

The importance of Risk Measurement

There is no doubt that recently markets have been very volatile and with that brings a huge range in the performance that is delivered quarter to quarter and year on year.

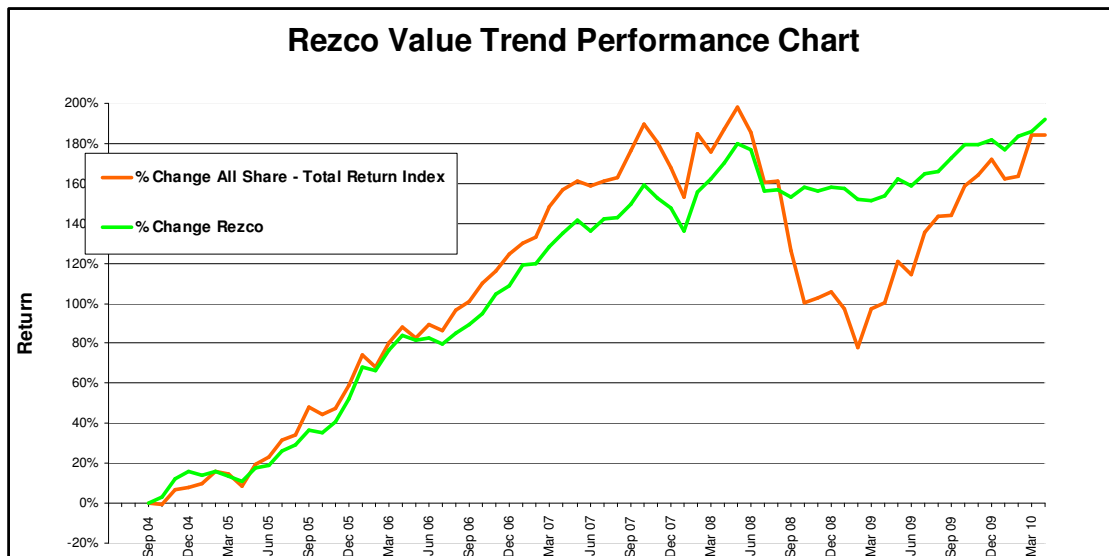
However, when dealing with investments and retirement savings it is good to look for funds that deliver consistently healthy returns but within the context of the risk profile of the investor and without the added worry of major gyrations within the accumulation of those returns.

One way to look at this is to examine the risk ratios such as the Sharpe Ratio or the Sortino ratio which measure risk-adjusted returns.

These Sharpe ratios and Sortino are simply stating whether a fund has rendered better returns due to better investment decisions or just due to higher risk. The Sharpe ratio divides the out-performance of a fund against cash and divides it by the range of movement or volatility (standard deviation). The Sortino Ratio only takes into account negative downward price volatility.

The bottom line is that the higher the score the better the investment.

A number of funds have done well over the past few years but just to show you the performance below does not paint the complete picture



One needs to look at the risk measures and assess the correct measure to match the risk profile of each investor and see the risk taken in achieving different returns.

5 Year Risk Return

Fund	Absolute Return¹	Standard Deviation²	Maximum Drawdown	Sharpe²	Sortino²	Risk Score³
36One Flexible Opportunity Fund	-	-	-	-	-	-
Absa General Fund R	107.39	4.49	33.79	2.06	0.92	1.83
Allan Gray Balanced Fund A	105.53	2.90	15.38	2.93	1.43	0.50
Allan Gray Equity Fund A	132.64	4.81	31.25	2.36	1.14	1.33
Cadiz Managed Flexible Fund A	-	-	-	-	-	-
Coronation Balanced Plus Fund A	104.46	3.31	22.48	2.64	1.18	1.08
Element Flexible Fund A	76.39	2.48	16.56	2.06	0.99	1.42
Flagship IP Prudential Variable Fund A	-	-	-	-	-	-
Foord Balanced Fund	105.26	3.30	21.93	2.64	1.22	0.83
Foord Equity Fund	120.43	4.74	37.95	2.28	0.97	1.75
RE·CM Global Flexible Fund A	-	-	-	-	-	-
Rezco Value Trend Fund	136.90	3.11	12.58	3.83	1.97	0.25

Source : Profile Media

1. Percentage total NAV to NAV return, as at **08 Jun 2010**, including dividends reinvested on the reinvestment date specified by the management company.
2. Calculated using month end prices over the specified periods.
3. The **risk score** is calculated by ranking the list of funds on Maximum drawdown as well as Sharpe and Sortino ratios. The risk score for a particular fund is then calculated as the average of these ranks. The risk score is directly proportional to risk, ie the lowest risk score indicate the fund with the lowest projected risk and vice versa.