RPg asset management
Defending Capital. Redefining Risk.

January 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

Even with the Bank of Japan introducing negative interest rates the last day of January, the swift correction in asset prices year to date has investors focused on the potential for a recession in 2016. The concern stems from the plunge in oil prices and weak industrial activity, together with the uncertain outlook for growth in China. So far in 2016, WTI crude has fallen around 20% to below $30/barrel from $37 at the start of the month. Crude oil has now declined by over 30% in the last 12 months and trades 70% below its peak of $107 in mid-2014.

Despite the generally positive US economic data, the sudden fall in asset prices has investors focused on the potential for a US recession. For investors concerned about a recession in 2016, the RPg tactical strategies are positioned well to defend capital having avoided Energy and Materials sectors, being overweight defensive sector exposures vs. cyclical sectors, and a healthy cash position for some of the strategies. Regardless of potential recession expectations, the current market correction provides a compelling entry point as the strategies are also positioned in a way that should allow for material participation if asset prices rise and approach consensus year end targets for the S&P 500.

RPg Tactical US Equity

Seven (7) of the possible nine (9) sectors were allocated to with the strategy fully invested at the beginning of the month of January. After the first, difficult week of January for the S&P 500, the strategy removed the Financials and Industrials sectors leaving the portfolio with a significant bias of defensive sectors: Health Care, Utilities and Consumer Staples and one cyclical sector of Technology. At month end, the strategy remained fully invested with exposure to the above 4 sectors allocated to.

RPg Tactical US Equity FT

At the beginning of January, the strategy was fully invested in five (5) of the possible nine (9) sectors. After the first week of January, the strategy removed Technology and Financials leaving the portfolio with only the defensive sectors of Health Care, Utilities and Consumer Staples and 25% in cash which is where the strategy was positioned at months end.

RPg Tactical US Long/Short Equity

Coming into January, RPg Tactical US Long/Short Equity was long seven (7) sectors and had inverse positions for the Energy and Materials sectors. After the first week of the month, the strategy added an inverse position in: Consumer Services, Financials and Industrials. The allocation at the end of the month was long four (4) sectors, inverse five (5) sectors and a 38% 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 January.

US Equity: At the beginning of January, the sleeve was fully invested in five (5) of the possible nine (9) sectors. After the first week of January, the strategy removed Technology and Financials leaving the sleeve with only the defensive sectors of Health Care, Utilities and Consumer Staples and 25% in cash which is where the sleeve was positioned at months end.

Global Fixed Income: Coming into January, the Global Fixed Income sleeve was invested in 4 of 10 sectors allocated to: US Treasuries, Intl Treasuries, Intl Corporates and Senior Loans sectors. Early in the month, Investment Grade Corporate sector was removed and Mortgages sector were added to the allocation. The sleeve continues to favor high quality and short duration, and avoiding inflation protected securities and spread oriented fixed income sectors. The sleeve ended January with 4 of 10 fixed income sectors allocated to.

International Equity: Coming into January, the International sleeve was 75% in cash and only the Japan sector. After the first week in January, Japan was removed, leaving the International Equity sleeve with 100% in cash which is where it ended the month of January. The International Equity sleeve's performance benefitted 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 January invested in the Core S&P 500 ETF and REITs and no exposure to Gold and MLPs sectors. The Core S&P 500 ETF was removed after the first week of January, restoring the cash allocation to 50% and ending the month with the sleeve invested in REITs of the 4 potential alternative sector positions.

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 persistent trend in January 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.

Commentary Disclosure

Risk Paradigm Group, LLC. d/b/a RPg Asset Management is a registered investment advisor with the 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. Equity", "RPg Tactical US 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.

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