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**From:** Lesley Groff <[REDACTED]>  
**Sent:** Friday, February 7, 2014 7:25 PM  
**To:** Jeffrey Epstein  
**Subject:** Fwd: ATorus - Daily Portfolio Report 2/6  
**Attachments:** Atorus\_BacktestNAV\_020614.pdf; Untitled attachment 00484.htm

Sent from my iPhone

Begin forwarded message:

=b>From: Michael Fowler <[REDACTED]>  
Date: February 7, 2014, 2:20:00 PM EST  
To= Lesley Groff <[REDACTED]>  
Subject: Re: ATorus - Daily Portfolio Report 2/=

Lesley,

&=bsp; My apologies. It appears some of the charts did not PDF correctly. I've attached the updated Daily Portfolio Report.

On Fri, Feb 7, 2014 at 1:57 PM, Michael Fowler <[REDACTED]> wrote:

Lesley,

&=bsp; Please see attached the Daily Portfolio Report for 2/6. Have a great w=ekend!

Daily Commentary:

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"A Reminder About Security Selection & Position Sizing" <=iv>

Having displayed the "vol day" adjusted returns yesterday, I feel it worth reminding about security selection and position sizing. Specifically, the large winners, are not driven by out-sized position sizing (at inception) or a bias to small or mid cap securities becoming large cap securities. I've previously outlined our liquidity and market capitalization requirements in our Trading Assumptions document. Our position sizing, at inception, yields equal potential profit irrespective of notional dollar= at risk. Stated another way we eliminate the volatility "basis" risk between any positions, so that the denominators are all indexed to the same potential impact to NAV. We then add to winners and never to losers. At the end of the day, our assumption (yes, it is an assumption) is that the distribution of returns, IN VOL DAYS and over a given interval of time, follows a Pareto-like distribution. By "indexing" our position sizing (e.g. Kelly Criterion-like) to vol, we are always "in" the positions that represent the majority of returns and scale those returns by adding to them, without dollar cost averaging into losers.

In essence, would you think the results are more stable or someone who made 50% in a year even with a high Sharpe, wherein the sample size was (i) small in the number of positions and factors; (ii) profit factor driven by a small subset of the total trades, and (iii) driven by excess position sizing; or someone who made 15% in a year, wherein the sample size was (i) large; (ii) profit factor driven by top 25% of positions that do not repeat; and (iii) position sized equally? While the former is possible, the odds are in the negative in terms of future consistency. Someone will do it, but the ability to ascribe the results to randomness or intelligence will be difficult.

"A Near Constant Distribution: Exponents of the Delta in One Period Realized Volatility at the Next Moment Conditional on the Previous Moment"

A foundation of the strategy is how the distribution of the exponents of volatility scaling conditional on itself ( $T+1$  (absolute realized vol)/(absolute average realized vol)) is nearly constant across any interval of time or system. This insight, allows for a constraint on the range of outcomes at the next interval. Consequently, this alters the return profile (as vol changes) over varying intervals of times (what I call a Vol & Time Basis Risk). Having a variable that is nearly stationary, even in the range of its outcomes, allows one to manage a complex dynamic system more prudently.

"It is a capital mistake to theorize before one has data." Michael J. Fowler  
[REDACTED] /a> - Intl. Mobile <tel:%2B1%20%287=2%29%20735-0447>

Work Email - [REDACTED]

Trading Desk Email [REDACTED]

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<div style="font-family:arial;font-size:small">

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Best Regards,

Michael J. Fowler

[REDACTED] - Intl. Mobile

Work Email - [REDACTED]

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