CUSTOMIZING PORTFOLIO VALUE FOR THE LONG/SHORT PORTFOLIOS IN PORT <GO>, PRTU <GO> & BBU <GO>

To properly support the long/short portfolios in the Bloomberg Portfolio & Risk Analytics solution, PORT <GO>, users need flexibility when defining portfolio market value. For long-only portfolios, portfolio market value is usually defined on a net basis: the weight of each portfolio position is defined as the ratio of the value of this position (for a stock it's the product of price and number of shares) divided by the portfolio's market value (sum of market values of all portfolio positions). To represent a long/short portfolio on a net basis, short cash must be included in the portfolio. For example, if you have a long position worth $100 and decide to establish a short position worth −$100, you would get $100 cash when the stock is sold short. So, the final portfolio will have three positions: $100 long, −$100 short and $100 cash. In this case, the net portfolio value will equal to $100 (longs − shorts + cash). Omitting short cash will make portfolio weights undefined, since portfolio market value is now 0 ($100 − $100)—thus we will be dividing by zero when calculating portfolio weights.
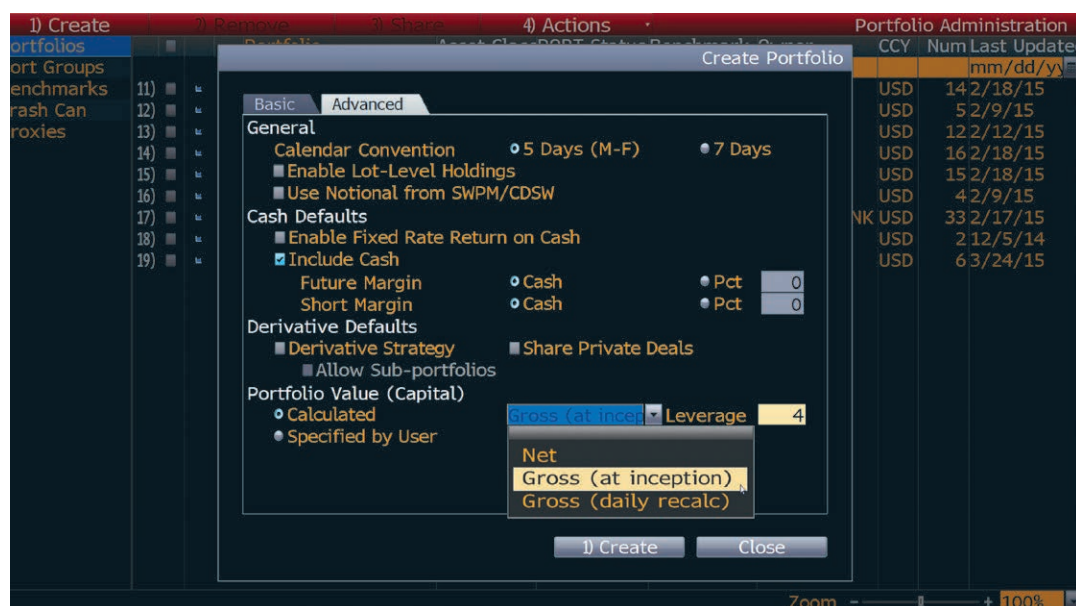

Figure 1 – Defining portfolio value type in PRTU

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To avoid the problem of zero portfolio market value when short cash is not provided, it's common to allow users to define their own portfolio market value. In this case, the denominator in the portfolio weight calculations will be supplied by the user. Moreover, when portfolio value is supplied on a historical date and there are no cash inflows/ outflows, the updated portfolio value is set to the portfolio value on a historical date plus accumulated P&L (profit & loss) from the date when portfolio value had been supplied to the date of the analysis.

Another option that is commonly used is the gross portfolio value (the sum of absolute values of portfolio positions) and portfolio leverage. In the above example with $100 long and $100 short positions, the gross portfolio value is $200. Leverage can be applied on top of the gross portfolio value. For example, if you have 2:1 leverage and gross portfolio value of $200, the portfolio market value is just the gross value divided by the leverage. In our example, it's just $200 divided by 2, or $100. Two options are common when defining gross portfolio value with leverage: gross at inception and gross daily. With the gross at inception option, we'll calculate gross portfolio value once on the portfolio inception date and then divide it by the leverage. On any subsequent day, portfolio value will increase or decrease in line with the portfolio P&L. Alternatively, gross value can be recalculated on a daily basis independent of the portfolio P&L.

Bloomberg's Portfolio & Risk Analytics solution, PORT <GO>, supports the above-mentioned ways of defining portfolio value, namely net, gross at inception, gross daily and specified by user. Portfolio value can be defined in PRTU <GO> or uploaded through BBU <GO>.

To define portfolio value in PRTU <GO>, click on the Create button on the red toolbar and then click on the Advanced tab in the Create Portfolio Dialog. Here you can define Portfolio Value (Capital) as either Net (this is the default option), Gross or Specified by User (Figure 1). Both Gross (at inception) and Gross (daily recalc) options allow you to specify portfolio leverage. When the Specified by User option is selected, you can provide the portfolio value in PRTU. Go to the portfolio display screen where you see your portfolio positions in PRTU and click on the pencil icon next to the portfolio value as of date. Portfolio value can be provided for any set of dates. On the dates when portfolio value is not provided, it will be calculated based on the previously provided portfolio value and the accumulated P&L.

The Best Practice is to use the Specified by User Option and provide the capital on a daily basis.

Portfolio value can also be uploaded via BBU <GO>. To provide user-defined portfolio value in the holdings file, specify Portfolio Value keyword as the security ID and the portfolio value amount as the Position (Quantity).

Once the portfolio has been defined on the system, you are ready to run analytics on this portfolio by typing PORT <GO> on the Bloomberg Terminal.