RPg asset management

Defending Capital. Redefining Risk.

December 2015 Commentary

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 monthly commentary is related to the RPg Tactical ETF managed portfolios available as separately managed accounts.

Overview

The S&P 500 traded lower in December continuing the whipsaw trend of 2015. The mystery surrounding the Fed has finally been resolved, at least until the next meeting in 2016. But even with liftoff in the rearview mirror, US equities continue to struggle with a familiar litany of issues: lack of organic earnings growth, mixed economic data and deteriorating conditions in the credit markets. In addition, market breadth continues to diminish.

Buoyed by gains in a handful of megacaps, the market cap weighted S&P 500 saw a total return of 1.38% as measured by Bloomberg for the year. However an equal weighted version of the S&P 500, measured by Bloomberg, was down -4.11% as very few names drove the performance of the Index. Leading the way for sectors in December were Consumer Staples and Utilities. Energy, which was negative in November and the strongest sector in October, saw pressure again as the weakest sector by a wide margin. Economic data continues to be in focus as we enter a potentially new interest rate regime.

RPg Tactical US Equity

All nine sectors were allocated to and fully invested at the beginning of the month of December. The Energy sector was removed early in the month, followed later by the Materials sector being removed. At month end, the strategy remained fully invested with exposure to 7 of 9 sectors allocated to.

RPg Tactical US Equity FT

At the beginning of December, the strategy was fully invested in all nine sectors. The Energy and Health Care sectors were removed early in the month followed later by the Industrial and Materials sectors being removed. At month end, the strategy remained fully invested and allocated to 5 of 9 sectors.

RPg Tactical US Long/Short Equity

Coming into December, the RPg Tactical US Long/Short Equity strategy was long all 9 sectors. Early in the month, an inverse position in the Energy sector was established followed by an inverse position for the Materials sector. The month ended having 7 sectors long, 2 inverse and a 10% in cash allocation for the strategy.

RPg Tactical Global Balanced

RPg Tactical 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 month of December.

US Equity: At the beginning of December, the US Equity sleeve was fully invested in all nine sectors. The Energy and Health Care sectors were removed early in the month followed later by the Industrial and Materials sectors being removed. At month end, the sleeve remained fully invested and allocated to 5 of 9 sectors.

Global Fixed Income: Coming into December, the Global Fixed Income sleeve was invested in 4 of 10 sectors, allocated to: US Treasuries, US Corporates, Mortgages and Senior Loans. Early in the month, US Corporates, 7-10 Year US Treasuries, and Mortgage sectors were removed. By mid-December, the 7-10 Year US Treasury sector was re-allocated back ending the month with 2 of the 10 fixed income sectors allocated to, US Treasuries and Senior Loans. The sleeve is currently favoring high quality and short duration, and avoiding inflation protected securities.

International Equity: Coming into December, the International sleeve was invested in Japan, Europe, Asia ex-Japan and Developed Markets ex-US. Mid-way through the month, the model removed all but Japan leaving the International Equity sleeve with 25% in Japan and 75% in Cash which is where it ended the month of December. The International Equity sleeve's performance benefitted from avoiding a significant portion of the global sell-off within the international equity markets that started in May of this year.

Alternatives: The sleeve started the month of December invested in the Core S&P 500 and a 50% cash allocation. REITs were allocated to within the month, removing the cash allocation and ending the month with the sleeve invested in 2 of the 4 potential sectors.

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:

- While fully invested in US Equities, the risk on/risk off environment has been challenging
- International Equity is in a defensive stance
- Global Fixed Income has seen a rotation to a defensive posture positioned in a short duration/high liquidity oriented portfolio

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.

Sources: Bloomberg.

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

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