

Overview of PerformanceAnalytics' Charts and Tables

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Outline

Introduction

Set Up PerformanceAnalytics

Review Performance

Summary

Overview

- ▶ Utilize charts and tables to display and analyze data:
 - ▶ asset returns
 - ▶ compare an asset to other similar assets
 - ▶ compare an asset to one or more benchmarks
- ▶ Utilize common performance and risk measures to aid the investment decision
- ▶ Examples developed using data for six (hypothetical) managers, a peer index, and an asset class index
- ▶ Hypothetical manager data developed from real manager timeseries using *accuracy* and *perturb* packages to perturb data maintaining the statistical distribution properties of the original data.

Install PerformanceAnalytics.

- ▶ As of version 0.9.4, PerformanceAnalytics is available in CRAN
- ▶ Version 0.9.5 was released at the beginning of July
- ▶ Install with:

```
> install.packages("PerformanceAnalytics")
```
- ▶ Required packages include Hmisc, zoo, and Rmetrics packages such as fExtremes.
- ▶ Load the library into your active R session using:

```
> library("PerformanceAnalytics").
```

Load and Review Data.

```
> data(managers)
```

```
> head(managers)
```

| | HAM1 | HAM2 | HAM3 | HAM4 | HAM5 | HAM6 | EDHEC | LS | EQ | SP500 | TR |
|------------|----------|------|---------|---------|------|------|-------|----|----|--------|----|
| 1996-01-30 | 0.0074 | NA | 0.0349 | 0.0222 | NA | NA | | | NA | 0.0340 | |
| 1996-02-28 | 0.0193 | NA | 0.0351 | 0.0195 | NA | NA | | | NA | 0.0093 | |
| 1996-03-30 | 0.0155 | NA | 0.0258 | -0.0098 | NA | NA | | | NA | 0.0096 | |
| 1996-04-29 | -0.0091 | NA | 0.0449 | 0.0236 | NA | NA | | | NA | 0.0147 | |
| 1996-05-30 | 0.0076 | NA | 0.0353 | 0.0028 | NA | NA | | | NA | 0.0258 | |
| 1996-06-29 | -0.0039 | NA | -0.0303 | -0.0019 | NA | NA | | | NA | 0.0038 | |
| | US 10Y | TR | US 3m | TR | | | | | | | |
| 1996-01-30 | 0.00380 | | 0.00456 | | | | | | | | |
| 1996-02-28 | -0.03532 | | 0.00398 | | | | | | | | |
| 1996-03-30 | -0.01057 | | 0.00371 | | | | | | | | |
| 1996-04-29 | -0.01739 | | 0.00428 | | | | | | | | |
| 1996-05-30 | -0.00543 | | 0.00443 | | | | | | | | |
| 1996-06-29 | 0.01507 | | 0.00412 | | | | | | | | |

Set Up Data for Analysis.

```
> dim(managers)
```

```
[1] 132  10
```

```
> managers.length = dim(managers)[1]
```

```
> colnames(managers)
```

```
[1] "HAM1"          "HAM2"          "HAM3"          "HAM4"          "HAM5"  
[6] "HAM6"          "EDHEC LS EQ"  "SP500 TR"      "US 10Y TR"     "US 3m TR"
```

```
> manager.col = 1
```

```
> peers.cols = c(2, 3, 4, 5, 6)
```

```
> indexes.cols = c(7, 8)
```

```
> Rf.col = 10
```

```
> trailing12.rows = ((managers.length - 11):managers.length)
```

```
> trailing12.rows
```

```
[1] 121 122 123 124 125 126 127 128 129 130 131 132
```

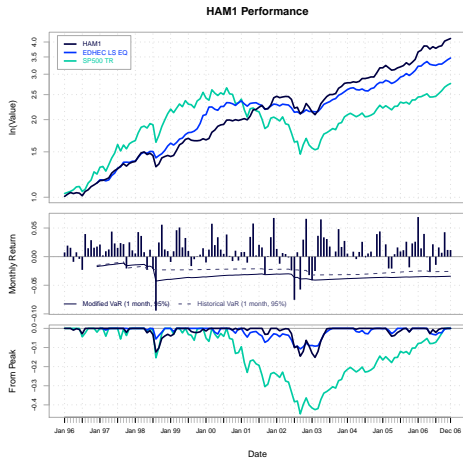
```
> trailing36.rows = ((managers.length - 35):managers.length)
```

```
> trailing60.rows = ((managers.length - 59):managers.length)
```

```
> frInception.rows = (length(managers[, 1]) - length(managers[,  
+ 1][!is.na(managers[, 1])]) + 1):length(managers[, 1])
```

Draw a Performance Summary Chart.

```
> charts.PerformanceSummary(managers[, c(manager.col, indexes.cols)],  
+   colorset = rich6equal, lwd = 2, ylog = TRUE)
```



Show Calendar Performance.

```
> t(table.CalendarReturns(managers[, c(manager.col, indexes.cols)]))
```

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------|------|------|------|------|------|-------|-------|------|------|------|------|
| Jan | 0.7 | 2.1 | 0.6 | -0.9 | -1.0 | 0.8 | 1.4 | -4.1 | 0.5 | 0.0 | 6.9 |
| Feb | 1.9 | 0.2 | 4.3 | 0.9 | 1.2 | 0.8 | -1.2 | -2.5 | 0.0 | 2.1 | 1.5 |
| Mar | 1.6 | 0.9 | 3.6 | 4.6 | 5.8 | -1.1 | 0.6 | 3.6 | 0.9 | -2.1 | 4.0 |
| Apr | -0.9 | 1.3 | 0.8 | 5.1 | 2.0 | 3.5 | 0.5 | 6.5 | -0.4 | -2.1 | -0.1 |
| May | 0.8 | 4.4 | -2.3 | 1.6 | 3.4 | 5.8 | -0.2 | 3.4 | 0.8 | 0.4 | -2.7 |
| Jun | -0.4 | 2.3 | 1.2 | 3.3 | 1.2 | 0.2 | -2.4 | 3.1 | 2.6 | 1.6 | 2.2 |
| Jul | -2.3 | 1.5 | -2.1 | 1.0 | 0.5 | 2.1 | -7.5 | 1.8 | 0.0 | 0.9 | -1.4 |
| Aug | 4.0 | 2.4 | -9.4 | -1.7 | 3.9 | 1.6 | 0.8 | 0.0 | 0.5 | 1.1 | 1.6 |
| Sep | 1.5 | 2.2 | 2.5 | -0.4 | 0.1 | -3.1 | -5.8 | 0.9 | 0.9 | 2.6 | 0.7 |
| Oct | 2.9 | -2.1 | 5.6 | -0.1 | -0.8 | 0.1 | 3.0 | 4.8 | -0.1 | -1.9 | 4.3 |
| Nov | 1.6 | 2.5 | 1.3 | 0.4 | 1.0 | 3.4 | 6.6 | 1.7 | 3.9 | 2.3 | 1.2 |
| Dec | 1.8 | 1.1 | 1.0 | 1.5 | -0.7 | 6.8 | -3.2 | 2.8 | 4.4 | 2.6 | 1.1 |
| HAM1 | 13.6 | 20.4 | 6.1 | 16.1 | 17.7 | 22.4 | -8.0 | 23.7 | 14.9 | 7.8 | 20.5 |
| EDHEC LS EQ | NA | 21.4 | 14.6 | 31.4 | 12.0 | -1.2 | -6.4 | 19.3 | 8.6 | 11.3 | 11.7 |
| SP500 TR | 23.0 | 33.4 | 28.6 | 21.0 | -9.1 | -11.9 | -22.1 | 28.7 | 10.9 | 4.9 | 15.8 |

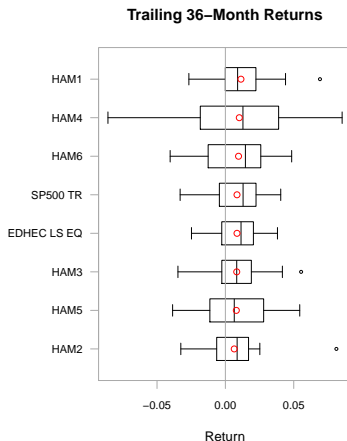
Calculate Statistics.

```
> table.Stats(managers[, c(manager.col, peers.cols)])
```

| | HAM1 | HAM2 | HAM3 | HAM4 | HAM5 | HAM6 |
|-----------------|----------|----------|----------|----------|---------|---------|
| Observations | 132.0000 | 125.0000 | 132.0000 | 132.0000 | 77.0000 | 64.0000 |
| NAs | 0.0000 | 7.0000 | 0.0000 | 0.0000 | 55.0000 | 68.0000 |
| Minimum | -0.0944 | -0.0371 | -0.0718 | -0.1759 | -0.1320 | -0.0404 |
| Quartile 1 | 0.0000 | -0.0098 | -0.0054 | -0.0198 | -0.0164 | -0.0016 |
| Median | 0.0112 | 0.0082 | 0.0102 | 0.0138 | 0.0038 | 0.0128 |
| Arithmetic Mean | 0.0111 | 0.0141 | 0.0124 | 0.0110 | 0.0041 | 0.0111 |
| Geometric Mean | 0.0108 | 0.0135 | 0.0118 | 0.0096 | 0.0031 | 0.0108 |
| Quartile 3 | 0.0248 | 0.0252 | 0.0314 | 0.0460 | 0.0309 | 0.0255 |
| Maximum | 0.0692 | 0.1556 | 0.1796 | 0.1508 | 0.1747 | 0.0583 |
| SE Mean | 0.0022 | 0.0033 | 0.0032 | 0.0046 | 0.0052 | 0.0030 |
| LCL Mean (0.95) | 0.0067 | 0.0076 | 0.0062 | 0.0019 | -0.0063 | 0.0051 |
| UCL Mean (0.95) | 0.0155 | 0.0206 | 0.0187 | 0.0202 | 0.0145 | 0.0170 |
| Variance | 0.0007 | 0.0013 | 0.0013 | 0.0028 | 0.0021 | 0.0006 |
| Stdev | 0.0256 | 0.0367 | 0.0365 | 0.0532 | 0.0457 | 0.0238 |
| Skewness | -0.6514 | 1.4406 | 0.7819 | -0.4262 | 0.0724 | -0.2735 |
| Kurtosis | 2.2807 | 2.2937 | 2.5972 | 0.8049 | 2.1772 | -0.4311 |

Compare Distributions.

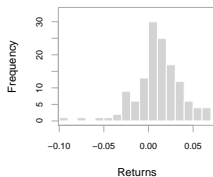
```
> chart.Boxplot(managers[trailing36.rows, c(manager.col, peers.cols,  
+     indexes.cols)], main = "Trailing 36-Month Returns")
```



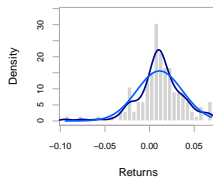
Compare Distributions.

```
> layout(rbind(c(1, 2), c(3, 4)))  
> chart.Histogram(managers[, 1, drop = F], main = "Plain", methods = NULL)  
> chart.Histogram(managers[, 1, drop = F], main = "Density", breaks = 40,  
+   methods = c("add.density", "add.normal"))  
> chart.Histogram(managers[, 1, drop = F], main = "Skew and Kurt",  
+   methods = c("add.centered", "add.rug"))  
> chart.Histogram(managers[, 1, drop = F], main = "Risk Measures",  
+   methods = c("add.risk"))
```

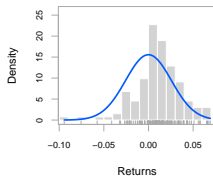
Plain



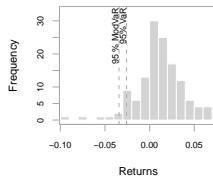
Density



Skew and Kurt

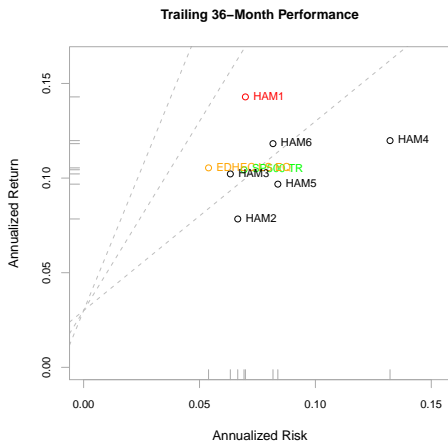


Risk Measures



Show Relative Return and Risk.

```
> chart.RiskReturnScatter(managers[trailing36.rows, 1:8], Rf = 0.03/12  
+   main = "Trailing 36-Month Performance", colorset = c("red",  
+   rep("black", 5), "orange", "green"))
```



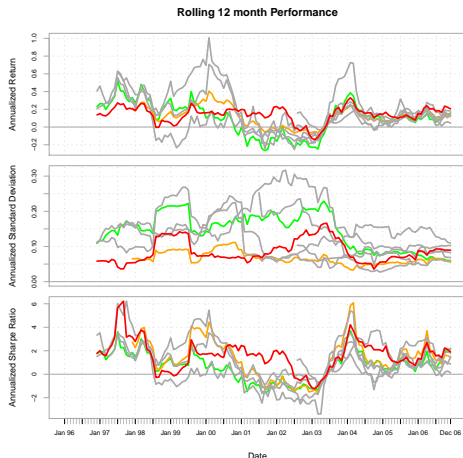
Calculate Statistics.

```
> table.Stats(managers[, c(manager.col, peers.cols)])
```

| | HAM1 | HAM2 | HAM3 | HAM4 | HAM5 | HAM6 |
|-----------------|----------|----------|----------|----------|---------|---------|
| Observations | 132.0000 | 125.0000 | 132.0000 | 132.0000 | 77.0000 | 64.0000 |
| NAs | 0.0000 | 7.0000 | 0.0000 | 0.0000 | 55.0000 | 68.0000 |
| Minimum | -0.0944 | -0.0371 | -0.0718 | -0.1759 | -0.1320 | -0.0404 |
| Quartile 1 | 0.0000 | -0.0098 | -0.0054 | -0.0198 | -0.0164 | -0.0016 |
| Median | 0.0112 | 0.0082 | 0.0102 | 0.0138 | 0.0038 | 0.0128 |
| Arithmetic Mean | 0.0111 | 0.0141 | 0.0124 | 0.0110 | 0.0041 | 0.0111 |
| Geometric Mean | 0.0108 | 0.0135 | 0.0118 | 0.0096 | 0.0031 | 0.0108 |
| Quartile 3 | 0.0248 | 0.0252 | 0.0314 | 0.0460 | 0.0309 | 0.0255 |
| Maximum | 0.0692 | 0.1556 | 0.1796 | 0.1508 | 0.1747 | 0.0583 |
| SE Mean | 0.0022 | 0.0033 | 0.0032 | 0.0046 | 0.0052 | 0.0030 |
| LCL Mean (0.95) | 0.0067 | 0.0076 | 0.0062 | 0.0019 | -0.0063 | 0.0051 |
| UCL Mean (0.95) | 0.0155 | 0.0206 | 0.0187 | 0.0202 | 0.0145 | 0.0170 |
| Variance | 0.0007 | 0.0013 | 0.0013 | 0.0028 | 0.0021 | 0.0006 |
| Stdev | 0.0256 | 0.0367 | 0.0365 | 0.0532 | 0.0457 | 0.0238 |
| Skewness | -0.6514 | 1.4406 | 0.7819 | -0.4262 | 0.0724 | -0.2735 |
| Kurtosis | 2.2807 | 2.2937 | 2.5972 | 0.8049 | 2.1772 | -0.4311 |

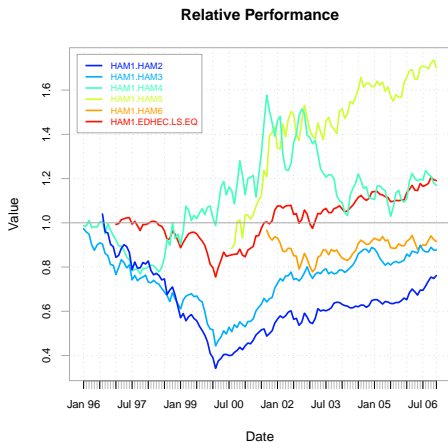
Examine Performance Consistency.

```
> charts.RollingPerformance(managers[, c(manager.col, peers.cols,  
+   indexes.cols)], Rf = 0.03/12, colorset = c("red", rep("darkgray",  
+   5), "orange", "green"), lwd = 2)
```



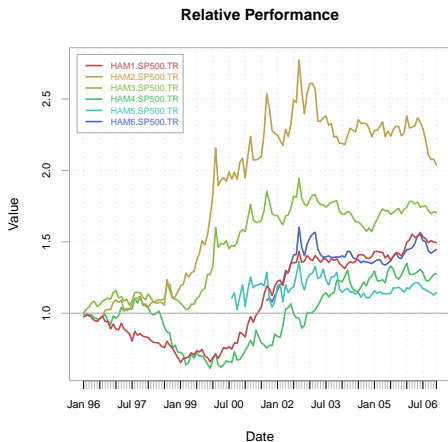
Display Relative Performance.

```
> chart.RelativePerformance(managers[, manager.col, drop = FALSE],  
+   managers[, c(peers.cols, 7)], colorset = tim8equal[-1], lwd = 2,  
+   legend.loc = "topleft")
```



Compare to a Benchmark.

```
> chart.RelativePerformance(managers[, c(manager.col, peers.cols)],  
+   managers[, 8, drop = F], colorset = rainbow8equal, lwd = 2,  
+   legend.loc = "topleft")
```



Compare to a Benchmark.

```
> table.CAPM(managers[trailing36.rows, c(manager.col, peers.cols)],  
+ managers[trailing36.rows, 8, drop = FALSE], Rf = managers[trailing36.rows,  
+ Rf.col, drop = F])
```

| | HAM1 to SP500 TR | HAM2 to SP500 TR | HAM3 to SP500 TR |
|---------------------|------------------|------------------|------------------|
| Alpha | 0.0051 | 0.0020 | 0.0020 |
| Beta | 0.6267 | 0.3223 | 0.6320 |
| Beta+ | 0.8227 | 0.4176 | 0.8240 |
| Beta- | 1.1218 | -0.0483 | 0.8291 |
| R-squared | 0.3829 | 0.1073 | 0.4812 |
| Annualized Alpha | 0.0631 | 0.0247 | 0.0243 |
| Correlation | 0.6188 | 0.3276 | 0.6937 |
| Correlation p-value | 0.0001 | 0.0511 | 0.0000 |
| Tracking Error | 0.0606 | 0.0426 | 0.0042 |
| Active Premium | 0.0373 | -0.0254 | -0.0021 |
| Information Ratio | 0.6157 | -0.5973 | -0.5051 |
| Treynor Ratio | 0.1741 | 0.1437 | 0.1101 |
| | HAM4 to SP500 TR | HAM5 to SP500 TR | HAM6 to SP500 TR |
| Alpha | 0.0009 | 0.0002 | 0.0022 |
| Beta | 1.1282 | 0.8755 | 0.8150 |
| Beta+ | 1.8430 | 1.0985 | 0.9993 |
| Beta- | 1.2223 | 0.5283 | 1.1320 |
| R-squared | 0.3444 | 0.5209 | 0.4757 |
| Annualized Alpha | 0.0109 | 0.0030 | 0.0271 |
| Correlation | 0.5868 | 0.7218 | 0.6897 |
| Correlation p-value | 0.0002 | 0.0000 | 0.0000 |
| Tracking Error | 0.0353 | 0.0105 | 0.0236 |
| Active Premium | 0.0149 | -0.0075 | 0.0134 |
| Information Ratio | 0.4232 | -0.7121 | 0.5684 |
| Treynor Ratio | 0.0768 | 0.0734 | 0.1045 |

table.CAPM underlying techniques

- ▶ Return.annualized — Annualized return using

$$\text{prod}(1 + R_a)^{\frac{\text{scale}}{n}} - 1 = \sqrt[n]{\text{prod}(1 + R_a)^{\text{scale}}} - 1 \quad (1)$$

- ▶ TreynorRatio — ratio of asset's Excess Return to Beta β of the benchmark

$$\frac{(R_a - R_f)}{\beta_{a,b}} \quad (2)$$

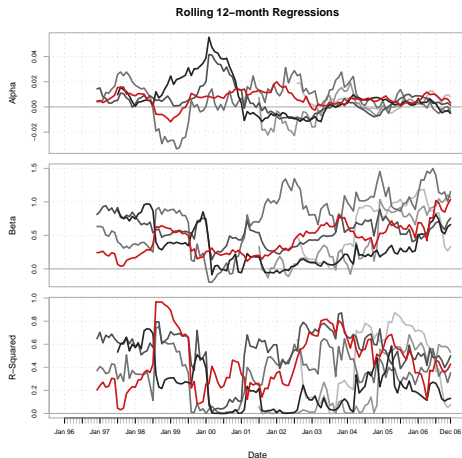
- ▶ ActivePremium — investment's annualized return minus the benchmark's annualized return
- ▶ Tracking Error — A measure of the unexplained portion of performance relative to a benchmark, given by

$$\text{TrackingError} = \sqrt{\sum \frac{(R_a - R_b)^2}{\text{len}(R_a) \sqrt{\text{scale}}}} \quad (3)$$

- ▶ InformationRatio — ActivePremium/TrackingError

Compare to a Benchmark.

```
> charts.RollingRegression(managers[, c(manager.col, peers.cols),  
+   drop = FALSE], managers[, 8, drop = FALSE], Rf = 0.03/12,  
+   colorset = redfocus, lwd = 2)
```



Calculate Downside Risk.

```
> table.DownsideRisk(managers[, 1:6], Rf = 0.03/12)
```

| | HAM1 | HAM2 | HAM3 | HAM4 | HAM5 |
|------------------------------|---------|---------|---------|---------|---------|
| Semi Deviation | 0.0270 | 0.0258 | 0.0319 | 0.0576 | 0.0456 |
| Gain Deviation | 0.0169 | 0.0347 | 0.0290 | 0.0311 | 0.0313 |
| Loss Deviation | 0.0211 | 0.0107 | 0.0191 | 0.0365 | 0.0324 |
| Downside Deviation (MAR=10%) | 0.0273 | 0.0226 | 0.0313 | 0.0585 | 0.0464 |
| Downside Deviation (Rf=3%) | 0.0281 | 0.0190 | 0.0295 | 0.0562 | 0.0463 |
| Downside Deviation (0%) | 0.0291 | 0.0171 | 0.0291 | 0.0548 | 0.0451 |
| Maximum Drawdown | -0.1518 | -0.2399 | -0.2894 | -0.2874 | -0.3405 |
| Historical VaR (95%) | -0.0258 | -0.0294 | -0.0425 | -0.0799 | -0.0733 |
| Historical ES (95%) | -0.0513 | -0.0331 | -0.0555 | -0.1122 | -0.1023 |
| Modified VaR (95%) | -0.0342 | -0.0276 | -0.0368 | -0.0815 | -0.0676 |
| Modified ES (95%) | -0.0610 | -0.0614 | -0.0440 | -0.1176 | -0.0974 |

Semivariance and Downside Deviation

- ▶ Downside Deviation as proposed by Sharpe is a generalization of semivariance which calculates bases on the deviation below a Minimumn Acceptable Return(MAR)

$$\delta_{MAR} = \sqrt{\frac{\sum_{t=1}^n (R_t - MAR)^2}{n}} \quad (4)$$

- ▶ Downside Deviation may be used to calculate semideviation by setting MAR=mean(R) or may also be used with MAR=0
- ▶ Downside Deviation (and its special cases semideviation and semivariance) is useful in several performance to risk ratios, and in several portfolio optimization problems.

Value at Risk

- ▶ Value at Risk (VaR) has become a required standard risk measure recognized by Basel II and MiFID
- ▶ traditional mean-VaR may be derived historically, or estimated parametrically using

$$z_c = q_p = qnorm(p) \quad (5)$$

$$VaR = \bar{R} - z_c \cdot \sqrt{\sigma} \quad (6)$$

- ▶ even with robust covariance matrix or Monte Carlo simulation, mean-VaR is not reliable for non-normal asset distributions
- ▶ for non-normal assets, VaR estimates calculated using GPD (as in VaR.GPD) or Cornish Fisher perform best
- ▶ modified Cornish Fisher VaR takes higher moments of the distribution into account:

$$z_{cf} = z_c + \frac{(z_c^2 - 1)S}{6} + \frac{(z_c^3 - 3z_c)K}{24} + \frac{(2z_c^3 - 5z_c)S^2}{36} \quad (7)$$

$$modVaR = \bar{R} - z_{cf}\sqrt{\sigma} \quad (8)$$

- ▶ modified VaR also meets the definition of a coherent risk measure per Artzner, et.al. (1997)

Risk/Reward Ratios in *PerformanceAnalytics*

- ▶ Sharpe Ratio — return per unit of risk represented by variance, may also be annualized by

$$\frac{\sqrt[n]{\text{prod}(1 + R_a)^{\text{scale}} - 1}}{\sqrt{\text{scale}} \cdot \sqrt{\sigma}} \quad (9)$$

- ▶ Sortino Ratio — improvement on Sharpe Ratio utilizing downside deviation as the measure of risk

$$\frac{(\overline{R_a} - \text{MAR})}{\delta_{\text{MAR}}} \quad (10)$$

- ▶ Calmar and Sterling Ratios — ratio of annualized return (Eq. 1) over the absolute value of the maximum drawdown
- ▶ Sortino's Upside Potential Ratio — upside semdeviation from MAR over downside deviation from MAR

$$\frac{\sum_{t=1}^n (R_t - \text{MAR})}{\delta_{\text{MAR}}} \quad (11)$$

- ▶ Favre's modified Sharpe Ratio — ratio of excess return over Cornish-Fisher VaR

$$\frac{(\overline{R_a} - R_f)}{\text{modVaR}_{R_a,p}} \quad (12)$$

- ▶ **NOTE:** The newest measures such as modified Sharpe and Sortino's UPR are far more reliable than older measures, but everyone still seems to look at older measures.

Summary

- ▶ Performance and Risk analysis are greatly facilitated by the use of charts and tables.
- ▶ The display of your information is in many cases as important as the analysis.
- ▶ The observer should have gained a working knowledge of how specific visual techniques may be utilized to aid investment decision making.
- ▶ Further Work
 - ▶ Additional parameterization to make charts and tables more useful.
 - ▶ Pertrac or Morningstar-style sample reports.
 - ▶ Functions and graphics for more complicated topics such as factor analysis and optimization.

