RPg asset management

Defending Capital. Redefining Risk.

February 2016 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

Following a selloff in the first half of the month, U.S equity markets staged a rally that mostly offset previous losses, ending February in slightly negative territory. This market recovery coincided with the release of January retail sales showing that the US consumer is still spending. While we can continue to point to data that is more constructive for risk assets, any given day can bring with it news that suggests the US economic growth is more opaque than it has been in the post-crisis era. But on the whole, February has been a month of better U.S. economic growth data than we saw in January.

The S&P 500 continues to trade at a 2016e P/E of 15.98X (Bloomberg Estimates) - back up near the high-end of its post-crisis range. Regardless of potential recession expectations, the current market correction provides a compelling entry point for the strategies because they are positioned to defend capital should risk assets begin to sell off again. Sector scores are not so far from getting turned back on which should allow for material participation if asset prices rise and approach consensus year end targets for the S&P 500.

RPg Tactical US Equity

Early in February the portfolio removed Healthcare and then Technology leaving the portfolio with (2) of the possible nine (9) sectors allocated to brining a 50% allocation to cash. Positive U.S. economic data seemed to curb the recent focus on tail risk and as the month wore on, volatility receded. At month end, the strategy remained invested in Utilities and Consumer Staples with 50% exposure to cash.

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RPg Tactical US Long/Short Equity

Coming into February, the strategy was long four (4) sectors and held an inverse position in five (5) sectors. After the first week of the month, the strategy added it's inverse allocation to: Healthcare, Technology and Financials. By month end, the strategy allocation was: long two (2) sectors, inverse seven (7) sectors, and had a 52% allocation in cash.

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 February.

US Equity: Early in February the sleeve removed Healthcare and then Technology leaving the sleeve with (2) of the possible nine (9) sectors allocated to brining a 50% allocation to cash. Positive U.S. economic data seemed to curb the recent focus on tail risk and as the month wore on, volatility receded. At month end, the sleeve remained invested in Utilities and Consumer Staples with 50% exposure to cash.

Global Fixed Income: There were no changes to the sleeve in February with 4 of 10 fixed income sectors allocated to. The allocation continues to favor high quality and short duration, and is avoiding inflation protected securities and spread oriented fixed income sectors.

International Equity: The International Equity sleeve remained fully allocated to cash for the month of February. The Global market is still contemplating the impact of having to pay someone to hold your money. Japan best illustrates this point as its currency and its stock market declined on the back of the BoJ's announcement to introduce more aggressive negative rate policy. Performance for the sleeve benefited from avoiding a significant portion of the global sell-off within the international equity markets that started back in May of 2015.

Alternatives: The sleeve came into February invested only in the REIT's ETF and no exposure to Core S&P 500, Gold and MLPs sectors. After the first week of the month, the REIT ETF was removed and Gold was allocated to, leaving the cash allocation at 50% at month end.

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:

- The US Equities allocation is definitively defensive. The risk on/risk off environment has been challenging, but the continued persistent trend in volatility in February has allowed the tactical strategy to add value with a defensive posture.
- International Equity is in a defensive stance with 100% in cash.
- Global Fixed Income continues to be in a defensive posture positioned in a short duration/high liquidity oriented portfolio.
- After a long hiatus, Gold has made an appearance in the alternatives sleeve as the only position other than cash.

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.

Sources: Bloomberg.

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

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866-726-5150