

Package ‘PerformanceAnalytics’

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Description Collection of econometric functions for performance and risk analysis. This package aims to aid practitioners and researchers in utilizing the latest research in analysis of non-normal return streams. In general, it is most tested on return (rather than price) data on a regular scale, but most functions will work with irregular return data as well, and increasing numbers of functions will work with P&L or price data where possible.

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Description

PerformanceAnalytics provides an R package of econometric functions for performance and risk analysis of financial instruments or portfolios. This package aims to aid practitioners and researchers in using the latest research for analysis of both normally and non-normally distributed return streams.

We created this package to include functionality that has been appearing in the academic literature on performance analysis and risk over the past several years, but had no functional equivalent in R. In doing so, we also found it valuable to have wrappers for some functionality with good defaults and naming consistent with common usage in the finance literature.

In general, this package requires return (rather than price) data. Almost all of the functions will work with any periodicity, from annual, monthly, daily, to even minutes and seconds, either regular or irregular.

The following sections cover Time Series Data, Performance Analysis, Risk Analysis (with a separate treatment of VaR), Summary Tables of related statistics, Charts and Graphs, a variety of Wrappers and Utility functions, and some thoughts on work yet to be done.

In this summary, we attempt to provide an overview of the capabilities provided by PerformanceAnalytics and pointers to other literature and resources in R useful for performance and risk analysis. We hope that this summary and the accompanying package and documentation partially fill a hole in the tools available to a financial engineer or analyst.

Time Series Data

Not all, but many of the measures in this package require time series data. PerformanceAnalytics uses the `xts` package for managing time series data for several reasons. Besides being fast and efficient, `xts` includes functions that test the data for periodicity and draw attractive and readable time-based axes on charts. Another benefit is that `xts` provides compatibility with Rmetrics' `timeSeries`, `zoo` and other time series classes, such that PerformanceAnalytics functions that return a time series will return the results in the same format as the object that was passed in. Jeff Ryan and Josh Ulrich, the authors of `xts`, have been extraordinarily helpful to the development of PerformanceAnalytics and we are very grateful for their contributions to the community. The `xts` package extends the excellent `zoo` package written by Achim Zeileis and Gabor Grothendieck. `zoo` provides more general time series support, whereas `xts` provides functionality that is specifically aimed at users in finance.

Users can easily load returns data as time series for analysis with PerformanceAnalytics by using the `Return.read` function. The `Return.read` function loads csv files of returns data where the data is organized as dates in the first column and the returns for the period in subsequent columns. See `read.zoo` and `as.xts` if more flexibility is needed.

The functions described below assume that input data is organized with asset returns in columns and dates represented in rows. All of the metrics in PerformanceAnalytics are calculated by column and return values for each column in the results. This is the default arrangement of time series data in `xts`.

Some sample data is available in the `managers` dataset. It is an `xts` object that contains columns of monthly returns for six hypothetical asset managers (HAM1 through HAM6), the EDHEC Long-Short Equity hedge fund index, the S&P 500 total returns, and total return series for the US Treasury 10-year bond and 3-month bill. Monthly returns for all series end in December 2006 and begin at

different periods starting from January 1996. That data set is used extensively in our examples and should serve as a model for formatting your data.

For retrieving market data from online sources, see `quantmod`'s `getSymbols` function for downloading prices and `chartSeries` for graphing price data. Also see the `tseries` package for the function `get.hist.quote`. Look at `xts`'s `to.period` function to rationally coerce irregular price data into regular data of a specified periodicity. The `aggregate` function has methods for `tseries` and `zoo` timeseries data classes to rationally coerce irregular data into regular data of the correct periodicity.

Finally, see the function `Return.calculate` for calculating returns from prices.

Performance Analysis

The literature around the subject of performance analysis seems to have exploded with the popularity of alternative assets such as hedge funds, managed futures, commodities, and structured products. Simpler tools that may have seemed appropriate in a relative investment world seem inappropriate for an absolute return world. Risk measurement, which is nearly inseparable from performance assessment, has become multi-dimensional and multi-moment while trying to answer a simple question: “How much could I lose?” Portfolio construction and risk budgeting are two sides of the same coin: “How do I maximize my expected gain and avoid going broke?” But before we can approach those questions we first have to ask: “Is this something I might want in my portfolio?”

With the the increasing availability of complicated alternative investment strategies to both retail and institutional investors, and the broad availability of financial data, an engaging debate about performance analysis and evaluation is as important as ever. There won't be one *right* answer delivered in these metrics and charts. What there will be is an accretion of evidence, organized to *assist* a decision maker in answering a specific question that is pertinent to the decision at hand. Using such tools to uncover information and ask better questions will, in turn, create a more informed investor.

Performance measurement starts with returns. Traders may object, complaining that “You can't eat returns,” and will prefer to look for numbers with currency signs. To some extent, they have a point - the normalization inherent in calculating returns can be deceiving. Most of the recent work in performance analysis, however, is focused on returns rather than prices and sometimes called “returns-based analysis” or RBA. This “price per unit of investment” standardization is important for two reasons - first, it helps the decision maker to compare opportunities, and second, it has some useful statistical qualities. As a result, the `PerformanceAnalytics` package focuses on returns. See `Return.calculate` for converting net asset values or prices into returns, either discrete or continuous. Many papers and theories refer to “excess returns”: we implement a simple function for aligning time series and calculating excess returns in `Return.excess`.

We provide two functions to calculate weighted returns for a portfolio of assets. If you have a single weighting vector, or want the equal weighted portfolio, use `Return.portfolio`. If you have a portfolio that is periodically rebalanced, and multiple time periods with different weights, use `Return.rebalancing`. Both functions will subset the return series to only include returns for assets for which `weights` are provided.

Returns and risk may be annualized as a way to simplify comparison over longer time periods. Although it requires a bit of estimating, such aggregation is popular because it offers a reference point for easy comparison. Examples are in `Return.annualized`, `sd.annualized`, and `SharpeRatio.annualized`.

Basic measures of performance tend to treat returns as independent observations. In this case, the entirety of R's base is applicable to such analysis. Some basic statistics we have collected in `table.Stats` include:

| | |
|-----------------------------|---|
| <code>mean</code> | arithmetic mean |
| <code>mean.geometric</code> | geometric mean |
| <code>mean.stderr</code> | standard error of the mean (S.E. mean) |
| <code>mean.LCL</code> | lower confidence level (LCL) of the mean |
| <code>mean.UCL</code> | upper confidence level (UCL) of the mean |
| <code>quantile</code> | for calculating various quantiles of the distribution |
| <code>min</code> | minimum return |
| <code>max</code> | maximum return |
| <code>range</code> | range of returns |
| <code>length(R)</code> | number of observations |
| <code>sum(is.na(R))</code> | number of NA's |

It is often valuable when evaluating an investment to know whether the instrument that you are examining follows a normal distribution. One of the first methods to determine how close the asset is to a normal or log-normal distribution is to visually look at your data. Both `chart.QQPlot` and `chart.Histogram` will quickly give you a feel for whether or not you are looking at a normally distributed return history. Differences between `var` and `SemiVariance` will help you identify `skewness` in the returns. Skewness measures the degree of asymmetry in the return distribution. Positive skewness indicates that more of the returns are positive, negative skewness indicates that more of the returns are negative. An investor should in most cases prefer a positively skewed asset to a similar (style, industry, region) asset that has a negative skewness.

Kurtosis measures the concentration of the returns in any given part of the distribution (as you should see visually in a histogram). The `kurtosis` function will by default return what is referred to as "excess kurtosis", where 0 is a normal distribution, other methods of calculating kurtosis than `method="excess"` will set the normal distribution at a value of 3. In general a rational investor should prefer an asset with a low to negative excess kurtosis, as this will indicate more predictable returns (the major exception is generally a combination of high positive skewness and high excess kurtosis). If you find yourself needing to analyze the distribution of complex or non-smooth asset distributions, the `nor.test` package has several advanced statistical tests for analyzing the normality of a distribution.

Modern Portfolio Theory (MPT) is the collection of tools and techniques by which a risk-averse investor may construct an "optimal" portfolio. It was pioneered by Markowitz's ground-breaking 1952 paper *Portfolio Selection*. It also encompasses CAPM, below, the efficient market hypothesis, and all forms of quantitative portfolio construction and optimization.

The Capital Asset Pricing Model (CAPM), initially developed by William Sharpe in 1964, provides a justification for passive or index investing by positing that assets that are not on the efficient frontier will either rise or fall in price until they are. The `CAPM.RiskPremium` is the measure of how much the asset's performance differs from the risk free rate. Negative Risk Premium generally indicates that the investment is a bad investment, and the money should be allocated to the risk free asset or to a different asset with a higher risk premium. `CAPM.alpha` is the degree to which the assets returns are not due to the return that could be captured from the market. Conversely,

`CAPM.beta` describes the portions of the returns of the asset that could be directly attributed to the returns of a passive investment in the benchmark asset.

The Capital Market Line `CAPM.CML` relates the excess expected return on an efficient market portfolio to its risk (represented in CAPM by `sd`). The slope of the CML, `CAPM.CML.slope`, is the Sharpe Ratio for the market portfolio. The Security Market Line is constructed by calculating the line of `CAPM.RiskPremium` over `CAPM.beta`. For the benchmark asset this will be 1 over the risk premium of the benchmark asset. The slope of the SML, primarily for plotting purposes, is given by `CAPM.SML.slope`. CAPM is a market equilibrium model or a general equilibrium theory of the relation of prices to risk, but it is usually applied to partial equilibrium portfolios, which can create (sometimes serious) problems in valuation.

One extension to the CAPM contemplates evaluating an active manager's ability to time the market. Two other functions apply the same notion of best fit to positive and negative market returns, separately. The `CAPM.beta.bull` is a regression for only positive market returns, which can be used to understand the behavior of the asset or portfolio in positive or 'bull' markets. Alternatively, `CAPM.beta.bear` provides the calculation on negative market returns. The `TimingRatio` uses the ratio of those to help assess whether the manager has shown evidence that of timing skill.

The performance premium provided by an investment over a passive strategy (the benchmark) is provided by `ActivePremium`, which is the investment's annualized return minus the benchmark's annualized return. A closely related measure is the `TrackingError`, which measures the unexplained portion of the investment's performance relative to a benchmark. The `InformationRatio` of an investment in a MPT or CAPM framework is the Active Premium divided by the Tracking Error. Information Ratio may be used to rank investments in a relative fashion.

We have also included a function to compute the `KellyRatio`. The Kelly criterion applied to position sizing will maximize log-utility of returns and avoid risk of ruin. For our purposes, it can also be used as a stack-ranking method like `InformationRatio` to describe the "edge" an investment would have over a random strategy or distribution.

These metrics and others such as `SharpeRatio`, `SortinoRatio`, `UpsidePotentialRatio`, Spearman rank correlation (see `rcorr`), etc., are all methods of rank-ordering relative performance. *Alexander and Dimitriu (2004) in "The Art of Investing in Hedge Funds"* show that relative rankings across multiple pricing methodologies may be positively correlated with each other and with expected returns. This is quite an important finding because it shows that multiple methods of predicting returns and risk which have underlying measures and factors that are not directly correlated to another measure or factor will still produce widely similar quantile rankings, so that the "buckets" of target instruments will have significant overlap. This observation specifically supports the point made early in this document regarding "accretion of the evidence" for a positive or negative investment decision.

Style Analysis

Style analysis is one way to help determine a fund's exposures to the changes in returns of major asset classes or other factors. PerformanceAnalytics previously had a few functions that calculate style weights using an asset class style model as described in detail in Sharpe (1992).

These functions have been moved to R-Forge in package FactorAnalytics as part of a new collaboration with Eric Zivot at the University of Washington. The functions combine to calculate effective style weights and display the results in a bar chart. `chart.Style` calculates and displays style weights calculated over a single period. `chart.RollingStyle` calculates and displays those weights in rolling windows through time. `style.fit` manages the calculation of the weights by

method, and `style.QPfit` calculates the specific constraint case that requires quadratic programming.

There is a significant amount of academic literature on identifying and attributing sources of risk or returns. Much of it falls into the field of “factor analysis” where “risk factors” are used to retrospectively explain sources of risk, and through regression and other analytical methods *predict* future period returns and risk based on factor drivers. These are well covered in chapters on factor analysis in *Zivot and Wang(2006)* and also in the R functions `factanal` for basic factor analysis and `princomp` for Principal Component Analysis. The authors feel that financial engineers and analysts would benefit from some wrapping of this functionality focused on finance, but the capabilities already available from the base functions are quite powerful. We are hopeful that our new collaboration with Prof. Zivot will provide additional functionality in the near future.

Risk Analysis

Many methods have been proposed to measure, monitor, and control the risks of a diversified portfolio. Perhaps a few definitions are in order on how different risks are generally classified. *Market Risk* is the risk to the portfolio from a decline in the market price of instruments in the portfolio. *Liquidity Risk* is the risk that the holder of an instrument will find that a position is illiquid, and will incur extra costs in unwinding the position resulting in a less favorable price for the instrument. In extreme cases of liquidity risk, the seller may be unable to find a buyer for the instrument at all, making the value unknowable or zero. *Credit Risk* encompasses *Default Risk*, or the risk that promised payments on a loan or bond will not be made, or that a convertible instrument will not be converted in a timely manner or at all. There are also *Counterparty Risks* in over the counter markets, such as those for complex derivatives. Tools have evolved to measure all these different components of risk. Processes must be put into place inside a firm to monitor the changing risks in a portfolio, and to control the magnitude of risks. For an extensive treatment of these topics, see Litterman, Gumerlock, et. al.(1998). For our purposes, PerformanceAnalytics tends to focus on market and liquidity risk.

The simplest risk measure in common use is volatility, usually modeled quantitatively with a univariate standard deviation on a portfolio. See `sd`. Volatility or Standard Deviation is an appropriate risk measure when the distribution of returns is normal or resembles a random walk, and may be annualized using `sd.annualized`, or the equivalent function `sd.multiperiod` for scaling to an arbitrary number of periods. Many assets, including hedge funds, commodities, options, and even most common stocks over a sufficiently long period, do not follow a normal distribution. For such common but non-normally distributed assets, a more sophisticated approach than standard deviation/volatility is required to adequately model the risk.

Markowitz, in his Nobel acceptance speech and in several papers, proposed that `SemiVariance` would be a better measure of risk than variance. See *Zin, Markowitz, Zhao (2006)*. This measure is also called `SemiDeviation`. The more general case is `DownsideDeviation`, as proposed by *Sortino and Price(1994)*, where the minimum acceptable return (MAR) is a parameter to the function. It is interesting to note that variance and mean return can produce a smoothly elliptical efficient frontier for portfolio optimization using `solve.QP` or `portfolio.optim` or `fPortfolio`. Use of semivariance or many other risk measures will not necessarily create a smooth ellipse, causing significant additional difficulties for the portfolio manager trying to build an optimal portfolio. We'll leave a more complete treatment and implementation of portfolio optimization techniques for another time.

Another very widely used downside risk measures is analysis of drawdowns, or loss from peak value achieved. The simplest method is to check the `maxDrawdown`, as this will tell you the worst

cumulative loss ever sustained by the asset. If you want to look at all the drawdowns, you can `findDrawdowns` and `sortDrawdowns` in order from worst/major to smallest/minor. The `UpDownRatios` function will give you some insight into the impacts of the skewness and kurtosis of the returns, and letting you know how length and magnitude of up or down moves compare to each other. You can also plot drawdowns with `chart.Drawdown`.

One of the most commonly used and cited measures of the risk/reward tradeoff of an investment or portfolio is the `SharpeRatio`, which measures return over standard deviation. If you are comparing multiple assets using Sharpe, you should use `SharpeRatio.annualized`. It is important to note that William Sharpe now recommends `InformationRatio` preferentially to the original Sharpe Ratio. The `SortinoRatio` uses mean return over `DownsideDeviation` below the MAR as the risk measure to produce a similar ratio that is more sensitive to downside risk. Sortino later enhanced his ideas to use upside returns for the numerator and `DownsideDeviation` as the denominator in `UpsidePotentialRatio`. Favre and Galeano(2002) propose using the ratio of expected excess return over the Cornish-Fisher `Var` to produce `SharpeRatio.modified`. `TreynorRatio` is also similar to the Sharpe Ratio, except it uses `CAPM.beta` in place of the volatility measure to produce the ratio of the investment's excess return over the beta.

One of the newer statistical methods developed for analyzing the risk of financial instruments is `Omega`. Omega analytically constructs a cumulative distribution function, in a manner similar to `chart.QQPlot`, but then extracts additional information from the location and slope of the derived function at the point indicated by the risk quantile that the researcher is interested in. Omega seeks to combine a large amount of data about the shape, magnitude, and slope of the distribution into one method. The academic literature is still exploring the best manner to use Omega in a risk measurement and control process, or in portfolio construction.

Any risk measure should be viewed with suspicion if there are not a large number of historical observations of returns for the asset in question available. Depending on the measure, the number of observations required will vary greatly from a statistical standpoint. As a heuristic rule, ideally you will have data available on how the instrument performed through several economic cycles and shocks. When such a long history is not available, the investor or researcher has several options. A full discussion of the various approaches is beyond the scope of this introduction, so we will merely touch on several areas that an interested party may wish to explore in additional detail. Examining the returns of assets with a similar style, industry, or asset class to which the asset in question is highly correlated and shares other characteristics can be quite informative. Factor analysis may be used to uncover specific risk factors where transparency is not available. Various resampling (see `tsbootstrap`) and simulation methods are available in R to construct an artificially long distribution for testing. If you use a method such as Monte Carlo simulation or the bootstrap, it is often valuable to use `chart.Boxplot` to visualize the different estimates of the risk measure produced by the simulation, to see how small (or wide) a range the estimates cover, and thus gain a level of confidence with the results. Proceed with extreme caution when your historical data is lacking. Problems with lack of historical data are a major reason why many institutional investors will not invest in an alternative asset without several years of historical return data available.

Value at Risk - VaR

Traditional mean-VaR: In the early 90's, academic literature started referring to "value at risk", typically written as VaR. Take care to capitalize VaR in the commonly accepted manner, to avoid confusion with var (variance) and VAR (vector auto-regression). With a sufficiently large data set, you may choose to use a non-parametric VaR estimation method using the historical distribution and the probability quantile of the distribution calculated using `qnorm`. The negative return at the correct

quantile (usually 95% or 99%), is the non-parametric VaR estimate. J.P. Morgan's RiskMetrics parametric mean-VaR was published in 1994 and this methodology for estimating parametric mean-VaR has become what people are generally referring to as "VaR" and what we have implemented as `VaR` with `method="historical"`. See *Return to RiskMetrics: Evolution of a Standard* at <http://www.riskmetrics.com/r2rovv.html>. Parametric traditional VaR does a better job of accounting for the tails of the distribution by more precisely estimating the tails below the risk quantile. It is still insufficient if the assets have a distribution that varies widely from normality. That is available in `VaR` with `method="gaussian"`.

The R package `VaR`, now orphaned, contains methods for simulating and estimating lognormal `VaR.norm` and generalized Pareto `VaR.gpd` distributions to overcome some of the problems with nonparametric or parametric mean-VaR calculations on a limited sample size. There is also a `VaR.backtest` function to apply simulation methods to create a more robust estimate of the potential distribution of losses. The `VaR` package also provides plots for its functions. We will attempt to incorporate this orphaned functionality in PerformanceAnalytics in an upcoming release.

Modified Cornish-Fisher VaR: The limitations of traditional mean-VaR are all related to the use of a symmetrical distribution function. Use of simulations, resampling, or Pareto distributions all help in making a more accurate prediction, but they are still flawed for assets with significantly non-normal (skewed and/or kurtotic) distributions. *Huisman (1999)* and *Favre and Galleano (2002)* propose to overcome this extensively documented failing of traditional VaR by directly incorporating the higher moments of the return distribution into the VaR calculation.

This new VaR measure incorporates skewness and kurtosis via an analytical estimation using a Cornish-Fisher (special case of a Taylor) expansion. The resulting measure is referred to variously as "Cornish-Fisher VaR" or "Modified VaR". We provide this measure in function `VaR` with `method="modified"`. Modified VaR produces the same results as traditional mean-VaR when the return distribution is normal, so it may be used as a direct replacement. Many papers in the finance literature have reached the conclusion that Modified VaR is a superior measure, and may be substituted in any case where mean-VaR would previously have been used.

Conditional VaR and Expected Shortfall: We have implemented Conditional Value at Risk, also called Expected Shortfall (not to be confused with shortfall probability, which is much less useful), in function `ES`. Expected Shortfall attempts to measure the magnitude of the average loss exceeding the traditional mean-VaR. Expected Shortfall has proven to be a reasonable risk predictor for many asset classes. We have provided traditional historical, Gaussian and modified Cornish-Fisher measures of Expected Shortfall by using `method="historical"`, `method="gaussian"` or `method="modified"`. See *Uryasev(2000)* and *Sherer and Martin(2005)* for more information on Conditional Value at Risk and Expected Shortfall. Please note that your mileage will vary; expect that values obtained from the normal distribution may differ radically from the real situation, depending on the assets under analysis.

Multivariate extensions to risk measures: We have extended all moments calculations to work in a multivariate portfolio context. In a portfolio context the multivariate moments are generally to be preferred to their univariate counterparts, so that all information is available to subsequent calculations. Both the `VaR` and `ES` functions allow calculation of metrics in a portfolio context when weights and a `portfolio_method` are passed into the function call.

Marginal, Incremental, and Component VaR: Marginal VaR is the difference between the VaR of the portfolio without the asset in question and the entire portfolio. The `VaR` function calculates Marginal VaR for all instruments in the portfolio if you set `method="marginal"`. Marginal VaR as provided here may use traditional mean-VaR or Modified VaR for the calculation. Per *Artzner, et.al.(1997)* properties of a coherent risk measure include subadditivity (risks of the portfolio should not exceed

the sum of the risks of individual components) as a significantly desirable trait. VaR measures, including Marginal VaR, on individual components of a portfolio are *not* subadditive.

Clearly, a general subadditive risk measure for downside risk is required. In Incremental or Component VaR, the Component VaR value for each element of the portfolio will sum to the total VaR of the portfolio. Several EDHEC papers suggest using Modified VaR instead of mean-VaR in the Incremental and Component VaR calculation. We have succeeded in implementing Component VaR and ES calculations that use Modified Cornish-Fisher VaR, historical decomposition, and kernel estimators. You may access these with `VaR` or `ES` by setting the appropriate `portfolio_method` and `method` arguments.

The `chart.VaRSensitivity` function creates a chart of Value-at-Risk or Expected Shortfall estimates by confidence interval for multiple methods. Useful for comparing a calculated VaR or ES method to the historical VaR or ES, it may also be used to visually examine whether the VaR method “breaks down” or gives nonsense results at a certain threshold.

Which VaR measure to use will depend greatly on the portfolio and instruments being analyzed. If there is any generalization to be made on VaR measures, we agree with *Bali and Gokcan(2004)* who conclude that “the VaR estimations based on the generalized Pareto distribution and the Cornish-Fisher approximation perform best”.

Moments and Co-moments

Analysis of financial time series often involves evaluating their mathematical moments. While `var` and `cov` for variance has always been available, as well as `skewness` and `kurtosis` (which we have extended to make multivariate and multi-column aware), a larger suite of multivariate moments calculations was not available in R. We have now implemented multivariate moments and co-moments and their beta or systematic co-moments in PerformanceAnalytics.

Ranaldo and Favre (2005) define coskewness and cokurtosis as the skewness and kurtosis of a given asset analysed with the skewness and kurtosis of the reference asset or portfolio. The co-moments are useful for measuring the marginal contribution of each asset to the portfolio’s resulting risk. As such, co-moments of an asset return distribution should be useful as inputs for portfolio optimization in addition to the covariance matrix. Functions include `CoVariance`, `CoSkewness`, `CoKurtosis`.

Measuring the co-moments should be useful for evaluating whether or not an asset is likely to provide diversification potential to a portfolio. But the co-moments do not allow the marginal impact of an asset on a portfolio to be directly measured. Instead, *Martellini and Ziemann (2007)* develop a framework that assesses the potential diversification of an asset relative to a portfolio. They use higher moment betas to estimate how much portfolio risk will be impacted by adding an asset.

Higher moment betas are defined as proportional to the derivative of the covariance, coskewness and cokurtosis of the second, third and fourth portfolio moment with respect to the portfolio weights. A beta that is less than 1 indicates that adding the new asset should reduce the resulting portfolio’s volatility and kurtosis, and to an increase in skewness. More specifically, the lower the beta the higher the diversification effect, not only in terms of normal risk (i.e. volatility) but also the risk of asymmetry (skewness) and extreme events (kurtosis). See the functions for `BetaCoVariance`, `BetaCoSkewness`, and `BetaCoKurtosis`.

Robust Data Cleaning

The functions `Return.clean` and `clean.boudt` implement statistically robust data cleaning methods tuned to portfolio construction and risk analysis and prediction in financial time series while trying to avoid some of the pitfalls of standard robust statistical methods.

The primary value of data cleaning lies in creating a more robust and stable estimation of the distribution generating the large majority of the return data. The increased robustness and stability of the estimated moments using cleaned data should be used for portfolio construction. If an investor wishes to have a more conservative risk estimate, cleaning may not be indicated for risk monitoring.

In actual practice, it is probably best to back-test the out-of-sample results of both cleaned and uncleaned series to see what works best when forecasting risk with the particular combination of assets under consideration.

Summary Tabular Data

Summary statistics are then the necessary aggregation and reduction of (potentially thousands) of periodic return numbers. Usually these statistics are most palatable when organized into a table of related statistics, assembled for a particular purpose. A common offering of past returns organized by month and cumulated by calendar year is usually presented as a table, such as in `table.CalendarReturns`. Adding benchmarks or peers alongside the annualized data is helpful for comparing returns in calendar years.

When we started this project, we debated whether such tables would be broadly useful or not. No reader is likely to think that we captured the precise statistics to help their decision. We merely offer these as a starting point for creating your own. Add, subtract, do whatever seems useful to you. If you think that your work may be useful to others, please consider sharing it so that we may include it in a future version of this package.

Other tables for comparison of related groupings of statistics discussed elsewhere:

| | |
|--------------------------------------|--|
| <code>table.Stats</code> | Basic statistics and stylized facts |
| <code>table.TrailingPeriods</code> | Statistics and stylized facts compared over different trailing periods |
| <code>table.AnnualizedReturns</code> | Annualized return, standard deviation, and Sharpe ratio |
| <code>table.CalendarReturns</code> | Monthly and calendar year return table |
| <code>table.CAPM</code> | CAPM-related measures |
| <code>table.Correlation</code> | Comparison of correlations and significance statistics |
| <code>table.DownsideRisk</code> | Downside risk metrics and statistics |
| <code>table.Drawdowns</code> | Ordered list of drawdowns and when they occurred |
| <code>table.Autocorrelation</code> | The first six autocorrelation coefficients and significance |
| <code>table.HigherMoments</code> | Higher co-moments and beta co-moments |
| <code>table.Arbitrary</code> | Combines a function list into a table |

Charts and Graphs

Graphs and charts can also help to organize the information visually. Our goal in creating these charts was to simplify the process of creating well-formatted charts that are used often in performance analysis, and to create high-quality graphics that may be used in documents for consumption by non-analysts or researchers. R's graphics capabilities are substantial, but the simplicity of the output of R default graphics functions such as `plot` does not always compare well against graph-

ics delivered with commercial asset or performance analysis from places such as MorningStar or PerTrac.

The cumulative returns or wealth index is usually the first thing displayed, even though neither conveys much information. See `chart.CumReturns`. Individual period returns may be helpful for identifying problematic periods, such as in `chart.Bar`. Risk measures can be helpful when overlaid on the period returns, to display the bounds at which losses may be expected. See `chart.BarVaR` and the prior section on Risk Analysis. More information can be conveyed when such charts are displayed together, as in `charts.PerformanceSummary`, which combines the performance data with detail on downside risk (see `chart.Drawdown`).

`chart.RelativePerformance` can plot the relative performance through time of two assets. This plot displays the ratio of the cumulative performance at each point in time and makes periods of under- or out-performance easy to see. The value of the chart is less important than the slope of the line. If the slope is positive, the first asset is outperforming the second, and vice versa. Affectionately known as the Canto chart, it was used effectively in Canto (2006).

Two-dimensional charts can also be useful while remaining easy to understand. `chart.Scatter` is a utility scatter chart with some additional attributes that are used in `chart.RiskReturnScatter`. Overlaying Sharpe ratio lines or boxplots helps to add information about relative performance along those dimensions.

For distributional analysis, a few graphics may be useful. `chart.Boxplot` is an example of a graphic that is difficult to create in Excel and is under-utilized as a result. A boxplot of returns is, however, a very useful way to instantly observe the shape of large collections of asset returns in a manner that makes them easy to compare to one another. `chart.Histogram` and `chart.QQPlot` are two charts originally found elsewhere and now substantially expanded in PerformanceAnalytics.

Rolling performance is typically used as a way to assess stability of a return stream. Although perhaps it doesn't get much credence in the financial literature as it derives from work in digital signal processing, many practitioners find it a useful way to examine and segment performance and risk periods. See `chart.RollingPerformance`, which is a way to display different metrics over rolling time periods. `chart.RollingMean` is a specific example of a rolling mean and standard error bands. A group of related metrics is offered in `charts.RollingPerformance`. These charts use utility functions such as `rollapply`.

`chart.SnailTrail` is a scatter chart that shows how rolling calculations of annualized return and annualized standard deviation have proceeded through time where the color of lines and dots on the chart diminishes with respect to time. `chart.RollingCorrelation` shows how correlations change over rolling periods. `chart.RollingRegression` displays the coefficients of a linear model fitted over rolling periods. A group of charts in `charts.RollingRegression` displays alpha, beta, and R-squared estimates in three aligned charts in a single device.

`chart.StackedBar` creates a stacked column chart with time on the horizontal axis and values in categories. This kind of chart is commonly used for showing portfolio 'weights' through time, although the function will plot any values by category.

We have been greatly inspired by other peoples' work, some of which is on display at <http://addictedtor.free.fr/>. Particular inspiration came from Dirk Eddelbuettel and John Bollinger for their work at <http://addictedtor.free.fr/graphiques/RGraphGallery.php?graph=65>. Those interested in price charting in R should also look at the `quantmod` package.

Wrapper and Utility Functions

R is a very powerful environment for manipulating data. It can also be quite confusing to a user

more accustomed to Excel or even MatLAB. As such, we have written some wrapper functions that may aid you in coercing data into the correct forms or finding data that you need to use regularly. To simplify the management of multiple-source data stored in R in multiple data formats, we have provided `checkData`. This function will attempt to coerce data in and out of R's multitude of mostly fungible data classes into the class required for a particular analysis. The data-coercion function has been hidden inside the functions here, but it may also save you time and trouble in your own code and functions as well.

R's built-in `apply` function is enormously powerful, but it can be tricky to use with timeseries data, so we have provided wrapper functions to `apply.fromstart` and `apply.rolling` to make handling of "from inception" and "rolling window" calculations easier.

Further Work

We have attempted to standardize function parameters and variable names, but more work exists to be done here.

Any comments, suggestions, or code patches are invited.

If you've implemented anything that you think would be generally useful to include, please consider donating it for inclusion in a later version of this package.

Acknowledgments

Data series `edhec` used in PerformanceAnalytics and related publications with the kind permission of the EDHEC Risk and Asset Management Research Center.

http://www.edhec-risk.com/indexes/pure_style

Kris Boudt was instrumental in our research on component risk for portfolios with non-normal distributions, and is responsible for much of the code for multivariate moments and co-moments.

Jeff Ryan and Josh Ulrich are active participants in the R finance community and created `xts`, upon which much of PerformanceAnalytics depends.

Prototypes of the drawdowns functionality were provided by Sankalp Upadhyay, and modified with permission. Stephan Albrecht provided detailed feedback on the Getmansky/Lo Smoothing Index. Diethelm Wuertz provided prototypes of modified VaR and skewness and kurtosis functions (and is of course the maintainer of the RMetrics suite of pricing and optimization functions). Any errors are, of course, our own.

Thanks to Joe Wayne Byers and Dirk Eddelbuettel for comments on early versions of these functions, and to Khanh Nguyen and Ryan Sheftel for careful testing and detailed problem reports.

Thanks to the R-SIG-Finance community without whom this package would not be possible. We are indebted to the R-SIG-Finance community for many helpful suggestions, bugfixes, and requests.

Author(s)

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See Also

CRAN task view on Empirical Finance

<http://cran.r-project.org/src/contrib/Views/Econometrics.html>

Grant Farnsworth's Econometrics in R

<http://cran.r-project.org/doc/contrib/Farnsworth-EconometricsInR.pdf>

Collection of R charts and graphs

<http://addictedtor.free.fr/graphiques/>

`ActivePremium`*Active Premium*

Description

The return on an investment's annualized return minus the benchmark's annualized return.

Usage

```
ActivePremium(Ra, Rb, scale = NA)
```

Arguments

| | |
|-------|--|
| Ra | return vector of the portfolio |
| Rb | return vector of the benchmark asset |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |

Details

Active Premium = Investment's annualized return - Benchmark's annualized return

Author(s)

Peter Carl

References

Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.

See Also

[InformationRatio](#) [TrackingError](#) [Return.annualized](#)

Examples

```
data(managers)
ActivePremium(managers[, "HAM1", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
ActivePremium(managers[,1,drop=FALSE], managers[,8,drop=FALSE])
ActivePremium(managers[,1:6], managers[,8,drop=FALSE])
ActivePremium(managers[,1:6], managers[,8:7,drop=FALSE])
```

AdjustedSharpeRatio *Adjusted Sharpe ratio of the return distribution*

Description

Adjusted Sharpe ratio was introduced by Pezier and White (2006) to adjust for skewness and kurtosis by incorporating a penalty factor for negative skewness and excess kurtosis.

Usage

```
AdjustedSharpeRatio(R, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | the risk free rate |
| ... | any other passthru parameters |

Details

$$AdjustedSharpeRatio = SR * [1 + (\frac{S}{6}) * SR - (\frac{K - 3}{24}) * SR^2]$$

where SR is the sharpe ratio with data annualized, S is the skewness and K is the kurtosis

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.99

Examples

```
data(portfolio_bacon)
print(AdjustedSharpeRatio(portfolio_bacon[,1])) #expected 0.81

data(managers)
print(AdjustedSharpeRatio(managers['1996']))
print(AdjustedSharpeRatio(managers['1996',1]))
```

| | |
|-----------------|---|
| apply.fromstart | <i>calculate a function over an expanding window always starting from the beginning of the series</i> |
|-----------------|---|

Description

A function to calculate a function over an expanding window from the start of the timeseries. This wrapper allows easy calculation of “from inception” statistics.

Usage

```
apply.fromstart(R, FUN = "mean", gap = 1, ...)
```

Arguments

| | |
|-----|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| FUN | any function that can be evaluated using a single set of returns (e.g., rolling beta won't work, but Return.annualized will) |
| gap | the number of data points from the beginning of the series required to “train” the calculation |
| ... | any other passthru parameters |

Author(s)

Peter Carl

See Also

[rollapply](#)

Examples

```
data(managers)
apply.fromstart(managers[,1,drop=FALSE], FUN="mean", width=36)
```

| | |
|---------------|---|
| apply.rolling | <i>calculate a function over a rolling window</i> |
|---------------|---|

Description

Creates a results timeseries of a function applied over a rolling window.

Usage

```
apply.rolling(R, width, trim = TRUE, gap = 12, by = 1,
  FUN = "mean", ...)
```

Arguments

| | |
|-------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| width | number of periods to apply rolling function window over |
| gap | numeric number of periods from start of series to use to train risk calculation |
| trim | TRUE/FALSE, whether to keep alignment caused by NA's |
| FUN | any function that can be evaluated using a single set of returns (e.g., rolling beta won't work, but <code>Return.annualized</code> will) |
| by | calculate FUN for trailing width points at every by-th time point. |
| ... | any other passthru parameters |

Details

Wrapper function for `rollapply` to hide some of the complexity of managing single-column zoo objects.

Value

A timeseries in a zoo object of the calculation results

Author(s)

Peter Carl

See Also

`apply`
`rollapply`

Examples

```
data(managers)
apply.rolling(managers[,1,drop=FALSE], FUN="mean", width=36)
```

AppraisalRatio

Appraisal ratio of the return distribution

Description

Appraisal ratio is the Jensen's alpha adjusted for specific risk. The numerator is divided by specific risk instead of total risk.

Usage

```
AppraisalRatio(Ra, Rb, Rf = 0,
  method = c("appraisal", "modified", "alternative"),
  ...)
```

Arguments

| | |
|--------|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| method | is one of "appraisal" to calculate appraisal ratio, "modified" to calculate modified Jensen's alpha or "alternative" to calculate alternative Jensen's alpha. |
| ... | any other passthru parameters |

Details

Modified Jensen's alpha is Jensen's alpha divided by beta.

Alternative Jensen's alpha is Jensen's alpha divided by systematic risk.

$$Appraisalratio = \frac{\alpha}{\sigma_{\epsilon}}$$

$$ModifiedJensen'salpha = \frac{\alpha}{\beta}$$

$$AlternativeJensen'salpha = \frac{\alpha}{\sigma_S}$$

where α is the Jensen's alpha, σ_{ϵ} is the specific risk, σ_S is the systematic risk.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.77

Examples

```
data(portfolio_bacon)
print(AppraisalRatio(portfolio_bacon[,1], portfolio_bacon[,2], method="appraisal")) #expected -0.430
print(AppraisalRatio(portfolio_bacon[,1], portfolio_bacon[,2], method="modified"))
print(AppraisalRatio(portfolio_bacon[,1], portfolio_bacon[,2], method="alternative"))

data(managers)
print(AppraisalRatio(managers['1996',1], managers['1996',8]))
print(AppraisalRatio(managers['1996',1:5], managers['1996',8]))
```

| | |
|-----------------|--|
| AverageDrawdown | <i>Calculates the average of the observed drawdowns.</i> |
|-----------------|--|

Description

ADD = abs(sum[j=1,2,...,d](D_j/d)) where D'_j = jth drawdown over entire period d = total number of drawdowns in the entire period

Usage

AverageDrawdown(R, ...)

AverageRecovery(R, ...)

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |

| | |
|---------------------|---|
| BernardoLedoitRatio | <i>Bernardo and Ledoit ratio of the return distribution</i> |
|---------------------|---|

Description

To calculate Bernardo and Ledoit ratio we take the sum of the subset of returns that are above 0 and we divide it by the opposite of the sum of the subset of returns that are below 0

Usage

BernardoLedoitRatio(R, ...)

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |

Details

$$BernardoLedoitRatio(R) = \frac{\frac{1}{n} \sum_{t=1}^n \max(R_t, 0)}{\frac{1}{n} \sum_{t=1}^n \max(-R_t, 0)}$$

where n is the number of observations of the entire series

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.95

Examples

```
data(portfolio_bacon)
print(BernardoLedoitRatio(portfolio_bacon[,1])) #expected 1.78

data(managers)
print(BernardoLedoitRatio(managers['1996']))
print(BernardoLedoitRatio(managers['1996',1])) #expected 4.598
```

BetaCoMoments

Functions to calculate systematic or beta co-moments of return series

Description

calculate higher co-moment betas, or 'systematic' variance, skewness, and kurtosis

Usage

```
BetaCoVariance(Ra, Rb)

BetaCoSkewness(Ra, Rb, test = FALSE)

BetaCoKurtosis(Ra, Rb)
```

Arguments

| | |
|------|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | an xts, vector, matrix, data frame, timeSeries or zoo object of index, benchmark, or secondary asset returns to compare against |
| test | condition not implemented yet |

Author(s)

Kris Boudt, Peter Carl, Brian Peterson

References

Boudt, Kris, Brian G. Peterson, and Christophe Croux. 2008. Estimation and Decomposition of Downside Risk for Portfolios with Non-Normal Returns. *Journal of Risk*. Winter.

Martellini, Lionel, and Volker Ziemann. 2007. Improved Forecasts of Higher-Order Comoments and Implications for Portfolio Selection. EDHEC Risk and Asset Management Research Centre working paper.

See Also

[CoMoments](#)

Examples

```
data(managers)

BetaCoVariance(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
BetaCoSkewness(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
BetaCoKurtosis(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
BetaCoKurtosis(managers[,1:6], managers[,8,drop=FALSE])
BetaCoKurtosis(managers[,1:6], managers[,8:7])
```

BurkeRatio

Burke ratio of the return distribution

Description

To calculate Burke ratio we take the difference between the portfolio return and the risk free rate and we divide it by the square root of the sum of the square of the drawdowns. To calculate the modified Burke ratio we just multiply the Burke ratio by the square root of the number of datas.

Usage

```
BurkeRatio(R, Rf = 0, modified = FALSE, ...)
```

Arguments

| | |
|----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | the risk free rate |
| modified | a boolean to decide which ratio to calculate between Burke ratio and modified Burke ratio. |
| ... | any other passthru parameters |

Details

$$BurkeRatio = \frac{r_P - r_F}{\sqrt{\sum_{t=1}^d D_t^2}}$$

$$ModifiedBurkeRatio = \frac{r_P - r_F}{\sqrt{\sum_{t=1}^d \frac{D_t^2}{n}}}$$

where n is the number of observations of the entire series, d is number of drawdowns, r_P is the portfolio return, r_F is the risk free rate and D_t the t^{th} drawdown.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.90-91

Examples

```
data(portfolio_bacon)
print(BurkeRatio(portfolio_bacon[,1])) #expected 0.74
print(BurkeRatio(portfolio_bacon[,1], modified = TRUE)) #expected 3.65

data(managers)
print(BurkeRatio(managers['1996']))
print(BurkeRatio(managers['1996',1]))
print(BurkeRatio(managers['1996'], modified = TRUE))
print(BurkeRatio(managers['1996',1], modified = TRUE))
```

| | |
|-------------|---|
| CalmarRatio | <i>calculate a Calmar or Sterling reward/risk ratio</i> |
|-------------|---|

Description

Calmar and Sterling Ratios are yet another method of creating a risk-adjusted measure for ranking investments similar to the [SharpeRatio](#).

Usage

```
CalmarRatio(R, scale = NA)

SterlingRatio(R, scale = NA, excess = 0.1)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| excess | for Sterling Ratio, excess amount to add to the max drawdown, traditionally and default .1 (10%) |

Details

Both the Calmar and the Sterling ratio are the ratio of annualized return over the absolute value of the maximum drawdown of an investment. The Sterling ratio adds an excess risk measure to the maximum drawdown, traditionally and defaulting to 10%.

It is also traditional to use a three year return series for these calculations, although the functions included here make no effort to determine the length of your series. If you want to use a subset of your series, you'll need to truncate or subset the input data to the desired length.

Many other measures have been proposed to do similar reward to risk ranking. It is the opinion of this author that newer measures such as Sortino's [UpsidePotentialRatio](#) or Favre's modified [SharpeRatio](#) are both "better" measures, and should be preferred to the Calmar or Sterling Ratio.

Author(s)

Brian G. Peterson

References

Bacon, Carl. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004.

See Also

[Return.annualized](#),
[maxDrawdown](#),
[SharpeRatio.modified](#),
[UpsidePotentialRatio](#)

Examples

```
data(managers)
  CalmarRatio(managers[,1,drop=FALSE])
  CalmarRatio(managers[,1:6])
  SterlingRatio(managers[,1,drop=FALSE])
  SterlingRatio(managers[,1:6])
```

| | |
|------------|-----------------------------|
| CAPM.alpha | <i>calculate CAPM alpha</i> |
|------------|-----------------------------|

Description

This is a wrapper for calculating a CAPM alpha.

Usage

```
CAPM.alpha(Ra, Rb, Rf = 0)
```

Arguments

| | |
|----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |

Details

"Alpha" purports to be a measure of a manager's skill by measuring the portion of the managers returns that are not attributable to "Beta", or the portion of performance attributable to a benchmark.

Author(s)

Peter Carl

References

Sharpe, W.F. Capital Asset Prices: A theory of market equilibrium under conditions of risk. *Journal of finance*, vol 19, 1964, 425-442.
Ruppert, David. *Statistics and Finance, an Introduction*. Springer. 2004.

See Also

[CAPM.beta](#) [CAPM.utils](#)

Examples

```
# First we load the data
data(managers)
CAPM.alpha(managers[,1,drop=FALSE],
managers[,8,drop=FALSE],
Rf=.035/12)
CAPM.alpha(managers[,1,drop=FALSE],
managers[,8,drop=FALSE],
Rf = managers[,10,drop=FALSE])
CAPM.alpha(managers[,1:6],
```

```

managers[,8,drop=FALSE],
Rf=.035/12)
  CAPM.alpha(managers[,1:6],
managers[,8,drop=FALSE],
Rf = managers[,10,drop=FALSE])
  CAPM.alpha(managers[,1:6],
managers[,8:7,drop=FALSE],
Rf=.035/12)
  CAPM.alpha(managers[,1:6],
managers[,8:7,drop=FALSE],
Rf = managers[,10,drop=FALSE])

```

CAPM.beta

calculate CAPM beta

Description

CAPM Beta is the beta of an asset to the variance and covariance of an initial portfolio. Used to determine diversification potential.

Usage

```
CAPM.beta(Ra, Rb, Rf = 0)
```

```
CAPM.beta.bull(Ra, Rb, Rf = 0)
```

```
CAPM.beta.bear(Ra, Rb, Rf = 0)
```

```
TimingRatio(Ra, Rb, Rf = 0)
```

Arguments

| | |
|----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |

Details

This function uses a linear intercept model to achieve the same results as the symbolic model used by [BetaCovariance](#)

$$\beta_{a,b} = \frac{CoV_{a,b}}{\sigma_b} = \frac{\sum((R_a - \bar{R}_a)(R_b - \bar{R}_b))}{\sum(R_b - \bar{R}_b)^2}$$

Ruppert(2004) reports that this equation will give the estimated slope of the linear regression of R_a on R_b and that this slope can be used to determine the risk premium or excess expected return (see Eq. 7.9 and 7.10, p. 230-231).

Two other functions apply the same notion of best fit to positive and negative market returns, separately. The `CAPM.beta.bull` is a regression for only positive market returns, which can be used to understand the behavior of the asset or portfolio in positive or 'bull' markets. Alternatively, `CAPM.beta.bear` provides the calculation on negative market returns.

The `TimingRatio` can help assess whether the manager is a good timer of asset allocation decisions. The ratio, which is calculated as

$$TimingRatio = \frac{\beta^+}{\beta^-}$$

is best when greater than one in a rising market and less than one in a falling market.

Author(s)

Peter Carl

References

Sharpe, W.F. Capital Asset Prices: A theory of market equilibrium under conditions of risk. *Journal of finance*, vol 19, 1964, 425-442.
 Ruppert, David. *Statistics and Finance, an Introduction*. Springer. 2004.
 Bacon, Carl. *Practical portfolio performance measurement and attribution*. Wiley. 2004.

See Also

[BetaCoVariance](#) [CAPM.alpha](#) [CAPM.utils](#)

Examples

```
data(managers)
CAPM.alpha(managers[,1,drop=FALSE],
managers[,8,drop=FALSE],
Rf=.035/12)
CAPM.alpha(managers[,1,drop=FALSE],
managers[,8,drop=FALSE],
Rf = managers[,10,drop=FALSE])
CAPM.alpha(managers[,1:6],
managers[,8,drop=FALSE],
Rf=.035/12)
CAPM.alpha(managers[,1:6],
managers[,8,drop=FALSE],
Rf = managers[,10,drop=FALSE])
CAPM.alpha(managers[,1:6],
managers[,8:7,drop=FALSE],
Rf=.035/12)
CAPM.alpha(managers[,1:6],
managers[,8:7,drop=FALSE],
Rf = managers[,10,drop=FALSE])
CAPM.beta(managers[, "HAM2", drop=FALSE],
managers[, "SP500 TR", drop=FALSE],
Rf = managers[, "US 3m TR", drop=FALSE])
CAPM.beta.bull(managers[, "HAM2", drop=FALSE],
```

```

managers[, "SP500 TR", drop=FALSE],
Rf = managers[, "US 3m TR", drop=FALSE])
  CAPM.beta.bear(managers[, "HAM2", drop=FALSE],
managers[, "SP500 TR", drop=FALSE],
Rf = managers[, "US 3m TR", drop=FALSE])
  TimingRatio(managers[, "HAM2", drop=FALSE],
managers[, "SP500 TR", drop=FALSE],
Rf = managers[, "US 3m TR", drop=FALSE])
  chart.Regression(managers[, "HAM2", drop=FALSE],
managers[, "SP500 TR", drop=FALSE],
Rf = managers[, "US 3m TR", drop=FALSE],
fit="conditional",
main="Conditional Beta")

```

CAPM.CML.slope

utility functions for CAPM CML, SML, and RiskPremium

Description

The Capital Asset Pricing Model, from which the popular [SharpeRatio](#) is derived, is a theory of market equilibrium. These utility functions provide values for various measures proposed in the CAPM.

Usage

```
CAPM.CML.slope(Rb, Rf = 0)
```

```
CAPM.CML(Ra, Rb, Rf = 0)
```

```
CAPM.RiskPremium(Ra, Rf = 0)
```

```
CAPM.SML.slope(Rb, Rf = 0)
```

Arguments

| | |
|----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |

Details

The CAPM provides a justification for passive or index investing by positing that assets that are not on the efficient frontier will either rise or lower in price until they are on the efficient frontier of the market portfolio.

The CAPM Risk Premium on an investment is the measure of how much the asset's performance differs from the risk free rate. Negative Risk Premium generally indicates that the investment is a bad investment, and the money should be allocated to the risk free asset or to a different asset with a higher risk premium.

The Capital Market Line relates the excess expected return on an efficient market portfolio to its Risk. The slope of the CML is the Sharpe Ratio for the market portfolio. The Security Market line is constructed by calculating the line of Risk Premium over [CAPM.beta](#). For the benchmark asset this will be 1 over the risk premium of the benchmark asset. The CML also describes the only path allowed by the CAPM to a portfolio that outperforms the efficient frontier: it describes the line of reward/risk that a leveraged portfolio will occupy. So, according to CAPM, no portfolio constructed of the same assets can lie above the CML.

Probably the most complete criticism of CAPM in actual practice (as opposed to structural or theory critiques) is that it posits a market equilibrium, but is most often used only in a partial equilibrium setting, for example by using the S&P 500 as the benchmark asset. A better method of using and testing the CAPM would be to use a general equilibrium model that took global assets from all asset classes into consideration.

Chapter 7 of Ruppert(2004) gives an extensive overview of CAPM, its assumptions and deficiencies. CAPM.RiskPremium is the premium returned to the investor over the risk free asset

$$\overline{(R_a - R_f)}$$

CAPM.CML calculates the expected return of the asset against the benchmark Capital Market Line

CAPM.CML.slope calculates the slope of the Capital Market Line for looking at how a particular asset compares to the CML

CAPM.SML.slope calculates the slope of the Security Market Line for looking at how a particular asset compares to the SML created by the benchmark

Author(s)

Brian G. Peterson

References

- Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.
 Sharpe, W.F. Capital Asset Prices: A theory of market equilibrium under conditions of risk. *Journal of finance*, vol 19, 1964, 425-442.
 Ruppert, David. *Statistics and Finance, an Introduction*. Springer. 2004.

See Also

[CAPM.beta](#) [CAPM.alpha](#) [SharpeRatio](#) [InformationRatio](#) [TrackingError](#) [ActivePremium](#)

Examples

```
data(managers)
CAPM.CML.slope(managers[, "SP500 TR", drop=FALSE], managers[, 10, drop=FALSE])
CAPM.CML(managers[, "HAM1", drop=FALSE], managers[, "SP500 TR", drop=FALSE], Rf=0)
CAPM.RiskPremium(managers[, "SP500 TR", drop=FALSE], Rf=0)
CAPM.RiskPremium(managers[, "HAM1", drop=FALSE], Rf=0)
CAPM.SML.slope(managers[, "SP500 TR", drop=FALSE], Rf=0)
# should create plots like in Ruppert 7.1 7.2
```

CAPM.epsilon

*Regression epsilon of the return distribution***Description**

The regression epsilon is an error term measuring the vertical distance between the return predicted by the equation and the real result.

Usage

```
CAPM.epsilon(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$\epsilon_r = r_p - \alpha_r - \beta_r * b$$

where α_r is the regression alpha, β_r is the regression beta, r_p is the portfolio return and b is the benchmark return

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.71

Examples

```
data(portfolio_bacon)
print(CAPM.epsilon(portfolio_bacon[,1], portfolio_bacon[,2])) #expected -0.013

data(managers)
print(CAPM.epsilon(managers['1996',1], managers['1996',8]))
print(CAPM.epsilon(managers['1996',1:5], managers['1996',8]))
```

| | |
|------------------|--|
| CAPM.jensenAlpha | <i>Jensen's alpha of the return distribution</i> |
|------------------|--|

Description

The Jensen's alpha is the intercept of the regression equation in the Capital Asset Pricing Model and is in effect the excess return adjusted for systematic risk.

Usage

```
CAPM.jensenAlpha(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$\alpha = r_p - r_f - \beta_p * (b - r_f)$$

where r_f is the risk free rate, β_r is the regression beta, r_p is the portfolio return and b is the benchmark return

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.72

Examples

```
data(portfolio_bacon)
print(CAPM.jensenAlpha(portfolio_bacon[,1], portfolio_bacon[,2])) #expected -0.014

data(managers)
print(CAPM.jensenAlpha(managers['1996',1], managers['1996',8]))
print(CAPM.jensenAlpha(managers['1996',1:5], managers['1996',8]))
```

| | |
|-----|--|
| CDD | <i>Calculate Uryasev's proposed Conditional Drawdown at Risk (CDD or CDaR) measure</i> |
|-----|--|

Description

For some confidence level p , the conditional drawdown is the the mean of the worst $p\%$ drawdowns.

Usage

```
CDD(R, weights = NULL, geometric = TRUE, invert = TRUE,
    p = 0.95, ...)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| weights | portfolio weighting vector, default NULL, see Details |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| invert | TRUE/FALSE whether to invert the drawdown measure. see Details. |
| p | confidence level for calculation, default p=0.95 |
| ... | any other passthru parameters |

Author(s)

Brian G. Peterson

References

Chekhlov, A., Uryasev, S., and M. Zabarankin. Portfolio Optimization With Drawdown Constraints. B. Scherer (Ed.) Asset and Liability Management Tools, Risk Books, London, 2003
<http://www.ise.ufl.edu/uryasev/drawdown.pdf>

See Also

[ES maxDrawdown](#)

Examples

```
data(edhec)
t(round(CDD(edhec), 4))
```

| | |
|---------------|---|
| chart.ACFplus | Create ACF chart or ACF with PACF two-panel chart |
|---------------|---|

Description

Creates an ACF chart or a two-panel plot with the ACF and PACF set to some specific defaults.

Usage

```
chart.ACFplus(R, maxlag = NULL, elementcolor = "gray",
  main = NULL, ...)
```

```
chart.ACF(R, maxlag = NULL, elementcolor = "gray",
  main = NULL, ...)
```

Arguments

| | |
|--------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| maxlag | the number of lags to calculate for, optional |
| elementcolor | the color to use for chart elements, defaults to "gray" |
| main | title of the plot; uses the column name by default. |
| ... | any other passthru parameters |

Note

Inspired by the website: <http://www.stat.pitt.edu/stoffer/tsa2/Rcode/acf2.R> "...here's an R function that will plot the ACF and PACF of a time series at the same time on the SAME SCALE, and it leaves out the zero lag in the ACF: acf2.R. If your time series is in x and you want the ACF and PACF of x to lag 50, the call to the function is acf2(x,50). The number of lags is optional, so acf2(x) will use a default number of lags [sqrt(n) + 10, where n is the number of observations]."

That description made a lot of sense, so it's implemented here for both the ACF alone and the ACF with the PACF.

Author(s)

Peter Carl

See Also

[plot](#)

Examples

```
data(edhec)
chart.ACFplus(edhec[,1,drop=FALSE])
```

| | |
|-----------|--|
| chart.Bar | <i>wrapper for barchart of returns</i> |
|-----------|--|

Description

A wrapper to create a chart of periodic returns in a bar chart. This is a difficult enough graph to read that it doesn't get much use. Still, it is useful for viewing a single set of data.

Usage

```
chart.Bar(R, legend.loc = NULL, colorset = (1:12), ...)

charts.Bar(R, main = "Returns", cex.legend = 0.8,
           cex.main = 1, ...)
```

Arguments

| | |
|------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center |
| colorset | color palette to use, set by default to rational choices |
| cex.legend | sets the legend text size, such as in chart.TimeSeries |
| cex.main | sets the title text size, such as in chart.TimeSeries |
| main | sets the title text, such as in chart.TimeSeries |
| ... | any other passthru parameters, see plot |

Details

This is really a wrapper for chart.TimeSeries, so several other attributes can also be passed.

Creates a plot of time on the x-axis and vertical lines for each period to indicate value on the y-axis.

Author(s)

Peter Carl

See Also

[chart.TimeSeries](#)
[plot](#)

Examples

```
data(edhec)
chart.Bar(edhec[, "Funds of Funds"], main="Monthly Returns")
```

| | |
|--------------|---|
| chart.BarVaR | <i>Periodic returns in a bar chart with risk metric overlay</i> |
|--------------|---|

Description

Plots the periodic returns as a bar chart overlayed with a risk metric calculation.

Usage

```
chart.BarVaR(R, width = 0, gap = 12,
  methods = c("none", "ModifiedVaR", "GaussianVaR", "HistoricalVaR", "StdDev", "ModifiedES", "Gaussi
  p = 0.95, clean = c("none", "boudt", "geltner"),
  all = FALSE, ..., show.clean = FALSE,
  show.horizontal = FALSE, show.symmetric = FALSE,
  show.endvalue = FALSE, show.greenredbars = FALSE,
  legend.loc = "bottomleft", ylim = NA, lwd = 2,
  colorset = 1:12, lty = c(1, 2, 4, 5, 6), ypad = 0,
  legend.cex = 0.8)

charts.BarVaR(R, main = "Returns", cex.legend = 0.8,
  colorset = 1:12, ylim = NA, ..., perpanel = NULL,
  show.yaxis = c("all", "firstonly", "alternating", "none"))
```

Arguments

| | |
|---------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| width | periods specified for rolling-period calculations. Note that VaR, ES, and Std Dev with width=0 are calculated from the start of the timeseries |
| gap | numeric number of periods from start of series to use to train risk calculation |
| methods | Used to select the risk parameter of trailing width returns to use: May be any of: <ul style="list-style-type: none"> • none - does not add a risk line, • ModifiedVaR - uses Cornish-Fisher modified VaR, • GaussianVaR - uses traditional Value at Risk, • HistoricalVaR - calculates historical Value at Risk, • ModifiedES - uses Cornish-Fisher modified Expected Shortfall, • GaussianES - uses traditional Expected Shortfall, • HistoricalES - calculates historical Expected Shortfall, • StdDev - per-period standard deviation |
| p | confidence level for VaR or ModifiedVaR calculation, default is .99 |
| all | if TRUE, calculates risk lines for each column given in R. If FALSE, only calculates the risk line for the first column |
| clean | the method to use to clean outliers from return data prior to risk metric estimation. See Return.clean and VaR for more detail |

| | |
|-------------------|---|
| show.clean | if TRUE and a method for 'clean' is specified, overlays the actual data with the "cleaned" data. See Return.clean for more detail |
| ... | any other passthru parameters to chart.TimeSeries |
| show.horizontal | if TRUE, shows a line across the timeseries at the value of the most recent VaR estimate, to help the reader evaluate the number of exceptions thus far |
| show.symmetric | if TRUE and the metric is symmetric, this will show the metric's positive values as well as negative values, such as for method "StdDev". |
| show.endvalue | if TRUE, show the final (out of sample) value |
| show.greenredbars | if TRUE, show the per-period returns using green and red bars for positive and negative returns |
| show.yaxis | one of "all", "firstonly", "alternating", or "none" to control where y axis is plotted in multipanel charts |
| perpanel | default NULL, controls column display |
| ylim | set the y-axis limit, same as in plot |
| lwd | set the line width, same as in plot |
| lty | set the line type, same as in plot |
| legend.loc | legend location, such as in chart.TimeSeries |
| ypad | adds a numerical padding to the y-axis to keep the data away when legend.loc="bottom". See examples below. |
| legend.cex | sets the legend text size, such as in chart.TimeSeries |
| cex.legend | sets the legend text size, such as in chart.TimeSeries |
| main | sets the title text, such as in chart.TimeSeries |
| colorset | color palette to use, such as in chart.TimeSeries |

Details

Note that StdDev and VaR are symmetric calculations, so a high and low measure will be plotted. ModifiedVaR, on the other hand, is assymetric and only a lower bound will be drawn.

Creates a plot of time on the x-axis and vertical lines for each period to indicate value on the y-axis. Overlays a line to indicate the value of a risk metric calculated at that time period.

charts.BarVaR places multile bar charts in a single graphic, with associated risk measures

Author(s)

Peter Carl

See Also

[chart.TimeSeries](#)
[plot](#)
[ES](#)
[VaR](#)
[Return.clean](#)

Examples

```

data(managers)
# plain
chart.BarVaR(managers[,1,drop=FALSE], main="Monthly Returns")

# with risk line
chart.BarVaR(managers[,1,drop=FALSE],
methods="HistoricalVaR",
main="... with Empirical VaR from Inception")

# with lines for all managers in the sample
chart.BarVaR(managers[,1:6],
methods="GaussianVaR",
all=TRUE, lty=1, lwd=2,
colorset= c("red", rep("gray", 5)),
main="... with Gaussian VaR and Estimates for Peers")

# with multiple methods
chart.BarVaR(managers[,1,drop=FALSE],
methods=c("HistoricalVaR", "ModifiedVaR", "GaussianVaR"),
main="... with Multiple Methods")

# cleaned up a bit
chart.BarVaR(managers[,1,drop=FALSE],
methods=c("HistoricalVaR", "ModifiedVaR", "GaussianVaR"),
lwd=2, ypad=.01,
main="... with Padding for Bottom Legend")

# with 'cleaned' data for VaR estimates
chart.BarVaR(managers[,1,drop=FALSE],
methods=c("HistoricalVaR", "ModifiedVaR"),
lwd=2, ypad=.01, clean="boudt",
main="... with Robust ModVaR Estimate")

# Cornish Fisher VaR estimated with cleaned data,
# with horizontal line to show exceptions
chart.BarVaR(managers[,1,drop=FALSE],
methods="ModifiedVaR",
lwd=2, ypad=.01, clean="boudt",
show.horizontal=TRUE, lty=2,
main="... with Robust ModVaR and Line for Identifying Exceptions")

```

chart.Boxplot

box whiskers plot wrapper

Description

A wrapper to create box and whiskers plot with some defaults useful for comparing distributions.

Usage

```
chart.Boxplot(R, horizontal = TRUE, names = TRUE,
  as.Tufte = FALSE,
  sort.by = c(NULL, "mean", "median", "variance"),
  colorset = "black", symbol.color = "red",
  mean.symbol = 1, median.symbol = "|",
  outlier.symbol = 1, show.data = NULL, add.mean = TRUE,
  sort.ascending = FALSE, xlab = "Return",
  main = "Return Distribution Comparison",
  element.color = "darkgray", ...)
```

Arguments

| | |
|----------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| horizontal | TRUE/FALSE plot horizontal (TRUE) or vertical (FALSE) |
| names | logical. if TRUE, show the names of each series |
| as.Tufte | logical. default FALSE. if TRUE use method derived for Tufte for limiting chartjunk |
| sort.ascending | logical. If TRUE sort the distributions by ascending sort.by |
| sort.by | one of "NULL", "mean", "median", "variance" |
| colorset | color palette to use, set by default to rational choices |
| symbol.color | draws the symbols described in mean.symbol, median.symbol, outlier.symbol in the color specified |
| mean.symbol | symbol to use for the mean of the distribution |
| median.symbol | symbol to use for the median of the distribution |
| outlier.symbol | symbol to use for the outliers of the distribution |
| show.data | numerical vector of column numbers to display on top of boxplot, default NULL |
| add.mean | logical. if TRUE, show a line for the mean of all distributions plotted |
| xlab | set the x-axis label, same as in plot |
| main | set the chart title, same as in plot |
| element.color | specify the color of chart elements. Default is "darkgray" |
| ... | any other passthru parameters |

Details

We have also provided controls for all the symbols and lines in the chart. One default, set by `as.Tufte=TRUE`, will strip chartjunk and draw a Boxplot per recommendations by Edward Tufte. It can also be useful when comparing several series to sort them in order of ascending or descending "mean", "median", "variance" by use of `sort.by` and `sort.ascending=TRUE`.

Value

box plot of returns

Author(s)

Peter Carl

References

Tufte, Edward R. *The Visual Display of Quantitative Information*. Graphics Press. 1983. p. 124-129

See Also

[boxplot](#)

Examples

```
data(edhec)
chart.Boxplot(edhec)
chart.Boxplot(edhec,as.Tufte=TRUE)
```

| | |
|---------------------|--|
| chart.CaptureRatios | <i>Chart of Capture Ratios against a benchmark</i> |
|---------------------|--|

Description

Scatter plot of Up Capture versus Down Capture against a benchmark

Usage

```
chart.CaptureRatios(Ra, Rb, main = "Capture Ratio",
  add.names = TRUE, xlab = "Downside Capture",
  ylab = "Upside Capture", colorset = 1, symbolset = 1,
  legend.loc = NULL, xlim = NULL, ylim = NULL,
  cex.legend = 1, cex.axis = 0.8, cex.main = 1,
  cex.lab = 1, element.color = "darkgray",
  benchmark.color = "darkgray", ...)
```

Arguments

| | |
|-----------|--|
| Ra | Returns to test, e.g., the asset to be examined |
| Rb | Returns of a benchmark to compare the asset with |
| main | Set the chart title, same as in plot |
| add.names | Plots the row name with the data point. Default TRUE. Can be removed by setting it to NULL |
| xlab | Set the x-axis label, as in plot |
| ylab | Set the y-axis label, as in plot |
| colorset | Color palette to use, set by default to "black" |
| symbolset | From pch in plot . Submit a set of symbols to be used in the same order as the data sets submitted |

| | |
|------------------------------|---|
| <code>legend.loc</code> | Places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| <code>xlim</code> | set the x-axis limit, same as in plot |
| <code>ylim</code> | set the y-axis limit, same as in plot |
| <code>cex.axis</code> | The magnification to be used for axis annotation relative to the current setting of 'cex', same as in plot . |
| <code>cex.legend</code> | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| <code>cex.main</code> | The magnification to be used for sizing the title relative to the current setting of 'cex'. |
| <code>cex.lab</code> | The magnification to be used for x and y labels relative to the current setting of 'cex'. |
| <code>element.color</code> | Specify the color of the box, axes, and other chart elements. Default is "dark-gray" |
| <code>benchmark.color</code> | Specify the color of the benchmark reference and crosshairs. Default is "dark-gray" |
| <code>...</code> | Any other passthru parameters to <code>plot</code> |

Details

Scatter plot shows the coordinates of each set of returns' Up and Down Capture against a benchmark. The benchmark value is by definition plotted at (1,1) with solid crosshairs. A diagonal dashed line with slope equal to 1 divides the plot into two regions: above that line the UpCapture exceeds the DownCapture, and vice versa.

Author(s)

Peter Carl

See Also

[plot](#),
[par](#),
[UpDownRatios](#),
[table.UpDownRatios](#)

Examples

```
data(managers)
chart.CaptureRatios(managers[,1:6], managers[,7,drop=FALSE])
```

| | |
|-------------------|---------------------------------|
| chart.Correlation | <i>correlation matrix chart</i> |
|-------------------|---------------------------------|

Description

Visualization of a Correlation Matrix. On top the (absolute) value of the correlation plus the result of the cor.test as stars. On bottom, the bivariate scatterplots, with a fitted line

Usage

```
chart.Correlation(R, histogram = TRUE,  
  method = c("pearson", "kendall", "spearman"), ...)
```

Arguments

| | |
|-----------|--|
| R | data for the x axis, can take matrix,vector, or timeseries |
| histogram | TRUE/FALSE whether or not to display a histogram |
| method | a character string indicating which correlation coefficient (or covariance) is to be computed. One of "pearson" (default), "kendall", or "spearman", can be abbreviated. |
| ... | any other passthru parameters into pairs |

Note

based on plot at http://addictedtor.free.fr/graphiques/sources/source_137.R

Author(s)

Peter Carl

See Also

[table.Correlation](#)

Examples

```
data(managers)  
chart.Correlation(managers[,1:8], histogram=TRUE, pch="+")
```

chart.CumReturns

Cumulates and graphs a set of periodic returns

Description

Chart that cumulates the periodic returns given and draws a line graph of the results as a "wealth index".

Usage

```
chart.CumReturns(R, wealth.index = FALSE,
  geometric = TRUE, legend.loc = NULL, colorset = (1:12),
  begin = c("first", "axis"), ...)
```

Arguments

| | |
|--------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| wealth.index | if wealth.index is TRUE, shows the "value of \$1", starting the cumulation of returns at 1 rather than zero |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| colorset | color palette to use, set by default to rational choices |
| begin | Align shorter series to: <ul style="list-style-type: none"> • first - prior value of the first column given for the reference or longer series or, • axis - the initial value (1 or zero) of the axis. |
| ... | any other passthru parameters |

Details

Cumulates the return series and displays either as a wealth index or as cumulative returns.

Author(s)

Peter Carl

References

Bacon, Carl. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004.

See Also

[chart.TimeSeries](#)
[plot](#)

Examples

```
data(edhec)
chart.CumReturns(edhec[, "Funds of Funds"], main="Cumulative Returns")
chart.CumReturns(edhec[, "Funds of Funds"], wealth.index=TRUE, main="Growth of $1")
data(managers)
chart.CumReturns(managers, main="Cumulative Returns", begin="first")
chart.CumReturns(managers, main="Cumulative Returns", begin="axis")
```

| | |
|----------------|--|
| chart.Drawdown | <i>Time series chart of drawdowns through time</i> |
|----------------|--|

Description

A time series chart demonstrating drawdowns from peak equity attained through time, calculated from periodic returns.

Usage

```
chart.Drawdown(R, geometric = TRUE, legend.loc = NULL,
               colorset = (1:12), ...)
```

Arguments

| | |
|------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| colorset | color palette to use, set by default to rational choices |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ... | any other passthru parameters |

Details

Any time the cumulative returns dips below the maximum cumulative returns, it's a drawdown. Drawdowns are measured as a percentage of that maximum cumulative return, in effect, measured from peak equity.

Author(s)

Peter Carl

See Also

[plot](#)
[chart.TimeSeries](#)
[findDrawdowns](#)
[sortDrawdowns](#)
[maxDrawdown](#)
[table.Drawdowns](#)
[table.DownsideRisk](#)

Examples

```

data(edhec)
chart.Drawdown(edhec[,c(1,2)],
main="Drawdown from Peak Equity Attained",
legend.loc="bottomleft")

```

chart.ECDF

*Create an ECDF overlaid with a Normal CDF***Description**

Creates an empirical cumulative distribution function (ECDF) overlaid with a cumulative distribution function (CDF)

Usage

```

chart.ECDF(R, main = "Empirical CDF", xlab = "x",
  ylab = "F(x)", colorset = c("black", "#005AFF"),
  lwd = 1, lty = c(1, 1), element.color = "darkgray",
  xaxis = TRUE, yaxis = TRUE, ...)

```

Arguments

| | |
|---------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| main | set the chart title, same as in plot |
| xlab | set the x-axis label, same as in plot |
| ylab | set the y-axis label, same as in plot |
| xaxis | if true, draws the x axis |
| yaxis | if true, draws the y axis |
| colorset | color palette to use, defaults to c("black", "\#005AFF"), where first value is used to color the step function and the second color is used for the fitted normal |
| lwd | set the line width, same as in plot |
| element.color | specify the color of chart elements. Default is "darkgray" |
| lty | set the line type, same as in plot |
| ... | any other passthru parameters to plot |

Details

The empirical cumulative distribution function (ECDF for short) calculates the fraction of observations less or equal to a given value. The resulting plot is a step function of that fraction at each observation. This function uses `ecdf` and overlays the CDF for a fitted normal function as well. Inspired by a chart in Ruppert (2004).

Author(s)

Peter Carl

References

Ruppert, David. *Statistics and Finance, an Introduction*. Springer. 2004. Ch. 2 Fig. 2.5
http://www.stat.tamu.edu/~ljin/Finance/chapter2/Fig2_5.txt

See Also

[plot](#), [ecdf](#)

Examples

```
data(edhec)
chart.ECDF(edhec[, 1, drop=FALSE])
```

chart.Events

Plots a time series with event dates aligned

Description

Creates a time series plot where events given by a set of dates are aligned, with the adjacent prior and posterior time series data plotted in order. The x-axis is time, but relative to the date specified, e.g., number of months preceeding or following the events.

Usage

```
chart.Events(R, dates, prior = 12, post = 12,
  main = NULL, xlab = NULL, ...)
```

Arguments

| | |
|-------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| dates | a list of dates (e.g., <code>c("09/03", "05/06")</code>) formatted the same as in R. This function matches the re-formatted row or index names (dates) with the given list, so to get a match the formatting needs to be correct. |
| prior | the number of periods to plot prior to the event. Interpreted as a positive number. |
| post | the number of periods to plot following to the event. Interpreted as a positive number. |

| | |
|-------------------|--|
| <code>main</code> | set the chart title, same as in plot |
| <code>xlab</code> | set the x-axis label, same as in plot |
| <code>...</code> | any other passthru parameters to the plot function |

Details

This is a chart that is commonly used for event studies in econometrics, usually with recession dates, to demonstrate the path of a time series going into and coming out of an event. The time axis is simply the number of periods prior and following the event, and each line represents a different event. Note that if time periods are close enough together and the window shown is wide enough, the data will appear to repeat. That can be confusing, but the function does not currently allow for different windows around each event.

Author(s)

Peter Carl

See Also

[chart.TimeSeries](#),
[plot](#),
[par](#)

Examples

```
data(managers)
R = Drawdowns(managers[,2,drop=FALSE])
n = table.Drawdowns(managers[,2,drop=FALSE])
chart.Events(Drawdowns(managers[,2,drop=FALSE]),
  dates = n$Trough,
  prior=max(na.omit(n$"To Trough")),
  post=max(na.omit(n$Recovery)),
  lwd=2, colorset=redfocus, legend.loc=NULL,
  main = "Worst Drawdowns")
```

chart.Histogram

histogram of returns

Description

Create a histogram of returns, with optional curve fits for density and normal. This is a wrapper function for [hist](#), see the help for that function for additional arguments you may wish to pass in.

Usage

```
chart.Histogram(R, breaks = "FD", main = NULL,
  xlab = "Returns", ylab = "Frequency",
  methods = c("none", "add.density", "add.normal", "add.centered", "add.cauchy", "add.sst", "add.rug"),
  show.outliers = TRUE,
  colorset = c("lightgray", "#00008F", "#005AFF", "#23FFDC", "#ECFF13", "#FF4A00", "#800000"),
  border.col = "white", lwd = 2, xlim = NULL,
  ylim = NULL, element.color = "darkgray",
  note.lines = NULL, note.labels = NULL, note.cex = 0.7,
  note.color = "darkgray", probability = FALSE, p = 0.95,
  cex.axis = 0.8, cex.legend = 0.8, cex.lab = 1,
  cex.main = 1, xaxis = TRUE, yaxis = TRUE, ...)
```

Arguments

| | |
|---------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| breaks | one of: <ul style="list-style-type: none"> • a vector giving the breakpoints between histogram cells, • a single number giving the number of cells for the histogram, • a character string naming an algorithm to compute the number of cells (see ‘Details’), • a function to compute the number of cells. <p>For the last three the number is a suggestion only. see hist for details, default "FD"</p> |
| methods | what to graph, one or more of: <ul style="list-style-type: none"> • add.density to display the density plot • add.normal to display a fitted normal distribution line over the mean • add.centered to display a fitted normal line over zero • add.rug to display a rug of the observations • add.risk to display common risk metrics • add.qqplot to display a small qqplot in the upper corner of the histogram plot |
| p | confidence level for calculation, default p=.99 |
| probability | logical; if TRUE, the histogram graphic is a representation of frequencies, the counts component of the result; if FALSE, probability densities, component density, are plotted (so that the histogram has a total area of one). Defaults to TRUE if and only if breaks are equidistant (and probability is not specified). see hist |
| show.outliers | logical; if TRUE (the default), the histogram will show all of the data points. If FALSE, it will show only the first through the fourth quartile and will exclude outliers. |
| main | set the chart title, same as in plot |
| ylab | set the y-axis label, same as in plot |
| xlab | set the x-axis label, same as in plot |

| | |
|----------------------------|--|
| <code>ylim</code> | set the y-axis limits, same as in plot |
| <code>border.col</code> | color to use for the border |
| <code>xlim</code> | set the x-axis limit, same as in plot |
| <code>lwd</code> | set the line width, same as in plot |
| <code>colorset</code> | color palette to use, set by default to rational choices |
| <code>element.color</code> | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| <code>note.lines</code> | draws a vertical line through the value given. |
| <code>note.labels</code> | adds a text label to vertical lines specified for <code>note.lines</code> . |
| <code>note.cex</code> | The magnification to be used for note line labels relative to the current setting of 'cex'. |
| <code>note.color</code> | specifies the color(s) of the vertical lines drawn. |
| <code>cex.legend</code> | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| <code>cex.axis</code> | The magnification to be used for axis annotation relative to the current setting of 'cex', same as in plot . |
| <code>cex.lab</code> | The magnification to be used for x- and y-axis labels relative to the current setting of 'cex'. |
| <code>cex.main</code> | The magnification to be used for the main title relative to the current setting of 'cex'. |
| <code>xaxis</code> | if true, draws the x axis |
| <code>yaxis</code> | if true, draws the y axis |
| <code>...</code> | any other passthru parameters to plot |

Details

The default for breaks is "FD". Other names for which algorithms are supplied are "Sturges" (see [nclass.Sturges](#)), "Scott", and "FD" / "Freedman-Diaconis" (with corresponding functions [nclass.scott](#) and [nclass.FD](#)). Case is ignored and partial matching is used. Alternatively, a function can be supplied which will compute the intended number of breaks as a function of R.

Note

Code inspired by a chart on:
http://zoonek2.free.fr/UNIX/48_R/03.html

Author(s)

Peter Carl

See Also

[hist](#)

Examples

```
data(edhec)
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE])

  # version with more breaks and the
  # standard close fit density distribution
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    breaks=40, methods = c("add.density", "add.rug") )

  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    methods = c( "add.density", "add.normal") )

  # version with just the histogram and
  # normal distribution centered on 0
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    methods = c( "add.density", "add.centered") )

  # add a rug to the previous plot
  # for more granularity on precisely where the distribution fell
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    methods = c( "add.centered", "add.density", "add.rug") )

  # now show a qqplot to give us another view
  # on how normal the data are
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    methods = c("add.centered", "add.density", "add.rug", "add.qqplot"))

  # add risk measure(s) to show where those are
  # in relation to observed returns
  chart.Histogram(edhec[, 'Equity Market Neutral', drop=FALSE],
    methods = c("add.density", "add.centered", "add.rug", "add.risk"))
```

chart.QQPlot

Plot a QQ chart

Description

Plot the return data against any theoretical distribution.

Usage

```
chart.QQPlot(R, distribution = "norm", ylab = NULL,
  xlab = paste(distribution, "Quantiles"), main = NULL,
  las = par("las"), envelope = FALSE, labels = FALSE,
  col = c(1, 4), lwd = 2, pch = 1, cex = 1,
  line = c("quartiles", "robust", "none"),
  element.color = "darkgray", cex.axis = 0.8,
  cex.legend = 0.8, cex.lab = 1, cex.main = 1,
  xaxis = TRUE, yaxis = TRUE, ylim = NULL, ...)
```

Arguments

| | |
|----------------------------|--|
| <code>R</code> | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| <code>distribution</code> | root name of comparison distribution - e.g., 'norm' for the normal distribution; 't' for the t-distribution. See examples for other ideas. |
| <code>xlab</code> | set the x-axis label, as in plot |
| <code>ylab</code> | set the y-axis label, as in plot |
| <code>xaxis</code> | if true, draws the x axis |
| <code>yaxis</code> | if true, draws the y axis |
| <code>ylim</code> | set the y-axis limits, same as in plot |
| <code>main</code> | set the chart title, same as in plot |
| <code>las</code> | set the direction of axis labels, same as in plot |
| <code>envelope</code> | confidence level for point-wise confidence envelope, or FALSE for no envelope. |
| <code>labels</code> | vector of point labels for interactive point identification, or FALSE for no labels. |
| <code>col</code> | color for points and lines; the default is the <i>second</i> entry in the current color palette (see 'palette' and 'par'). |
| <code>lwd</code> | set the line width, as in plot |
| <code>pch</code> | symbols to use, see also plot |
| <code>cex</code> | symbols to use, see also plot |
| <code>line</code> | 'quartiles' to pass a line through the quartile-pairs, or 'robust' for a robust-regression line; the latter uses the 'rlm' function in the 'MASS' package. Specifying 'line = "none"' suppresses the line. |
| <code>element.color</code> | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| <code>cex.legend</code> | The magnification to be used for sizing the legend relative to the current setting of 'cex' |
| <code>cex.axis</code> | The magnification to be used for axis annotation relative to the current setting of 'cex' |
| <code>cex.lab</code> | The magnification to be used for x- and y-axis labels relative to the current setting of 'cex' |
| <code>cex.main</code> | The magnification to be used for the main title relative to the current setting of 'cex'. |
| <code>...</code> | any other passthru parameters to the distribution function |

Details

A Quantile-Quantile (QQ) plot is a scatter plot designed to compare the data to the theoretical distributions to visually determine if the observations are likely to have come from a known population. The empirical quantiles are plotted to the y-axis, and the x-axis contains the values of the theoretical model. A 45-degree reference line is also plotted. If the empirical data come from the population with the chosen distribution, the points should fall approximately along this reference line. The larger the departure from the reference line, the greater the evidence that the data set have come from a population with a different distribution.

Author(s)

John Fox, ported by Peter Carl

References

main code forked/borrowed/ported from the excellent:
 Fox, John (2007) *car: Companion to Applied Regression*
<http://www.r-project.org>, <http://socserv.socsci.mcmaster.ca/jfox/>

See Also

[qqplot](#)
[qq.plot](#)
[plot](#)

Examples

```
library(MASS)
data(managers)

x = checkData(managers[,2, drop = FALSE], na.rm = TRUE, method = "vector")

#layout(rbind(c(1,2),c(3,4)))

# Panel 1, Normal distribution
chart.QQPlot(x, main = "Normal Distribution", distribution = 'norm', envelope=0.95)
# Panel 2, Log-Normal distribution
fit = fitdistr(1+x, 'lognormal')
chart.QQPlot(1+x, main = "Log-Normal Distribution", envelope=0.95, distribution='lnorm')
#other options could include
#, meanlog = fit$estimate[[1]], sdlog = fit$estimate[[2]])

## Not run:
# Panel 3, Skew-T distribution
library(sn)
fit = st.mle(y=x)
chart.QQPlot(x, main = "Skew T Distribution", envelope=0.95,
             distribution = 'st', location = fit$dp[[1]],
             scale = fit$dp[[2]], shape = fit$dp[[3]], df=fit$dp[[4]])

#Panel 4: Stable Parietian
library(fBasics)
fit.stable = stableFit(x,doplot=FALSE)
chart.QQPlot(x, main = "Stable Paretian Distribution", envelope=0.95,
             distribution = 'stable', alpha = fit(stable.fit)$estimate[[1]],
             beta = fit(stable.fit)$estimate[[2]], gamma = fit(stable.fit)$estimate[[3]],
             delta = fit(stable.fit)$estimate[[4]], pm = 0)

## End(Not run)
#end examples
```

| | |
|------------------|---|
| chart.Regression | <i>Takes a set of returns and relates them to a market benchmark in a scatterplot</i> |
|------------------|---|

Description

Uses a scatterplot to display the relationship of a set of returns to a market benchmark. Fits a linear model and overlays the resulting model. Also overlays a Loess line for comparison.

Usage

```
chart.Regression(Ra, Rb, Rf = 0, excess.returns = FALSE,
  reference.grid = TRUE, main = "Title", ylab = NULL,
  xlab = NULL, xlim = NA, colorset = 1:12,
  symbolset = 1:12, element.color = "darkgray",
  legend.loc = NULL, ylog = FALSE,
  fit = c("loess", "linear", "conditional", "quadratic"),
  span = 2/3, degree = 1,
  family = c("symmetric", "gaussian"), ylim = NA,
  evaluation = 50, legend.cex = 0.8, cex = 0.8, lwd = 2,
  ...)
```

Arguments

| | |
|----------------|--|
| Ra | a vector of returns to test, e.g., the asset to be examined |
| Rb | a matrix, data.frame, or timeSeries of benchmark(s) to test the asset against |
| Rf | risk free rate, in same period as the returns |
| excess.returns | logical; should excess returns be used? |
| reference.grid | if true, draws a grid aligned with the points on the x and y axes |
| main | set the chart title, same as in plot |
| ylab | set the y-axis title, same as in plot |
| xlab | set the x-axis title, same as in plot |
| xlim | set the x-axis limit, same as in plot |
| colorset | color palette to use |
| symbolset | symbols to use, see also 'pch' in plot |
| element.color | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ylog | Not used |
| fit | for values of "loess", "linear", or "conditional", plots a line to fit the data. Conditional lines are drawn separately for positive and negative benchmark returns. "Quadratic" is not yet implemented. |

| | |
|------------|---|
| span | passed to loess line fit, as in loess.smooth |
| degree | passed to loess line fit, as in loess.smooth |
| family | passed to loess line fit, as in loess.smooth |
| ylim | set the y-axis limit, same as in plot |
| evaluation | passed to loess line fit, as in loess.smooth |
| cex | set the cex size, same as in plot |
| legend.cex | set the legend size |
| lwd | set the line width for fits, same as in lines |
| ... | any other passthru parameters to plot |

Author(s)

Peter Carl

References

Chapter 7 of Ruppert(2004) gives an extensive overview of CAPM, its assumptions and deficiencies.

See Also

[plot](#)

Examples

```
data(managers)
chart.Regression(managers[, 1:2, drop = FALSE],
managers[, 8, drop = FALSE],
Rf = managers[, 10, drop = FALSE],
excess.returns = TRUE, fit = c("loess", "linear"),
legend.loc = "topleft")
```

chart.RelativePerformance

relative performance chart between multiple return series

Description

Plots a time series chart that shows the ratio of the cumulative performance for two assets at each point in time and makes periods of under- or out-performance easier to see.

Usage

```
chart.RelativePerformance(Ra, Rb,
  main = "Relative Performance", xaxis = TRUE,
  colorset = (1:12), legend.loc = NULL, ylog = FALSE,
  elementcolor = "darkgray", lty = 1, cex.legend = 0.7,
  ...)
```

Arguments

| | |
|--------------|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| main | set the chart title, same as in plot |
| xaxis | if true, draws the x axis |
| colorset | color palette to use, set by default to rational choices |
| elementcolor | provides the color for drawing less-important chart elements, such as the box lines, axis lines, etc. replaces darken |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ylog | TRUE/FALSE set the y-axis to logarithmic scale, similar to plot , default FALSE |
| cex.legend | the magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| lty | set the line type, same as in plot |
| ... | any other passthru parameters |

Details

To show under- and out-performance through different periods of time, a time series view is more helpful. The value of the chart is less important than the slope of the line. If the slope is positive, the first asset (numerator) is outperforming the second, and vice versa. May be used to look at the returns of a fund relative to each member of the peer group and the peer group index. Alternatively, it might be used to assess the peers individually against an asset class or peer group index.

Author(s)

Peter Carl

See Also

[Return.relative](#)

Examples

```
data(managers)
chart.RelativePerformance(managers[, 1:6, drop=FALSE],
managers[, 8, drop=FALSE],
colorset=rich8equal, legend.loc="bottomright",
main="Relative Performance to S&P")
```

chart.RiskReturnScatter

scatter chart of returns vs risk for comparing multiple instruments

Description

A wrapper to create a scatter chart of annualized returns versus annualized risk (standard deviation) for comparing manager performance. Also puts a box plot into the margins to help identify the relative performance quartile.

Usage

```
chart.RiskReturnScatter(R, Rf = 0,
  main = "Annualized Return and Risk", add.names = TRUE,
  xlab = "Annualized Risk", ylab = "Annualized Return",
  method = "calc", geometric = TRUE, scale = NA,
  add.sharpe = c(1, 2, 3), add.boxplots = FALSE,
  colorset = 1, symbolset = 1,
  element.color = "darkgray", legend.loc = NULL,
  xlim = NULL, ylim = NULL, cex.legend = 1,
  cex.axis = 0.8, cex.main = 1, cex.lab = 1, ...)
```

Arguments

| | |
|--------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| main | set the chart title, same as in plot |
| add.names | plots the row name with the data point. default TRUE. Can be removed by setting it to NULL |
| xlab | set the x-axis label, as in plot |
| ylab | set the y-axis label, as in plot |
| method | if set as "calc", then the function will calculate values from the set of returns passed in. If method is set to "nocalc" then we assume that R is a column of return and a column of risk (e.g., annualized returns, annualized risk), in that order. Other method cases may be set for different risk/return calculations. |
| add.sharpe | this draws a Sharpe ratio line that indicates Sharpe ratio levels of c(1,2,3). Lines are drawn with a y-intercept of the risk free rate and the slope of the appropriate Sharpe ratio level. Lines should be removed where not appropriate (e.g., sharpe.ratio = NULL). |
| add.boxplots | TRUE/FALSE adds a boxplot summary of the data on the axis |

| | |
|---------------|---|
| colorset | color palette to use, set by default to rational choices |
| symbolset | from pch in plot , submit a set of symbols to be used in the same order as the data sets submitted |
| element.color | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| xlim | set the x-axis limit, same as in plot |
| ylim | set the y-axis limit, same as in plot |
| cex.axis | The magnification to be used for axis annotation relative to the current setting of 'cex', same as in plot . |
| cex.legend | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| cex.main | The magnification to be used for sizing the title relative to the current setting of 'cex'. |
| cex.lab | The magnification to be used for x and y labels relative to the current setting of 'cex'. |
| ... | any other passthru parameters to plot |

Note

Code inspired by a chart on: http://zoonek2.free.fr/UNIX/48_R/03.html

Author(s)

Peter Carl

Examples

```
data(edhec)
chart.RiskReturnScatter(edhec, Rf = .04/12)
chart.RiskReturnScatter(edhec, Rf = .04/12, add.boxplots = TRUE)
```

chart.RollingCorrelation

chart rolling correlation fo multiple assets

Description

A wrapper to create a chart of rolling correlation metrics in a line chart

Usage

```
chart.RollingCorrelation(Ra, Rb, width = 12,
  xaxis = TRUE, legend.loc = NULL, colorset = (1:12),
  ..., fill = NA)
```

Arguments

| | |
|------------|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| width | number of periods to apply rolling function window over |
| xaxis | if true, draws the x axis |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| colorset | color palette to use, set by default to rational choices |
| ... | any other passthru parameters |
| fill | a three-component vector or list (recycled otherwise) providing filling values at the left/within/to the right of the data range. See the fill argument of na.fill for details. |

Details

The previous parameter `na.pad` has been replaced with `fill`; use `fill = NA` instead of `na.pad = TRUE`, or `fill = NULL` instead of `na.pad = FALSE`.

Author(s)

Peter Carl

Examples

```
# First we get the data
data(managers)
chart.RollingCorrelation(managers[, 1:6, drop=FALSE],
managers[, 8, drop=FALSE],
colorset=rich8equal, legend.loc="bottomright",
width=24, main = "Rolling 12-Month Correlation")
```

| | |
|-------------------|--------------------------------------|
| chart.RollingMean | <i>chart the rolling mean return</i> |
|-------------------|--------------------------------------|

Description

A wrapper to create a rolling mean return chart with 95 confidence bands.

Usage

```
chart.RollingMean(R, width = 12, xaxis = TRUE,
  ylim = NULL, lwd = c(2, 1, 1), ..., fill = NA)
```

Arguments

| | |
|--------------------|---|
| <code>R</code> | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| <code>width</code> | number of periods to apply rolling function window over |
| <code>xaxis</code> | if true, draws the x axis |
| <code>ylim</code> | set the y-axis limit, same as in plot |
| <code>lwd</code> | set the line width, same as in plot . Specified in order of the main line and the two confidence bands. |
| <code>...</code> | any other passthru parameters |
| <code>fill</code> | a three-component vector or list (recycled otherwise) providing filling values at the left/within/to the right of the data range. See the fill argument of na.fill for details. |

Details

The previous parameter `na.pad` has been replaced with `fill`; use `fill = NA` instead of `na.pad = TRUE`, or `fill = NULL` instead of `na.pad = FALSE`.

Author(s)

Peter Carl

Examples

```
data(edhec)
chart.RollingMean(edhec[, 9, drop = FALSE])
```

```
chart.RollingPerformance
```

wrapper to create a chart of rolling performance metrics in a line chart

Description

A wrapper to create a chart of rolling performance metrics in a line chart

Usage

```
chart.RollingPerformance(R, width = 12,
  FUN = "Return.annualized", ..., ylim = NULL,
  main = NULL, fill = NA)
```

Arguments

| | |
|-------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| width | number of periods to apply rolling function window over |
| FUN | any function that can be evaluated using a single set of returns (e.g., rolling CAPM.beta won't work, but Return.annualized will) |
| fill | a three-component vector or list (recycled otherwise) providing filling values at the left/within/to the right of the data range. See the fill argument of na.fill for details. |
| main | set the chart title, same as in plot |
| ylim | set the y-axis limit, same as in plot |
| ... | any other passthru parameters to plot or the function specified |

Details

The parameter `na.pad` has been deprecated; use `fill = NA` instead of `na.pad = TRUE`, or `fill = NULL` instead of `na.pad = FALSE`.

Author(s)

Peter Carl

See Also

[charts.RollingPerformance](#), [rollapply](#)

Examples

```
data(edhec)
chart.RollingPerformance(edhec[, 1:3], width = 24)
chart.RollingPerformance(edhec[, 1:3],
FUN = 'mean', width = 24, colorset = rich8equal,
lwd = 2, legend.loc = "topleft",
main = "Rolling 24-Month Mean Return")
chart.RollingPerformance(edhec[, 1:3],
FUN = 'SharpeRatio.annualized', width = 24,
colorset = rich8equal, lwd = 2, legend.loc = "topleft",
main = "Rolling 24-Month Sharpe Ratio")
```

```
chart.RollingQuantileRegression
```

A wrapper to create charts of relative regression performance through time

Description

A wrapper to create a chart of relative regression performance through time

Usage

```
chart.RollingQuantileRegression(Ra, Rb, width = 12,
  Rf = 0, attribute = c("Beta", "Alpha", "R-Squared"),
  main = NULL, na.pad = TRUE, ...)
```

```
chart.RollingRegression(Ra, Rb, width = 12, Rf = 0,
  attribute = c("Beta", "Alpha", "R-Squared"),
  main = NULL, na.pad = TRUE, ...)
```

```
charts.RollingRegression(Ra, Rb, width = 12, Rf = 0,
  main = NULL, legend.loc = NULL, event.labels = NULL,
  ...)
```

Arguments

| | |
|--------------|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| width | number of periods to apply rolling function window over |
| attribute | one of "Beta","Alpha","R-Squared" for which attribute to show |
| main | set the chart title, same as in plot |
| na.pad | TRUE/FALSE If TRUE it adds any times that would not otherwise have been in the result with a value of NA. If FALSE those times are dropped. |
| legend.loc | used to set the position of the legend |
| event.labels | if not null and event.lines is not null, this will apply a list of text labels to the vertical lines drawn |
| ... | any other passthru parameters to chart.TimeSeries |

Details

A group of charts in `charts.RollingRegression` displays alpha, beta, and R-squared estimates in three aligned charts in a single device.

The attribute parameter is probably the most confusing. In mathematical terms, the different choices yield the following:

Alpha - shows the y-intercept

Beta - shows the slope of the regression line

R-Squared - shows the degree of fit of the regression to the data

`chart.RollingQuantileRegression` uses [rq](#) rather than [lm](#) for the regression, and may be more robust to outliers in the data.

Note

Most inputs are the same as ["plot"](#) and are principally included so that some sensible defaults could be set.

Author(s)

Peter Carl

See Also

[lm](#)
[rq](#)

Examples

```
# First we load the data
data(managers)
chart.RollingRegression(managers[, 1, drop=FALSE],
managers[, 8, drop=FALSE], Rf = .04/12)
charts.RollingRegression(managers[, 1:6],
managers[, 8, drop=FALSE], Rf = .04/12,
colorset = rich6equal, legend.loc="topleft")
dev.new()
chart.RollingQuantileRegression(managers[, 1, drop=FALSE],
managers[, 8, drop=FALSE], Rf = .04/12)
# not implemented yet
#charts.RollingQuantileRegression(managers[, 1:6],
# managers[, 8, drop=FALSE], Rf = .04/12,
# colorset = rich6equal, legend.loc="topleft")
```

chart.Scatter

wrapper to draw scatter plot with sensible defaults

Description

Draws a scatter chart. This is another chart "primitive", since it only contains a set of sensible defaults.

Usage

```
chart.Scatter(x, y, reference.grid = TRUE,
  main = "Title", ylab = NULL, xlab = NULL, xlim = NA,
  ylim = NA, colorset = 1, symbolset = 1,
  element.color = "darkgray", cex.axis = 0.8,
  cex.legend = 0.8, cex.lab = 1, cex.main = 1, ...)
```

Arguments

x data for the x axis, can take matrix,vector, or timeseries
y data for the y axis, can take matrix,vector, or timeseries
reference.grid if true, draws a grid aligned with the points on the x and y axes

| | |
|----------------------------|--|
| <code>main</code> | set the chart title, same as in <code>plot</code> |
| <code>ylab</code> | set the y-axis label, as in <code>plot</code> |
| <code>xlab</code> | set the x-axis label, as in <code>plot</code> |
| <code>xlim</code> | set the x-axis limit, same as in <code>plot</code> |
| <code>ylim</code> | set the y-axis limit, same as in <code>plot</code> |
| <code>colorset</code> | color palette to use, set by default to rational choices |
| <code>symbolset</code> | from <code>pch</code> in <code>plot</code> , submit a set of symbols to be used in the same order as the data sets submitted |
| <code>element.color</code> | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| <code>cex.lab</code> | The magnification to be used for x- and y-axis labels relative to the current setting of 'cex' |
| <code>cex.axis</code> | The magnification to be used for axis annotation relative to the current setting of 'cex', same as in <code>plot</code> . |
| <code>cex.main</code> | The magnification to be used for the main title relative to the current setting of 'cex'. |
| <code>cex.legend</code> | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| <code>...</code> | any other passthru parameters |

Note

Most inputs are the same as "`plot`" and are principally included so that some sensible defaults could be set.

Author(s)

Peter Carl

See Also

`plot`

Examples

```
data(edhec)
chart.Scatter(edhec[,1],edhec[,2])
```

| | |
|------------------|---|
| chart.SnailTrail | <i>chart risk versus return over rolling time periods</i> |
|------------------|---|

Description

A chart that shows rolling calculations of annualized return and annualized standard deviation have proceeded through time. Lines and dots are darker for more recent time periods.

Usage

```
chart.SnailTrail(R, Rf = 0,
  main = "Annualized Return and Risk",
  add.names = c("all", "lastonly", "firstandlast", "none"),
  xlab = "Annualized Risk", ylab = "Annualized Return",
  add.sharpe = c(1, 2, 3), colorset = 1:12,
  symbolset = 16, legend.loc = NULL, xlim = NULL,
  ylim = NULL, width = 12, stepsize = 12, lty = 1,
  lwd = 2, cex.axis = 0.8, cex.main = 1, cex.lab = 1,
  cex.text = 0.8, cex.legend = 0.8,
  element.color = "darkgray", ...)
```

Arguments

| | |
|---------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| main | set the chart title, same as in plot |
| add.names | plots the row name with the data point. default TRUE. Can be removed by setting it to NULL |
| xlab | set the x-axis label, as in plot |
| ylab | set the y-axis label, as in plot |
| add.sharpe | this draws a Sharpe ratio line that indicates Sharpe ratio levels of c(1,2,3). Lines are drawn with a y-intercept of the risk free rate and the slope of the appropriate Sharpe ratio level. Lines should be removed where not appropriate (e.g., sharpe.ratio = NULL). |
| colorset | color palette to use, set by default to rational choices |
| symbolset | from pch in plot , submit a set of symbols to be used in the same order as the data sets submitted |
| cex.legend | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| element.color | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |

| | |
|----------|---|
| xlim | set the x-axis limit, same as in plot |
| ylim | set the y-axis limit, same as in plot |
| width | number of periods to apply rolling calculations over, sometimes referred to as a 'window' |
| stepsize | the frequency with which to make the rolling calculation |
| lty | set the line type, same as in plot |
| lwd | set the line width, same as in plot |
| cex.lab | The magnification to be used for sizing the label relative to the current setting of 'cex', similar to plot . |
| cex.main | The magnification to be used for sizing the main chart relative to the current setting of 'cex', as in plot . |
| cex.axis | The magnification to be used for sizing the axis text relative to the current setting of 'cex', similar to plot . |
| cex.text | The magnification to be used for sizing the text relative to the current setting of 'cex', similar to plot . |
| ... | any other passthru parameters |

Author(s)

Peter Carl

References

~put references to the literature/web site here ~

See Also

[chart.RiskReturnScatter](#)

Examples

```
data(managers)
chart.SnailTrail(managers[,c("HAM2", "SP500 TR"),drop=FALSE],
width=36, stepsize=12,
colorset=c('red', 'orange'),
add.names="firstandlast",
rf=.04/12,
main="Trailing 36-month Performance Calc'd Every 12 Months")
```

| | |
|------------------|----------------------------------|
| chart.StackedBar | <i>create a stacked bar plot</i> |
|------------------|----------------------------------|

Description

This creates a stacked column chart with time on the horizontal axis and values in categories. This kind of chart is commonly used for showing portfolio 'weights' through time, although the function will plot any values by category.

Usage

```
chart.StackedBar(w, colorset = NULL, space = 0.2,
  cex.axis = 0.8, cex.legend = 0.8, cex.lab = 1,
  cex.labels = 0.8, cex.main = 1, xaxis = TRUE,
  legend.loc = "under", element.color = "darkgray",
  unstacked = TRUE, xlab = "Date", ylab = "Value",
  ylim = NULL, date.format = "%b %y",
  major.ticks = "auto", minor.ticks = TRUE, las = 0,
  xaxis.labels = NULL, ...)
```

Arguments

| | |
|--------------|---|
| w | a matrix, data frame or zoo object of values to be plotted. Rownames should contain dates or period labels; column names should indicate categories. See examples for detail. |
| colorset | color palette to use, set by default to rational choices |
| space | the amount of space (as a fraction of the average bar width) left before each bar, as in barplot . Default is 0.2. |
| cex.legend | The magnification to be used for sizing the legend relative to the current setting of 'cex', similar to plot . |
| cex.labels | The magnification to be used for event line labels relative to the current setting of 'cex'. |
| cex.lab | The magnification to be used for x- and y-axis labels relative to the current setting of 'cex'. |
| cex.main | The magnification to be used for the chart title relative to the current setting of 'cex'. |
| xaxis | If true, draws the x axis |
| ylab | Set the y-axis label, same as in plot |
| date.format | Re-format the dates for the xaxis; the default is "%m/%y" |
| major.ticks | Should major tickmarks be drawn and labeled, default 'auto' |
| minor.ticks | Should minor tickmarks be drawn, default TRUE |
| xaxis.labels | Allows for non-date labeling of date axes, default is NULL |

| | |
|----------------------------|--|
| <code>cex.axis</code> | The magnification to be used for sizing the axis text relative to the current setting of 'cex', similar to plot . |
| <code>las</code> | sets the orientation of the axis labels, as described in par . Defaults to '3'. |
| <code>legend.loc</code> | places a legend into a location on the chart similar to chart.TimeSeries . The default, "under," is the only location currently implemented for this chart. Use 'NULL' to remove the legend. |
| <code>element.color</code> | provides the color for drawing less-important chart elements, such as the box lines, axis lines, etc. |
| <code>unstacked</code> | logical. If set to 'TRUE' <i>and</i> only one row of data is submitted in 'w', then the chart creates a normal column chart. If more than one row is submitted, then this is ignored. See examples below. |
| <code>xlab</code> | the x-axis label, which defaults to 'NULL'. |
| <code>ylim</code> | set the y-axis limit, same as in plot |
| <code>...</code> | arguments to be passed to barplot . |

Details

This function is a wrapper for [barplot](#) but adds three additional capabilities. First, it calculates and sets a bottom margin for long column names that are rotated vertically. That doesn't always result in the prettiest chart, but it does ensure readable labels.

Second, it places a legend "under" the graph rather than within the bounds of the chart (which would obscure the data). The legend is created from the column names. The default is to create the legend when there's more than one row of data being presented. If there is one row of data, the chart may be "unstacked" and the legend removed.

Third, it plots or stacks negative values from an origin of zero, similar to the behavior of [barchart](#) from the 'lattice' package.

Note

The 'w' attribute is so named because this is a popular way to show portfolio weights through time. That being said, this function isn't limited to any particular values and doesn't provide any normalization, so that the chart can be used more generally.

The principal drawback of stacked column charts is that it is very difficult for the reader to judge size of 2nd, 3rd, etc., data series because they do not have common baseline. Another is that with a large number of series, the colors may be difficult to discern. As alternatives, Cleveland advocates the use of trellis like displays, and Tufte advocates the use of small multiple charts.

Author(s)

Peter Carl

References

- Cleveland, W.S. (1994), The Elements of Graphing Data, Summit, NJ: Hobart Press.
- Tufte, Edward R. (2001) The Visual Display of Quantitative Information, 2nd edition. The Graphics Press, Cheshire, Connecticut. See <http://www.edwardtufte.com> for this and other references.

See Also[barplot](#), [par](#)**Examples**

```
data(weights)
head(weights)

# With the legend "under" the chart
chart.StackedBar(weights, date.format="%Y", cex.legend = 0.7, colorset=rainbow12equal)

# Without the legend
chart.StackedBar(weights, colorset=rainbow12equal, legend.loc=NULL)

# for one row of data, use 'unstacked' for a better chart
chart.StackedBar(weights[1,,drop=FALSE], unstacked=TRUE, las=3)
```

chart.VaRSensitivity *show the sensitivity of Value-at-Risk or Expected Shortfall estimates*

Description

Creates a chart of Value-at-Risk and/or Expected Shortfall estimates by confidence interval for multiple methods.

Usage

```
chart.VaRSensitivity(R,
  methods = c("GaussianVaR", "ModifiedVaR", "HistoricalVaR", "GaussianES", "ModifiedES", "HistoricalES"),
  clean = c("none", "boudt", "geltner"),
  elementcolor = "darkgray", reference.grid = TRUE,
  xlab = "Confidence Level", ylab = "Value at Risk",
  type = "l", lty = c(1, 2, 4), lwd = 1,
  colorset = (1:12), pch = (1:12),
  legend.loc = "bottomleft", cex.legend = 0.8,
  main = NULL, ...)
```

Arguments

| | |
|----------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| methods | one or more calculation methods indicated "GaussianVaR", "ModifiedVaR", "HistoricalVaR", "GaussianES", "ModifiedES", "HistoricalES". See VaR or ES for more detail. |
| clean | method for data cleaning through Return.clean . Current options are "none" or "boudt" or "geltner". |
| elementcolor | the color used to draw chart elements. The default is "darkgray" |
| reference.grid | if true, draws a grid aligned with the points on the x and y axes |

| | |
|------------|---|
| ylab | set the y-axis label, same as in plot |
| xlab | set the x-axis label, same as in plot |
| type | set the chart type, same as in plot |
| lty | set the line type, same as in plot |
| lwd | set the line width, same as in plot |
| colorset | color palette to use, set by default to rational choices |
| pch | symbols to use, see also plot |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| cex.legend | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| main | set the chart title, same as in plot |
| ... | any other passthru parameters |

Details

This chart shows estimated VaR along a series of confidence intervals for selected calculation methods. Useful for comparing a method to the historical VaR calculation.

Author(s)

Peter Carl

References

Boudt, K., Peterson, B. G., Croux, C., 2008. Estimation and Decomposition of Downside Risk for Portfolios with Non-Normal Returns. Journal of Risk, forthcoming.

See Also

[VaR](#)
[ES](#)

Examples

```
data(managers)
chart.VaRSensitivity(managers[,1,drop=FALSE],
  methods=c("HistoricalVaR", "ModifiedVaR", "GaussianVaR"),
  colorset=bluefocus, lwd=2)
```

charts.PerformanceSummary

Create combined wealth index, period performance, and drawdown chart

Description

For a set of returns, create a wealth index chart, bars for per-period performance, and underwater chart for drawdown.

Usage

```
charts.PerformanceSummary(R, Rf = 0, main = NULL,
  geometric = TRUE, methods = "none", width = 0,
  event.labels = NULL, ylog = FALSE,
  wealth.index = FALSE, gap = 12,
  begin = c("first", "axis"), legend.loc = "topleft",
  p = 0.95, ...)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| p | confidence level for calculation, default p=.95 |
| main | set the chart title, as in plot |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| methods | Used to select the risk parameter of trailing width returns to use in the chart.BarVaR panel: May be any of: <ul style="list-style-type: none"> • None - does not add a line, • ModifiedVaR - uses Cornish-Fisher modified VaR, • GaussianVaR - uses traditional Value at Risk, • HistoricalVaR - calculates historical Value at Risk, • ModifiedES - uses Cornish-Fisher modified Expected Shortfall, • GaussianES - uses traditional Expected Shortfall, • HistoricalES - calculates historical Expected Shortfall, • StdDev - per-period standard deviation |
| begin | Align shorter series to: <ul style="list-style-type: none"> • first - prior value of the first column given for the reference or longer series or, • axis - the initial value (1 or zero) of the axis. <p>passthru to chart.CumReturns</p> |

| | |
|--------------|--|
| event.labels | TRUE/FALSE whether or not to display lines and labels for historical market shock events |
| wealth.index | if wealth.index is TRUE, shows the "value of \$1", starting the cumulation of returns at 1 rather than zero |
| width | number of periods to apply rolling function window over |
| gap | numeric number of periods from start of series to use to train risk calculation |
| ylog | TRUE/FALSE set the y-axis to logarithmic scale, similar to plot , default FALSE |
| legend.loc | sets the legend location in the top chart. Can be set to NULL or nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ... | any other passthru parameters |

Note

Most inputs are the same as "[plot](#)" and are principally included so that some sensible defaults could be set.

Author(s)

Peter Carl

See Also

[chart.CumReturns](#)
[chart.BarVaR](#)
[chart.Drawdown](#)

Examples

```
data(edhec)
charts.PerformanceSummary(edhec[,c(1,13)])
```

```
charts.RollingPerformance
```

rolling performance chart

Description

A wrapper to create a rolling annualized returns chart, rolling annualized standard deviation chart, and a rolling annualized sharpe ratio chart.

Usage

```
charts.RollingPerformance(R, width = 12, Rf = 0,
  main = NULL, event.labels = NULL, legend.loc = NULL,
  ...)
```


Arguments

| | |
|--------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| width | number of periods to apply rolling function over |
| Rf | risk free rate, in same period as your returns |
| main | set the chart title, same as in plot |
| event.labels | TRUE/FALSE whether or not to display lines and labels for historical market shock events |
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ... | any other passthru parameters |

Author(s)

Peter Carl

See Also

[chart.RollingPerformance](#)

Examples

```
data(managers)
charts.RollingPerformance(managers[,1:8], Rf=managers[,10,drop=FALSE], colorset=tim8equal, main="Rolling 12-Mon
```

| | |
|-------------------|--|
| charts.TimeSeries | <i>Creates a time series chart with some extensions.</i> |
|-------------------|--|

Description

Draws a line chart and labels the x-axis with the appropriate dates. This is really a "primitive", since it extends the base [plot](#) and standardizes the elements of a chart. Adds attributes for shading areas of the timeline or aligning vertical lines along the timeline. This function is intended to be used inside other charting functions.

Usage

```
charts.TimeSeries(R, space = 0, main = "Returns", ...)

chart.TimeSeries(R, auto.grid = TRUE, xaxis = TRUE,
  yaxis = TRUE, yaxis.right = FALSE, type = "l", lty = 1,
  lwd = 2, main = NULL, ylab = NULL, xlab = "Date",
  date.format.in = "%Y-%m-%d", date.format = NULL,
  xlim = NULL, ylim = NULL, element.color = "darkgray",
  event.lines = NULL, event.labels = NULL,
  period.areas = NULL, event.color = "darkgray",
```

```

period.color = "aliceblue", colorset = (1:12),
pch = (1:12), legend.loc = NULL, ylog = FALSE,
cex.axis = 0.8, cex.legend = 0.8, cex.lab = 1,
cex.labels = 0.8, cex.main = 1, major.ticks = "auto",
minor.ticks = TRUE, grid.color = "lightgray",
grid.lty = "dotted", xaxis.labels = NULL, ...)

```

Arguments

| | |
|----------------------------|--|
| <code>R</code> | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| <code>auto.grid</code> | if true, draws a grid aligned with the points on the x and y axes |
| <code>grid.color</code> | sets the color for the reference grid |
| <code>grid.lty</code> | defines the line type for the grid |
| <code>xaxis</code> | if true, draws the x axis |
| <code>yaxis</code> | if true, draws the y axis |
| <code>yaxis.right</code> | if true, draws the y axis on the right-hand side of the plot |
| <code>type</code> | set the chart type, same as in plot |
| <code>lty</code> | set the line type, same as in plot |
| <code>lwd</code> | set the line width, same as in plot |
| <code>main</code> | set the chart title, same as in plot |
| <code>ylab</code> | set the y-axis label, same as in plot |
| <code>xlab</code> | set the x-axis label, same as in plot |
| <code>date.format</code> | re-format the dates for the xaxis; the default is "%m/%y" |
| <code>xlim</code> | set the x-axis limit, same as in plot |
| <code>ylim</code> | set the y-axis limit, same as in plot |
| <code>event.lines</code> | If not null, vertical lines will be drawn to indicate that an event happened during that time period. <code>event.lines</code> should be a list of dates (e.g., <code>c("09/03", "05/06")</code>) formatted the same as <code>date.format</code> . This function matches the re-formatted row names (dates) with the events.list, so to get a match the formatting needs to be correct. |
| <code>event.labels</code> | if not null and <code>event.lines</code> is not null, this will apply a list of text labels (e.g., <code>c("This Event", "That Event")</code>) to the vertical lines drawn. See the example below. |
| <code>period.areas</code> | these are shaded areas described by start and end dates in a vector of xts date ranges, e.g., <code>c("1926-10::1927-11", "1929-08::1933-03")</code> See the examples below. |
| <code>event.color</code> | draws the event described in <code>event.labels</code> in the color specified |
| <code>period.color</code> | draws the shaded region described by <code>period.areas</code> in the color specified |
| <code>colorset</code> | color palette to use, set by default to rational choices |
| <code>pch</code> | symbols to use, see also plot |
| <code>element.color</code> | provides the color for drawing chart elements, such as the box lines, axis lines, etc. Default is "darkgray" |

| | |
|----------------|---|
| legend.loc | places a legend into one of nine locations on the chart: bottomright, bottom, bottomleft, left, topleft, top, topright, right, or center. |
| ylog | TRUE/FALSE set the y-axis to logarithmic scale, similar to plot , default FALSE |
| date.format.in | allows specification of other date formats in the data object, defaults to "%Y-%m-%d" |
| cex.axis | The magnification to be used for axis annotation relative to the current setting of 'cex', same as in plot . |
| cex.legend | The magnification to be used for sizing the legend relative to the current setting of 'cex'. |
| cex.labels | The magnification to be used for event line labels relative to the current setting of 'cex'. |
| cex.lab | The magnification to be used for x- and y-axis labels relative to the current setting of 'cex'. |
| cex.main | The magnification to be used for the chart title relative to the current setting of 'cex'. |
| major.ticks | Should major tickmarks be drawn and labeled, default 'auto' |
| minor.ticks | Should minor tickmarks be drawn, default TRUE |
| xaxis.labels | Allows for non-date labeling of date axes, default is NULL |
| space | default 0 |
| ... | any other passthru parameters |

Author(s)

Peter Carl

See Also[plot](#), [par](#), [axTicksByTime](#)**Examples**

```
# These are start and end dates, formatted as xts ranges.
## http://www.nber.org-cycles.html
cycles.dates<-c("1857-06/1858-12",
               "1860-10/1861-06",
               "1865-04/1867-12",
               "1869-06/1870-12",
               "1873-10/1879-03",
               "1882-03/1885-05",
               "1887-03/1888-04",
               "1890-07/1891-05",
               "1893-01/1894-06",
               "1895-12/1897-06",
               "1899-06/1900-12",
               "1902-09/1904-08",
               "1907-05/1908-06",
               "1910-01/1912-01",
```

```

        "1913-01/1914-12",
        "1918-08/1919-03",
        "1920-01/1921-07",
        "1923-05/1924-07",
        "1926-10/1927-11",
        "1929-08/1933-03",
        "1937-05/1938-06",
        "1945-02/1945-10",
        "1948-11/1949-10",
        "1953-07/1954-05",
        "1957-08/1958-04",
        "1960-04/1961-02",
        "1969-12/1970-11",
        "1973-11/1975-03",
        "1980-01/1980-07",
        "1981-07/1982-11",
        "1990-07/1991-03",
        "2001-03/2001-11",
        "2007-12/2009-06"
    )
# Event lists - FOR BEST RESULTS, KEEP THESE DATES IN ORDER
risk.dates = c(
    "Oct 87",
    "Feb 94",
    "Jul 97",
    "Aug 98",
    "Oct 98",
    "Jul 00",
    "Sep 01")
risk.labels = c(
    "Black Monday",
    "Bond Crash",
    "Asian Crisis",
    "Russian Crisis",
    "LTCM",
    "Tech Bubble",
    "Sept 11")
data(edhec)

R=edhec[, "Funds of Funds", drop=FALSE]
Return.cumulative = cumprod(1+R) - 1
chart.TimeSeries(Return.cumulative)
chart.TimeSeries(Return.cumulative, colorset = "darkblue", legend.loc = "bottomright", period.areas = cycles.dat

```

checkData

check input data type and format and coerce to the desired output type

Description

This function was created to make the different kinds of data classes at least *seem* more fungible. It allows the user to pass in a data object without being concerned that the function requires a matrix,

data.frame, or timeSeries object. By using this, the function "knows" what data format it has to work with.

Usage

```
checkData(x,  
  method = c("xts", "zoo", "data.frame", "matrix", "vector"),  
  na.rm = TRUE, quiet = TRUE, ...)
```

Arguments

| | |
|--------|---|
| x | a vector, matrix, data.frame, xts, timeSeries or zoo object to be checked and coerced |
| na.rm | TRUE/FALSE Remove NA's from the data? used only with 'vector' |
| quiet | TRUE/FALSE if false, it will throw warnings when errors are noticed, default TRUE |
| method | type of coerced data object to return, one of c("zoo","matrix","vector"), default "zoo" |
| ... | any other passthru parameters |

Author(s)

Peter Carl

Examples

```
data(edhec)  
x = checkData(edhec)  
class(x)  
head(x)  
tail(x)  
# Note that passing in a single column loses the row and column names  
x = checkData(edhec[,1])  
class(x)  
head(x)  
# Include the "drop" attribute to keep row and column names  
x = checkData(edhec[,1,drop=FALSE])  
class(x)  
head(x)  
x = checkData(edhec, method = "matrix")  
class(x)  
head(x)  
x = checkData(edhec[,1], method = "vector")  
class(x)  
head(x)
```

| | |
|-------------|--|
| clean.boudt | <i>clean extreme observations in a time series to provide more robust risk estimates</i> |
|-------------|--|

Description

Robustly clean a time series to reduce the magnitude, but not the number or direction, of observations that exceed the $1 - \alpha\%$ risk threshold.

Usage

```
clean.boudt(R, alpha = 0.01, trim = 0.001)
```

Arguments

| | |
|-------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| alpha | probability to filter at 1-alpha, defaults to .01 (99%) |
| trim | where to set the "extremeness" of the Mahalanobis distance |

Details

Many risk measures are calculated by using the first two (four) moments of the asset or portfolio return distribution. Portfolio moments are extremely sensitive to data spikes, and this sensitivity is only exacerbated in a multivariate context. For this reason, it seems appropriate to consider estimates of the multivariate moments that are robust to return observations that deviate extremely from the Gaussian distribution.

There are two main approaches in defining robust alternatives to estimate the multivariate moments by their sample means (see e.g. Maronna[2006]). One approach is to consider a more robust estimator than the sample means. Another one is to first clean (in a robust way) the data and then take the sample means and moments of the cleaned data.

Our cleaning method follows the second approach. It is designed in such a way that, if we want to estimate downside risk with loss probability α , it will never clean observations that belong to the $1 - \alpha$ least extreme observations. Suppose we have an n -dimensional vector time series of length T : r_1, \dots, r_T . We clean this time series in three steps.

1. *Ranking the observations in function of their extremeness.* Denote μ and Σ the mean and covariance matrix of the bulk of the data and let $\lfloor \cdot \rfloor$ be the operator that takes the integer part of its argument. As a measure of the extremeness of the return observation r_t , we use its squared Mahalanobis distance $d_t^2 = (r_t - \mu)' \Sigma^{-1} (r_t - \mu)$. We follow Rousseeuw(1985) by estimating μ and Σ as the mean vector and covariance matrix (corrected to ensure consistency) of the subset of size $\lfloor (1 - \alpha)T \rfloor$ for which the determinant of the covariance matrix of the elements in that subset is the smallest. These estimates will be robust against the α most extreme returns. Let $d_{(1)}^2, \dots, d_{(T)}^2$ be the ordered sequence of the estimated squared Mahalanobis distances such that $d_{(i)}^2 \leq d_{(i+1)}^2$.

2. *Outlier identification.* Return observations are qualified as outliers if their estimated squared Mahalanobis distance d_t^2 is greater than the empirical $1 - \alpha$ quantile $d_{(\lfloor (1-\alpha)T \rfloor)}^2$ and exceeds a very extreme quantile of the Chi squared distribution function with n degrees of freedom, which is the distribution function of d_t^2 when the returns are normally distributed. In this application we take the 99.9% quantile, denoted $\chi_{n,0.999}^2$.
3. *Data cleaning.* Similarly to Khan(2007) we only clean the returns that are identified as outliers in step 2 by replacing these returns r_t with

$$r_t \sqrt{\frac{\max(d_{(\lfloor (1-\alpha)T \rfloor)}^2, \chi_{n,0.999}^2)}{d_t^2}}$$

The cleaned return vector has the same orientation as the original return vector, but its magnitude is smaller. Khan(2007) calls this procedure of limiting the value of d_t^2 to a quantile of the χ_n^2 distribution, “multivariate Winsorization”.

Note that the primary value of data cleaning lies in creating a more robust and stable estimation of the distribution generating the large majority of the return data. The increased robustness and stability of the estimated moments utilizing cleaned data should be used for portfolio construction. If a portfolio manager wishes to have a more conservative risk estimate, cleaning may not be indicated for risk monitoring. It is also important to note that the robust method proposed here does not remove data from the series, but only decreases the magnitude of the extreme events. It may also be appropriate in practice to use a cleaning threshold somewhat outside the VaR threshold that the manager wishes to consider. In actual practice, it is probably best to back-test the results of both cleaned and uncleaned series to see what works best with the particular combination of assets under consideration.

Value

cleaned data matrix

Note

This function and much of this text was originally written for Boudt, et. al, 2008

Author(s)

Kris Boudt, Brian G. Peterson

References

- Boudt, K., Peterson, B. G., Croux, C., 2008. Estimation and Decomposition of Downside Risk for Portfolios with Non-Normal Returns. *Journal of Risk*, forthcoming.
- Khan, J. A., S. Van Aelst, and R. H. Zamar (2007). Robust linear model selection based on least angle regression. *Journal of the American Statistical Association* 102.
- Maronna, R. A., D. R. Martin, and V. J. Yohai (2006). *Robust Statistics: Theory and Methods*. Wiley.
- Rousseeuw, P. J. (1985). Multivariate estimation with high breakdown point. In W. Grossmann, G. Pflug, I. Vincze, and W. Wertz (Eds.), *Mathematical Statistics and Its Applications*, Volume B, pp. 283-297. Dordrecht-Reidel.

See Also[Return.clean](#)

CoMoments

*Functions for calculating comoments of financial time series***Description**

calculates coskewness and cokurtosis as the skewness and kurtosis of two assets with reference to one another.

Usage

```
CoVariance(Ra, Rb)
```

```
CoSkewness(Ra, Rb)
```

```
CoKurtosis(Ra, Rb)
```

Arguments

| | |
|----|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | an xts, vector, matrix, data frame, timeSeries or zoo object of index, benchmark, portfolio, or secondary asset returns to compare against |

Details

Ranaldo and Favre (2005) define coskewness and cokurtosis as the skewness and kurtosis of a given asset analysed with the skewness and kurtosis of the reference asset or portfolio. Adding an asset to a portfolio, such as a hedge fund with a significant level of coskewness to the portfolio, can increase or decrease the resulting portfolio's skewness. Similarly, adding a hedge fund with a positive cokurtosis coefficient will add kurtosis to the portfolio.

The co-moments are useful for measuring the marginal contribution of each asset to the portfolio's resulting risk. As such, comoments of asset return distribution should be useful as inputs for portfolio optimization in addition to the covariance matrix. Martellini and Ziemann (2007) point out that the problem of portfolio selection becomes one of selecting tangency points in four dimensions, incorporating expected return, second, third and fourth centered moments of asset returns.

Even outside of the optimization problem, measuring the co-moments should be a useful tool for evaluating whether or not an asset is likely to provide diversification potential to a portfolio, not only in terms of normal risk (i.e. volatility) but also the risk of asymmetry (skewness) and extreme events (kurtosis).

Author(s)

Kris Boudt, Peter Carl, Brian Peterson

References

- Boudt, Kris, Brian G. Peterson, and Christophe Croux. 2008. Estimation and Decomposition of Downside Risk for Portfolios with Non-Normal Returns. *Journal of Risk*. Winter.
- Martellini, Lionel, and Volker Ziemann. 2007. Improved Forecasts of Higher-Order Comoments and Implications for Portfolio Selection. EDHEC Risk and Asset Management Research Centre working paper.
- Ranaldo, Angelo, and Laurent Favre Sr. 2005. How to Price Hedge Funds: From Two- to Four-Moment CAPM. SSRN eLibrary.
- Scott, Robert C., and Philip A. Horvath. 1980. On the Direction of Preference for Moments of Higher Order than the Variance. *Journal of Finance* 35(4):915-919.

See Also

[BetaCoSkewness](#)
[BetaCoKurtosis](#)
[BetaCoMoments](#)

Examples

```
data(managers)
CoVariance(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
CoSkewness(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
CoKurtosis(managers[, "HAM2", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
```

| | |
|-------------------|---|
| DownsideDeviation | <i>downside risk (deviation, variance) of the return distribution</i> |
|-------------------|---|

Description

Downside deviation, semideviation, and semivariance are measures of downside risk.

Usage

```
DownsideDeviation(R, MAR = 0,
  method = c("full", "subset"), ..., potential = FALSE)

SemiDeviation(R)

SemiVariance(R)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |

| | |
|-----------|---|
| method | one of "full" or "subset", indicating whether to use the length of the full series or the length of the subset of the series below the MAR as the denominator, defaults to "full" |
| ... | any other passthru parameters |
| potential | if TRUE, calculate downside potential instead, default FALSE |

Details

Downside deviation, similar to semi deviation, eliminates positive returns when calculating risk. Instead of using the mean return or zero, it uses the Minimum Acceptable Return as proposed by Sharpe (which may be the mean historical return or zero). It measures the variability of under-performance below a minimum target rate. The downside variance is the square of the downside potential.

To calculate it, we take the subset of returns that are less than the target (or Minimum Acceptable Returns (MAR)) returns and take the differences of those to the target. We sum the squares and divide by the total number of returns to get a below-target semi-variance.

$$DownsideDeviation(R, MAR) = \delta_{MAR} = \sqrt{\sum_{t=1}^n \frac{\min[(R_t - MAR), 0]^2}{n}}$$

$$DownsideVariance(R, MAR) = \sum_{t=1}^n \frac{\min[(R_t - MAR), 0]^2}{n}$$

$$DownsidePotential(R, MAR) = \sum_{t=1}^n \frac{\min[(R_t - MAR), 0]}{n}$$

where n is either the number of observations of the entire series or the number of observations in the subset of the series falling below the MAR.

SemiDeviation or SemiVariance is a popular alternative downside risk measure that may be used in place of standard deviation or variance. SemiDeviation and SemiVariance are implemented as a wrapper of DownsideDeviation with $MAR = \text{mean}(R)$.

In many functions like Markowitz optimization, semideviation may be substituted directly, and the covariance matrix may be constructed from semideviation or the vector of returns below the mean rather than from variance or the full vector of returns.

In semideviation, by convention, the value of n is set to the full number of observations. In semi-variance the the value of n is set to the subset of returns below the mean. It should be noted that while this is the correct mathematical definition of semivariance, this result doesn't make any sense if you are also going to be using the time series of returns below the mean or below a MAR to construct a semi-covariance matrix for portfolio optimization.

Sortino recommends calculating downside deviation utilizing a continuous fitted distribution rather than the discrete distribution of observations. This would have significant utility, especially in cases of a small number of observations. He recommends using a lognormal distribution, or a fitted distribution based on a relevant style index, to construct the returns below the MAR to increase the confidence in the final result. Hopefully, in the future, we'll add a fitted option to this function, and would be happy to accept a contribution of this nature.

Author(s)

Peter Carl, Brian G. Peterson, Matthieu Lestel

References

Sortino, F. and Price, L. Performance Measurement in a Downside Risk Framework. *Journal of Investing*. Fall 1994, 59-65.

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008

Plantinga, A., van der Meer, R. and Sortino, F. The Impact of Downside Risk on Risk-Adjusted Performance of Mutual Funds in the Euronext Markets. July 19, 2001. Available at SSRN: <http://ssrn.com/abstract=277352>

<http://www.sortino.com/htm/performance.htm> see especially end note 10

<http://en.wikipedia.org/wiki/Semivariance>

Examples

```
#with data used in Bacon 2008

data(portfolio_bacon)
MAR = 0.5
DownsideDeviation(portfolio_bacon[,1], MAR) #expected 0.493
DownsidePotential(portfolio_bacon[,1], MAR) #expected 0.491

#with data of managers

data(managers)
apply(managers[,1:6], 2, sd, na.rm=TRUE)
DownsideDeviation(managers[,1:6]) # MAR 0%
DownsideDeviation(managers[,1:6], MAR = .04/12) #MAR 4%
SemiDeviation(managers[,1,drop=FALSE])
SemiDeviation(managers[,1:6])
SemiVariance (managers[,1,drop=FALSE])
SemiVariance (managers[,1:6]) #calculated using method="subset"
```

| | |
|-------------------|--|
| DownsideFrequency | <i>downside frequency of the return distribution</i> |
|-------------------|--|

Description

To calculate Downside Frequency, we take the subset of returns that are less than the target (or Minimum Acceptable Returns (MAR)) returns and divide the length of this subset by the total number of returns.

Usage

```
DownsideFrequency(R, MAR = 0, ...)
```

Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 MAR Minimum Acceptable Return, in the same periodicity as your returns
 ... any other passthru parameters

Details

$$DownsideFrequency(R, MAR) = \sum_{t=1}^n \frac{\min[(R_t - MAR), 0]}{R_t * n}$$

where n is the number of observations of the entire series

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008
 p.94

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(DownsideFrequency(portfolio_bacon[,1], MAR)) #expected 0.458

data(managers)
print(DownsideFrequency(managers['1996']))
print(DownsideFrequency(managers['1996',1])) #expected 0.25
```

DRatio

d ratio of the return distribution

Description

The d ratio is similar to the Bernado Ledoit ratio but inverted and taking into account the frequency of positive and negative returns.

Usage

```
DRatio(R, ...)
```

Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 ... any other passthru parameters

Details

It has values between zero and infinity. It can be used to rank the performance of portfolios. The lower the d ratio the better the performance, a value of zero indicating there are no returns less than zero and a value of infinity indicating there are no returns greater than zero.

$$DRatio(R) = \frac{n_d * \sum_{t=1}^n \max(-R_t, 0)}{n_u * \sum_{t=1}^n \max(R_t, 0)}$$

where n is the number of observations of the entire series, n_d is the number of observations less than zero, n_u is the number of observations greater than zero

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.95

Examples

```
data(portfolio_bacon)
print(DRatio(portfolio_bacon[,1])) #expected 0.401

data(managers)
print(DRatio(managers['1996']))
print(DRatio(managers['1996',1])) #expected 0.0725
```

| | |
|-------------------|--|
| DrawdownDeviation | <i>Calculates a standard deviation-type statistic using individual draw-downs.</i> |
|-------------------|--|

Description

$DD = \sqrt{\sum_{j=1,2,...,d} (D_j^2/n)}$ where D_j = jth drawdown over the entire period d = total number of drawdowns in entire period n = number of observations

Usage

```
DrawdownDeviation(R, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |

| | |
|--------------|---|
| DrawdownPeak | <i>Drawdown peak of the return distribution</i> |
|--------------|---|

Description

Drawdown peak is for each return its drawdown since the previous peak

Usage

```
DrawdownPeak(R, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |

Author(s)

Matthieu Lestel

| | |
|-------|--|
| edhec | <i>EDHEC-Risk Hedge Fund Style Indices</i> |
|-------|--|

Description

EDHEC composite hedge fund style index returns.

Usage

```
edhec
```

Format

CSV conformed into an xts object with monthly observations

Details

EDHEC Data used in PerformanceAnalytics and related publications with the kind permission of the EDHEC Risk and Asset Management Research Center.

The 'edhec' data set included with PerformanceAnalytics will be periodically updated (typically annually) to include additional observations. If you intend to use this data set in automated tests, please be sure to subset your data like `edhec[1:120,]` to use the first ten years of observations.

From the EDHEC website: "The EDHEC Risk and Asset Management Research Centre plays a noted role in furthering applied financial research and systematically highlighting its practical uses. As part of its philosophy, the centre maintains a dialogue with professionals which benefits the

industry as a whole. At the same time, its proprietary R&D provides sponsors with an edge over competition and joint ventures allow selected partners to develop new business opportunities.

To further assist financial institutions and investors implement the latest research advances in order to meet the challenges of the changing asset management landscape, the centre has spawned two consultancies and an executive education arm. Clients of these derivative activities include many of the leading organisations throughout Europe.”

see http://www.edhec-risk.com/about_us

Source

http://www.edhec-risk.com/indexes/pure_style

References

About EDHEC Alternative Indexes. December 16, 2003. EDHEC-Risk.

http://www.edhec-risk.com/indexes/pure_style/about

Vaissie Mathieu. A Detailed Analysis of the Construction Methods and Management Principles of Hedge Fund Indices. October 2003. EDHEC.

http://www.edhec-risk.com/site_edhec_risk/public/indexes/EDHEC_Publications/RISKReview10727051880657

Examples

```
data(edhec)

#preview the data
head(edhec)

#summary period statistics
summary(edhec)

#cumulative index returns
tail(cumprod(1+edhec),1)
```

| | |
|-----|---|
| ETL | <i>calculates Expected Shortfall(ES) (or Conditional Value-at-Risk(CVaR) for univariate and component, using a variety of analytical methods.</i> |
|-----|---|

Description

Calculates Expected Shortfall(ES) (also known as) Conditional Value at Risk(CVaR) or Expected Tail Loss (ETL) for univariate, component, and marginal cases using a variety of analytical methods.

Usage

```
ETL(R = NULL, p = 0.95, ...,
    method = c("modified", "gaussian", "historical"),
    clean = c("none", "boudt", "geltner"),
    portfolio_method = c("single", "component"),
    weights = NULL, mu = NULL, sigma = NULL, m3 = NULL,
    m4 = NULL, invert = TRUE, operational = TRUE)
```

Arguments

| | |
|------------------|---|
| R | a vector, matrix, data frame, timeSeries or zoo object of asset returns |
| p | confidence level for calculation, default p=.95 |
| method | one of "modified", "gaussian", "historical", see Details. |
| clean | method for data cleaning through Return.clean . Current options are "none", "boudt", or "geltner". |
| portfolio_method | one of "single", "component", "marginal" defining whether to do univariate, component, or marginal calc, see Details. |
| weights | portfolio weighting vector, default NULL, see Details |
| mu | If univariate, mu is the mean of the series. Otherwise mu is the vector of means of the return series , default NULL, , see Details |
| sigma | If univariate, sigma is the variance of the series. Otherwise sigma is the covariance matrix of the return series , default NULL, see Details |
| m3 | If univariate, m3 is the skewness of the series. Otherwise m3 is the coskewness matrix of the returns series, default NULL, see Details |
| m4 | If univariate, m4 is the excess kurtosis of the series. Otherwise m4 is the cokurtosis matrix of the return series, default NULL, see Details |
| invert | TRUE/FALSE whether to invert the VaR measure. see Details. |
| operational | TRUE/FALSE, default TRUE, see Details. |
| ... | any other passthru parameters |

Background

This function provides several estimation methods for the Expected Shortfall (ES) (also called Expected Tail Loss (ETL) or Conditional Value at Risk (CVaR)) of a return series and the Component ES (ETL/CVaR) of a portfolio.

At a preset probability level denoted c , which typically is between 1 and 5 per cent, the ES of a return series is the negative value of the expected value of the return when the return is less than its c -quantile. Unlike value-at-risk, conditional value-at-risk has all the properties a risk measure should have to be coherent and is a convex function of the portfolio weights (Pflug, 2000). With a sufficiently large data set, you may choose to estimate ES with the sample average of all returns that are below the c empirical quantile. More efficient estimates of VaR are obtained if a (correct) assumption is made on the return distribution, such as the normal distribution. If your return series is skewed and/or has excess kurtosis, Cornish-Fisher estimates of ES can be more appropriate. For

the ES of a portfolio, it is also of interest to decompose total portfolio ES into the risk contributions of each of the portfolio components. For the above mentioned ES estimators, such a decomposition is possible in a financially meaningful way.

Note

The option to invert the ES measure should appease both academics and practitioners. The mathematical definition of ES as the negative value of extreme losses will (usually) produce a positive number. Practitioners will argue that ES denotes a loss, and should be internally consistent with the quantile (a negative number). For tables and charts, different preferences may apply for clarity and compactness. As such, we provide the option, and set the default to TRUE to keep the return consistent with prior versions of PerformanceAnalytics, but make no value judgement on which approach is preferable.

Author(s)

Brian G. Peterson and Kris Boudt

References

- Boudt, Kris, Peterson, Brian, and Christophe Croux. 2008. Estimation and decomposition of downside risk for portfolios with non-normal returns. 2008. *The Journal of Risk*, vol. 11, 79-103.
- Cont, Rama, Deguest, Romain and Giacomo Scandolo. Robustness and sensitivity analysis of risk measurement procedures. Financial Engineering Report No. 2007-06, Columbia University Center for Financial Engineering.
- Laurent Favre and Jose-Antonio Galeano. Mean-Modified Value-at-Risk Optimization with Hedge Funds. *Journal of Alternative Investment*, Fall 2002, v 5.
- Martellini, Lionel, and Volker Ziemann. Improved Forecasts of Higher-Order Comoments and Implications for Portfolio Selection. 2007. EDHEC Risk and Asset Management Research Centre working paper.
- Pflug, G. Ch. Some remarks on the value-at-risk and the conditional value-at-risk. In S. Uryasev, ed., *Probabilistic Constrained Optimization: Methodology and Applications*, Dordrecht: Kluwer, 2000, 272-281.
- Scaillet, Olivier. Nonparametric estimation and sensitivity analysis of expected shortfall. *Mathematical Finance*, 2002, vol. 14, 74-86.

See Also

[VaR](#)
[SharpeRatio.modified](#)
[chart.VaRSensitivity](#)
[Return.clean](#)

Examples

```
data(edhec)

# first do normal ES calc
```

```

ES(edhec, p=.95, method="historical")

# now use Gaussian
ES(edhec, p=.95, method="gaussian")

# now use modified Cornish Fisher calc to take non-normal distribution into account
ES(edhec, p=.95, method="modified")

# now use p=.99
ES(edhec, p=.99)
# or the equivalent alpha=.01
ES(edhec, p=.01)

# now with outliers squished
ES(edhec, clean="boudt")

# add Component ES for the equal weighted portfolio
ES(edhec, clean="boudt", portfolio_method="component")

```

FamaBeta

Fama beta of the return distribution

Description

Fama beta is a beta used to calculate the loss of diversification. It is made so that the systematic risk is equivalent to the total portfolio risk.

Usage

```
FamaBeta(Ra, Rb, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| ... | any other passthru parameters |

Details

$$\beta_F = \frac{\sigma_P}{\sigma_M}$$

where σ_P is the portfolio standard deviation and σ_M is the market risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.78

Examples

```
data(portfolio_bacon)
print(FamaBeta(portfolio_bacon[,1], portfolio_bacon[,2])) #expected 1.03

data(managers)
print(FamaBeta(managers['1996',1], managers['1996',8]))
print(FamaBeta(managers['1996',1:5], managers['1996',8]))
```

| | |
|---------------|--|
| findDrawdowns | <i>Find the drawdowns and drawdown levels in a timeseries.</i> |
|---------------|--|

Description

findDrawdowns will find the starting period, the ending period, and the amount and length of the drawdown.

Usage

```
findDrawdowns(R, geometric = TRUE, ...)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| ... | any other passthru parameters |

Details

Often used with [sortDrawdowns](#) to get the largest drawdowns.

Drawdowns will calculate the drawdown levels as percentages, for use in [chart.Drawdown](#).

Returns an unordered list:

- return depth of drawdown
- from starting period
- to ending period
- length length in periods

Author(s)

Peter Carl

findDrawdowns modified with permission from function by Sankalp Upadhyay

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 88

See Also

[sortDrawdowns](#)
[maxDrawdown](#)
[sortDrawdowns](#)
[table.Drawdowns](#)
[table.DownsideRisk](#)
[chart.Drawdown](#)

Examples

```
data(edhec)
findDrawdowns(edhec[, "Funds of Funds", drop=FALSE])
sortDrawdowns(findDrawdowns(edhec[, "Funds of Funds", drop=FALSE]))
```

Frequency

Frequency of the return distribution

Description

Gives the period of the return distribution (ie 12 if monthly return, 4 if quarterly return)

Usage

```
Frequency(R, ...)
```

Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 ... any other passthru parameters

Author(s)

Matthieu Lestel

Examples

```
data(portfolio_bacon)
print(Frequency(portfolio_bacon[,1])) #expected 12
data(managers)
print(Frequency(managers['1996',1:5]))
```

| | |
|------------------|--|
| InformationRatio | $InformationRatio = ActivePremium / TrackingError$ |
|------------------|--|

Description

The Active Premium divided by the Tracking Error.

Usage

```
InformationRatio(Ra, Rb, scale = NA)
```

Arguments

| | |
|-------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |

Details

$InformationRatio = ActivePremium / TrackingError$

This relates the degree to which an investment has beaten the benchmark to the consistency with which the investment has beaten the benchmark.

Note

William Sharpe now recommends InformationRatio preferentially to the original [SharpeRatio](#).

Author(s)

Peter Carl

References

Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.

See Also

[TrackingError](#)
[ActivePremium](#)
[SharpeRatio](#)

Examples

```
data(managers)
InformationRatio(managers[, "HAM1", drop=FALSE], managers[, "SP500 TR", drop=FALSE])
InformationRatio(managers[, 1:6], managers[, 8, drop=FALSE])
InformationRatio(managers[, 1:6], managers[, 8:7])
```

Kappa

*Kappa of the return distribution***Description**

Introduced by Kaplan and Knowles (2004), Kappa is a generalized downside risk-adjusted performance measure.

Usage

```
Kappa(R, MAR, l, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| l | the coefficient of the Kappa |
| ... | any other passthru parameters |

Details

To calculate it, we take the difference of the mean of the distribution to the target and we divide it by the l-root of the lth lower partial moment. To calculate the lth lower partial moment we take the subset of returns below the target and we sum the differences of the target to these returns. We then return return this sum divided by the length of the whole distribution.

$$Kappa(R, MAR, l) = \frac{r_p - MAR}{\sqrt[l]{\frac{1}{n} * \sum_{t=1}^n \max(MAR - R_t, 0)^l}}$$

For l=1 kappa is the Sharpe-omega ratio and for l=2 kappa is the sortino ratio.

Kappa should only be used to rank portfolios as it is difficult to interpret the absolute differences between kappas. The higher the kappa is, the better.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.96

Examples

```

1 = 2

data(portfolio_bacon)
MAR = 0.005
print(Kappa(portfolio_bacon[,1], MAR, 1)) #expected 0.157

data(managers)
MAR = 0
print(Kappa(managers['1996'], MAR, 1))
print(Kappa(managers['1996',1], MAR, 1)) #expected 1.493

```

| | |
|------------|--|
| KellyRatio | <i>calculate Kelly criterion ratio (leverage or bet size) for a strategy</i> |
|------------|--|

Description

Kelly criterion ratio (leverage or bet size) for a strategy.

Usage

```
KellyRatio(R, Rf = 0, method = "half")
```

Arguments

| | |
|--------|--|
| R | a vector of returns to perform a mean over |
| Rf | risk free rate, in same period as your returns |
| method | method=half will use the half-Kelly, this is the default |

Details

The Kelly Criterion was identified by Bell Labs scientist John Kelly, and applied to blackjack and stock strategy sizing by Ed Thorpe.

The Kelly ratio can be simply stated as: “bet size is the ratio of edge over odds.” Mathematically, you are maximizing log-utility. As such, the Kelly criterion is equal to the expected excess return of the strategy divided by the expected variance of the excess return, or

$$leverage = \frac{(\bar{R}_s - R_f)}{StdDev(R)^2}$$

As a performance metric, the Kelly Ratio is calculated retrospectively on a particular investment as a measure of the edge that investment has over the risk free rate. It may be use as a stack ranking method to compare investments in a manner similar to the various ratios related to the Sharpe ratio.

Author(s)

Brian G. Peterson

References

Thorp, Edward O. (1997; revised 1998). The Kelly Criterion in Blackjack, Sports Betting, and the Stock Market. <http://www.bjmath.com/bjmath/thorp/paper.htm>
http://en.wikipedia.org/wiki/Kelly_criterion

Examples

```
data(managers)
  KellyRatio(managers[,1,drop=FALSE], Rf=.04/12)
  KellyRatio(managers[,1,drop=FALSE], Rf=managers[,10,drop=FALSE])
  KellyRatio(managers[,1:6], Rf=managers[,10,drop=FALSE])
```

| | |
|----------|-----------------|
| kurtosis | <i>Kurtosis</i> |
|----------|-----------------|

Description

compute kurtosis of a univariate distribution

Usage

```
kurtosis(x, na.rm = FALSE,
  method = c("excess", "moment", "fisher", "sample", "sample_excess"),
  ...)
```

Arguments

| | |
|--------|---|
| na.rm | a logical. Should missing values be removed? |
| method | a character string which specifies the method of computation. These are either "moment", "fisher", or "excess". If "excess" is selected, then the value of the kurtosis is computed by the "moment" method and a value of 3 will be subtracted. The "moment" method is based on the definitions of kurtosis for distributions; these forms should be used when resampling (bootstrap or jackknife). The "fisher" method correspond to the usual "unbiased" definition of sample variance, although in the case of kurtosis exact unbiasedness is not possible. The "sample" method gives the sample kurtosis of the distribution. |
| x | a numeric vector or object. |
| ... | arguments to be passed. |

Details

This function was ported from the RMetrics package fUtilities to eliminate a dependency on fUtilities being loaded every time. This function is identical except for the addition of [checkData](#) and additional labeling.

$$Kurtosis(moment) = \frac{1}{n} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_P} \right)^4$$

$$Kurtosis(excess) = \frac{1}{n} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_P} \right)^4 - 3$$

$$Kurtosis(sample) = \frac{n * (n + 1)}{(n - 1) * (n - 2) * (n - 3)} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_{SP}} \right)^4$$

$$Kurtosis(fisher) = \frac{(n + 1) * (n - 1)}{(n - 2) * (n - 3)} * \left(\frac{\sum_{i=1}^n \frac{(r_i)^4}{n}}{\left(\sum_{i=1}^n \left(\frac{r_i}{n} \right)^2 \right)^2} - \frac{3 * (n - 1)}{n + 1} \right)$$

$$Kurtosis(sampleexcess) = \frac{n * (n + 1)}{(n - 1) * (n - 2) * (n - 3)} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_{SP}} \right)^4 - \frac{3 * (n - 1)^2}{(n - 2) * (n - 3)}$$

where n is the number of return, \bar{r} is the mean of the return distribution, σ_P is its standard deviation and σ_{SP} is its sample standard deviation

Author(s)

Diethelm Wuertz, Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.84-85

See Also

[skewness](#).

Examples

```
## mean -
## var -
# Mean, Variance:
r = rnorm(100)
mean(r)
var(r)

## kurtosis -
kurtosis(r)

data(managers)
kurtosis(managers[,1:8])

data(portfolio_bacon)
print(kurtosis(portfolio_bacon[,1], method="sample")) #expected 3.03
print(kurtosis(portfolio_bacon[,1], method="sample_excess")) #expected -0.41
print(kurtosis(managers['1996'], method="sample"))
print(kurtosis(managers['1996',1], method="sample"))
```

M2Sortino

M squared for Sortino of the return distribution

Description

M squared for Sortino is a M^2 calculated for Downside risk instead of Total Risk

Usage

```
M2Sortino(Ra, Rb, MAR = 0, ...)
```

Arguments

| | |
|-----|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset return |
| Rb | return vector of the benchmark asset |
| MAR | the minimum acceptable return |
| ... | any other passthru parameters |

Details

$$M_S^2 = r_P + Sortinoratio * (\sigma_{DM} - \sigma_D)$$

where M_S^2 is MSquared for Sortino, r_P is the annualised portfolio return, σ_{DM} is the benchmark annualised downside risk and D is the portfolio annualised downside risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.102-103

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(M2Sortino(portfolio_bacon[,1], portfolio_bacon[,2], MAR)) #expected 0.1035

data(managers)
MAR = 0
print(MSquaredExcess(managers['1996',1], managers['1996',8], MAR))
print(MSquaredExcess(managers['1996',1:5], managers['1996',8], MAR))
```

managers

Hypothetical Alternative Asset Manager and Benchmark Data

Description

A xts object that contains columns of monthly returns for six hypothetical asset managers (HAM1 through HAM6), the EDHEC Long-Short Equity hedge fund index, the S&P 500 total returns, and total return series for the US Treasury 10-year bond and 3-month bill. Monthly returns for all series end in December 2006 and begin at different periods starting from January 1996.

Note that all the EDHEC indices are available in [edhec](#).

Usage

managers

Format

CSV conformed into an xts object with monthly observations

Details

Please note that the ‘managers’ data set included with PerformanceAnalytics will be periodically updated with new managers and information. If you intend to use this data set in automated tests, please be sure to subset your data like `managers[1:120, 1:6]` to use the first ten years of observations on HAM1-HAM6.

Examples

```
data(managers)

#preview the data
head(managers)

#summary period statistics
summary(managers)

#cumulative returns
tail(cumprod(1+managers),1)
```

| | |
|-------------|--|
| MartinRatio | <i>Martin ratio of the return distribution</i> |
|-------------|--|

Description

To calculate Martin ratio we divide the difference of the portfolio return and the risk free rate by the Ulcer index

Usage

```
MartinRatio(R, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$Martinratio = \frac{r_P - r_F}{\sqrt{\sum_{i=1}^n \frac{D_i'^2}{n}}}$$

where r_P is the annualized portfolio return, r_F is the risk free rate, n is the number of observations of the entire series, D_i' is the drawdown since previous peak in period i

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.91

Examples

```
data(portfolio_bacon)
print(MartinRatio(portfolio_bacon[,1])) #expected 1.70

data(managers)
print(MartinRatio(managers['1996']))
print(MartinRatio(managers['1996',1]))
```

maxDrawdown*calculate the maximum drawdown from peak equity*

Description

To find the maximum drawdown in a return series, we need to first calculate the cumulative returns and the maximum cumulative return to that point. Any time the cumulative returns dips below the maximum cumulative returns, it's a drawdown. Drawdowns are measured as a percentage of that maximum cumulative return, in effect, measured from peak equity.

Usage

```
maxDrawdown(R, weights = NULL, geometric = TRUE,  
            invert = TRUE, ...)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| weights | portfolio weighting vector, default NULL, see Details |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| invert | TRUE/FALSE whether to invert the drawdown measure. see Details. |
| ... | any other passthru parameters |

Details

The option to invert the measure should appease both academics and practitioners. The default option `invert=TRUE` will provide the drawdown as a positive number. This should be useful for optimization (which usually seeks to minimize a value), and for tables (where having negative signs in front of every number may be considered clutter). Practitioners will argue that drawdowns denote losses, and should be internally consistent with the quantile (a negative number), for which `invert=FALSE` will provide the value they expect. Individually, different preferences may apply for clarity and compactness. As such, we provide the option, but make no value judgment on which approach is preferable.

Author(s)

Peter Carl

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 88

See Also

[findDrawdowns](#)
[sortDrawdowns](#)
[table.Drawdowns](#)
[table.DownsideRisk](#)
[chart.Drawdown](#)

Examples

```
data(edhec)
t(round(maxDrawdown(edhec[, "Funds of Funds"]), 4))
data(managers)
t(round(maxDrawdown(managers), 4))
```

| | |
|----------------|--|
| mean.geometric | <i>calculate attributes relative to the mean of the observation series given, including geometric, stderr, LCL and UCL</i> |
|----------------|--|

Description

| | |
|--------------------------------|--|
| mean.geometric | geometric mean |
| mean.stderr | standard error of the mean (S.E. mean) |
| mean.LCL | lower confidence level (LCL) of the mean |
| mean.UCL | upper confidence level (UCL) of the mean |

Usage

```
## S3 method for class 'geometric'
mean(x, ...)

## S3 method for class 'stderr'
mean(x, ...)

## S3 method for class 'LCL'
mean(x, ci = 0.95, ...)

## S3 method for class 'UCL'
mean(x, ci = 0.95, ...)
```

Arguments

| | |
|------------------|--|
| <code>x</code> | a vector, matrix, data frame, or time series to calculate the modified mean statistic over |
| <code>ci</code> | the confidence interval to use |
| <code>...</code> | any other passthru parameters |

Author(s)

Peter Carl

See Also

[sd](#)
[mean](#)

Examples

```
data(edhec)
mean.geometric(edhec[, "Funds of Funds"])
mean.stderr(edhec[, "Funds of Funds"])
mean.UCL(edhec[, "Funds of Funds"])
mean.LCL(edhec[, "Funds of Funds"])
```

MeanAbsoluteDeviation *Mean absolute deviation of the return distribution*

Description

To calculate Mean absolute deviation we take the sum of the absolute value of the difference between the returns and the mean of the returns and we divide it by the number of returns.

Usage

```
MeanAbsoluteDeviation(R, ...)
```

Arguments

| | |
|------------------|---|
| <code>R</code> | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| <code>...</code> | any other passthru parameters |

Details

$$MeanAbsoluteDeviation = \frac{\sum_{i=1}^n |r_i - \bar{r}|}{n}$$

where n is the number of observations of the entire series, r_i is the return in month i and \bar{r} is the mean return

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.62

Examples

```
data(portfolio_bacon)
print(MeanAbsoluteDeviation(portfolio_bacon[,1])) #expected 0.0310

data(managers)
print(MeanAbsoluteDeviation(managers['1996']))
print(MeanAbsoluteDeviation(managers['1996',1]))
```

MSquared

M squared of the return distribution

Description

M squared is a risk adjusted return useful to judge the size of relative performance between different portfolios. With it you can compare portfolios with different levels of risk.

Usage

```
MSquared(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset return |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$M^2 = r_P + SR * (\sigma_M - \sigma_P) = (r_P - r_F) * \frac{\sigma_M}{\sigma_P} + r_F$$

where r_P is the portfolio return annualized, σ_M is the market risk and σ_P is the portfolio risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.67-68

Examples

```
data(portfolio_bacon)
print(MSquared(portfolio_bacon[,1], portfolio_bacon[,2])) #expected 0.1068

data(managers)
print(MSquared(managers['1996',1], managers['1996',8]))
print(MSquared(managers['1996',1:5], managers['1996',8]))
```

| | |
|----------------|--|
| MSquaredExcess | <i>M squared excess of the return distribution</i> |
|----------------|--|

Description

M squared excess is the quantity above the standard M. There is a geometric excess return which is better for Bacon and an arithmetic excess return

Usage

```
MSquaredExcess(Ra, Rb, Rf = 0,
  Method = c("geometric", "arithmetic"), ...)
```

Arguments

| | |
|--------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset return |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| Method | one of "geometric" or "arithmetic" indicating the method to use to calculate MSquareExcess |
| ... | any other passthru parameters |

Details

$$M^2 excess(geometric) = \frac{1 + M^2}{1 + b} - 1$$

$$M^2 excess(arithmetic) = M^2 - b$$

where M^2 is MSquared and b is the benchmark annualised return.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008
p.68

Examples

```
data(portfolio_bacon)
print(MSquaredExcess(portfolio_bacon[,1], portfolio_bacon[,2])) #expected -0.00998
print(MSquaredExcess(portfolio_bacon[,1], portfolio_bacon[,2], Method="arithmetic")) #expected -0.011

data(managers)
print(MSquaredExcess(managers['1996',1], managers['1996',8]))
print(MSquaredExcess(managers['1996',1:5], managers['1996',8]))
```

| | |
|----------------|---|
| NetSelectivity | <i>Net selectivity of the return distribution</i> |
|----------------|---|

Description

Net selectivity is the remaining selectivity after deducting the amount of return require to justify not being fully diversified

Usage

```
NetSelectivity(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

If net selectivity is negative the portfolio manager has not justified the loss of diversification

$$Netselectivity = \alpha - d$$

where α is the selectivity and d is the diversification

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.78

Examples

```
data(portfolio_bacon)
print(NetSelectivity(portfolio_bacon[,1], portfolio_bacon[,2])) #expected -0.017

data(managers)
print(NetSelectivity(managers['1996',1], managers['1996',8]))
print(NetSelectivity(managers['1996',1:5], managers['1996',8]))
```

Omega

calculate Omega for a return series

Description

Keating and Shadwick (2002) proposed Omega (referred to as Gamma in their original paper) as a way to capture all of the higher moments of the returns distribution.

Usage

```
Omega(R, L = 0,
      method = c("simple", "interp", "binomial", "blackscholes"),
      output = c("point", "full"), Rf = 0, ...)
```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| L | L is the loss threshold that can be specified as zero, return from a benchmark index, or an absolute rate of return - any specified level |
| method | one of: simple, interp, binomial, blackscholes |
| output | one of: point (in time), or full (distribution of Omega) |
| Rf | risk free rate, as a single number |
| ... | any other passthru parameters |

Details

Mathematically, Omega is: $\text{integral}[L \text{ to } b](1 - F(r))dr / \text{integral}[a \text{ to } L](F(r))dr$

where the cumulative distribution F is defined on the interval (a,b). L is the loss threshold that can be specified as zero, return from a benchmark index, or an absolute rate of return - any specified level. When comparing alternatives using Omega, L should be common.

Input data can be transformed prior to calculation, which may be useful for introducing risk aversion.

This function returns a vector of Omega, useful for plotting. The steeper, the less risky. Above it's mean, a steeply sloped Omega also implies a very limited potential for further gain.

Omega has a value of 1 at the mean of the distribution.

Omega is sub-additive. The ratio is dimensionless.

Kazemi, Schneeweis, and Gupta (2003), in "Omega as a Performance Measure" show that Omega can be written as: $\Omega(L) = C(L)/P(L)$ where $C(L)$ is essentially the price of a European call option written on the investment and $P(L)$ is essentially the price of a European put option written on the investment. The maturity for both options is one period (e.g., one month) and L is the strike price of both options.

The numerator and the denominator can be expressed as: $\exp(-R_f) * E[\max(x - L, 0)]$ and $\exp(-R_f) * E[\max(L - x, 0)]$ with $\exp(-R_f)$ calculating the present values of the two, where r_f is the per-period riskless rate.

The first three methods implemented here focus on that observation. The first method takes the simplification described above. The second uses the Black-Scholes option pricing as implemented in `fOptions`. The third uses the binomial pricing model from `fOptions`. The second and third methods are not implemented here.

The fourth method, "interp", creates a linear interpolation of the cdf of returns, calculates Omega as a vector, and finally interpolates a function for Omega as a function of L . This method requires library `Hmisc`, which can be found on CRAN.

Author(s)

Peter Carl

References

Keating, J. and Shadwick, W.F. The Omega Function. working paper. Finance Development Center, London. 2002. Kazemi, Schneeweis, and Gupta. Omega as a Performance Measure. 2003.

See Also

[Ecdf](#)

Examples

```
data(edhec)
Omega(edhec)
Omega(edhec[,13],method="interp",output="point")
Omega(edhec[,13],method="interp",output="full")
```

| | |
|-------------------|---|
| OmegaExcessReturn | <i>Omega excess return of the return distribution</i> |
|-------------------|---|

Description

Omega excess return is another form of downside risk-adjusted return. It is calculated by multiplying the downside variance of the style benchmark by 3 times the style beta.

Usage

```
OmegaExcessReturn(Ra, Rb, MAR = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| MAR | the minimum acceptable return |
| ... | any other passthru parameters |

Details

$$\omega = r_P - 3 * \beta_S * \sigma_{MD}^2$$

where ω is omega excess return, β_S is style beta, σ_D is the portfolio annualised downside risk and σ_{MD} is the benchmark annualised downside risk.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.103

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(OmegaExcessReturn(portfolio_bacon[,1], portfolio_bacon[,2], MAR)) #expected 0.0805

data(managers)
MAR = 0
print(OmegaExcessReturn(managers['1996',1], managers['1996',8], MAR))
print(OmegaExcessReturn(managers['1996',1:5], managers['1996',8], MAR))
```

| | |
|------------------|--|
| OmegaSharpeRatio | <i>Omega-Sharpe ratio of the return distribution</i> |
|------------------|--|

Description

The Omega-Sharpe ratio is a conversion of the omega ratio to a ranking statistic in familiar form to the Sharpe ratio.

Usage

```
OmegaSharpeRatio(R, MAR = 0, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| ... | any other passthru parameters |

Details

To calculate the Omega-Sharpe ration we subtract the target (or Minimum Acceptable Returns (MAR)) return from the portfolio return and we divide it by the opposite of the Downside Deviation.

$$OmegaSharpeRatio(R, MAR) = \frac{r_p - r_t}{\sum_{t=1}^n \frac{\max(r_t - r_i, 0)}{n}}$$

where n is the number of observations of the entire series

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008, p.95

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(OmegaSharpeRatio(portfolio_bacon[,1], MAR)) #expected 0.29

MAR = 0
data(managers)
print(OmegaSharpeRatio(managers['1996'], MAR))
print(OmegaSharpeRatio(managers['1996',1], MAR)) #expected 3.60
```

PainIndex

*Pain index of the return distribution***Description**

The pain index is the mean value of the drawdowns over the entire analysis period. The measure is similar to the Ulcer index except that the drawdowns are not squared. Also, it's different than the average drawdown, in that the numerator is the total number of observations rather than the number of drawdowns.

Usage

```
PainIndex(R, ...)
```

Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 ... any other passthru parameters

Details

Visually, the pain index is the area of the region that is enclosed by the horizontal line at zero percent and the drawdown line in the Drawdown chart.

$$Painindex = \sum_{i=1}^n \frac{|D'_i|}{n}$$

where n is the number of observations of the entire series, D'_i is the drawdown since previous peak in period i

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.89, Becker, Thomas (2006) Zephyr Associates

Examples

```
data(portfolio_bacon)
print(PainIndex(portfolio_bacon[,1])) #expected 0.04

data(managers)
print(PainIndex(100*managers['1996']))
print(PainIndex(100*managers['1996',1]))
```

| | |
|-----------|--|
| PainRatio | <i>Pain ratio of the return distribution</i> |
|-----------|--|

Description

To calculate Pain ratio we divide the difference of the portfolio return and the risk free rate by the Pain index

Usage

```
PainRatio(R, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$Painratio = \frac{r_P - r_F}{\sum_{i=1}^n \frac{|D'_i|}{n}}$$

where r_P is the annualized portfolio return, r_F is the risk free rate, n is the number of observations of the entire series, D'_i is the drawdown since previous peak in period i

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.91

Examples

```
data(portfolio_bacon)
print(PainRatio(portfolio_bacon[,1])) #expected 2.66

data(managers)
print(PainRatio(managers['1996']))
print(PainRatio(managers['1996',1]))
```

| | |
|-----------------|-------------------------|
| portfolio_bacon | <i>Bacon(2008) Data</i> |
|-----------------|-------------------------|

Description

A xts object that contains columns of monthly returns for an example of portfolio and its benchmark

Usage

```
portfolio_bacon
```

Format

CSV conformed into an xts object with monthly observations

Examples

```
data(portfolio_bacon)

#preview the data
head(portfolio_bacon)

#summary period statistics
summary(portfolio_bacon)

#cumulative returns
tail(cumprod(1+portfolio_bacon),1)
```

| | |
|--------|---|
| prices | <i>Selected Price Series Example Data</i> |
|--------|---|

Description

A object returned by get.hist.quote of price data for use in the example for [Return.calculate](#)

Usage

```
prices
```

Format

R variable 'prices'

Examples

```
data(prices)

#preview the data
head(prices)
```

| | |
|---------------|--|
| ProspectRatio | <i>Prospect ratio of the return distribution</i> |
|---------------|--|

Description

Prospect ratio is a ratio used to penalise loss since most people feel loss greater than gain

Usage

```
ProspectRatio(R, MAR, ...)
```

Arguments

| | |
|-----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | the minimum acceptable return |
| ... | any other passthru parameters |

Details

$$ProspectRatio(R) = \frac{\frac{1}{n} * \sum_{i=1}^n (Max(r_i, 0) + 2.25 * Min(r_i, 0) - MAR)}{\sigma_D}$$

where n is the number of observations of the entire series, MAR is the minimum acceptable return and σ_D is the downside risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008
p.100

Examples

```
data(portfolio_bacon)
MAR = 0.05
print(ProspectRatio(portfolio_bacon[,1], MAR)) #expected -0.134

data(managers)
MAR = 0
print(ProspectRatio(managers['1996'], MAR))
print(ProspectRatio(managers['1996',1], MAR))
```

| | |
|-------------------|---|
| replaceTabs.inner | <i>Display text information in a graphics plot.</i> |
|-------------------|---|

Description

This function displays text output in a graphics window. It is the equivalent of 'print' except that the output is displayed as a plot.

Usage

```
replaceTabs.inner(text, width = 8)

replaceTabs(text, width = 8)

textplot(object, halign = "center", valign = "center",
  cex, max.cex = 1, cmar = 2, rmar = 0.5,
  show.rownames = TRUE, show.colnames = TRUE, hadj = 1,
  vadj = NULL, row.valign = "center",
  heading.valign = "bottom", mar = c(0, 0, 0, 0) + 0.1,
  col.data = par("col"), col.rownames = par("col"),
  col.colnames = par("col"), wrap = TRUE,
  wrap.colnames = 10, wrap.rownames = 10, ...)

## Default S3 method:
textplot(object,
  halign = c("center", "left", "right"),
  valign = c("center", "top", "bottom"), cex, max.cex,
  cmar, rmar, show.rownames, show.colnames, hadj, vadj,
  row.valign, heading.valign, mar, col.data,
  col.rownames, col.colnames, wrap, wrap.colnames,
  wrap.rownames, ...)

## S3 method for class 'data.frame'
textplot(object,
  halign = c("center", "left", "right"),
  valign = c("center", "top", "bottom"), cex,
  max.cex = 1, cmar = 2, rmar = 0.5,
```

```

show.rownames = TRUE, show.colnames = TRUE, hadj = 1,
vadj = NULL, row.valign = "center",
heading.valign = "bottom", mar = c(0, 0, 0, 0) + 0.1,
col.data = par("col"), col.rownames = par("col"),
col.colnames = par("col"), wrap = TRUE,
wrap.colnames = 10, wrap.rownames = 10, ...)

## S3 method for class 'matrix'
textplot(object,
  halign = c("center", "left", "right"),
  valign = c("center", "top", "bottom"), cex,
  max.cex = 1, cmar = 2, rmar = 0.5,
  show.rownames = TRUE, show.colnames = TRUE, hadj = 1,
  vadj = NULL, row.valign = "center",
  heading.valign = "bottom", mar = c(0, 0, 0, 0) + 0.1,
  col.data = par("col"), col.rownames = par("col"),
  col.colnames = par("col"), wrap = TRUE,
  wrap.colnames = 10, wrap.rownames = 10, ...)

## S3 method for class 'character'
textplot(object,
  halign = c("center", "left", "right"),
  valign = c("center", "top", "bottom"), cex,
  max.cex = 1, cmar = 2, rmar = 0.5,
  show.rownames = TRUE, show.colnames = TRUE, hadj = 1,
  vadj = NULL, row.valign = "center",
  heading.valign = "bottom", mar = c(0, 0, 3, 0) + 0.1,
  col.data = par("col"), col.rownames = par("col"),
  col.colnames = par("col"), wrap = TRUE,
  wrap.colnames = 10, wrap.rownames = 10,
  fixed.width = TRUE, cspace = 1, lspace = 1,
  tab.width = 8, ...)

```

Arguments

| | |
|---|--|
| <code>object</code> | Object to be displayed. |
| <code>halign</code> | Alignment in the x direction, one of "center", "left", or "right". |
| <code>valign</code> | Alignment in the y direction, one of "center", "top", or "bottom" |
| <code>cex</code> | Character size, see par for details. If unset, the code will attempt to use the largest value which allows the entire object to be displayed. |
| <code>mar</code> | Figure margins, see the documentation for <code>par</code> . |
| <code>rmar, cmar</code> | Space between rows or columns, in fractions of the size of the letter 'M'. |
| <code>show.rownames, show.colnames</code> | Logical value indicating whether row or column names will be displayed. |
| <code>hadj, vadj</code> | Vertical and horizontal location of elements within matrix cells. These have the same meaning as the <code>adj</code> graphics parameter (see par). |

| | |
|---|---|
| <code>col.data</code> | Colors for data elements. If a single value is provided, all data elements will be the same color. If a matrix matching the dimensions of the data is provided, each data element will receive the specified color. |
| <code>col.rownames, col.colnames</code> | Colors for row names and column names, respectively. Either may be specified as a scalar or a vector of appropriate length. |
| <code>max.cex</code> | Sets the largest text size as a ceiling |
| <code>row.valign</code> | Sets the vertical alignment of the row as "top", "bottom", or (default) "center". |
| <code>heading.valign</code> | Sets the vertical alignment of the heading as "top", (default) "bottom", or "center". |
| <code>wrap</code> | If TRUE (default), will wrap column names and rownames |
| <code>wrap.colnames</code> | The number of characters after which column labels will be wrapped. Default is 10. |
| <code>wrap.rownames</code> | The number of characters after which row headings will be wrapped. Default is 10. |
| <code>text</code> | in the function 'replaceTabs', the text string to be processed |
| <code>width</code> | in the function 'replaceTabs', the number of spaces to replace tabs with |
| <code>...</code> | Optional arguments passed to the text plotting command or specialized object methods |
| <code>fixed.width</code> | default is TRUE |
| <code>cspace</code> | default is 1 |
| <code>lspace</code> | default is 1 |
| <code>tab.width</code> | default is 8 |

Details

A new plot is created and the object is displayed using the largest font that will fit on in the plotting region. The `halign` and `valign` parameters can be used to control the location of the string within the plotting region.

For matrixes and vectors a specialized `textplot` function is available, which plots each of the cells individually, with column widths set according to the sizes of the column elements. If present, row and column labels will be displayed in a bold font.

`textplot` also uses `replaceTabs`, a function to replace all tabs in a string with an appropriate number of spaces. That function was also written by Gregory R. Warnes and included in the 'gplots' package.

Author(s)

Originally written by Gregory R. Warnes <warnes@bst.rochester.edu> for the package 'gplots', modified by Peter Carl

See Also

[plot](#),
[text](#),
[capture.output](#),
[textplot](#)

Examples

```
# Also see the examples in the original gplots textplot function
data(managers)
textplot(table.AnnualizedReturns(managers[,1:6]))

# This was really nice before Hmisc messed up 'format' from R-base
# prettify with format.df in hmisc package
# require("Hmisc")
result = t(table.CalendarReturns(managers[,1:8]))[-1:-12,]

# textplot(Hmisc::format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(1,dim(result)[2])), rmar = 0.

# title(main="Calendar Returns")
```

| | |
|-------------------|---|
| Return.annualized | <i>calculate an annualized return for comparing instruments with different length history</i> |
|-------------------|---|

Description

An average annualized return is convenient for comparing returns.

Usage

```
Return.annualized(R, scale = NA, geometric = TRUE)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |

Details

Annualized returns are useful for comparing two assets. To do so, you must scale your observations to an annual scale by raising the compound return to the number of periods in a year, and taking the root to the number of total observations:

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

where scale is the number of periods in a year, and n is the total number of periods for which you have observations.

For simple returns (geometric=FALSE), the formula is:

$$\overline{R_a} \cdot \text{scale}$$

Author(s)

Peter Carl

ReferencesBacon, Carl. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 6**See Also**[Return.cumulative](#),**Examples**

```
data(managers)
Return.annualized(managers[,1,drop=FALSE])
Return.annualized(managers[,1:8])
Return.annualized(managers[,1:8],geometric=FALSE)
```

| | |
|------------------|---|
| Return.calculate | <i>calculate simple or compound returns from prices</i> |
|------------------|---|

Description

calculate simple or compound returns from prices

Usage

```
Return.calculate(prices, method = c("discrete", "log"))
```

```
CalculateReturns(prices, method = c("discrete", "log"))
```

Arguments

| | |
|--------|---|
| prices | data object containing ordered price observations |
| method | calculate "discrete" or "log" returns, default discrete(simple) |

Details

Two requirements should be made clear. First, the function `Return.calculate` assumes regular price data. In this case, we downloaded monthly close prices. Prices can be for any time scale, such as daily, weekly, monthly or annual, as long as the data consists of regular observations. Irregular observations require time period scaling to be comparable. Fortunately, [to.period](#) in the `xts` package, or the [aggregate.zoo](#) in the `zoo` package supports management and conversion of irregular time series.

Second, if corporate actions, dividends, or other adjustments such as time- or money-weighting are to be taken into account, those calculations must be made separately. This is a simple function that assumes fully adjusted close prices as input. For the IBM timeseries in the example below, dividends

and corporate actions are not contained in the "close" price series, so we end up with "price returns" instead of "total returns". This can lead to significant underestimation of the return series over longer time periods. To use adjusted returns, specify `quote="AdjClose"` in `get.hist.quote`, which is found in package `tseries`.

We have changes the default arguments and settings for method from compound and simple to discrete and log and discrete to avoid confusing between the return type and the chaining method. In most of the rest of `PerformanceAnalytics`, compound and simple are used to refer to the *return chaining* method used for the returns. The default for this function is to use discrete returns, because most other package functions use compound chaining by default.

Author(s)

Peter Carl

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. Chapter 2

See Also

[Return.cumulative](#)

Examples

```
## Not run:
require(tseries)
prices = get.hist.quote("IBM", start = "1999-01-01", end = "2007-01-01", quote = "AdjClose", compression = "d")

## End(Not run)

R.IBM = Return.calculate(xts(prices), method="discrete")
colnames(R.IBM)="IBM"
chart.CumReturns(R.IBM,legend.loc="topleft", main="Cumulative Daily Returns for IBM")
round(R.IBM,2)
```

| | |
|-----------------|-----------------------------------|
| Return.centered | <i>calculate centered Returns</i> |
|-----------------|-----------------------------------|

Description

the n -th centered moment is calculated as

$$\mu^{(n)}(R) = E[(R - E(R))^n]$$

Usage

```
Return.centered(R, ...)

centeredmoment(R, power)

centeredcomoment(Ra, Rb, p1, p2, normalize = FALSE)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | an xts, vector, matrix, data frame, timeSeries or zoo object of index, benchmark, portfolio, or secondary asset returns to compare against |
| power | power or moment to calculate |
| p1 | first power of the comoment |
| p2 | second power of the comoment |
| normalize | whether to standardize the calculation to agree with common usage, or leave the default mathematical meaning |
| ... | any other passthru parameters |

Details

These functions are used internally by PerformanceAnalytics to calculate centered moments for a multivariate distribution as well as the standardized moments of a portfolio distribution. They are exposed here for users who wish to use them directly, and we'll get more documentation written when we can.

These functions were first utilized in Boudt, Peterson, and Croux (2008), and have been subsequently used in our other research.

~~ Additional Details will be added to documentation as soon as we have time to write them. Documentation Patches Welcome. ~~

Author(s)

Kris Boudt and Brian Peterson

References

Boudt, Kris, Brian G. Peterson, and Christophe Croux. 2008. Estimation and Decomposition of Downside Risk for Portfolios with Non-Normal Returns. *Journal of Risk*. Winter.

Martellini, Lionel, and Volker Ziemann. 2007. Improved Forecasts of Higher-Order Comoments and Implications for Portfolio Selection. EDHEC Risk and Asset Management Research Centre working paper.

Ranaldo, Angelo, and Laurent Favre Sr. 2005. How to Price Hedge Funds: From Two- to Four-Moment CAPM. SSRN eLibrary.

Scott, Robert C., and Philip A. Horvath. 1980. On the Direction of Preference for Moments of Higher Order than the Variance. *Journal of Finance* 35(4):915-919.

Examples

```
data(managers)
Return.centered(managers[,1:3,drop=FALSE])
```

| | |
|--------------|--|
| Return.clean | <i>clean returns in a time series to to provide more robust risk estimates</i> |
|--------------|--|

Description

A function that provides access to multiple methods for cleaning outliers from return data.

Usage

```
Return.clean(R, method = c("none", "boudt", "geltner"),
  alpha = 0.01, ...)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| method | one of "none", "boudt", which applies the function clean.boudt or "geltner" which applies the function Return.Geltner to R |
| alpha | the percentage of outliers you want to clean |
| ... | additional parameters passed into the underlying cleaning function |

Details

This is a wrapper for offering multiple data cleaning methods for data objects containing returns.

The primary value of data cleaning lies in creating a more robust and stable estimation of the distribution generating the large majority of the return data. The increased robustness and stability of the estimated moments using cleaned data should be used for portfolio construction. If an investor wishes to have a more conservative risk estimate, cleaning may not be indicated for risk monitoring.

In actual practice, it is probably best to back-test the results of both cleaned and uncleaned series to see what works best when forecasting risk with the particular combination of assets under consideration.

In this version, only one method is supported. See [clean.boudt](#) for more details.

Author(s)

Peter Carl

See Also

[clean.boudt](#)
[Return.Geltner](#)

Examples

```
data(managers)
head(Return.clean(managers[,1:4]),n=20)
chart.BarVaR(managers[,1,drop=FALSE], show.clean=TRUE, clean="boudt", lwd=2, methods="ModifiedVaR")
```

| | |
|-------------------|---|
| Return.cumulative | <i>calculate a compounded (geometric) cumulative return</i> |
|-------------------|---|

Description

This is a useful function for calculating cumulative return over a period of time, say a calendar year.
Can produce simple or geometric return.

Usage

```
Return.cumulative(R, geometric = TRUE)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |

Details

product of all the individual period returns

$$(1 + r_1)(1 + r_2)(1 + r_3) \dots (1 + r_n) - 1 = \text{prod}(1 + R) - 1$$

Author(s)

Peter Carl

References

Bacon, Carl. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 6

See Also

[Return.annualized](#)

Examples

```
data(managers)
Return.cumulative(managers[,1,drop=FALSE])
Return.cumulative(managers[,1:8])
Return.cumulative(managers[,1:8],geometric=FALSE)
```

| | |
|---------------|---|
| Return.excess | <i>Calculates the returns of an asset in excess of the given risk free rate</i> |
|---------------|---|

Description

Calculates the returns of an asset in excess of the given "risk free rate" for the period.

Usage

```
Return.excess(R, Rf = 0)
```

Arguments

| | |
|----|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns, or as a single digit average |

Details

Ideally, your risk free rate will be for each period you have returns observations, but a single average return for the period will work too.

Mean of the period return minus the period risk free rate

$$\overline{(R_a - R_f)}$$

OR

mean of the period returns minus a single numeric risk free rate

$$\overline{R_a} - R_f$$

Note that while we have, in keeping with common academic usage, assumed that the second parameter will be a risk free rate, you may also use any other timeseries as the second argument. A common alteration would be to use a benchmark to produce excess returns over a specific benchmark, as demonstrated in the examples below.

Author(s)

Peter Carl

References

Bacon, Carl. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 47-52

Examples

```
data(managers)
head(Return.excess(managers[,1,drop=FALSE], managers[,10,drop=FALSE]))
head(Return.excess(managers[,1,drop=FALSE], .04/12))
head(Return.excess(managers[,1:6], managers[,10,drop=FALSE]))
head(Return.excess(managers[,1,drop=FALSE], managers[,8,drop=FALSE]))
```

| | |
|----------------|---|
| Return.Geltner | <i>calculate Geltner liquidity-adjusted return series</i> |
|----------------|---|

Description

David Geltner developed a method to remove estimating or liquidity bias in real estate index returns. It has since been applied with success to other return series that show autocorrelation or illiquidity effects.

Usage

```
Return.Geltner(Ra, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |

Details

The theory is that by correcting for autocorrelation, you are uncovering a "true" return from a series of observed returns that contain illiquidity or manual pricing effects.

The Geltner autocorrelation adjusted return series may be calculated via:

$$R_G = \frac{R_t - (R_{t-1} \cdot \rho_1)}{1 - \rho_1}$$

where ρ_1 is the first-order autocorrelation of the return series R_a and R_t is the return of R_a at time t and R_{t-1} is the one-period lagged return.

Author(s)

Brian Peterson

References

"Edhec Funds of Hedge Funds Reporting Survey : A Return-Based Approach to Funds of Hedge Funds Reporting", Edhec Risk and Asset Management Research Centre, January 2005, p. 27

Geltner, David, 1991, Smoothing in Appraisal-Based Returns, Journal of Real Estate Finance and Economics, Vol.4, p.327-345.

Geltner, David, 1993, Estimating Market Values from Appraised Values without Assuming an Efficient Market, Journal of Real Estate Research, Vol.8, p.325-345.

Examples

```
data(managers)
head(Return.Geltner(managers[,1:3]),n=20)
```

Return.read

*Read returns data with different date formats***Description**

A simple wrapper of read.zoo with some defaults for different date formats and xts conversion

Usage

```
Return.read(filename = stop("Please specify a filename"),
  frequency = c("d", "m", "q", "i", "o"),
  format.in = c("ISO8601", "excel", "oo", "gnumeric"),
  sep = ",", header = TRUE, check.names = FALSE, ...)
```

Arguments

| | |
|-------------|--|
| filename | the name of the file to be read |
| frequency | <ul style="list-style-type: none"> • "d" sets as a daily timeseries using as.Date, • "m" sets as monthly timeseries using as.yearmon, • "q" sets as a quarterly timeseries using as.yearqtr, and • "i" sets as irregular timeseries using as.POSIXct |
| format.in | says how the data being read is formatted. Although the default is set to the ISO 8601 standard (which can also be set as " spreadsheets have less sensible date formats as defaults. See below. |
| sep | separator, default is "," |
| header | a logical value indicating whether the file contains the names of the variables as its first line. |
| check.names | logical. If TRUE then the names of the variables in the data frame are checked to ensure that they are syntactically valid variable names. If necessary they are adjusted (by make.names) so that they are, and also to ensure that there are no duplicates. See read.table |
| ... | passes through any other parameters to read.zoo |

Details

The parameter 'format.in' takes several values, including:

excel default date format for MS Excel spreadsheet csv format, which is "%m/%d/%Y"

oo default date format for OpenOffice spreadsheet csv format, "%m/%d/%y", although this may be operating system dependent

gnumeric default date format for Gnumeric spreadsheet, which is "%d-%b-%Y"

... alternatively, any specific format may be passed in, such as "%M/%y"

Author(s)

Peter Carl

See Also[read.zoo](#), [read.table](#)**Examples**

```
## Not run:
Return.read("managers.csv", frequency="d")

## End(Not run)
```

| | |
|--------------------|--|
| Return.rebalancing | <i>Calculates weighted returns for a portfolio of assets</i> |
|--------------------|--|

Description

Calculates weighted returns for a portfolio of assets. If you have a single weighting vector, or want the equal weighted portfolio, use `Return.portfolio`. If you have a portfolio that is periodically rebalanced, and multiple time periods with different weights, use `Return.rebalancing`. Both functions will subset the return series to only include returns for assets for which weight is provided.

Usage

```
Return.rebalancing(R, weights, ...)

Return.portfolio(R, weights = NULL, wealth.index = FALSE,
  contribution = FALSE, geometric = TRUE, ...)
```

Arguments

| | |
|---------------------------|--|
| <code>R</code> | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| <code>weights</code> | a time series or single-row matrix/vector containing asset weights, as percentages |
| <code>wealth.index</code> | TRUE/FALSE whether to return a wealth index, default FALSE |
| <code>contribution</code> | if contribution is TRUE, add the weighted return contributed by the asset in this period |
| <code>geometric</code> | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| <code>...</code> | any other passthru parameters |

Details

Return.rebalancing uses the date in the weights time series or matrix for xts-style subsetting of rebalancing periods. Rebalancing periods can be thought of as taking effect immediately after the close of the bar. So, a March 31 rebalancing date will actually be in effect for April 1. A December 31 rebalancing date will be in effect on Jan 1, and so forth. This convention was chosen because it fits with common usage, and because it simplifies xts Date subsetting via endpoints.

Return.rebalancing will rebalance only on daily or lower frequencies. If you are rebalancing intraday, you should be using a trading/prices framework, not a weights-based return framework.

Value

returns a time series of returns weighted by the weights parameter, possibly including contribution for each period

Author(s)

Brian G. Peterson

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. Chapter 2

See Also

[Return.calculate](#)

Examples

```
data(edhec)
data(weights)

# calculate an equal weighted portfolio return
round(Return.portfolio(edhec),4)

# now return the contribution too
round(Return.portfolio(edhec,contribution=TRUE),4)

# calculate a portfolio return with rebalancing
round(Return.rebalancing(edhec,weights),4)
```

| | |
|-----------------|--|
| Return.relative | <i>calculate the relative return of one asset to another</i> |
|-----------------|--|

Description

Calculates the ratio of the cumulative performance for two assets through time.

Usage

```
Return.relative(Ra, Rb, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return object for the benchmark asset |
| ... | ignored |

Value

xts or other time series of relative return

Author(s)

Peter Carl

See Also

[chart.RelativePerformance](#)

Examples

```
data(managers)
head(Return.relative(managers[,1:3], managers[,8,drop=FALSE]),n=20)
```

| | |
|-------------|---|
| Selectivity | <i>Selectivity of the return distribution</i> |
|-------------|---|

Description

Selectivity is the same as Jensen's alpha

Usage

```
Selectivity(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$Selectivity = r_p - r_f - \beta_p * (b - r_f)$$

where r_f is the risk free rate, β_r is the regression beta, r_p is the portfolio return and b is the benchmark return

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.78

Examples

```
data(portfolio_bacon)
print>Selectivity(portfolio_bacon[,1], portfolio_bacon[,2])) #expected -0.0141

data(managers)
print>Selectivity(managers['1996',1], managers['1996',8]))
print>Selectivity(managers['1996',1:5], managers['1996',8]))
```

| | |
|-------------|--|
| SharpeRatio | <i>calculate a traditional or modified Sharpe Ratio of Return over StdDev or VaR or ES</i> |
|-------------|--|

Description

The Sharpe ratio is simply the return per unit of risk (represented by variability). In the classic case, the unit of risk is the standard deviation of the returns.

Usage

```
SharpeRatio(R, Rf = 0, p = 0.95,
  FUN = c("StdDev", "VaR", "ES"), weights = NULL,
  annualize = FALSE, ...)

SharpeRatio.modified(R, Rf = 0, p = 0.95,
  FUN = c("StdDev", "VaR", "ES"), weights = NULL, ...)
```

Arguments

| | |
|-----------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| p | confidence level for calculation, default p=.95 |
| FUN | one of "StdDev" or "VaR" or "ES" to use as the denominator |
| weights | portfolio weighting vector, default NULL, see Details in VaR |
| annualize | if TRUE, annualize the measure, default FALSE |
| ... | any other passthru parameters to the VaR or ES functions |

Details

$$\frac{(R_a - R_f)}{\sqrt{\sigma(R_a - R_f)}}$$

William Sharpe now recommends [InformationRatio](#) preferentially to the original Sharpe Ratio.

The higher the Sharpe ratio, the better the combined performance of "risk" and return.

As noted, the traditional Sharpe Ratio is a risk-adjusted measure of return that uses standard deviation to represent risk.

A number of papers now recommend using a "modified Sharpe" ratio using a Modified Cornish-Fisher VaR or CVaR/Expected Shortfall as the measure of Risk.

We have recently extended this concept to create multivariate modified Sharpe-like Ratios for standard deviation, Gaussian VaR, modified VaR, Gaussian Expected Shortfall, and modified Expected Shortfall. See [VaR](#) and [ES](#). You can pass additional arguments to [VaR](#) and [ES](#) via ... The most important is probably the 'method' argument/

This function returns a traditional or modified Sharpe ratio for the same periodicity of the data being input (e.g., monthly data -> monthly SR)

Author(s)

Brian G. Peterson

References

Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.

Laurent Favre and Jose-Antonio Galeano. Mean-Modified Value-at-Risk Optimization with Hedge Funds. *Journal of Alternative Investment*, Fall 2002, v 5.

See Also

[SharpeRatio.annualized](#)
[InformationRatio](#)
[TrackingError](#)
[ActivePremium](#)
[SortinoRatio](#)

VaR
ES

Examples

```
data(managers)
SharpeRatio(managers[,1,drop=FALSE], Rf=.035/12, FUN="StdDev")
SharpeRatio(managers[,1,drop=FALSE], Rf = managers[,10,drop=FALSE], FUN="StdDev")
SharpeRatio(managers[,1:6], Rf=.035/12, FUN="StdDev")
SharpeRatio(managers[,1:6], Rf = managers[,10,drop=FALSE], FUN="StdDev")
```

```
data(edhec)
SharpeRatio(edhec[, 6, drop = FALSE], FUN="VaR")
SharpeRatio(edhec[, 6, drop = FALSE], Rf = .04/12, FUN="VaR")
SharpeRatio(edhec[, 6, drop = FALSE], Rf = .04/12, FUN="VaR" , method="gaussian")
SharpeRatio(edhec[, 6, drop = FALSE], FUN="ES")
```

```
# and all the methods
SharpeRatio(managers[,1:9], Rf = managers[,10,drop=FALSE])
SharpeRatio(edhec,Rf = .04/12)
```

SharpeRatio.annualized

calculate annualized Sharpe Ratio

Description

The Sharpe Ratio is a risk-adjusted measure of return that uses standard deviation to represent risk.

Usage

```
SharpeRatio.annualized(R, Rf = 0, scale = NA,
  geometric = TRUE)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |

Details

The Sharpe ratio is simply the return per unit of risk (represented by variance). The higher the Sharpe ratio, the better the combined performance of "risk" and return.

This function annualizes the number based on the scale parameter.

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

Using an annualized Sharpe Ratio is useful for comparison of multiple return streams. The annualized Sharpe ratio is computed by dividing the annualized mean monthly excess return by the annualized monthly standard deviation of excess return.

William Sharpe now recommends Information Ratio preferentially to the original Sharpe Ratio.

Author(s)

Peter Carl

References

Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.

See Also

[SharpeRatio](#)
[InformationRatio](#)
[TrackingError](#)
[ActivePremium](#)
[SortinoRatio](#)

Examples

```
data(managers)
SharpeRatio.annualized(managers[,1,drop=FALSE], Rf=.035/12)
SharpeRatio.annualized(managers[,1,drop=FALSE], Rf = managers[,10,drop=FALSE])
SharpeRatio.annualized(managers[,1:6], Rf=.035/12)
SharpeRatio.annualized(managers[,1:6], Rf = managers[,10,drop=FALSE])
SharpeRatio.annualized(managers[,1:6], Rf = managers[,10,drop=FALSE],geometric=FALSE)
```

skewness

Skewness

Description

compute skewness of a univariate distribution.

Usage

```
skewness(x, na.rm = FALSE,
         method = c("moment", "fisher", "sample"), ...)
```

Arguments

| | |
|--------|---|
| na.rm | a logical. Should missing values be removed? |
| method | a character string which specifies the method of computation. These are either "moment" or "fisher" The "moment" method is based on the definitions of skewness for distributions; these forms should be used when resampling (bootstrap or jackknife). The "fisher" method correspond to the usual "unbiased" definition of sample variance, although in the case of skewness exact unbiasedness is not possible. The "sample" method gives the sample skewness of the distribution. |
| x | a numeric vector or object. |
| ... | arguments to be passed. |

Details

This function was ported from the RMetrics package fUtilities to eliminate a dependency on fUtilities being loaded every time. The function is identical except for the addition of [checkData](#) and column support.

$$Skewness(moment) = \frac{1}{n} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_P} \right)^3$$

$$Skewness(sample) = \frac{n}{(n-1) * (n-2)} * \sum_{i=1}^n \left(\frac{r_i - \bar{r}}{\sigma_{SP}} \right)^3$$

$$Skewness(fisher) = \frac{\frac{\sqrt{n*(n-1)}}{n-2} * \sum_{i=1}^n \frac{x^3}{n}}{\sum_{i=1}^n \left(\frac{x^2}{n} \right)^{3/2}}$$

where n is the number of return, \bar{r} is the mean of the return distribution, σ_P is its standard deviation and σ_{SP} is its sample standard deviation

Author(s)

Diethelm Wuertz, Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.83-84

See Also

[kurtosis](#)

Examples

```
## mean -
## var -
# Mean, Variance:
r = rnorm(100)
mean(r)
var(r)

## skewness -
skewness(r)
data(managers)
skewness(managers)
```

SkewnessKurtosisRatio *Skewness-Kurtosis ratio of the return distribution*

Description

Skewness-Kurtosis ratio is the division of Skewness by Kurtosis.

Usage

```
SkewnessKurtosisRatio(R, ...)
```

Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 ... any other passthru parameters

Details

It is used in conjunction with the Sharpe ratio to rank portfolios. The higher the rate the better.

$$SkewnessKurtosisRatio(R, MAR) = \frac{S}{K}$$

where S is the skewness and K is the Kurtosis

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008
 p.100

Examples

```
data(portfolio_bacon)
print(SkewnessKurtosisRatio(portfolio_bacon[,1])) #expected -0.034

data(managers)
print(SkewnessKurtosisRatio(managers['1996']))
print(SkewnessKurtosisRatio(managers['1996',1]))
```

| | |
|----------------|---|
| SmoothingIndex | <i>calculate Normalized Getmansky Smoothing Index</i> |
|----------------|---|

Description

Proposed by Getmansky et al to provide a normalized measure of "liquidity risk."

Usage

```
SmoothingIndex(R, neg.thetas = FALSE, MAorder = 2,
               verbose = FALSE, ...)
```

Arguments

| | |
|------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| neg.thetas | if FALSE, function removes negative coefficients (thetas) when calculating the index |
| MAorder | specify the number of periods used to calculate the moving average, defaults to 2 |
| verbose | if TRUE, return a list containing the Thetas in addition to the smoothing index/ |
| ... | any other passthru parameters |

Details

To measure the effects of smoothing, Getmansky, Lo, et al (2004) define a "smoothing profile" as a vector of coefficients for an MLE fit on returns using a two-period moving-average process.

The moving-average process of order $k = 2$ (specified using MAorder) gives $R_t = \theta_0 R_t + \theta_1 R_{t-1} + \theta_2 R_{t-2}$, under the constraint that the sum of the coefficients is equal to 1. In , the arima function allows us to create an MA(2) model using an "ARIMA(p,d,q)" model, where p is the number of autoregressive terms (AR), d is the degree of differencing, and q is the number of lagged forecast errors (MA) in the prediction equation. The order parameter allows us to specify the three components (p, d, q) as an argument, e.g., `order = c(0, 0, 2)`. The method specifies how to fit the model, in this case using maximum likelihood estimation (MLE) in a fashion similar to the estimation of standard moving-average time series models, using:

```
arima(ra, order=c(0,0,2), method="ML", transform.pars=TRUE, include.mean=FALSE)
include.mean: Getmansky, et al. (2004) p 555 "By applying the above procedure to observed de-meaned returns...", so we set that parameter to 'FALSE'.
```


transform.pars: *ibid*, "we impose the additional restriction that the estimated MA(k) process be invertible," so we set the parameter to 'TRUE'.

The coefficients, θ_j , are then normalized to sum to 1 and interpreted as a "weighted average of the fund's true returns over the most recent $k + 1$ periods, including the current period."

If these weights are disproportionately centered on a small number of lags, relatively little serial correlation will be induced. However, if the weights are evenly distributed among many lags, this would show higher serial correlation.

The paper notes that because $\theta_j \in [0, 1]$, ξ is also confined to the unit interval, and is minimized when all the θ_j 's are identical. That implies a value of $1/(k + 1)$ for ξ , and a maximum value of $\xi = 1$ when one coefficient is 1 and the rest are 0. In the context of smoothed returns, a lower value of ξ implies more smoothing, and the upper bound of 1 implies no smoothing.

The "smoothing index," represented as ξ , is calculated the same way the Herfindahl index. The Herfindahl measure is well known in the industrial organization literature as a measure of the concentration of firms in a given industry where y_j represents the market share of firm j .

This method (as well as the implementation described in the paper), does not enforce $\theta_j \in [0, 1]$, so ξ is not limited to that range either. All we can say is that lower values are "less liquid" and higher values are "more liquid" or mis-specified. In this function, setting the parameter `neg.thetas = FALSE` does enforce the limitation, eliminating negative autocorrelation coefficients from the calculation (the papers below do not make an economic case for eliminating negative autocorrelation, however).

Interpretation of the resulting value is difficult. All we can say is that lower values appear to have autocorrelation structure like we might expect of "less liquid" instruments. Higher values appear "more liquid" or are poorly fit or mis-specified.

Acknowledgments

Thanks to Dr. Stefan Albrecht, CFA, for invaluable input.

Author(s)

Peter Carl

References

Chan, Nicholas, Mila Getmansky, Shane M. Haas, and Andrew W. Lo. 2005. Systemic Risk and Hedge Funds. NBER Working Paper Series (11200). Getmansky, Mila, Andrew W. Lo, and Igor Makarov. 2004. An Econometric Model of Serial Correlation and Illiquidity in Hedge Fund Returns. *Journal of Financial Economics* (74): 529-609.

Examples

```
data(managers)
data(edhec)
SmoothingIndex(managers[,1,drop=FALSE])
SmoothingIndex(managers[,1:8])
SmoothingIndex(edhec)
```

| | |
|---------------|---|
| sortDrawdowns | <i>order list of drawdowns from worst to best</i> |
|---------------|---|

Description

sortDrawdowns(findDrawdowns(R)) Gives the drawdowns in order of worst to best

Usage

```
sortDrawdowns(runs)
```

Arguments

| | |
|------|--|
| runs | pass in runs array from findDrawdowns to be sorted |
|------|--|

Details

Returns a sorted list:

- return depth of drawdown
- from starting period
- to ending period
- length length in periods

Author(s)

Peter Carl
modified with permission from prototype function by Sankalp Upadhyay

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 88

See Also

[DownsideDeviation](#)
[maxDrawdown](#)
[findDrawdowns](#)
[sortDrawdowns](#)
[chart.Drawdown](#)
[table.Drawdowns](#)
[table.DownsideRisk](#)

Examples

```
data(edhec)  
findDrawdowns(edhec[, "Funds of Funds", drop=FALSE])  
sortDrawdowns(findDrawdowns(edhec[, "Funds of Funds", drop=FALSE]))
```

| | |
|--------------|--|
| SortinoRatio | <i>calculate Sortino Ratio of performance over downside risk</i> |
|--------------|--|

Description

Sortino proposed an improvement on the Sharpe Ratio to better account for skill and excess performance by using only downside semivariance as the measure of risk.

Usage

```
SortinoRatio(R, MAR = 0, ..., weights = NULL)
```

Arguments

| | |
|---------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| ... | any other passthru parameters |
| weights | portfolio weighting vector, default NULL |

Details

Sortino contends that risk should be measured in terms of not meeting the investment goal. This gives rise to the notion of “Minimum Acceptable Return” or MAR. All of Sortino’s proposed measures include the MAR, and are more sensitive to downside or extreme risks than measures that use volatility (standard deviation of returns) as the measure of risk.

Choosing the MAR carefully is very important, especially when comparing disparate investment choices. If the MAR is too low, it will not adequately capture the risks that concern the investor, and if the MAR is too high, it will unfavorably portray what may otherwise be a sound investment. When comparing multiple investments, some papers recommend using the risk free rate as the MAR. Practitioners may wish to choose one MAR for consistency, several standardized MAR values for reporting a range of scenarios, or a MAR customized to the objective of the investor.

$$SortinoRatio = \frac{(\overline{R_a} - MAR)}{\delta_{MAR}}$$

where δ_{MAR} is the [DownsideDeviation](#).

Author(s)

Brian G. Peterson

References

Sortino, F. and Price, L. Performance Measurement in a Downside Risk Framework. *Journal of Investing*. Fall 1994, 59-65.

See Also

[SharpeRatio](#)
[DownsideDeviation](#)
[SemiVariance](#)
[SemiDeviation](#)
[InformationRatio](#)

Examples

```

data(managers)
round(SortinoRatio(managers[, 1]),4)
round(SortinoRatio(managers[, 1:8]),4)

```

| | |
|--------------|---|
| SpecificRisk | <i>Specific risk of the return distribution</i> |
|--------------|---|

Description

Specific risk is the standard deviation of the error term in the regression equation.

Usage

```
SpecificRisk(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.75

Examples

```

data(portfolio_bacon)
print(SpecificRisk(portfolio_bacon[,1], portfolio_bacon[,2])) #expected 0.0329

data(managers)
print(SpecificRisk(managers['1996',1], managers['1996',8]))
print(SpecificRisk(managers['1996',1:5], managers['1996',8]))

```

| | |
|--------|--|
| StdDev | <i>calculates Standard Deviation for univariate and multivariate series, also calculates component contribution to standard deviation of a portfolio</i> |
|--------|--|

Description

calculates Standard Deviation for univariate and multivariate series, also calculates component contribution to standard deviation of a portfolio

Usage

```
StdDev(R, ..., clean = c("none", "boudt", "geltner"),
       portfolio_method = c("single", "component"),
       weights = NULL, mu = NULL, sigma = NULL,
       use = "everything",
       method = c("pearson", "kendall", "spearman"))
```

Arguments

| | |
|------------------|---|
| R | a vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ... | any other passthru parameters |
| clean | method for data cleaning through Return.clean . Current options are "none", "boudt", or "geltner". |
| portfolio_method | one of "single","component" defining whether to do univariate/multivariate or component calc, see Details. |
| weights | portfolio weighting vector, default NULL, see Details |
| mu | If univariate, mu is the mean of the series. Otherwise mu is the vector of means of the return series , default NULL, , see Details |
| sigma | If univariate, sigma is the variance of the series. Otherwise sigma is the covariance matrix of the return series , default NULL, see Details |
| use | an optional character string giving a method for computing covariances in the presence of missing values. This must be (an abbreviation of) one of the strings "everything", "all.obs", "complete.obs", "na.or.complete", or "pairwise.complete.obs". |
| method | a character string indicating which correlation coefficient (or covariance) is to be computed. One of "pearson" (default), "kendall", or "spearman", can be abbreviated. |

Details

TODO add more details

This wrapper function provides fast matrix calculations for univariate, multivariate, and component contributions to Standard Deviation.

It is likely that the only one that requires much description is the component decomposition. This provides a weighted decomposition of the contribution each portfolio element makes to the univariate standard deviation of the whole portfolio.

Formally, this is the partial derivative of each univariate standard deviation with respect to the weights.

As with [VaR](#), this contribution is presented in two forms, both a scalar form that adds up to the univariate standard deviation of the portfolio, and a percentage contribution, which adds up to 100 that as with any contribution calculation, contribution can be negative. This indicates that the asset in question is a diversified to the overall standard deviation of the portfolio, and increasing its weight in relation to the rest of the portfolio would decrease the overall portfolio standard deviation.

Author(s)

Brian G. Peterson and Kris Boudt

See Also

[Return.clean sd](#)

Examples

```
data(edhec)

# first do normal StdDev calc
StdDev(edhec)
# or the equivalent
StdDev(edhec, portfolio_method="single")

# now with outliers squished
StdDev(edhec, clean="boudt")

# add Component StdDev for the equal weighted portfolio
StdDev(edhec, clean="boudt", portfolio_method="component")
```

| | |
|-------------------|---|
| StdDev.annualized | <i>calculate a multiperiod or annualized Standard Deviation</i> |
|-------------------|---|

Description

Standard Deviation of a set of observations R_a is given by:

Usage

```
StdDev.annualized(x, scale = NA, ...)
```

Arguments

| | |
|-------|--|
| x | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| ... | any other passthru parameters |

Details

$$\sigma = \text{variance}(R_a), \text{std} = \sqrt{\sigma}$$

It should follow that the variance is not a linear function of the number of observations. To determine possible variance over multiple periods, it wouldn't make sense to multiply the single-period variance by the total number of periods: this could quickly lead to an absurd result where total variance (or risk) was greater than 100 demonstrate a decreasing period-to-period increase as the number of periods increases. Put another way, the increase in incremental variance per additional period needs to decrease with some relationship to the number of periods. The standard accepted practice for doing this is to apply the inverse square law. To normalize standard deviation across multiple periods, we multiply by the square root of the number of periods we wish to calculate over. To annualize standard deviation, we multiply by the square root of the number of periods per year.

$$\sqrt{\sigma} \cdot \sqrt{\text{periods}}$$

Note that any multiperiod or annualized number should be viewed with suspicion if the number of observations is small.

Author(s)

Brian G. Peterson

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 27

See Also

[sd](#)
http://wikipedia.org/wiki/inverse-square_law

Examples

```
data(edhec)
sd.annualized(edhec)
sd.annualized(edhec[,6,drop=FALSE])
# now for three periods:
sd.multiperiod(edhec[,6,drop=FALSE],scale=3)
```

| | |
|----------------|---|
| SystematicRisk | <i>Systematic risk of the return distribution</i> |
|----------------|---|

Description

Systematic risk as defined by Bacon(2008) is the product of beta by market risk. Be careful ! It's not the same definition as the one given by Michael Jensen. Market risk is the standard deviation of the benchmark. The systematic risk is annualized

Usage

```
SystematicRisk(Ra, Rb, Rf = 0, scale = NA, ...)
```

Arguments

| | |
|-------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| ... | any other passthru parameters |

Details

$$\sigma_s = \beta * \sigma_m$$

where σ_s is the systematic risk, β is the regression beta, and σ_m is the market risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.75

Examples

```
data(portfolio_bacon)
print(SystematicRisk(portfolio_bacon[,1], portfolio_bacon[,2])) #expected 0.013

data(managers)
print(SystematicRisk(managers['1996',1], managers['1996',8]))
print(SystematicRisk(managers['1996',1:5], managers['1996',8]))
```

| |
|--|
| table.AnnualizedReturns |
| <i>Annualized Returns Summary: Statistics and Stylized Facts</i> |

Description

Table of Annualized Return, Annualized Std Dev, and Annualized Sharpe

Usage

```
table.AnnualizedReturns(R, scale = NA, Rf = 0,
  geometric = TRUE, digits = 4)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| Rf | risk free rate, in same period as your returns |
| digits | number of digits to round results to |

Author(s)

Peter Carl

See Also

[Return.annualized](#)
[StdDev.annualized](#)
[SharpeRatio.annualized](#)

Examples

```
data(managers)
table.AnnualizedReturns(managers[,1:8])

require("Hmisc")
result = t(table.AnnualizedReturns(managers[,1:8], Rf=.04/12))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)), rmar = 0.8, cmar = 2, max.cex=.9)
title(main="Annualized Performance")
```

| | |
|-----------------|--|
| table.Arbitrary | <i>wrapper function for combining arbitrary function list into a table</i> |
|-----------------|--|

Description

This function creates a table of statistics from vectors of functions and labels passed in. The resulting table is formatted such that metrics are calculated separately for each column of returns in the data object.

Usage

```
table.Arbitrary(R, metrics = c("mean", "sd"),
  metricsNames = c("Average Return", "Standard Deviation"),
  ...)
```

Arguments

| | |
|--------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| metrics | list of functions to apply |
| metricsNames | column names for each function |
| ... | any other passthru parameters |

Details

Assumes an input of period returns. Scale arguments can be used to specify the number of observations during a year (e.g., 12 = monthly returns).

The idea here is to be able to pass in sets of metrics and values, like:

```
metrics = c(DownsideDeviation(x,MAR=mean(x)), sd(subset(x,x>0)), sd(subset(x,x<0)), Down-
sideDeviation(x,MAR=MAR), DownsideDeviation(x,MAR=Rf=0), DownsideDeviation(x,MAR=0),maxDrawdown(x))
metricsNames = c("Semi Deviation", "Gain Deviation", "Loss Deviation", paste("Downside De-
viation (MAR=",MAR*scale*100," Deviation (rf=",rf*scale*100," paste("Downside Deviation (0
Drawdown" )
```

Here's how it's working right now: > table.Arbitrary(monthlyReturns.ts,metrics=c("VaR","mean"), metricsNames=c("modVaR","mean"),p=.95)

```
Actual S&P500TR modVaR 0.04186461 0.06261451 mean
0.00945000 0.01013684
```

Passing in two different sets of attributes to the same function doesn't quite work currently. The issue is apparent in: > table.Arbitrary(edhec,metrics=c("VaR", "VaR"), metricsNames=c("Modified VaR","Traditional VaR"), modified=c(TRUE,FALSE))

```
Convertible.Arbitrage CTA.Global Distressed.Securities
Modified VaR 0.04081599 0.0456767 0.1074683 Traditional
VaR 0.04081599 0.0456767 0.1074683 Emerging.Markets
```

```
Equity.Market.Neutral Event.Driven Modified VaR 0.1858624
0.01680917 0.1162714 Traditional VaR 0.1858624 0.01680917
0.1162714 Fixed.Income.Arbitrage Global.Macro
Long.Short.Equity Modified VaR 0.2380379 0.03700478
0.04661244 Traditional VaR 0.2380379 0.03700478
0.04661244 Merger.Arbitrage Relative.Value Short.Selling
Funds.of.Funds Modified VaR 0.07510643 0.04123920
0.1071894 0.04525633 Traditional VaR 0.07510643
0.04123920 0.1071894 0.04525633
```

In the case of this example, you would simply call VaR as the second function, like so: `> table.Arbitrary(edhec,metrics=c("VaR", "VaR"),metricsNames=c("Modified VaR", "Traditional VaR"))`

```
Convertible.Arbitrage CTA.Global
Distressed.Securities Modified VaR 0.04081599 0.04567670
0.10746831 Traditional VaR 0.02635371 0.04913361
0.03517855 Emerging.Markets Equity.Market.Neutral
Event.Driven Modified VaR 0.18586240 0.01680917
0.11627142 Traditional VaR 0.07057278 0.01746554
0.03563019 Fixed.Income.Arbitrage Global.Macro
Long.Short.Equity Modified VaR 0.23803787 0.03700478
0.04661244 Traditional VaR 0.02231236 0.03692096
0.04318713 Merger.Arbitrage Relative.Value Short.Selling
Funds.of.Funds Modified VaR 0.07510643 0.04123920
0.1071894 0.04525633 Traditional VaR 0.02510709
0.02354012 0.0994635 0.03502065
```

but we don't know of a way to compare the same function side by side with different parameters for each. Suggestions Welcome.

Author(s)

Peter Carl

Examples

```
data(edhec)
table.Arbitrary(edhec,metrics=c("VaR", "ES"),metricsNames=c("Modified VaR", "Modified Expected Shortfall"))
```

| | |
|-----------------------|--|
| table.Autocorrelation | <i>table for calculating the first six autocorrelation coefficients and significance</i> |
|-----------------------|--|

Description

Produces data table of autocorrelation coefficients ρ and corresponding Q(6)-statistic for each column in R.

Usage

```
table.Autocorrelation(R, digits = 4)
```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| digits | number of digits to round results to for display |

Note

To test returns for autocorrelation, Lo (2001) suggests the use of the Ljung-Box test, a significance test for the auto-correlation coefficients. Ljung and Box (1978) provide a refinement of the Q-statistic proposed by Box and Pierce (1970) that offers a better fit for the χ^2 test for small sample sizes. [Box.test](#) provides both.

Author(s)

Peter Carl

References

Lo, Andrew W. 2001. Risk Management for Hedge Funds: Introduction and Overview. SSRN eLibrary.

See Also

[Box.test](#), [acf](#)

Examples

```
data(managers)
t(table.Autocorrelation(managers))

result = t(table.Autocorrelation(managers[,1:8]))
textplot(result, rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top", row.valign="center", wrap.
title(main="Autocorrelation")
```

table.CalendarReturns *Monthly and Calendar year Return table*

Description

Returns a table of returns formatted with years in rows, months in columns, and a total column in the last column. For additional columns in R, annual returns will be appended as columns.

Usage

```
table.CalendarReturns(R, digits = 1, as.perc = TRUE,
  geometric = TRUE)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| digits | number of digits to round results to for presentation |
| as.perc | TRUE/FALSE if TRUE, multiply simple returns by 100 to get % |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |

Note

This function assumes monthly returns and does not currently have handling for other scales.
This function defaults to the first column as the monthly returns to be formatted.

Author(s)

Peter Carl

Examples

```
data(managers)
t(table.CalendarReturns(managers[,c(1,7,8)]))

# prettify with format.df in hmisc package
require("Hmisc")
result = t(table.CalendarReturns(managers[,c(1,8)]))
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(1,dim(result)[2])), rmar = 0.8, cmar =
title(main="Calendar Returns")
```

| | |
|------------|---|
| table.CAPM | <i>Asset-Pricing Model Summary: Statistics and Stylized Facts</i> |
|------------|---|

Description

Takes a set of returns and relates them to a market benchmark. Provides a set of measures related to the excess return single index model, or CAPM.

Usage

```
table.CAPM(Ra, Rb, scale = NA, Rf = 0, digits = 4)
```

Arguments

| | |
|--------|--|
| Ra | a vector of returns to test, e.g., the asset to be examined |
| Rb | a matrix, data.frame, or timeSeries of benchmark(s) to test the asset against. |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| Rf | risk free rate, in same period as your returns |
| digits | number of digits to round results to |

Details

This table will show statistics pertaining to an asset against a set of benchmarks, or statistics for a set of assets against a benchmark.

Author(s)

Peter Carl

See Also

- [CAPM.alpha](#)
- [CAPM.beta](#)
- [TrackingError](#)
- [ActivePremium](#)
- [InformationRatio](#)
- [TreydorRatio](#)

Examples

```
data(managers)
table.CAPM(managers[,1:3,drop=FALSE], managers[,8,drop=FALSE], Rf = managers[,10,drop=FALSE])

result = table.CAPM(managers[,1:3,drop=FALSE], managers[,8,drop=FALSE], Rf = managers[,10,drop=FALSE])
textplot(result, rmar = 0.8, cmar = 1.5, max.cex=.9, halign = "center", valign = "top", row.valign="center", wrap=TRUE)
title(main="CAPM-Related Statistics")
```

| | |
|----------------------------------|--|
| <code>table.CaptureRatios</code> | <i>Calculate and display a table of capture ratio and related statistics</i> |
|----------------------------------|--|

Description

Creates a table of capture ratios and similar metrics for a set of returns against a benchmark.

Usage

```
table.CaptureRatios(Ra, Rb, digits = 4)
```

Arguments

- Ra** a vector of returns to test, e.g., the asset to be examined
- Rb** a matrix, data.frame, or timeSeries of benchmark(s) to test the asset against.
- digits** number of digits to round results to for presentation

Details

This table will show statistics pertaining to an asset against a set of benchmarks, or statistics for a set of assets against a benchmark. `table.CaptureRatios` shows only the capture ratio; `table.UpDownRatios` shows three: the capture ratio, the number ratio, and the percentage ratio.

Author(s)

Peter Carl

See Also[UpDownRatios](#), [chart.CaptureRatios](#)**Examples**

```

data(managers)
table.CaptureRatios(managers[,1:6], managers[,7,drop=FALSE])
table.UpDownRatios(managers[,1:6], managers[,7,drop=FALSE])

result = t(table.UpDownRatios(managers[,1:6], managers[,7,drop=FALSE]))
colnames(result)=colnames(managers[,1:6])
textplot(result, rmar = 0.8, cmar = 1.5, max.cex=.9, halign = "center", valign = "top", row.valign="center", wrap=
title(main="Capture Ratios for EDHEC LS EQ")

```

| | |
|-------------------|---|
| table.Correlation | <i>calculate correlations of multicolumn data</i> |
|-------------------|---|

Description

This is a wrapper for calculating correlation and significance against each column of the data provided.

Usage

```
table.Correlation(Ra, Rb, ...)
```

Arguments

| | |
|-----|--|
| Ra | a vector of returns to test, e.g., the asset to be examined |
| Rb | a matrix, data.frame, or timeSeries of benchmark(s) to test the asset against. |
| ... | any other passthru parameters to cor.test |

Author(s)

Peter Carl

See Also[cor.test](#)

Examples

```
# First we load the data
data(managers)
table.Correlation(managers[,1:6],managers[,7:8])

result=table.Correlation(managers[,1:6],managers[,8])
rownames(result)=colnames(managers[,1:6])
require("Hmisc")
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(3,dim(result)[2])), rmar = 0.8, cmar =
title(main="Correlations to SP500 TR")

ctable = table.Correlation(managers[,1:6],managers[,8,drop=FALSE], conf.level=.99)
dotchart(ctable[,1],labels=rownames(ctable),xlim=c(-1,1))
```

| | |
|---------------------|---|
| table.Distributions | <i>Distributions Summary: Statistics and Stylized Facts</i> |
|---------------------|---|

Description

Table of Monthly standard deviation, Skewness, Sample standard deviation, Kurtosis, Excess kurtosis, Sample Skweness and Sample excess kurtosis

Usage

```
table.Distributions(R, scale = NA, digits = 4)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| digits | number of digits to round results to |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.87

See Also

[StdDev.annualized](#)
[skewness](#)
[kurtosis](#)

Examples

```
data(managers)
table.Distributions(managers[,1:8])

require("Hmisc")
result = t(table.Distributions(managers[,1:8]))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Portfolio Distributions statistics")
```

| | |
|--------------------|---|
| table.DownsideRisk | <i>Downside Risk Summary: Statistics and Stylized Facts</i> |
|--------------------|---|

Description

Creates a table of estimates of downside risk measures for comparison across multiple instruments or funds.

Usage

```
table.DownsideRisk(R, ci = 0.95, scale = NA, Rf = 0,
MAR = 0.1/12, p = 0.95, digits = 4)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ci | confidence interval, defaults to 95% |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| Rf | risk free rate, in same period as your returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| p | confidence level for calculation, default p=.99 |
| digits | number of digits to round results to |

Author(s)

Peter Carl

See Also

- [DownsideDeviation](#)
- [maxDrawdown](#)
- [VaR](#)
- [ES](#)

Examples

```
data(edhec)
table.DownsideRisk(edhec, Rf=.04/12, MAR =.05/12, p=.95)

result=t(table.DownsideRisk(edhec, Rf=.04/12, MAR =.05/12, p=.95))
require("Hmisc")
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(3,dim(result)[2])), rmar = 0.8, cmar =
title(main="Downside Risk Statistics")
```

| |
|--|
| table.DownsideRiskRatio |
| <i>Downside Summary: Statistics and ratios</i> |

Description

Table of Monthly downside risk, Annualised downside risk, Downside potential, Omega, Sortino ratio, Upside potential, Upside potential ratio and Omega-Sharpe ratio

Usage

```
table.DownsideRiskRatio(R, MAR = 0, scale = NA,
digits = 4)
```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = |
| digits | number of digits to round results to |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.98

See Also

- [CalmarRatio](#)
- [BurkeRatio](#)
- [PainIndex](#)
- [UlcerIndex](#)
- [PainRatio](#)
- [MartinRatio](#)

Examples

```

data(managers)
table.DownsideRiskRatio(managers[,1:8])

require("Hmisc")
result = t(table.DownsideRiskRatio(managers[,1:8]))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Downside risk statistics")

```

table.Drawdowns

*Worst Drawdowns Summary: Statistics and Stylized Facts***Description**

Creates table showing statistics for the worst drawdowns.

Usage

```
table.Drawdowns(R, top = 5, digits = 4)
```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| top | the number of drawdowns to include |
| digits | number of digits to round results to |

Details

Returns an data frame with columns:

- From starting period, high water mark
- Trough period of low point
- To ending period, when initial high water mark is recovered
- Depth drawdown to trough (typically as percentage returns)
- Length length in periods
- toTrough number of periods to trough
- Recovery number of periods to recover

Author(s)

Peter Carl

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 88

See Also

[DownsideDeviation](#)
[maxDrawdown](#)
[findDrawdowns](#)
[sortDrawdowns](#)
[chart.Drawdown](#)
[table.DownsideRisk](#)

Examples

```
data(edhec)
table.Drawdowns(edhec[,1,drop=FALSE])
table.Drawdowns(edhec[,12,drop=FALSE])
data(managers)
table.Drawdowns(managers[,8,drop=FALSE])

result=table.Drawdowns(managers[,1,drop=FALSE])

# This was really nice before Hmisc messed up 'format' from R-base
#require("Hmisc")
#textplot(Hmisc::format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(rep(3,4), rep(0,3))), rmar = 0.8,
# title(main="Largest Drawdowns for HAM1")
```

| | |
|----------------------|---|
| table.DrawdownsRatio | <i>Drawdowns Summary: Statistics and ratios</i> |
|----------------------|---|

Description

Table of Calmar ratio, Sterling ratio, Burke ratio, Pain index, Ulcer index, Pain ratio and Martin ratio

Usage

```
table.DrawdownsRatio(R, Rf = 0, scale = NA, digits = 4)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rf | risk free rate, in same period as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| digits | number of digits to round results to |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.93

See Also

[CalmarRatio](#)
[BurkeRatio](#)
[PainIndex](#)
[UlcerIndex](#)
[PainRatio](#)
[MartinRatio](#)

Examples

```
data(managers)
table.DrawdownsRatio(managers[,1:8])

require("Hmisc")
result = t(table.DrawdownsRatio(managers[,1:8], Rf=.04/12))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Drawdowns ratio statistics")
```

| | |
|---------------------|--|
| table.HigherMoments | <i>Higher Moments Summary: Statistics and Stylized Facts</i> |
|---------------------|--|

Description

Summary of the higher moments and Co-Moments of the return distribution. Used to determine diversification potential. Also called "systematic" moments by several papers.

Usage

```
table.HigherMoments(Ra, Rb, scale = NA, Rf = 0,
  digits = 4, method = "moment")
```

Arguments

| | |
|--------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| Rf | risk free rate, in same period as your returns |
| digits | number of digits to round results to |
| method | method to use when computing kurtosis one of: excess, moment, fisher |

Author(s)

Peter Carl

References

Martellini L., Vaissie M., Ziemann V. Investing in Hedge Funds: Adding Value through Active Style Allocation Decisions. October 2005. Edhec Risk and Asset Management Research Centre.

See Also

[CoSkewness](#)
[CoKurtosis](#)
[BetaCoVariance](#)
[BetaCoSkewness](#)
[BetaCoKurtosis](#)
[skewness](#)
[kurtosis](#)

Examples

```
data(managers)
table.HigherMoments(managers[,1:3],managers[,8,drop=FALSE])
result=t(table.HigherMoments(managers[,1:6],managers[,8,drop=FALSE]))
rownames(result)=colnames(managers[,1:6])
require("Hmisc")
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(3,dim(result)[2])), rmar = 0.8, cmar =
title(main="Higher Co-Moments with SP500 TR")
```

| |
|---|
| table.InformationRatio |
| <i>Information ratio Summary: Statistics and Stylized Facts</i> |

Description

Table of Tracking error, Annualised tracking error and Information ratio

Usage

```
table.InformationRatio(R, Rb, scale = NA, digits = 4)
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| digits | number of digits to round results to |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.81

See Also

[InformationRatio](#)
[TrackingError](#)

Examples

```
data(managers)
table.InformationRatio(managers[,1:8], managers[,8])

require("Hmisc")
result = t(table.InformationRatio(managers[,1:8], managers[,8]))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Portfolio information ratio")
```

| | |
|--------------------|---|
| table.SpecificRisk | <i>Specific risk Summary: Statistics and Stylized Facts</i> |
|--------------------|---|

Description

Table of specific risk, systematic risk and total risk

Usage

```
table.SpecificRisk(Ra, Rb, Rf = 0, digits = 4)
```

Arguments

Ra an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 Rb return vector of the benchmark asset
 Rf risk free rate, in same period as your returns
 digits number of digits to round results to

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008
 p.76

See Also

[SystematicRisk](#)
[SpecificRisk](#)
[TotalRisk](#)

Examples

```
data(managers)
table.SpecificRisk(managers[,1:8], managers[,8])

require("Hmisc")
result = t(table.SpecificRisk(managers[,1:8], managers[,8], Rf=.04/12))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Portfolio specific, systematic and total risk")
```

table.Stats

Returns Summary: Statistics and Stylized Facts

Description

Returns a basic set of statistics that match the period of the data passed in (e.g., monthly returns will get monthly statistics, daily will be daily stats, and so on)

Usage

```
table.Stats(R, ci = 0.95, digits = 4)
```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| ci | confidence interval, defaults to 95% |
| digits | number of digits to round results to |

Details

This was created as a way to display a set of related statistics together for comparison across a set of instruments or funds. Careful consideration to missing data or unequal time series should be given when interpreting the results.

Author(s)

Peter Carl

Examples

```
data(edhec)
table.Stats(edhec[,1:3])
t(table.Stats(edhec))

result=t(table.Stats(edhec))
require("Hmisc")
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(rep(1,2),rep(3,14))), rmar = 0.8, cmar =
title(main="Statistics for EDHEC Indexes")
```

table.TrailingPeriods *Rolling Periods Summary: Statistics and Stylized Facts*

Description

A table of estimates of rolling period return measures

Usage

```
table.TrailingPeriods(R,
  periods = subset(c(12, 36, 60), c(12, 36, 60) < length(as.matrix(R[, 1]))),
  FUNCS = c("mean", "sd"),
  funcs.names = c("Average", "Std Dev"), digits = 4, ...)

table.TrailingPeriodsRel(R, Rb,
  periods = subset(c(12, 36, 60), c(12, 36, 60) < length(as.matrix(R[, 1]))),
  FUNCS = c("cor", "CAPM.beta"),
  funcs.names = c("Correlation", "Beta"), digits = 4,
  ...)
```

Arguments

| | |
|-------------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | an xts, vector, matrix, data frame, timeSeries or zoo object of index, benchmark, portfolio, or secondary asset returns to compare against |
| periods | number of periods to use as rolling window(s), subset of c(3, 6, 9, 12, 18, 24, 36, 48) |
| funcs.names | vector of function names used for labeling table rows |
| FUNCS | list of functions to apply the rolling period to |
| digits | number of digits to round results to |
| ... | any other passthru parameters for functions specified in FUNCS |

Author(s)

Peter Carl

See Also

[rollapply](#)

Examples

```
data(edhec)
#table.TrailingPeriods(edhec[,10:13], FUNCS=c("SharpeRatio","VaR"), funcs.names = c("Sharpe Ratio", "Modified VaR"))

#result=table.TrailingPeriods(edhec[,10:13], FUNCS=c("SharpeRatio","VaR"), funcs.names = c("Sharpe Ratio", "Modified VaR"))
table.TrailingPeriods(edhec[,10:13], periods=c(12,24,36))

result=table.TrailingPeriods(edhec[,10:13], periods=c(12,24,36))
require("Hmisc")
textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=rep(3,dim(result)[2])), rmar = 0.8, cmar = 0.5,
title(main="Trailing Period Statistics"))
```

| | |
|-------------------|---|
| table.Variability | <i>Variability Summary: Statistics and Stylized Facts</i> |
|-------------------|---|

Description

Table of Mean absolute difference, Monthly standard deviation and annualised standard deviation

Usage

```
table.Variability(R, scale = NA, geometric = TRUE,
  digits = 4)
```

Arguments

| | |
|-----------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| geometric | utilize geometric chaining (TRUE) or simple/arithmetic chaining (FALSE) to aggregate returns, default TRUE |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| digits | number of digits to round results to |

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.65

See Also

[StdDev.annualized](#)
[MeanAbsoluteDeviation](#)

Examples

```
data(managers)
table.Variability(managers[,1:8])

require("Hmisc")
result = t(table.Variability(managers[,1:8]))

textplot(format.df(result, na.blank=TRUE, numeric.dollar=FALSE, cdec=c(3,3,1)),
rmar = 0.8, cmar = 2, max.cex=.9, halign = "center", valign = "top",
row.valign="center", wrap.rownames=20, wrap.colnames=10,
col.rownames=c("red", rep("darkgray",5), rep("orange",2)), mar = c(0,0,3,0)+0.1)
title(main="Portfolio variability")
```

TotalRisk

Total risk of the return distribution

Description

The square of total risk is the sum of the square of systematic risk and the square of specific risk. Specific risk is the standard deviation of the error term in the regression equation. Both terms are annualized to calculate total risk.

Usage

```
TotalRisk(Ra, Rb, Rf = 0, ...)
```

Arguments

| | |
|-----|---|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| ... | any other passthru parameters |

Details

$$TotalRisk = \sqrt{SystematicRisk^2 + SpecificRisk^2}$$

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.75

Examples

```
data(portfolio_bacon)
print(TotalRisk(portfolio_bacon[,1], portfolio_bacon[,2])) #expected 0.0134

data(managers)
print(TotalRisk(managers['1996',1], managers['1996',8]))
print(TotalRisk(managers['1996',1:5], managers['1996',8]))
```

TrackingError

Calculate Tracking Error of returns against a benchmark

Description

A measure of the unexplained portion of performance relative to a benchmark.

Usage

```
TrackingError(Ra, Rb, scale = NA)
```

Arguments

| | |
|-------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |

Details

Tracking error is calculated by taking the square root of the average of the squared deviations between the investment's returns and the benchmark's returns, then multiplying the result by the square root of the scale of the returns.

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

Author(s)

Peter Carl

References

Sharpe, W.F. The Sharpe Ratio, *Journal of Portfolio Management*, Fall 1994, 49-58.

See Also

[InformationRatio](#) [TrackingError](#)

Examples

```
data(managers)
TrackingError(managers[,1,drop=FALSE], managers[,8,drop=FALSE])
TrackingError(managers[,1:6], managers[,8,drop=FALSE])
TrackingError(managers[,1:6], managers[,8:7,drop=FALSE])
```

| | |
|--------------|--|
| TreynorRatio | <i>calculate Treynor Ratio or modified Treynor Ratio of excess return over CAPM beta</i> |
|--------------|--|

Description

The Treynor ratio is similar to the Sharpe Ratio, except it uses beta as the volatility measure (to divide the investment's excess return over the beta).

Usage

```
TreynorRatio(Ra, Rb, Rf = 0, scale = NA,
             modified = FALSE)
```

Arguments

| | |
|----------|--|
| Ra | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| Rb | return vector of the benchmark asset |
| Rf | risk free rate, in same period as your returns |
| scale | number of periods in a year (daily scale = 252, monthly scale = 12, quarterly scale = 4) |
| modified | a boolean to decide whether to return the Treynor ratio or Modified Treynor ratio |

Details

To calculate modified Treynor ratio, we divide the numerator by the systematic risk instead of the beta.

Equation:

$$TreynorRatio = \frac{(R_a - R_f)}{\beta_{a,b}}$$

$$ModifiedTreynorRatio = \frac{r_p - r_f}{\sigma_s}$$

Author(s)

Peter Carl, Matthieu Lestel

References

http://en.wikipedia.org/wiki/Treynor_ratio, Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.77

See Also

[SharpeRatio](#) [SortinoRatio](#) [CAPM.beta](#)

Examples

```
data(portfolio_bacon)
data(managers)
round(TreynorRatio(managers[,1,drop=FALSE], managers[,8,drop=FALSE], Rf=.035/12),4)
round(TreynorRatio(managers[,1,drop=FALSE], managers[,8,drop=FALSE], Rf = managers[,10,drop=FALSE]),4)
round(TreynorRatio(managers[,1:6], managers[,8,drop=FALSE], Rf=.035/12),4)
round(TreynorRatio(managers[,1:6], managers[,8,drop=FALSE], Rf = managers[,10,drop=FALSE]),4)
round(TreynorRatio(managers[,1:6], managers[,8:7,drop=FALSE], Rf=.035/12),4)
round(TreynorRatio(managers[,1:6], managers[,8:7,drop=FALSE], Rf = managers[,10,drop=FALSE]),4)

print(TreynorRatio(portfolio_bacon[,1], portfolio_bacon[,2], modified = TRUE)) #expected 0.7975

print(TreynorRatio(managers['1996',1], managers['1996',8], modified = TRUE))
print(TreynorRatio(managers['1996',1:5], managers['1996',8], modified = TRUE))
```

UlcerIndex

calculate the Ulcer Index

Description

Developed by Peter G. Martin in 1987 (Martin and McCann, 1987) and named for the worry caused to the portfolio manager or investor. This is similar to drawdown deviation except that the impact of the duration of drawdowns is incorporated by selecting the negative return for each period below the previous peak or high water mark. The impact of long, deep drawdowns will have significant impact because the underperformance since the last peak is squared.

Usage

```
UlcerIndex(R, ...)
```

Arguments

R a vector, matrix, data frame, timeSeries or zoo object of asset returns
 ... any other passthru parameters

Details

UI = $\sqrt{\sum_{i=1,2,\dots,n} (D'_i)^2 / n}$ where D'_i = drawdown since previous peak in period i

DETAILS: This approach is sensitive to the frequency of the time periods involved and penalizes managers that take time to recover to previous highs.

REFERENCES: Martin, P. and McCann, B. (1989) The investor's Guide to Fidelity Funds: Winning Strategies for Mutual Fund Investors. John Wiley & Sons, Inc. Peter Martin's web page on UI: <http://www.tangotools.com/ui/ui.htm>

Test against spreadsheet at: <http://www.tangotools.com/ui/UlcerIndex.xls>

Author(s)

Matthieu Lestel

| | |
|--------------|---|
| UpDownRatios | <i>calculate metrics on up and down markets for the benchmark asset</i> |
|--------------|---|

Description

Calculate metrics on how the asset in R performed in up and down markets, measured by periods when the benchmark asset was up or down.

Usage

```
UpDownRatios(Ra, Rb,
  method = c("Capture", "Number", "Percent"),
  side = c("Up", "Down"))
```

Arguments

Ra an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 Rb return vector of the benchmark asset
 method "Capture", "Number", or "Percent" to indicate which measure to return
 side "Up" or "Down" market statistics

Details

This is a function designed to calculate several related metrics:

Up (Down) Capture Ratio: this is a measure of an investment's compound return when the benchmark was up (down) divided by the benchmark's compound return when the benchmark was up (down). The greater (lower) the value, the better.

Up (Down) Number Ratio: similarly, this is a measure of the number of periods that the investment was up (down) when the benchmark was up (down), divided by the number of periods that the Benchmark was up (down).

Up (Down) Percentage Ratio: this is a measure of the number of periods that the investment outperformed the benchmark when the benchmark was up (down), divided by the number of periods that the benchmark was up (down). Unlike the prior two metrics, in both cases a higher value is better.

Author(s)

Peter Carl

References

Bacon, C. *Practical Portfolio Performance Measurement and Attribution*. Wiley. 2004. p. 47

Examples

```
data(managers)
UpDownRatios(managers[,1, drop=FALSE], managers[,8, drop=FALSE])
UpDownRatios(managers[,1:6, drop=FALSE], managers[,8, drop=FALSE])
UpDownRatios(managers[,1, drop=FALSE], managers[,8, drop=FALSE], method="Capture")
# Up Capture:
UpDownRatios(managers[,1, drop=FALSE], managers[,8, drop=FALSE], side="Up", method="Capture")
# Down Capture:
UpDownRatios(managers[,1, drop=FALSE], managers[,8, drop=FALSE], side="Down", method="Capture")
```

UpsideFrequency

upside frequency of the return distribution

Description

To calculate Upside Frequency, we take the subset of returns that are more than the target (or Minimum Acceptable Returns (MAR)) returns and divide the length of this subset by the total number of returns.

Usage

```
UpsideFrequency(R, MAR = 0, ...)
```


Arguments

R an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns
 MAR Minimum Acceptable Return, in the same periodicity as your returns
 ... any other passthru parameters

Details

$$UpsideFrequency(R, MAR) = \sum_{t=1}^n \frac{\max[(R_t - MAR), 0]}{R_t * n}$$

where n is the number of observations of the entire series

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.94

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(UpsideFrequency(portfolio_bacon[,1], MAR)) #expected 0.542

data(managers)
print(UpsideFrequency(managers['1996']))
print(UpsideFrequency(managers['1996',1])) #expected 0.75
```

`UpsidePotentialRatio` *calculate Upside Potential Ratio of upside performance over downside risk*

Description

Sortino proposed an improvement on the Sharpe Ratio to better account for skill and excess performance by using only downside semivariance as the measure of risk. That measure is the [SortinoRatio](#). This function, Upside Potential Ratio, was a further improvement, extending the measurement of only upside on the numerator, and only downside of the denominator of the ratio equation.

Usage

```
UpsidePotentialRatio(R, MAR = 0,
  method = c("subset", "full"))
```

Arguments

| | |
|--------|--|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| method | one of "full" or "subset", indicating whether to use the length of the full series or the length of the subset of the series above(below) the MAR as the denominator, defaults to "subset" |

Details

calculate Upside Potential Ratio of upside performance over downside risk

Sortino proposed an improvement on the Sharpe Ratio to better account for skill and excess performance by using only downside semivariance as the measure of risk. That measure is the [SortinoRatio](#). This function, Upside Potential Ratio, was a further improvement, extending the measurement of only upside on the numerator, and only downside of the denominator of the ratio equation.

Sortino contends that risk should be measured in terms of not meeting the investment goal. This gives rise to the notion of “Minimum Acceptable Return” or MAR. All of Sortino’s proposed measures include the MAR, and are more sensitive to downside or extreme risks than measures that use volatility(standard deviation of returns) as the measure of risk.

Choosing the MAR carefully is very important, especially when comparing disparate investment choices. If the MAR is too low, it will not adequately capture the risks that concern the investor, and if the MAR is too high, it will unfavorably portray what may otherwise be a sound investment. When comparing multiple investments, some papers recommend using the risk free rate as the MAR. Practitioners may wish to choose one MAR for consistency, several standardized MAR values for reporting a range of scenarios, or a MAR customized to the objective of the investor.

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

where δ_{MAR} is the [DownsideDeviation](#).

The numerator in UpsidePotentialRatio only uses returns that exceed the MAR, and the denominator (in [DownsideDeviation](#)) only uses returns that fall short of the MAR by default. Sortino contends that this is a more accurate and balanced portrayal of return potential, whereas [SortinoRatio](#) can reward managers most at the peak of a cycle, without adequately penalizing them for past mediocre performance. Others have used the full series, and this is provided as an option by the method argument.

Author(s)

Brian G. Peterson

References

- Sortino, F. and Price, L. Performance Measurement in a Downside Risk Framework. *Journal of Investing*. Fall 1994, 59-65.
- Plantinga, A., van der Meer, R. and Sortino, F. The Impact of Downside Risk on Risk-Adjusted Performance of Mutual Funds in the Euronext Markets. July 19, 2001. Available at SSRN: <http://ssrn.com/abstract=277352>

See Also

[SharpeRatio](#)
[SortinoRatio](#)
[DownsideDeviation](#)
[SemiVariance](#)
[SemiDeviation](#)
[InformationRatio](#)

Examples

```

data(edhec)
UpsidePotentialRatio(edhec[, 6], MAR=.05/12) #5 percent/yr MAR
UpsidePotentialRatio(edhec[, 1:6], MAR=0)

```

| | |
|------------|---|
| UpsideRisk | <i>upside risk, variance and potential of the return distribution</i> |
|------------|---|

Description

Upside Risk is the similar of semideviation taking the return above the Minimum Acceptable Return instead of using the mean return or zero. To calculate it, we take the subset of returns that are more than the target (or Minimum Acceptable Returns (MAR)) returns and take the differences of those to the target. We sum the squares and divide by the total number of returns and return the square root.

Usage

```

UpsideRisk(R, MAR = 0, method = c("full", "subset"),
  stat = c("risk", "variance", "potential"), ...)

```

Arguments

| | |
|--------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| method | one of "full" or "subset", indicating whether to use the length of the full series or the length of the subset of the series below the MAR as the denominator, defaults to "full" |
| stat | one of "risk", "variance" or "potential" indicating whether to return the Upside risk, variance or potential |
| ... | any other passthru parameters |

Details

$$UpsideRisk(R, MAR) = \sqrt{\sum_{t=1}^n \frac{\max[(R_t - MAR), 0]^2}{n}}$$

$$UpsideVariance(R, MAR) = \sum_{t=1}^n \frac{\max[(R_t - MAR), 0]^2}{n}$$

$$UpsidePotential(R, MAR) = \sum_{t=1}^n \frac{\max[(R_t - MAR), 0]}{n}$$

where n is either the number of observations of the entire series or the number of observations in the subset of the series falling below the MAR.

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(UpsideRisk(portfolio_bacon[,1], MAR, stat="risk")) #expected 0.02937
print(UpsideRisk(portfolio_bacon[,1], MAR, stat="variance")) #expected 0.08628
print(UpsideRisk(portfolio_bacon[,1], MAR, stat="potential")) #expected 0.01771

MAR = 0
data(managers)
print(UpsideRisk(managers['1996'], MAR, stat="risk"))
print(UpsideRisk(managers['1996',1], MAR, stat="risk")) #expected 1.820
```

VaR

calculate various Value at Risk (VaR) measures

Description

Calculates Value-at-Risk(VaR) for univariate, component, and marginal cases using a variety of analytical methods.

Usage

```
VaR(R = NULL, p = 0.95, ...,
    method = c("modified", "gaussian", "historical", "kernel"),
    clean = c("none", "boudt", "geltner"),
    portfolio_method = c("single", "component", "marginal"),
    weights = NULL, mu = NULL, sigma = NULL, m3 = NULL,
    m4 = NULL, invert = TRUE)
```

Arguments

| | |
|------------------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| p | confidence level for calculation, default p=.95 |
| method | one of "modified", "gaussian", "historical", "kernel", see Details. |
| clean | method for data cleaning through Return.clean . Current options are "none", "boudt", or "geltner". |
| portfolio_method | one of "single", "component", "marginal" defining whether to do univariate, component, or marginal calc, see Details. |
| weights | portfolio weighting vector, default NULL, see Details |
| mu | If univariate, mu is the mean of the series. Otherwise mu is the vector of means of the return series , default NULL, , see Details |
| sigma | If univariate, sigma is the variance of the series. Otherwise sigma is the covariance matrix of the return series , default NULL, see Details |
| m3 | If univariate, m3 is the skewness of the series. Otherwise m3 is the coskewness matrix of the returns series, default NULL, see Details |
| m4 | If univariate, m4 is the excess kurtosis of the series. Otherwise m4 is the cokurtosis matrix of the return series, default NULL, see Details |
| invert | TRUE/FALSE whether to invert the VaR measure. see Details. |
| ... | any other passthru parameters |

Background

This function provides several estimation methods for the Value at Risk (typically written as VaR) of a return series and the Component VaR of a portfolio. Take care to capitalize VaR in the commonly accepted manner, to avoid confusion with var (variance) and VAR (vector auto-regression). VaR is an industry standard for measuring downside risk. For a return series, VaR is defined as the high quantile (e.g. ~a 95 quantile) of the negative value of the returns. This quantile needs to be estimated. With a sufficiently large data set, you may choose to utilize the empirical quantile calculated using [quantile](#). More efficient estimates of VaR are obtained if a (correct) assumption is made on the return distribution, such as the normal distribution. If your return series is skewed and/or has excess kurtosis, Cornish-Fisher estimates of VaR can be more appropriate. For the VaR of a portfolio, it is also of interest to decompose total portfolio VaR into the risk contributions of each of the portfolio components. For the above mentioned VaR estimators, such a decomposition is possible in a financially meaningful way.

Note

The option to invert the VaR measure should appease both academics and practitioners. The mathematical definition of VaR as the negative value of a quantile will (usually) produce a positive number. Practitioners will argue that VaR denotes a loss, and should be internally consistent with the quantile (a negative number). For tables and charts, different preferences may apply for clarity and compactness. As such, we provide the option, and set the default to TRUE to keep the return consistent with prior versions of PerformanceAnalytics, but make no value judgment on which approach is preferable.

The prototype of the univariate Cornish Fisher VaR function was completed by Prof. Diethelm Wuertz. All corrections to the calculation and error handling are the fault of Brian Peterson.

Author(s)

Brian G. Peterson and Kris Boudt

References

- Boudt, Kris, Peterson, Brian, and Christophe Croux. 2008. Estimation and decomposition of downside risk for portfolios with non-normal returns. 2008. *The Journal of Risk*, vol. 11, 79-103.
- Cont, Rama, Deguest, Romain and Giacomo Scandolo. Robustness and sensitivity analysis of risk measurement procedures. Financial Engineering Report No. 2007-06, Columbia University Center for Financial Engineering.
- Denton M. and Jayaraman, J.D. Incremental, Marginal, and Component VaR. *Sunguard*. 2004.
- Epperlein, E., Smillie, A. Cracking VaR with kernels. *RISK*, 2006, vol. 19, 70-74.
- Gourieroux, Christian, Laurent, Jean-Paul and Olivier Scaillet. Sensitivity analysis of value at risk. *Journal of Empirical Finance*, 2000, Vol. 7, 225-245.
- Keel, Simon and Ardia, David. Generalized marginal risk. *Aeris CAPITAL* discussion paper.
- Laurent Favre and Jose-Antonio Galeano. Mean-Modified Value-at-Risk Optimization with Hedge Funds. *Journal of Alternative Investment*, Fall 2002, v 5.
- Martellini, Lionel, and Volker Ziemann. Improved Forecasts of Higher-Order Comoments and Implications for Portfolio Selection. 2007. EDHEC Risk and Asset Management Research Centre working paper.
- Return to RiskMetrics: Evolution of a Standard <http://www.riskmetrics.com/publications/techdocs/r2rovv.html>
- Zangari, Peter. A VaR Methodology for Portfolios that include Options. 1996. *RiskMetrics Monitor*, First Quarter, 4-12.
- Rockafellar, Terry and Uryasev, Stanislav. Optimization of Conditional VaR. *The Journal of Risk*, 2000, vol. 2, 21-41.

See Also

[SharpeRatio.modified](#)
[chart.VaRSensitivity](#)
[Return.clean](#)

Examples

```

data(edhec)

# first do normal VaR calc
VaR(edhec, p=.95, method="historical")

# now use Gaussian
VaR(edhec, p=.95, method="gaussian")

# now use modified Cornish Fisher calc to take non-normal distribution into account
VaR(edhec, p=.95, method="modified")

# now use p=.99
VaR(edhec, p=.99)
# or the equivalent alpha=.01
VaR(edhec, p=.01)

# now with outliers squished
VaR(edhec, clean="boudt")

# add Component VaR for the equal weighted portfolio
VaR(edhec, clean="boudt", portfolio_method="component")

```

| | |
|--------------------|--|
| VolatilitySkewness | <i>Volatility and variability of the return distribution</i> |
|--------------------|--|

Description

Volatility skewness is a similar measure to omega but using the second partial moment. It's the ratio of the upside variance compared to the downside variance. Variability skewness is the ratio of the upside risk compared to the downside risk.

Usage

```

VolatilitySkewness(R, MAR = 0,
  stat = c("volatility", "variability"), ...)

```

Arguments

| | |
|------|---|
| R | an xts, vector, matrix, data frame, timeSeries or zoo object of asset returns |
| MAR | Minimum Acceptable Return, in the same periodicity as your returns |
| stat | one of "volatility", "variability" indicating whether to return the volatility skewness or the variability skewness |
| ... | any other passthru parameters |

Details

$$VolatilitySkewness(R, MAR) = \frac{\sigma_U^2}{\sigma_D^2}$$

$$VariabilitySkewness(R, MAR) = \frac{\sigma_U}{\sigma_D}$$

where σ_U is the Upside risk and σ_D is the Downside Risk

Author(s)

Matthieu Lestel

References

Carl Bacon, *Practical portfolio performance measurement and attribution*, second edition 2008 p.97-98

Examples

```
data(portfolio_bacon)
MAR = 0.005
print(VolatilitySkewness(portfolio_bacon[,1], MAR, stat="volatility")) #expected 1.32
print(VolatilitySkewness(portfolio_bacon[,1], MAR, stat="variability")) #expected 1.15

MAR = 0
data(managers)
# print(VolatilitySkewness(managers['1996'], MAR, stat="volatility"))
print(VolatilitySkewness(managers['1996',1], MAR, stat="volatility"))
```

weights

Selected Portfolio Weights Data

Description

An xts object that contains columns of monthly weights for a subset of the EDHEC hedge fund indexes that demonstrate rebalancing portfolios through time.

Note that all the EDHEC indices are available in [edhec](#).

Usage

```
managers
```

Format

CSV conformed into an xts object with monthly observations

Details

A relatively random weights file used for charting examples.

Examples

```
data(weights)

#preview the data
head(weights)
```

zerofill

zerofill

Description

Fill NA's with zeros in a time series to allow analysis when the matrix must be complete.

Usage

```
zerofill(x)
```

Arguments

x time series to zero fill

Details

Note that this function has risks, use carefully. Complete data is preferred. Barring that, filling a small percentage of results in a the middle of a large set are unlikely to cause problems. Barring that, realize that this will skew your results.

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