Finalogy Portfolio Management

In this document, I will describe the methodology Finalogy uses to handle assets under its management.

The Benchmark

The experimental universe of Finalogy is the S&P 500™ Index. It should be noted however, that the universe can be any group of securities with daily liquidity. Finalogy's strategy, therefore, can be easily ported and effectively applied to different regions and currencies, including but not limited to, Europe, Asia and South America. Since the portfolio consists of either subsets of constituents of the S&P 500 Index, or funds with a statistical track of correlation with this index, the S&P 500 Index qualifies as the most appropriate and natural benchmark for the strategy.

Dual Time Scales

At any given time, Finalogy concurrently manages two distinct and independent portfolios – one comprises Large-Cap stocks that are held for a short period, and the other comprising of ETF securities that are kept for a comparatively longer period.

The short term portfolio consists of 10 stocks from the S&P 500 Index that we consider ‘best picks.’ Stock positions are evaluated every week (5 business days), usually resulting in complete replacement of the portfolio.

The long-term portfolio consists of 10 ETF securities that are re-evaluated every 50 business days, usually ensuing 50% replacement.

Market Position

A further important difference between the portfolios lies with respect to market-position. While the short-term strategy employs a long-only position with 100% market exposure, the long-term ETF strategy involves negative market exposure and is approximately market-neutral.
For example, on June 26 2008, our portfolio included positions in *UltraShort Financials ProShares (SKF)* – a security with an exposure of **-200**% to the Dow-Jones US Financials Index.

Automated Decision Making

Security analysis and selection is completely automated with respect to both portfolios. With the help of our in-house mathematical algorithms and software solutions, the entire process of reanalysis and replacement of securities is reduced to but a few clicks. Once a portfolio is re-evaluated, all necessary trading operations are executed the same day.

Automated Trading

The execution itself is purely based on Application Programming Interface (API) and is fully automated to negate the possibility of human execution mistakes. Finalogy also implements custom-tailored automated trading for customers.

The Algorithms

The two different portfolios utilize completely different algorithms.

The short-term portfolio employs a hybrid decision-making algorithm based on factors that include, but are not limited to, cross correlations between different securities. The long-term portfolio, on the other hand, utilizes an algorithm mainly based on (market?) momentum.