ICE FX

Multiplication

Extending functionality of investment system.

Investor can choose between several accounts with different risk of each manager.
manager doesn’t need to control each additional copy of account.

Description of the issue

In the majority of investment systems the manager must control the trading process on each of his accounts manually, even if it relates to the one trading system, but with different level of risk. The manager is forced to choose the level of trading risk. This choice is “blind”, because the manager doesn’t know what the majority of investors prefer. Therefore the majority of investment companies doesn’t offer an investor the choice of risk. This deprives an investor of his freedom in portfolio creation and even forces to abandon investing in several types of investment systems, that don’t fit within the parameters of the current portfolio.

The inflexibility of investment systems poses enormous challenges for both managers and investors.
And, ultimately, for the investment companies.

Investor

An investor doesn't have a choice of the risk, which will be implemented on his account, what leads to the following inconveniences:

1. An investor can't choose risk level of the strategy, what makes it impossible to add the strategy into a portfolio, if risks are not balanced between strategies. An investor is forced to refuse to invest in the chosen trading strategy, as not to violate the balance of the portfolio;

2. Portfolio management becomes very complicated, due to the limited risk options of the strategies and their volatility (one strategy is characterized of 10% weekly volatility and max DD 15%, while other weekly volatility 30% and max DD 80%);

3. Strategies with small risk, force an investor to keep additional capital, which is not used in the trading activity. This part of the capital doesn't bring profit neither to investor (no additional income) nor to broker (doesn't participate in trading).

Manager

Each manager always has to choose between agressive and conservative types of trading

CONSERVATIVE

If the manager chooses more conservative type of trading, he loses part of profit, which more aggressive strategy could deliver.

AGGRESSIVE

In the case of choosing more aggressive type of trading, the manager experiences psychological pressure because of the risk of loss, what can lead to trading mistakes.

In both cases the manager loses investors who would like to utilize higher or lower risk.

The manager can partially solve this issue by trading several accounts with different risk simultaneously. Control of trading on different accounts becomes more complicated and can lead to mistakes and losses.

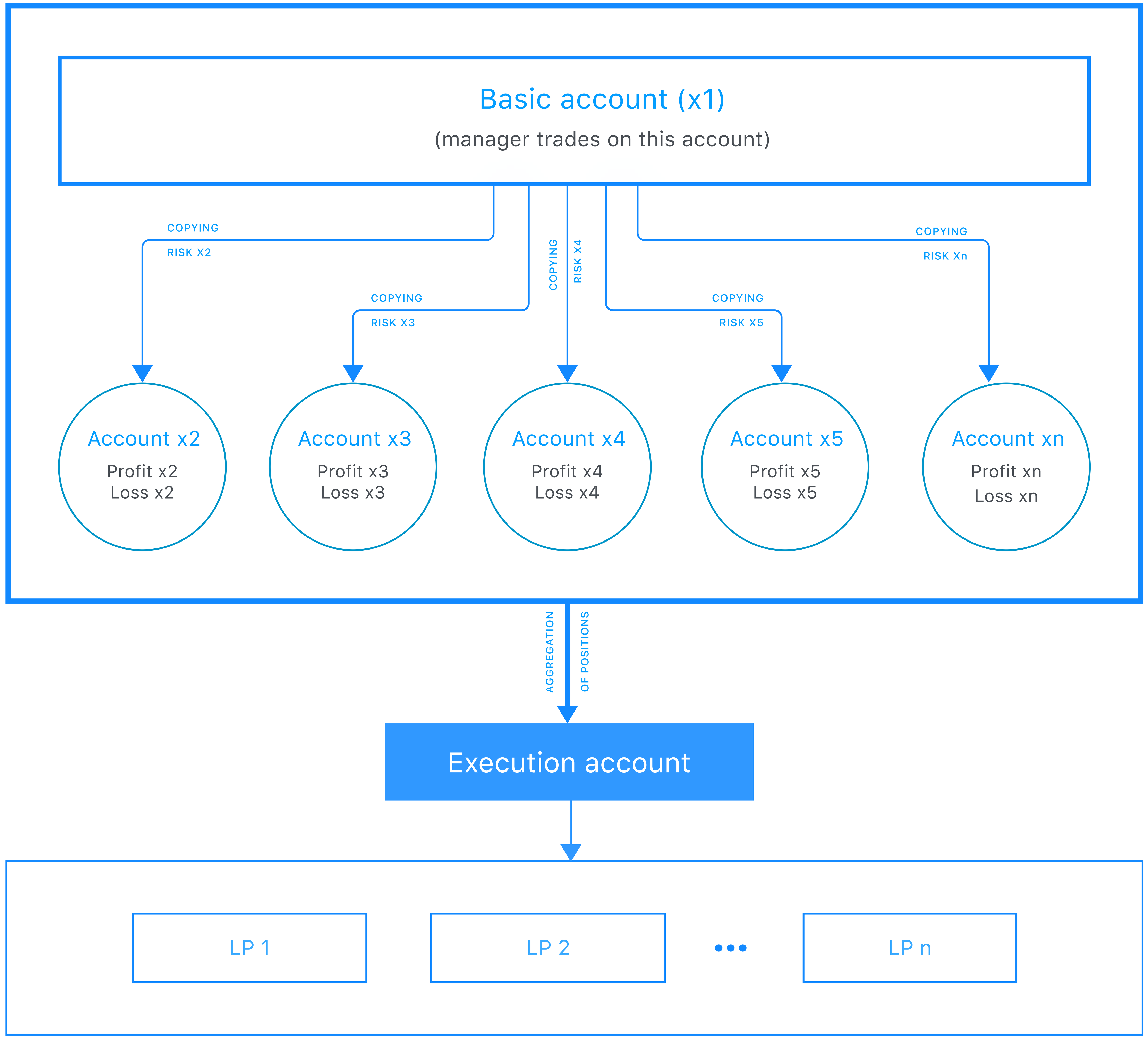
If the manager uses several accounts there will be difference in the execution, therefore investors will have different trading results.

Solution from ICE FX

Several accounts are created for the manager: “basic account” and “multi-copies”. Risk on the multi-copies is based on the coefficient of multiplication. Profits and losses on those multi accounts have the same multi-coefficient.

Orders from basic account are copied to the "multi-copies" by the means of proprietary software. Trading lots are adjusted proportionally to the coefficient of account's "multi-copy”.

All trades from basic and "multi-copies" accounts are aggregated, before being sent to a liquidity provider. It gives execution of all trades at the single price, therefore there is no discrepancy in trading results on different accounts.



Example of Managed account multiplication

Below you can find an example how different parameters of Managed account and it multi-copies change:

	Multiplier of the Managed account					
	Basic (*1)	***2**	***3**	***4**	***5**	***n**
Risk per trade, %	2%	4%	6%	8%	10%	2%*n
Return (for the week), %	X (%)	2X (%)	3X (%)	4X (%)	5X (%)	n*X(%)
Max loss for the period, %	5%	10%	15%	20%	25%	5%*n
Max leverage	1:10	1:20	1:30	1:40	1:50	1:10*n

Risk standardization

For the convenience of investors and managers, the maximum interval risk is standardized for all managers on "basic" accounts in the range of 5-10% per week.

Based on the trading system of the manager, the risk per trade is set for the manager. Interval drawdowns shouldn’t exceed the set value with this risk. The specified loss limitation (the level of "maximum loss per week") is controlled by the Company's risk management system, to which the manager does not have access.

Managed account #1			Managed account #2	
Multiplicator	Max loss (per week)		Multiplicator	Max loss (per week)
1	5-10%	=	1	5-10%
2	10-20%	=	2	10-20%
3	15-30%	=	3	15-30%
4	20-40%	=	4	20-40%
5	25-50%	=	5	25-50%

Managed account #1			Managed account #2	
Multiplicator	Max loss (per week)		Multiplicator	Max loss (per week)
1	5-10%	≠	1	10-20%
2	10-20%	≠	2	20-40%
3	15-30%	≠	3	30-60%
4	20-40%	≠	4	40-80%
5	25-50%	≠	5	50-100%

Standardization of risks allows:

1. Not to be confused in clarifying the risk of each manager and his multi-accounts (they all have the same gradation / multiplicity);

2. To run more accurate calculation of portfolio risks (a fixed level of "maximum loss per week"), which does not go against the indicators of the trading system of the manager (it means, that the restriction is set in such a way as not to "interrupt" the manager's trading, but at the same time "protects" investors and the manager from rare "upthrusts", force majeure, etc.).

Advantages

For manager

The manager can work simultaneously with different types of investors
The manager provides opportunity to invest in accounts with different risk-reward levels.

No need to control several accounts with different risk levels
The manager trades only one account with agreed risk. Trades are allocated automatically on "multi-copies" accounts.

One execution price on all accounts
Trades are executed on all accounts at the single price. It can’t be reached if the trader manages several accounts manually – in that case trading results on his and investors’ accounts will differ.

For investor

Reduction of non-trading risks for the investor
Thanks to the availability of multiplication, investors have the opportunity to invest less capital with the same result in absolute values.

Opportunity to invest smaller capital into more aggressive options of the strategy with the same return
Strategies with small risk, force investor to keep additional capital, which is not used in trading activity. This part of the capital doesn’t bring profit neither to investor (no additional income) nor to broker (doesn’t participate in trading).

Opportunity to choose any trading strategy with appropriate risk level
An investor doesn’t have limited number of strategies, where he can allocate his funds, because he can invest in the strategy with different risk-level.

Opportunity to create more diversified and balanced investment portfolios
The effect of multiplication affords to invest in different strategies with smaller capital, what helps to make the portfolio more diversified.

Accurate risk control due to the standardized risk on the basic account
Max weekly loss on the basic account is usually set at 5-10%, and on "multi-copies" accounts according to the multiplication coefficient.

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