



# Haircut Snippets

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### Electronic Newsletter

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## Idle Hands...

*Len Bole*

Users and prospects frequently send us data to process. We review settings and verify results for existing clients. For prospects, we determine what appears to be the best way to configure RBH or Fixed Income, run the data and return reports that can be compared to their current haircut treatment.

Needless to say, LDB Consulting offers this service for more than purely altruistic reasons. We look to generate the lowest possible haircut. The lower the charges are, the happier the client base. The lower the charges are, the greater the probability of making another sale.

And, perhaps most importantly, we learn things about our system as we examine the results and ask "Why did THIS happen?!!!"

### **RBH: Better Haircuts**

When we answered that question for one of our prospects, we came to the conclusion that the results could be greatly improved if we reconfigured some of our routines and provided greater flexibility to our users.

The next release of RBH will include a new method for determining naked stock for Paragraph J. Depending on the position in question, the haircut charge will either stay the same or decrease. It should not increase. In addition, RBH will allow users to put naked Exchange Traded Fund positions into Paragraph J, possibly gleaning relief on these securities that would otherwise be haircut at a pure 15%.

The Weaver™ has been altered to lower haircuts by doing a better job of matching stocks to equity options and by facilitating the creation of broad

based baskets other than those in product group 9.

Perhaps the most important change involves the Wrapper™. Whereas the Weaver™ makes as many baskets as possible for each index, the Wrapper™ will now determine the OPTIMAL value of the basket and limit the stock used by the Weaver™.

### **Fixed Income: SPEED!**

Fixed Income also benefited from running sample data provided by users. As positions have gotten bigger, the optimization routines take longer to complete.

Upon examining the logic we've used for 6 years, it became obvious that we could greatly increase the speed without materially affecting the haircut charge.

No matter what speed settings are utilized, the 2005 version of Fixed Income will reduce the run time. If FASTEST = Y, the system will finish optimization in 25% - 33% of the former time.

More complete details for these and other features will be included in the next newsletter.

## EXTRA, EXTRA: No Undue Concentration on ETFs

The SEC and NYSE have now indicated that there is NO NEED to compute undue concentration on Exchange Traded Funds. Please set ETFUNDUE = N in your RBH INI file.

## The More the Merrier

Many users have only fed stocks used in baskets and against equity options into the RBH system. Additional stock positions involved in non-option, non-basket strategies were kept separate. The RBH haircut results were than

added to charges computed separately for these stocks to get a total charge.

Usage of the Weaver™ and the Wrapper™ has increased dramatically this year. The universe of Weaver users has increased by 1/3 and the number of Wrapper users has tripled.

A number of users have begun to feed ALL their equity positions into the Weaver™ and, especially, the Wrapper™. This combination of positions has resulted in significant haircut reductions. The more stocks given to the system, the greater the chance for netting and the more possibilities to create baskets hedged by Exchange Traded Funds, options and futures.

Give us a call to discuss the upside of feeding as much stock as possible into Weaver™ and Wrapper™.

## Additional Tools

### Reconciliator™

When you run standard RBH, stocks end up in the baskets indicated in the position file, hedged against equity options in the detail report or as naked stock in Paragraph J. It is fairly straightforward to locate the positions in the output and reconcile them with the input file.

The Weaver™ and Wrapper™ net stocks and place them where they do the most good. Matching up the resultant output from the detail, paragraph J and netting reports can be arduous at best and nearly impossible at worst.

Enter the Reconciliator™ (think Arnold and the Terminator). It produces a summary and detail report that identify any input securities whose quantity or value do not match the total quantity and value in the various output reports. These discrepancies are normally due to a single security having multiple prices in the position file.

A quick perusal of the summary report allows you to identify discrepancies.

The detail report, which lists each position from the input file and in the

next column shows where that security was used in the output, can be used to investigate discrepancies or to simply answer the question “Where did all my GE stock go?”

The two reports should greatly reduce the time it takes to determine where a given security was utilized within the system and to identify input vs. output discrepancies.

### CUBE™

When the Wrapper™ does its thing, it produces the lowest haircut for the total position file on which it works.

If the position file consists of multiple desks or accounts, the Wrapper™ result is not necessarily optimized for each account, but rather for the total charge across all accounts.

LDB Consulting now offers Capital Usage by Business Entity (CUBE™). This application will optimize EACH account in the position file and produce reports by optimized account.

The goal is to provide better data for allocating capital charges back to business units or entities.

Contact us if you want more information on these two add-on tools.

## No Wooden Nickels: A Tip or Two

### RBH: Identify New Baskets

New baskets are constantly cropping up in the world of RBH. As of July there were over 240 baskets recognized by the OCC.

Traders discover arbitrage opportunities and establish positions. Then it’s up to our users to discover those positions and to provide basket composition data so that the firm can benefit from all the basket relief to which it is entitled.

As a way to keep track of which baskets you MAY be trading, set ETFUNDUE = Y and run the system. At the bottom of the Paragraph J/Naked Stock report

will be a list of all unhedged Exchange Traded Funds (ETFs). By cross checking these ETFs with the Minimum Hedge file, you can define the universe of potential baskets which need composition info. See the FLASH above: set ETFUNDUE back to N after investigating.

Future releases of RBH will produce a file in the Print Directory that will summarize potential basket candidates based on your position file without altering the ETFUNDUE setting.

### PDF and DOC Reports

In addition to allowing the various applications to print directly to the printer, users can print directly to a PDF file or, by copying and pasting, can create a Word document.

If you have access to Adobe Acrobat, you can select Adobe PDF as the printer for a report. It will give you a browse screen and you can indicate the location and name for the PDF file to be created.

If you want a Word document, you may open the application’s ASCII report files in the print directory via NOTEPAD. Then Select All and Copy the selected contents to the Clipboard.

In Word, open a blank document and select Landscape in Page Setup. Select a small, fixed width font such as Letter Gothic MT 6. Paste the report into the document, print and/or save the document.

## Electronic Newsletter

If you can receive this letter via email, please provide me with your email address. If there are others in your organization that ought to receive this missive, please provide their email address to me as well. You can email me at: [LDB-LENBOLE@att.net](mailto:LDB-LENBOLE@att.net)

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