

Forex Portfolio

Forex Portfolio for November 2010

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- The model is rebalanced monthly on the first Danish business day 12 CET.
- The model returned 0.49% in October; primarily through heavy long exposure to EURUSD.
- The model remains bearish on all three reference currencies; the USD, the EUR, and the GBP.
- The model has returned 8.65% YTD.
- The annualised return since inception is 8.64%.

Allocation in November

The Forex Portfolio remains firmly negative towards the USD, while the net short position against EUR is now minor. The model has strengthened its case for the GBP, which has a slight net long exposure now.

The biggest long positions in EUR are against the US dollar, the Norwegian krone, and the Aussie. The EURUSD long allocation has increased again.

The Swedish krona has consolidated its top spot as the model has increased the long exposure in SEK relative to the EUR by roughly one-third. The CHF is regaining some strength as the short EURCHF position has increased somewhat following last month's big reduction.

EUR-denominated account		USD-denominated account		GBP-denominated account	
EUR 1 million		USD 1 million		GBP 1 million	
EURAUD	9,657	AUDUSD	-9,751	GBPAUD	9,657
EURGBP	-87,692	GBPUSD	54,650	GBPUSD	561,638
EURUSD	561,638	USDCAD	-96,865	GBPCAD	-96,865
EURCAD	-96,865	USDCHF	-234,578	GBPCHF	-234,578
EURCHF	-234,578	USDJPY	-81,657	GBPJPY	-81,657
EURJPY	-81,657	USDNOK	185,296	GBPNOK	185,126
EURNOK	185,296	USDSEK	-373,119	GBPSEK	-373,119
EURSEK	-373,296	EURUSD	-83,777	EURGBP	-134,434
EURNZD	248	NZDUSD	-324	NZDGBP	-519

The allocations above are based on an account size of EUR/USD/GBP 1,000,000. A spreadsheet for calculating allocations for custom-sized accounts can be found under Forex Portfolio Model Allocation at www.tradingfloor.com/fx-equity-research

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The Saxo Bank Forex Portfolio Model

The model was built in the years 2006-2008. It was completed at the height of the credit crisis in the fall of 2008. We have, therefore had a good chance to see if back-testing results are solid, which they appear to be.

Allocation update

The model will be published on www.tradingfloor.com by Saxo Bank on the first banking day of the calendar month. While Saxo Bank publishes the model's suggested allocation, it is not responsible for the monthly reweighting of the portfolio.

The model input

The model's inputs are the Saxo Bank Fundamental Strength Indices which measure the underlying economic strength (contraction or expansion) of the following 10 currencies: NZD, AUD, CAD, JPY, EUR, GBP, USD, CHF, SEK, and NOK. Allocations are presented as net exposures against EUR, USD, or GBP to reduce both the number of possible combinations and most illiquid crosses.

Returns are based on Bloomberg monthly carry-adjusted currency data.

The overall idea

The allocation signals are generated by changes in spreads between the Saxo Bank Fundamental Strength Indices. More capital is allocated to currencies with relatively strong economic activity (and positive rate outlook), funded by short positions on currencies with weak economic activity (weak rate outlook). For example, if the Eurozone Fundamental Strength Index suddenly drops (increases) relative to the US Fundamental Strength Index, the model, all else being equal, would reduce (increase) exposure to EURUSD. Additionally, positions are scaled up or down according to the volatility of the currency crosses in question so the expected risk-adjusted return for positions in EURCHF is the same as for positions in the normally more volatile EURCAD.

Model benefits

- The model is always well-diversified and in the market. It is not, therefore, exposed to "timing issues".

- It does not use stops since the overall volatility of returns tends to be low (especially on single leverage).
- Returns tend to be almost completely uncorrelated to returns in stock markets (correlation = 0.10) and other risky asset classes (correlation to the CRB Index is 0.11) according to backtest data from 1991 to 2008.

Conclusion

If backtesting since 1991 is indicative of future returns, allocating part of a portfolio to the Saxo Bank Forex Portfolio Model could be attractive to an average investor. It should decrease overall portfolio volatility without lowering returns too much (depending on the leverage used) or at all.

Forex Portfolio: Realized Returns

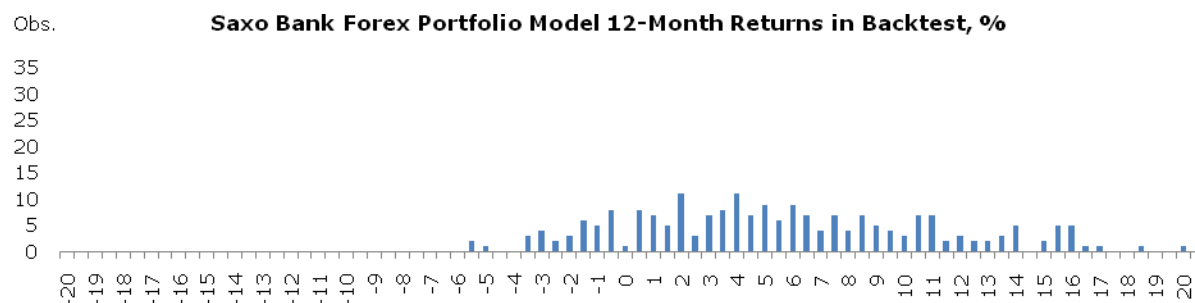
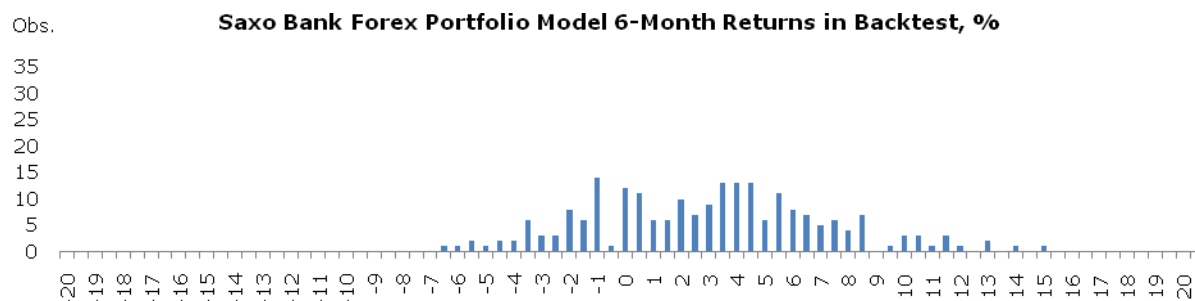
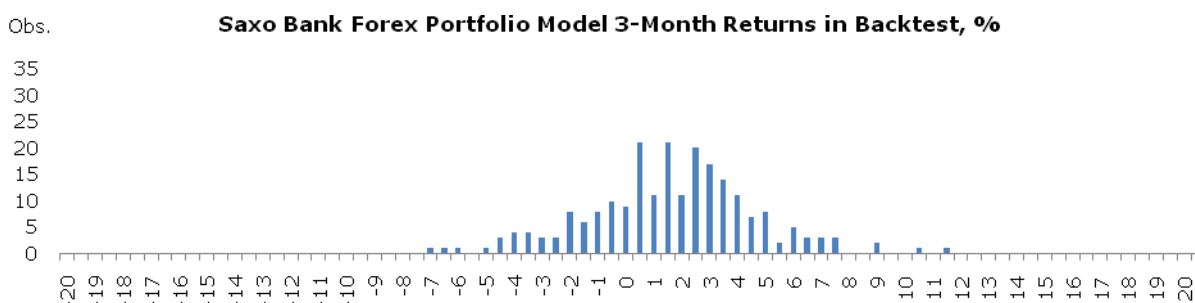
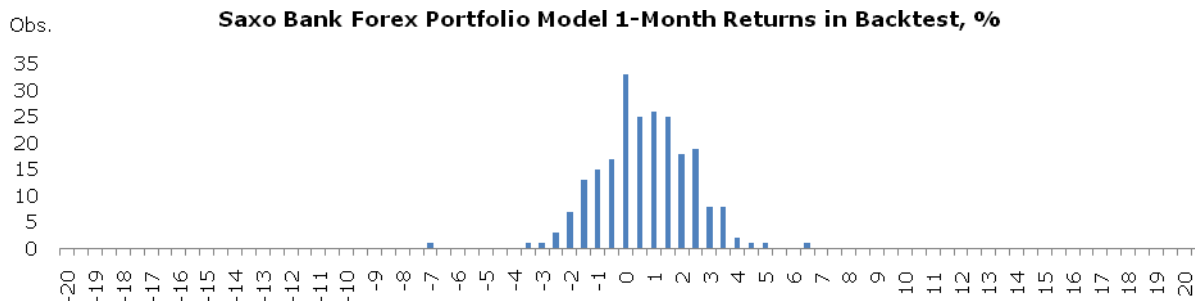
Month	Return (%)
2009 October	0.32
2009 November	0.68
2009 December	-0.31
2010 January	-0.41
2010 February	2.10
2010 March	0.17
2010 April	0.59
2010 May	0.96
2010 June	3.60
2010 July	-1.62
2010 August	3.38
2010 September	-0.80
2010 October	0.49
YTD	8.65
Since inception	9.40
Since inception (annualized)	8.64

Rebalancing

The model is available on www.tradingfloor.com/fx-equity-research

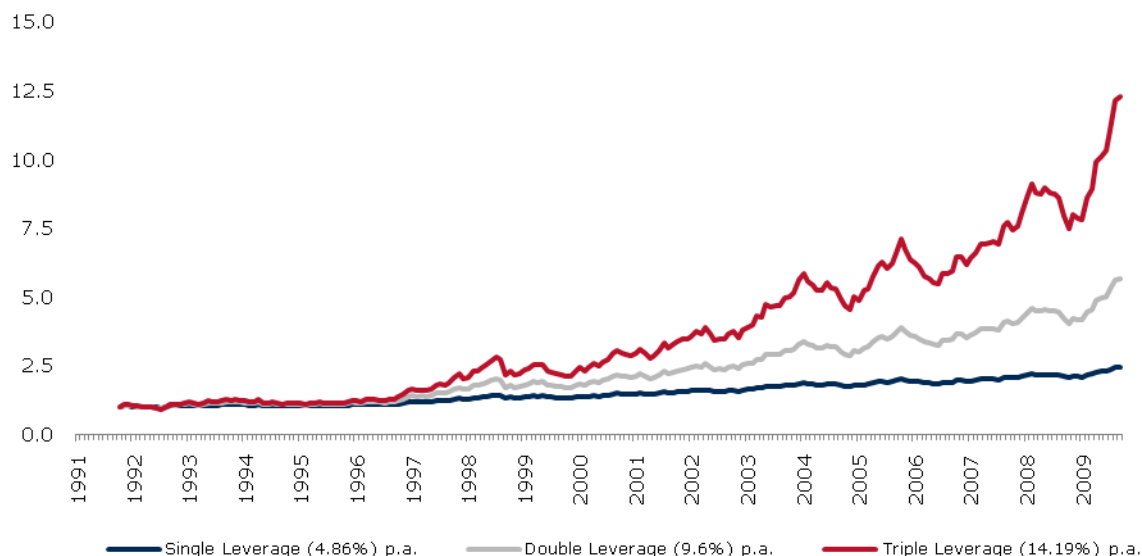
First Danish business day 12 CET.

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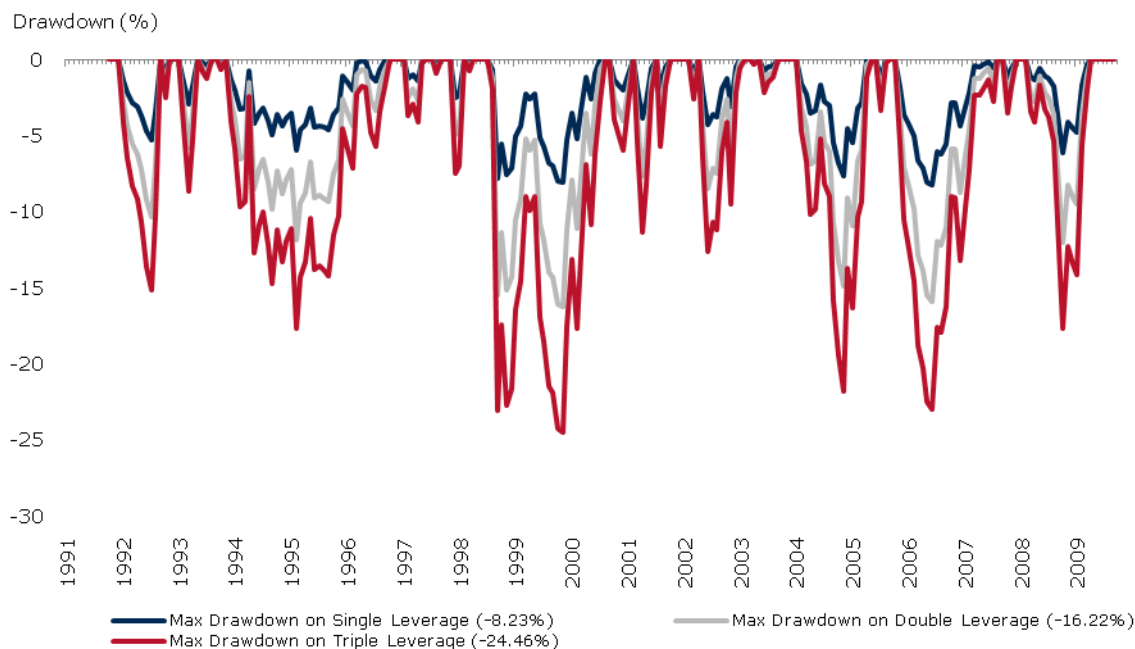


Saxo Bank Forex Portfolio Model: Backtesting Results (Oct. 1991 - Sep. 2008)

Accumulated capital
from investing EUR 1



Saxo Bank Forex Portfolio Model: Backtesting Results (Oct. 1991 - Sep. 2008)



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