

From: Michael Fowler <[REDACTED]>
To: Lesley Groff <[REDACTED]>
Subject: ATorus - Daily Portfolio Report - 2/5
Date: Thu, 06 Feb 2014 17:02:25 +0000
Attachments: ATorus_BacktestNAV_020514.pdf

Lesley,

Please see attache Daily Portfolio Report for 2/5.

Daily Commentary:

We added two additional metrics in the report. Firstly, we broke down the number of individual names long and short by category, instead of just net and gross exposure by category. In times of potential broad market inflection points, you will see our number of individual shorts increase prior to our net exposures changing materially. This is a result of the way we position size and then leverage the winners, rather than targeting a specific net exposure level. We let the market's trajectory dictate our exposures, when we are experiencing positive MTM gains.

Secondly, we displayed our P/L per position in what we call "vol days." To us the notion of looking at the MTM gains adjusted for the realized volatility (recalculated daily), determines what part of the gains are significant and what is random oscillations. Separating the signal from the noise, if you will. Our key insight in how the distribution of the exponents of how volatility can scale period/period being nearly constant, allows us to determine the probability of actually monetizing the current gains. For example, given that the 99th percentile of the distribution of the exponents is 3, any gain of less than 6 vol days is, in our mind, statistical noise. In other words, if the entry and exit days were both 3X vol day moves, the sensitivity to entry and exit days (2 periods @ 3X vol days) would represent a large amount of the total return. We can not forecast the precise amount of volatility at the next day, but we do know with certainty the range of outcomes. In summary, any MTM gains in excess of 10 vol days have a high probability of monetization. The higher the gain in vol days is proportional to the percentage realized of peak MTM.

Lastly, given our strategy of leveraging winners and never adding to losers, the *Percentile Distribution of Current MTM Gains in Vol Days* will naturally show an asymmetry to the positive side.

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Best Regards,

Michael J. Fowler
[REDACTED] - Intl. Mobile
Work Email - [REDACTED]
Trading Desk Email - [REDACTED]

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