connection with, the use of this report.

We do not warrant the site or report; nor do we warrant that any of its functions or content will be error-free.

You are solely responsible for providing all information necessary to access this website and produce a report. We accept no responsibility for the performance of any professional or amateur investment advisor or financial advisor or any investment products or service entity in whole or in part.

Past Performance is not indicative of future results.