RPg asset management
Defending Capital. Redefining Risk.

Week ending February 12, 2016

Q-Tube Watch

A brief digest of the past week's market activity through the RPg quantitative model with a focus on evolving risk, reward and correlation trends and their implications for portfolio construction.

Q-POINT of the week: At over 6.5 years, this cycle is 5th longest since 1921

1. **Is the cycle getting longer?** At over 6.5 years and counting, the current economic expansion is already longer than average. Looking back to 1921, there have been 17 distinct periods of US expansion, the average duration of which was 4.4 years. That makes today's cycle nearly tied for the 4th longest since 1921 but behind the 1961-69, 1982-90, and 1991-01 periods.

2. **The "race to the bottom" continues.** With many central banks around the world easing monetary policy, and a general "flight to safety", interest rates around the world have gone down, and even into negative territory in Japan and parts of Europe. Bloomberg data suggests that almost 50% of all outstanding debt in Europe is currently trading with a negative yield.

3. **The consumer is still spending.** While many are fearful that negative animal spirits have taken hold in the global economy and a recession is looming, the US consumer is still spending based on the January retail sales data released January 12th.

Domestic Indexes as of 2/12/16

Index	**WTD**	**MTD**	**QTD**	**YTD**	**1YR**
S&P 500	-0.72%	-3.73%	-8.51%	-8.51%	-7.73%
DJII	-1.23%	-2.75%	-7.99%	-7.99%	-8.96%
Nasdaq	-0.56%	-5.88%	-13.24%	-13.24%	-10.12%
RU 2000	-1.34%	-6.05%	-14.31%	-14.31%	-19.18%
7-10 Y UST	0.73%	1.46%	4.66%	4.66%	4.89

Source: Bloomberg, RPg Asset Management

Insights from the RPg ActiveParadigm Model as of 2/12/16

Asset Class	**Trend**	**Key Message**
US Equities		Currently significant cash levels with defensive sectors, Consumer Staples and Utilities ON and overweight.
International Equities		Currently 100% cash with NO country or regional sector ON.
Fixed Income		High Yield, Inflation Protection and spread product sectors OFF.
		High Quality, Short Duration sectors ON.
Alternatives		Currently 50% Cash and Gold ON; REITs, MLP's, and Core S&P 500 all OFF .

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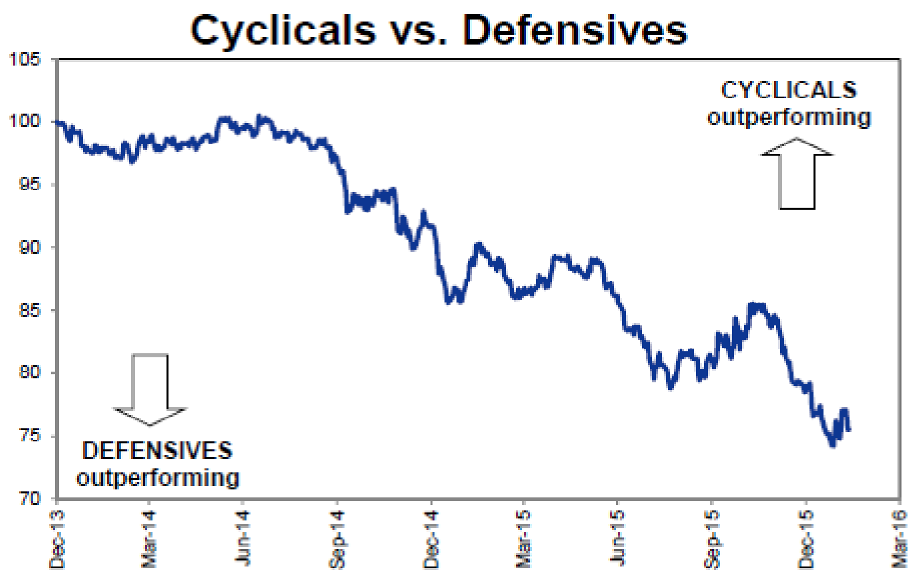
Q-OVERVIEW of the week: Recession fears rising

The S&P 500 was down ~1% this past week. Consumer Staples was the best performing sector (+0.3%) while Financials was the worst performing sector (-2.7%). While January retail sales released this morning show the US consumer is still spending, many investors are still fearful that negative animal spirits have taken hold in the global economy and we are on the precipice of a recession.

Over the past three months, volatility of equity markets increased, especially for Asian markets like China, which has been the most volatile. RPg's portfolios have evolved to a more defensive nature with defensive sectors remaining an overweight in equities, a US bias in equities, high quality, short duration fixed income, and cash.



Source: Goldman Sachs Investment Research

Q-TREND of the week: The US consumer continues to spend

Based on the January retail sales data released January 12th, core retail sales (excluding autos, building supplies and gas) exceeded expectations, rising by 0.6% on a sequential-month basis. Year/year core retail sales growth accelerated to 3.1% from 2.2% in December. Quantitatively, this would suggest the US economy, which is 2/3rds consumer based, is still in expansion mode.

RPg Tactical ETF solutions have come through one of their most challenging periods, a trendless whipsaw environment which led to the portfolios becoming defensive both in allocation and in sector exposure. Should this increase in volatility continue and risk assets continue to sell off, the RPg Tactical solutions should be well positioned to defend capital, which for RPg is priority number one.

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"ActiveParadigm" is a quantitative methodology that is proprietary to RPg. The RPg tactical strategies ("RPg Tactical U.S. Equity", "RPg Tactical U.S. Equity FT", "RPg U.S. Long-Short Equity", and "RPg Tactical Global Balanced") are managed account strategies managed by RPg. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. All investments include a risk of loss that clients should be prepared to bear. The principal risks of the quantitative methodology and strategies are disclosed in Risk Paradigm Group's publicly available Form ADV Part 2A.

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References to Indexes
The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the equity performance of larger companies in the U.S. Please note that an investor cannot invest directly into an index.

Risk Disclosures
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Sources: Bloomberg. Goldman Sachs Investment Research.

For more information including risks of investing in our strategies, visit our website at www.rpgassetmanagement.com.