

# RAYMOND JAMES

FINANCIAL SERVICES, INC.

Member NASD / SPIC

## PORTFOLIO MANAGEMENT APPROACH

### Passport Fee Program

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In over 20 years of managing client assets we have applied hard earned lessons to developing an approach to asset management that addresses our clients primary interest; **manage assets for consistent and stable returns in all market conditions.** This seemingly simple objective is in fact a most desirable yet difficult goal.

We have made risk management through low account volatility the foundation for portfolio management. Our process starts with identifying those investment managers that have performed well in poor market conditions. Minimizing negative performance during bear markets has a great impact on total return. Each manager has also performed well during favorable markets. We search for certain characteristics that we believe are desirable traits in investment managers.

After we have assembled the “parts” we now work on the portfolio design. Assembling the right mix and weighting of managers, by style and asset class. Again this is not easily done... **correctly.** We use tools to help test a portfolio design prior to placing client assets with them. One such tool, a “Monte Carlo” simulator, allows us to run numerous “trial simulations” that help assess our portfolio design characteristics. Think of it as the financial version of car crash testing for auto safety design. In this way we can test a portfolios possible behavior and return characteristics before we invest your money.

The last step never actually ends; we are **constantly** updating the risk and performance numbers and rerunning our simulations. Doing this gives us confidence we are staying on the right path and identifies where a portfolio may need attention. It is here where we test new managers and how they may impact our portfolios, so we are ready to make informed and tested changes as needed.

**Manage.....Monitor.....Maintain**

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### **“CLOUD of POINTS” Portfolio Stochastic Design Space Scan**

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“Cloud of Points” is the term we use to describe a mathematical design tool, utilizing mean returns, standard deviation and random reallocation, in helping to assess portfolio risk. Simulations employing very large numbers of random trials create a possible range of outcomes (returns) for a portfolio, graphically summarized in a “Cloud of Points”.

Each investment in a portfolio has its own risk characteristics we measure by mean return and standard deviation. The impact to a portfolio's total return can be measured by this data and an investment's allocation to a portfolio. We include the effects of shifting asset allocations by incorporating random reallocation in the design tool. This allows us to measure the effects different allocations may have on a given set of investments. In each portfolio we run numerous trial simulations creating a “Cloud of Points” that graphically depicts one range of possible outcomes for a given investment portfolio. We believe this gives us a more robust picture of portfolio risk.

We use this tool to test our portfolio design, measuring risk and return vs. a benchmark to demonstrate value added; lowering risk improving return and stability. In addition, we update our data monthly; running continual trials to test the portfolio design. This allows us to simulate portfolio adjustments and their possible effects prior to committing client monies.

While many offer portfolio management services, ours takes an in-depth approach to analysis of historical data to understand what has happened and the level of risk (standard deviation) involved. No tool exists that predicts the future, the best we can do is to have a robust picture of past performance that helps us understand what has occurred. With this approach we design portfolios that try to manage risk in an uncertain future.

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## **CAUCHY PDF “STRESS TEST” Portfolio Stochastic Design Space Scan**

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The Cauchy Probability Distribution Function is a tool we have added to help us account for the events that Modern Portfolio Theory view as highly improbable and yet still occur more than the math indicates. In this study we account for a “fat tails” Cauchy probability distribution, instead of the normal Gaussian PDF we see in MPT.

The purpose here is to look at how a given portfolio might behave at the extremes. We do this to gain some insight to what we may expect in extreme market situations; how given portfolios design may decline or gain. Looking primarily at the total number of negative outcomes in a 100,000 trial and how extreme those declines were, we use this in the manager selection and design of a portfolio. Additionally, this analysis is useful in the ongoing monitoring of portfolios. In this way we gain confidence in each portfolio and a process for addressing and testing any change that we may suggest.

While these tools are helpful and effective in portfolio design and risk management they do not remove risk. Our position remains committed to developing an approach to asset management that focuses on risk management. We believe that efforts to reduce a portfolio’s volatility add value that clients see in their account performance and provide them the confidence to invest with us successfully.

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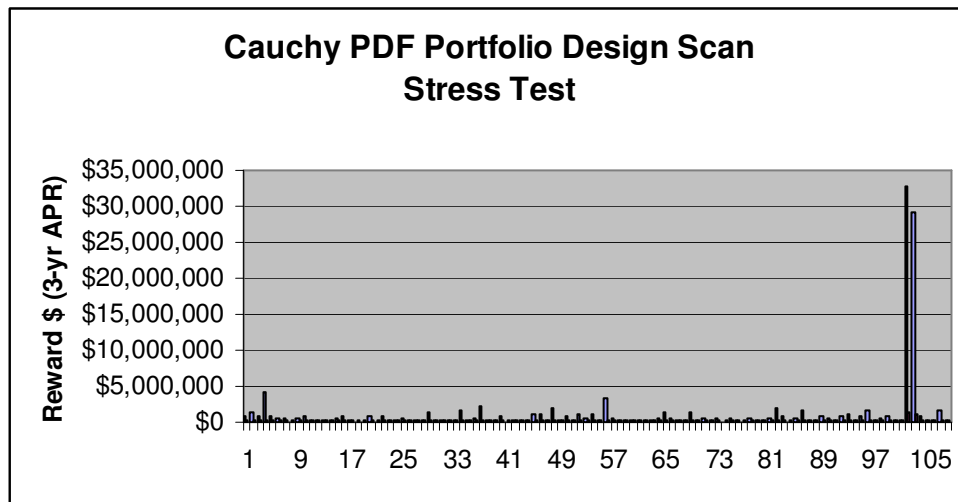
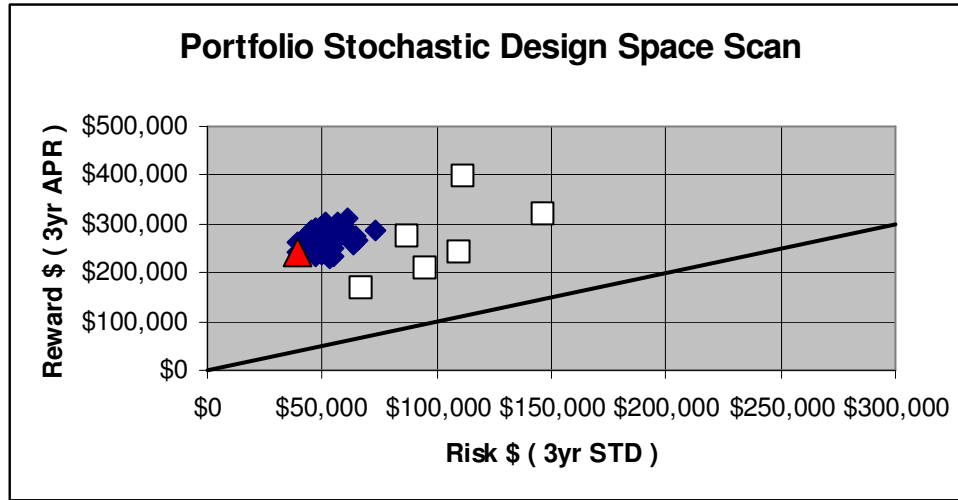
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