Creation of Personal Composite Instruments through Portfolio Quoting Method
Nowadays technology develops rapidly, and many traditional solutions, accepted and applied over years, become outdated. Investors and traders begin to look for new opportunities and solutions for implementing their trading strategies and ideas. Growing necessities for modern approaches inspired IFC Markets to invent the innovative technology PCI (Personal Composite Instruments), allowing creating, analyzing and trading limitless number of instruments. The technology has no analogs in the market and is fully scalable and absolutely flexible. The smart technology was possible to implement exclusively on NetTradeX trading-analytical platform due to the technical constraints and complexity, being factored in the architecture of NetTradeX platform.
Advantages

- Creation of unique personal trading instruments, the variation of which can be limited only by user’s imagination
- Quote base portfolio against the quoted one
- Building both simple and complex portfolios, including dozens and even hundreds of financial assets
- Absolute flexibility, as each component of the portfolio has an individual weight, expressed in percents
- Instant obtaining of the price history of the instrument both in absolute terms and in relation to any other asset or portfolio
What is Portfolio Quoting Method?

Portfolio Quoting Method (PQM) is an innovative approach to study of financial markets and analysis of their dynamics. In fact, it is based on Forex concept, according to which, one financial asset is quoted against another. According to Portfolio Quoting Method, the concept is expanded for portfolios that stand for base and quoted parts. More precisely saying, one combination of assets is quoted against another combination.
Who Needs PQM Method?

Portfolio Quoting Method has been developed for investors, traders, financial analysts, and other professionals in financial markets, who look for new opportunities to implement their trading ideas. First of all, the method is an excellent tool for testing and realizing different trading strategies.

- Analyzing financial markets
- Studying complex relations between the assets based on historical data
- Identifying and analyzing periods of anomalous behavior of financial assets
- Identifying assets, showing the best retrospective performance among a number of financial instruments
- Studying behaviors of composite instruments (portfolios) and their combinations based on historical data

Moreover, the method which is integrated within NetTradeX trading platform, can be used for real time trading using different assets from different markets.
Portfolio Quoting Method can be graphically represented through the whales that are the fundamental components of the Method.

- Portfolio Creation/Risk Diversification
- Professional Trading Platform
- PCI
Portfolio creation and risk diversification allow to:

- Mitigate market unpredictability
- Combine financial assets
- Obtain the price history of the portfolio in absolute terms
- Spread the risks between different asset classes
- Reduce uncertainty and long-term risks
- Generate the highest risk-adjusted returns
- Reduce portfolio volatility
NetTradeX offers:
- Constructing personal composite instruments
- Portfolio trading
- Opening positions of any volume
- Instant execution of deals
- Percentage charts
- Sync mode of viewing multiple charts
- Balance and lock trading
- Built-in language NTL+ for automated trading
- More than 40 technical indicators and graphical objects for technical analysis
Through the concept of PCI you can:

- Create Personal Composite Instruments
- Build simple or complex portfolios, including several assets and set individual weights to them
- Quote base portfolio against the quoted one
- Simultaneously open short and long positions in the base and quoted portfolios, respectively
- Obtain the price history of one portfolio in relation to another one (special cases of which can be single assets)
PCI is the abbreviation for Personal Composite Instrument and a fundamental component of Portfolio Quoting Method where the value of the base asset (portfolio) is expressed in the value of the quoted asset (portfolio). PCI is a unique technology in the market, providing an opportunity to compose personal instruments, such as new cross rates, correlations between various assets, currency indexes, stock portfolios, portfolios for pair trading and many more. The variation of the instruments is limitless.
Creating instruments with various degrees of complexity, from very simple, including only two assets, to complex combinations, consisting of dozens and hundreds of instruments.

Including base and quoted assets in the personal instrument, which will result in opening both long and short positions, while making deals.

Absolute flexibility achieved by giving each asset an individual weight in the overall structure.

Simple and user-friendly interface of creating PCI, with an opportunity to give weights to components in units of the asset volume, in the U.S. dollars, in percents of the whole volume of the portfolio (of the base or quoted); the U.S. dollar, as an asset, can be included only in the quoted portfolio.

Instant obtaining of the price history of the instrument (portfolio) both in absolute terms and in relation to any other asset or portfolio.

Maintaining the database of the created personal instruments.
Like in case of simple currency pairs, where we have base and quoted currencies, the process of creating a personal instrument by combining various assets result in obtaining portfolios B as the base part and Q as quotation.

\[
B = \sum_{i=1}^{K} V_i * A_i \\
Q = \sum_{j=1}^{N} V_j * A_j
\]

\[
\text{PCI} = \frac{\sum_{i=1}^{K} V_i * A_i}{\sum_{j=1}^{N} V_j * A_j}
\]

Ai - value per unit of asset i in portfolio B, expressed in the U.S. Dollars
Vi - volume, the number of units of asset i in portfolio
K - the number of assets in portfolio B

Aj - value per unit of asset j in portfolio Q, expressed in U.S. dollars
Vj - volume, the number of units of asset j in portfolio Q
N - the number of assets in portfolio Q

In the equation the numerator is the base portfolio and the denominator is the quoted one.
As it was mentioned above, the concept of the method is based on the price relation of one portfolio against the price of another. Both portfolios can be simple (e.g. EUR, XAU, SP500), as well as complex (consisting of several simple ones). For example, through PQM Method you can create such instruments as:

**SP500/DJI**

Shows the price relation of 1 contract on SP500 index against 1 contract on DJI index.

\[(1000*\text{CHF} + 1000*\text{EUR})/\text{XAU}\]

Shows the price relation of a portfolio consisting of 1000USD and 1000EUR against 1 ounce of gold.

After creating a new PCI you will immediately get a graph of the price history and will be able to use large amount of technical analysis tools available on the platform NetTradeX for predicting the prices of the newly created composite instrument.
In order to calculate the created composite instrument, the prices of each portfolio are recalculated in US dollars. For clarity, let us calculate the price of the following composite instrument, which can be applied for risk diversification.

\[(0.5 \times \text{XAU} + 1000 \times \text{CHF}) / \text{USD}\]

Shows price relation of a portfolio consisting of 0.5 ounces of gold and 1000CHF against 1 US dollar.

Let us assume that at the moment the following prices are formed in the market: 1 ounce of gold is priced in 1600 US dollars; 1CHF is priced in 0.9100 US dollars.

Using the information about the current asset prices let us calculate the price of the instrument:

\[(0.5 \times 1600 + 1000 \times 0.91) / 1 = 1710\]

After calculating the price of the personal composite instrument for each period of time we provide you with a graph, which you can use to search for hidden dependences in price fluctuations, as well as to predict the profitability of various portfolios.
Example: Application of PQM Method for Analyzing Stock Portfolio

Through PQM Method you will be able to analyze the dynamics of the portfolio of stocks, possessing similar characteristics. In the current example we have studied 6 stocks, the recovery of which took place most rapidly after the crisis of 2008 or the prices of which the crisis influenced the least. It follows from the graph that the selected portfolio of stocks has shown a stable growth against DJI index since 2006.

Since 2006 the 6-stock portfolio has been consistently outperforming the Dow Jones Index.

A portfolio of 6 US stocks (20% DIS, 20% HD, 15% HON, 15% IBM, 10% KO and 20% MCD) against a portfolio of CFD on DJI index were selected for the example. The total price of two portfolios was the same at the moment of creating the personal instrument and was equal to 100,000 USD.
How to Get Access to PQM Method?

In order to apply PQM Method in practice, you need to use the new generation trading-analytical platform NetTradeX, as the tool was designed specifically for this platform. With it you can:

- Create your own PCI in an easy and fast way
- Get the graph of their prices within seconds
- Use various technical analysis tools for predicting the price of the created instruments

Download NetTradeX

Apply PQM Method
Smart technology of PCI grants limitless opportunities to investors, traders and analysts to analyze and test various trading strategies and original ideas to find complex interrelations between assets and even different markets. Now traders are not constrained with the amount of instruments offered by brokers. Instead, they can trade limitless number of instruments.
Contact us for any questions and suggestions:

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