

Portfolios2: Frequently Asked Questions

What kind of transactions does Portfolios2 support?

In Portfolios2, you can record and account for positions in portfolios of investments. Portfolios2 can be integrated with your trading function and counterparties to support investment portfolio valuations, reconciliations, and transactions in local (functional) and reporting currencies. Portfolios currently supports borrowing, loan payments, bond purchases and coupon payments, purchases and sales of commodities, stocks and other assets, short positions, call and put options, as well as deposits and withdrawals between your accounts. You can establish multiple entities and portfolios in Portfolios2 and instantly access real time data on portfolios and risks. You can factor derivatives into simulations and you will be able to process options effective December 2015.

How do I fund accounts?

In order to deposit cash into an account you must first ensure that you have established the currency for the account. There are three types of accounts consisting of Corporate Accounts, Cash Accounts, and Trading (Seg.) Accounts. There can only be one Corporate Account which is used to fund the Cash Accounts. In addition, each Cash (or Trading) account must have an offset Trading (or Cash) Account. Each account has an associated Currency for which local values for the account are calculated in. Deposits and withdrawals between the Corporate Account and the Cash Account are processed in the system as Deposit and Withdrawal transactions in the Transaction Module. If you do not have the funds in the account to process a transaction, then Portfolios2 will process the transaction, debiting the Trading Account for the value of the investment and establishing a negative balance in the corresponding Cash Account.

How do I reconcile my bank accounts to the bank statements?

Select Bank Accounts from the Main Menu. A table of your Bank Accounts will appear showing the Counterparty, Account Type, Account Name, Locale, Currency, Offset Account, and Account Numbers. Place your cursor in a field for the account you wish to reconcile, or use the record selectors on the left. Next, click the Binoculars to open the Account Balance form. At the Account Balance form, you will see the account you selected and the current date. The form will display the bank balance in the system above the position balances, both presented in Local and Reporting Currencies for your edification. You can double click on the bank balances to update them with a new number. In addition, you can click on the binoculars from this page to view the general ledger activity for the bank account and identify reconciling items. Note that the reconciling item may be bank charges. When bank charges are the reconciling item, record a transaction for Overhead associated with the counterparty to balance the account. Also note, when you rebalance the portfolios, all of the bank balances on and after the rebalance date will be deleted and recalculated by the system. In this way, you can record retroactive bank charges and rebalance the portfolios to ensure your accounts are in sync with the bank.

How do I forecast bank balances?

Forecasting is done at the account level using the Scenario Forecast from the Main Menu. Scenario Forecasts rely on your Scenarios which are also accessible on the Main Menu. There are three scenarios

available to you including Low, Baseline, and High. In the Scenarios form you can set up multipliers for each cash flow reason. Cash flow reasons represent items not reflected in the Portfolio balances such as forecasted deposits of earnings or withdrawals from the account. Reasons can be added or edited by clicking on the Reason label. Once your multipliers are set up, you can add forecasted items in the Scenario Forecast form. Chose run from the Scenario Forecast screen to forecast your account balance based on your horizon and as of date. Note that the portfolio items are forecasted using a VAR method but are not multiplied by your scenario multipliers.

How do I calculate Value at Risk?

Select Value at Risk from the top navigation menu. The VAR module opens. Select an alpha (equal to 1 minus the confidence level you wish to apply to the VAR calculations), then select a horizon for calculating VAR (the horizon is the days from your "as of" date you wish to know the Value at Risk for), then select an "as of" date representing the date you wish to begin the Value at Risk analysis on, and click the wizard button to run your analysis. Note that a portfolio will need to have at least two shares to calculate Value at Risk. There must be share values for the "as of" date in order to calculate Value at Risk. If there are no share values, use the Calculate Daily Values option from the Main Menu, balance your portfolios, and then retry. Note that the more shares you have, the longer the VAR calculations will take.

How do I run Monte-Carlo simulations?

Select Value at Risk from the top navigation menu. The VAR module opens. Select an alpha (equal to 1 minus the confidence level you wish to apply to the VAR calculations), then select a horizon for calculating VAR (the horizon is the days from your "as of" date you wish to know the Value at Risk for), then select an "as of" date representing the date you wish to begin the Value at Risk analysis on, and then click the MC Reset Button. This opens up the Monte-Carlo Options form to enter calls and puts for your simulation. Note that you can double click on the Put and Call Strike, Quantity and Cost fields to automatically retrieve any existing option data, or you can enter your own hypothetical option data, or simply leave blank. Close the Options form and then click the MC Run button. The system will ask you how many turns to include in your simulation. Enter or accept the default number of turns and click OK to process your simulation.

Can I calculate CAPM for Shares?

In Portfolios2, you can index shares to another share. To do so, add a share for the value you wish to use as an index (e.g., the Dow Jones Industrial Average) on the Shares form. When the share is added, use the wizard buttons to designate the share as an index or remove the share's index designation. Once you have set up a share as an index, you can open the Betas by Index form from the top navigation buttons on the Main Menu. When the form opens, select the index you wish to recalculate metrics for and click Recalculate. After processing, each share will be indexed against your selected Index share. The calculations include the Alpha, Beta and Capital Asset Pricing Module WACC using the locale risk free rate for each share. Other metrics are also provided to support your own added analysis. Note that your reporting currency which always has a local and reporting value of 1 will default to a CAPM of 1.

How do I hedge?

There are several ways to record hedges. Your hedge can be a short position in a currency, stock, or other investment. This is accomplished by entering a negative quantity in your purchase transaction. Hedges can also be options. You can record transactions for call options and put options.

How do options work?

When you purchase an option, a share is automatically created for the option. Option shares do not automatically link to market values for the option. Therefore, the option will be added to your portfolio with a share value equal to the cost of the option, adjusted for currency value fluctuations. The important thing to note regarding options in Portfolios2 is that the system will automatically determine if the option is in the money, and the amount the option is 'in the money' will be reflected as an unrecognized price change in the portfolio balance, and also reflect this amount in the general ledger as a fair value adjustment. If the option is a cash flow hedge, the effective portion of 'in the money' will be a recognized price change in the portfolio balance, and if the option is a trading option, the entire 'in the money' amount will be a recognized price gain. When an option is exercised or sold, the fair value adjustments are then reversed, replaced with any actual gains or losses for the transaction. When a call or put is exercised, the unrealized gain or loss for the option (in the money) will be reversed and offset by the gain or loss for the underlying share balance. If a put option quantity is greater than a single tranche quantity for the underlying, the option will be allocated across tranches. If a put option quantity exceeds total shares for the underlying, then the transaction will be prevented.

What are Sites and Cost Centers for?

Sites and Cost Centers are provided to allow you to filter your general ledger activity by the office (site) as well as the counterparty (cost center).

Do I have to update share and currency values every day?

You do not have to update share and currency values on a daily basis. You can update them with whatever frequency satisfies your accounting and analysis needs. However, since the system uses average daily return and more importantly average daily standards deviations when calculating Value at Risk, you might lose some variability if you update your market values less than weekly. Note that you can edit historical share and currency values from the Main Menu. Also, Portfolios2 lets you suppress the import function when calculating daily values and rebalancing your portfolio. This will cause the system to use the most recent values to calculate portfolio metrics.

Do I have to do bond calculations manually?

Portfolios2 will automatically calculate your bond effective interest rates and create the necessary amortization tables for Available for Sale and Held to Maturity bonds. In addition, if coupon payments apply, Portfolios2 will tee-up these transactions as pending on the Main Menu when they are due. Portfolios2 will also perform the same functions for loans you take using Portfolios2. Pending coupon payments and loan payments appear on the bottom right of the Main Menu. In addition, you will notice that when you record declared dividends, the corresponding dividend receipt will also appear as a pending transaction on the same area of the Main Menu.

How can I edit share data?

You can edit share and currency data by selecting the Share Data or Exchange Rate item from the top navigation bar of the Main Menu, and then clicking on the share you wish to edit, and clicking the grid icon. The grid icon opens up an editable list of historical values for your selected share or currency. You can also add values by scrolling to the bottom of these forms.

How do I use the Trial Balances?

The trial balances provide you with summaries of the accounting for your portfolios. Select Trial Balance from the top navigation bar of the Main Menu. Once the Trial Balance form opens, select a portfolio, chose whether you want to view the Balance Sheet or Income Statement Trial Balance information, and then use the date selectors to set a window of time. By clicking refresh, you will retrieve the beginning ledger balances, period activity, and ending balances by account for your selection. You can use this information to reconcile your portfolio activity to your actual general ledger, or make Portfolios2 your sub-ledger for portfolio activity and use it as the support for your accounting entries. Note that Portfolio2 will allow you to make changes to prior period transactions by unlocking the transaction. We can limit the ability to unlock transactions if you wish, but in the meantime, you may wish to periodically download your prior period trial balances to enable the calculation of adjusting entries for prior period changes. From that standpoint, you may wish to limit changes to transactions to current period, and make adjusting transactions (reverse and record) for any prior period changes.

Can I change Portfolios2?

Yes, Portfolios2 is completely open code and you can edit whatever you wish. You are responsible for any changes to Portfolios2 and we disclaim any warranty or liability resulting from use or misuse. That said, we are available to help you make changes to the tool and lock it down for operational use if you want.

What do I need to use Portfolios2?

Portfolios2 is provided to you in its native environment of Microsoft Access. If you do not have Microsoft Access, but use Windows 7 or later, then you can download Microsoft Access Runtime from Microsoft for free and request a runtime version of Portfolios2 from us at our website (www.riskwaves.com) and we will email you a version or provide you a link to a runtime version. If you want to run Portfolios2 in Visual Basic, we can provide you with that for a processing fee.

Is Texas Hold 'Em included?

Yes, but you will need to figure out how to access it on your own.