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Index Fund Info On-Line

I did not notice any reference to a computerized source of information on index funds in the July 1999 AAll Journal article "Using Index Funds as a Part of Your Asset Allocation Strategy," by Albert J. Fredman. Do you have any information on a Web site that might enable one to track these funds?

—J.E. via E-mail

CI Editors respond: Index funds target a particular stock or bond index and attempt to match its performance by replicating its investments and weightings. Professor Fredman's article discusses how investors can use index funds as an easy means of gaining exposure to various asset classes and investment styles—growth versus value, company size, sectors, international, and bonds. (The article is available at AAll.com; use the AAll Journal search tool.)

One of the best Web sites for information on mutual funds, including index funds, is the Morningstar.com site (www.morningstar.com). The site offers a variety of features, including fund screening and research. Much of the site is free, with additional functions available through the premium service for \$11.95 per month. The site provides information on open-ended mutual funds as well as exchange-traded funds, index fund alternatives that trade like stocks.

The Exchange-Traded Funds Center offers visitors news and commentary, research, and ETF educational content. Using the Morningstar "style box," visitors can locate domestic and international ETFs based on their market capitalization and investment style. Morningstar Quicktake reports include price charts, return data, historical quarterly net asset value (NAV) return data, top holdings, and sector weightings. With the premium service, subscribers receive analyst commen-

tary on the more heavily traded ETFs.

Another Web site for information on index mutual funds and exchange-traded funds is IndexFunds.com (www.indexfunds.com). The site offers news and articles, discussion boards, and an ETFzone with data, articles, and tools for ETFs. Screening tools for mutual funds and ETFs provide expense ratios and performance data over several time periods for those tickers that pass a given screen. Links within the tables of passing tickers provide fund and ETF information such as sector breakdown, fund management, and fundamental data.

Risk Stats in Portfolio Programs

I currently use Morningstar's premium membership portfolio manager, which I find very useful, but limited. Can any of the programs reviewed in CI's November/December 2001 comparison of portfolio management programs calculate standard deviation and Sharpe ratio for a small size portfolio (30 to 35 securities)?

—T.D. via E-mail

CI Editors respond: Captool by Captools (www.capttools.com) can calculate advanced portfolio statistics. The Individual Investor version, which we reviewed, sells for \$249 (20% discount for AAll members).

Captool's performance reports can optionally report the risk statistics alpha, beta, R-squared, and standard deviation for a portfolio and determine the return per unit of risk through the Sharpe ratio.

Beta is a relative measure of risk that reveals the volatility of a portfolio relative to a market benchmark. A beta greater than 1.0 indicates that the portfolio is more volatile than the benchmark, whereas a beta between 0 and 1.0 indicates that the investment tends to be less volatile than the market. A negative beta indicates that the portfolio tends to move in a counter direc-

tion—up when the market benchmark is down.

R-squared is a companion statistic to beta that measures the correlation between a portfolio's performance and that of the index. R-squared indicates what percentage of a portfolio's return can be explained by the stock market's return. It helps to test how reliable a beta is in measuring a portfolio's relative sensitivity. An R-squared of 0% indicates that a portfolio's price movement was completely unrelated to that of the market, while an R-squared of 100% signifies a perfect correlation with the market's action.

Alpha is another companion statistic of beta that measures the return attributed to non-market risk. It is the difference between a portfolio's actual performance and its expected performance given its risk level—as measured by its beta. A high alpha is good, indicating that the portfolio has performed better than its beta alone would predict. A negative alpha indicates the portfolio's unique characteristics have detracted from its return. The alpha must be tested for statistical significance before it can be considered meaningful.

Standard deviation, or sigma, is a measure of the volatility of a portfolio's performance, and is considered an indicator of the portfolio's risk.

The Sharpe ratio equates the return to risk by dividing the excess portfolio return by the portfolio standard deviation. (Return minus the risk-free rate of return with the result divided by the portfolio standard deviation.) The Sharpe ratio measures the return per unit of risk, but must be compared against other portfolios over the same time period to gain meaning. The higher the value, the better the performance relative to the risk taken. The Sharpe ratio is named after William Sharpe, who earned a Nobel prize in connection with his portfolio analysis research.