August 2015 Expanded Commentary

Given the escalation and sustained levels of volatility in the markets that began in mid-August, RPg Asset Management wanted to outline the shifts made in our strategies beyond our normal monthly update to help provide what we believe is valuable insight into our tactical methodology.

The adjustments made to the sector exposures within our strategies reflect the priorities of our disciplined approach of #1 avoid a bear market, and #2 materially participate in upwardly trending bull markets. Volatility and corrections are not a bear market, but of course they can evolve into a bear market. No one knows where the bottom will be and corrections by their very nature can be challenging.

When designing the sensitivity of our quantitative methodology, we made an allowance for a range of volatility to minimize exposure in a bear market with a recognition that the stock market goes up more often than it goes down. It is our desire to keep the portfolios in a position of compounding as frequently as possible. We were also sensitive to an investment approach that would incur an unreasonable amount of transactions and did not seek a trading strategy but a long-term investment discipline. This set of priorities makes us an active manager, and as active managers we are dependent on the willingness to embrace change, and more importantly to capitalize on it.

Profitable ideas, approaches and techniques will make an active manager different from an index. RPg will be different from an index due to our portfolio construct of equally weighting the sector exposure and the flexibility to move 100% cash. If this market environment does in fact reflect what may be the beginning of a global bear market, the portfolios have already been de-risking across all of our strategies. This difference should aid clients as a diversifier during a bear market environment and positively contribute to the risk/reward characteristics of a diversified portfolio. If however, a return to upward trending markets materializes, the methodology will capitalize on that and will deploy into the sector exposures to participate.

Adjustments to RPg Tactical Global Balanced (TGB):

Up until mid-August, when the majority of the market volatility took place, the sectors that were allocated to had a pretty sanguine trading range as the charts below reflect. A couple days like the market experienced in mid-August are going to be challenging to our approach as it is a momentum based investment strategy, not a trading strategy. This type of price action will take us by surprise as we are dependent on data that we know to be true. For now, the portfolio holds more than 40% cash and will let the train of volatility pass while we wait for more sanguine times to return.

The strategy has strategic and static allocations to four asset classes and the flexibility to move to 100% cash. US Equity sleeve strategic allocation is 33%, International Equity sleeve strategic allocation is 28%, Global Fixed Income sleeve strategic allocation is 28%, and Alternatives sleeve strategic allocation is 11%.

The Global Tactical Asset Allocation (GTAA) process RPg subscribes to – chiefly seeking to avoid bear markets, and materially participating in upwardly trending bull markets has an element of absolute return investing. In a challenging investment landscape, any investors who aspires to superior results no longer have the luxury of blindly following a rigid policy portfolio to meet investment goals. It's time to be tactical and make the hard decisions that go hand in hand with tactical asset allocation management.

US Equity – Please refer to the expanded August commentary for the RPg Tactical US Equity strategy for an in-depth review of the adjustments made to the US Equity sleeve. (US Equity)

International Equity
At the beginning of August, the sleeve was positioned with exposure to Europe, Japan and the Developed World ex-US sectors and a 25% cash allocation. By the end of the month, the methodology had removed those sectors and the sleeve moved to 100% cash.

Developed Markets Ex-US: FDT experienced a new high for the year in late May, but started to see a notable increase in volatility in June which eventually led to a negative score in mid-August and removing it from the sleeve, prior to the August correction.

Europe: A tale of two halves despite the noise regarding Greece. The Europe sector was a solid contributor to sleeve's performance through May when it reached a new high for the year. From May through mid-July, Europe saw significant volatility, but not quite enough to register a negative score at the time. FEP experienced recovery and subsequent drops which ultimately led to the sector's removal from the portfolio with the August correction.

Japan: With a sanguine trading range that will give any momentum based methodology reason to be long the sector, Japan was one of the only sectors in the international equity sleeve that took the methodology by surprise. The theme of the mid-August correction is one of escalating global correlations, and what was previously a relatively strong sector was removed from the sleeve.

Global Fixed Income

Coming into August, the Global Fixed Income sleeve had 3 of 10 fixed income sectors allocated to: High Quality International Corporate Bonds, EM Sovereign Debt, and High Quality Floating Rate Securities along with a 25% cash position. The sleeve was very active during the month with positions moving in and out and new positions being added. Below is a breakdown of the activity.

The following positions were altered in August in the Global Fixed Income sleeve

- Int'l Corp Bonds (IBND) was sold in early-August and reallocated to by the end of August.
- EM Sovereign Debt (PCY) was sold in mid-August and then allocated back into at month end.
- High Yield (HYG) was bought in early-August, and was removed in mid-August.

The following positions were added to the Global Fixed Income sleeve

- Senior Loan ETF was included into the sleeve in early-August.
- 7-10 year US Treasuries (IEF) was added to the sleeve in late-August.
- Mortgage Backed Securities (MBB) was added in late August.

Alternatives

To maximize the benefits of a purposeful Global Tactical Asset Allocation (GTAA) methodology, one must look beyond traditional stocks and bonds to round out the opportunity set. Commodity exposures, gold, REITs, and MLPs all have unique risk and return drivers and will price differently in various market environments. Coming into the month of August, only REITs (FRI) and the core S&P 500 ETF (FEX) were included. During August, both the S&P 500 ETF and the REITs (FRI) sector were removed, leaving the sleeve with a 100% allocation to cash.

Commentary Disclosure

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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.

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