

What is CapitalGuard (CG)

This is a system monitoring the development of equity for strategies (PAMM account) and in the event of drop by X % it will close all trades on the account, and suspend any further trading. CapitalGuard is a technical function and therefore technical issues may arise in respect to its functionality. Please refer to PAMM System Terms for more information.

Why do we apply CapitalGuard

For the investor, it's crucial to eliminate the risk to avoid further losses. We have developed CapitalGuard with the intention to offer a tool to investors to safeguard their funds.

How does it work

On the basis of monitoring all trades, deposits, withdrawals (so any activity on the trading account), CG calculates the so-called High-Water Mark (HWM) for PAMM account.

HWM is a theoretical number, used by funds, to monitor the highest balance reached on an account. The theoretical aspect is seen in the fact that HWM may, from time to time, reach values that have nothing to do with reality and have never been seen on the account. It may sound complicated, however, let's take a look at certain examples to help you understand the issue in full.

Let's start with the easiest example

On our exemplary PAMM account, we have only one client with a single account, of 1 million USD balance. This is the highest temporary account balance, therefore also our HWM. CapitalGuard is set for 20 %.

If, due to unsuccessful trading, a loss of 10,000 USD is made, it will represent a loss of 1%. The highest balance on the account was 1 million USD, so the HWM is 1 million USD. If, however, a profit of 100,000 USD is achieved, and the account balance jumps to 1.1 million USD, new HWM will move to 1.1 million USD. Pretty simple, isn't it?



Let's change the situation so it corresponds to reality a bit more.

We have 1.1 million USD on our PAMM account from the previous example. Now, a new client connects to our strategy with 1 million USD. As we have no active trade open now, situation is not complicated – therefore, new HWM is 2.1 million USD. But let's be honest, the life of a trader gets complicated very easily, so let's adjust our example accordingly.

Our actual balance on the trading account is 2.1 million USD, however, with another trade, we lose 200,000 USD from our account, so the balance is now only 1.9 million USD. HWM remains at 2.1 million USD and the DD (drawdown) is 9.52 %
($1 - \text{equity} / \text{HWM} = 1 - 1,900,000 / 2,100,000$).

So, what will be the HWM when another client with 10 million USD connects to our account and our total balance rises to 11.9 million? Simple algorithm would tell us that we have to add 2.1 million USD and 10 million USD. Thus, you will get a HWM of 12.1 million USD. But is it correct?

Let's check the drawdown, which must remain the same. On the account with a balance of 11.9 million USD we made a loss of 200,000 USD and we assume, that the HWM is 12.1 million USD. DD would then be 1.65 % ($1 - \text{equity} / \text{HWM} = 1 - 11,900,000 / 12,100,000$). That would lead to a decrease of relative loss due to a new deposit, which simply cannot be allowed as the investors' funds would gradually be in a bigger and bigger danger. This is why we must re-calculate a new HWM so that the DD remains at 9.52 %.

Let's take a look from another point of view. At this moment, we have 11.9 million USD on our PAMM account and a loss of 9.52 %. From a mathematical point of view, this means $100 - 9.52 \% = 90.48 \%$, so the amount of 11.9 million USD should reach 90.48 %. So, what is 100 % (HWM)? Let's take the calculator and we will get the amount of 13,152,077 USD ($100 \% / 90.48 \% * 11.9 \text{ million}$).

Now we can verify that the calculation of DD truly matches with the previous level thanks to a newly calculated HWM: $1 - \text{equity} / \text{HWM} = 1 - 11,900,000 / 13,152,077 = 9.52 \%$.

Here, you can see clearly that the new HWM may be also a value that has never been seen on the account. Here, you can see that a monitoring of actual HWM may be a hard task for the trader because of permanent deposits and withdrawals seen on the PAMM account. However, this is not a reason for panicking. At Purple Trading, we recalculate the actual value of HWM all the time. So you can be sure that it's the right one at all times.

How to get the value of HWM at PAMM account

In the event such loss at PAMM account exceeds 70 % and/or 90 % from the value of CG, so 14% DD (70 % from 20 % CG) in our case, or 18% DD (90 % from CG), we will send you an e-mail automatically. We will inform you there about this fact and send you an actual value of HWM. Or, simply contact us and we will inform you about the actual value.

