RPg asset management

Defending Capital. Redefining Risk.

Quarterly Commentary 4q14

Solutions based upon the RPg ActiveParadigm Methodology

Risk Paradigm Group seeks to defend capital through our ETF strategies based upon the RPg ActiveParadigm methodology. The below quarterly commentary is related to the RPg Tactical ETF portfolios available as separately managed accounts.

Overview

The S&P 500 has had a string of very strong performance years these last few years, and was up another 12% in 2014. However, the almost sanguine first half of 2014 gave way to a much more volatile second half. The “risk off/risk on” nature of the second half was one of the biggest contributors to the degree of frustration experienced by investors in 2014, and it certainly falls into the “Achilles heel” category within a tactical sector rotation strategy. For the fourth quarter, best performing sectors of the S&P 500 were: Utilities, Consumer Discretionary, and Staples. Energy and Materials sectors were the weakest and posted negative returns for the quarter.

RPg Tactical US Equity

The Tactical US Equity portfolio started the quarter with 7 of 9 sectors allocated. The quarter was a very active quarter and the US market hit an all-time high on December 29th, a milestone that brought increased levels of volatility. Enhanced levels of volatility were identified by the ActiveParadigm methodology triggering an adjustment to the sensitivity levels on price movement and removed as many as 4 additional sectors and began building a cash allocation. However, by the end of the quarter the methodology had allocated back into 8 of 9 sectors, with only energy remaining excluded from the portfolio.

RPg US Long/Short Equity

The US Long/Short Equity portfolio started the quarter with 7 of 9 sectors long, and with Energy and Materials sectors in an inverse position. The quarter was a very active quarter and the US market hit an all-time high on December 29th, a milestone that brought increased levels of volatility. Enhanced levels of volatility were identified by the ActiveParadigm methodology triggering an adjustment to the sensitivity levels on price movement. At one point during the quarter, the methodology had as many as 6 inverse positions and 3 long positions with a significant level of cash. By the end of the quarter, the methodology had allocated back into long 8 sectors and only energy remaining inverse.

RPg Global Balanced

RPg Global Balanced portfolio has targeted allocations to four asset classes: US Equity (33%), Global Fixed Income (28%), International Equity (28%), and Alternatives (11%). Below are highlights of the activity for each asset class within the portfolio for the quarter.

US Equity The sleeve started the quarter with 7 of 9 sectors allocated. The quarter was a very active quarter and the US market hit an all-time high on December 29th, a milestone that brought increased levels of volatility. Enhanced levels of volatility were identified by the ActiveParadigm methodology triggering an adjustment to the sensitivity levels on price movement and removed as many as 4 additional sectors and began building a cash allocation. However, by the end of the quarter the methodology had allocated back into 8 of 9 sectors, with only energy remaining excluded from the sleeve allocation.

Global Fixed Income The sleeve began and ended the quarter with the same 5 fixed income sector ETFs. During the quarter, high yield and inflation sensitive exposures, both domestically and internationally, were added and removed demonstrating their increased volatility. By the end of the 4th quarter, the fixed income sleeve was highly concentrated in higher quality fixed income sector ETFs.

International Equity The sleeve began the quarter with 4 international sector ETFs and ended with 3 ETFs and a 25% allocation in cash equivalents. Europe and Canada sector ETFs were removed from the sleeve during the quarter.

Alternatives The sleeve had been out of the Gold sector ETF for the entire 4th quarter and ended the year allocated to only the REIT and S&P 500 sector ETFs.

Outlook

As a quantitative rules-based asset manager who relies on data to drive the investment decisions, we do not make market forecasts. However, the portfolio allocation does offer useful intelligence to how the methodology is interpreting current market activity. Some specific observations:

- 8 of the 9 sectors included in the portfolio indicate a bullish stance for U.S. equities
- Energy continues its weakness (strong supplies relative to demand, as well as a strong U.S. dollar)
- Bearish trends showing in the International Equity sectors
- Bullish trends globally in high quality fixed income

By design, the allocations can change abruptly, and it is possible that some or all of the sectors now scoring positively could score negatively and be removed from the portfolio in the near future.

Commentary Disclosure

Risk Paradigm Group, LLC. d/b/a RPg Asset Management is a registered investment advisor with U.S. Securities and Exchange Commission ("SEC"). Additional information regarding Risk Paradigm Group, LLC can be found on our website at www.rpgassetmanagement.com.

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"ActiveParadigm" is a quantitative methodology that is proprietary to RPg. The RPg tactical strategies ("RPg Tactical U.S. Equities", "RPg U.S. Long-Short Equities", and "RPg 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.

RPg may change the exposures and compositions reflected herein at any time and in any manner in response to market conditions or other factors without prior notice to investors.

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
Concentration, volatility, and other risk characteristics of a client's account also may differ from the information shown herein. There is no guarantee that any client will achieve performance similar to, or better than, the strategy mentioned herein.

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