RPg asset management

Defending Capital, Redefining Risk.

January 2017 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

January saw a continuation of the momentum created by the election, however sectors that were the focus of potential policy shifts out of the Trump administration that dominated post-election did not materially contribute to the positive performance of January. Specifically, Financials and Industrials, which were seen as sectors that would benefit from policy shifts like less regulation (Financials) and infrastructure spending (Industrials) were two of the laggards in January.

The greatest contributors to performance were the more cyclical sectors like Materials, Technology and Consumer Discretionary. While this supports the cyclical bias of our U.S. equity exposure, we believe our models are suggesting that over a longer period of time Financials and Industrials will re-join the cyclical rally. We believe the U.S. is at a pivot point right now and the market is expecting lower taxes, and a rollback within the regulatory environment. If these policies come to fruition, we expect capex to pick up, growth to pick up and dispersion to rise again at the sector and security level.

The reason we see the potential for greater dispersion is the potential repeal of interest deductibility and the full expensing of capex. This alteration could adjust the capital structure of corporate America and create individual winners and losers beyond what is priced in today. That could more clearly define momentum at the sector level and provide a higher level of visibility for momentum based models.

RPg Tactical US Equity

The portfolio came into January in a bullish posture, fully invested in seven (7) sectors with a bias towards the more cyclical sectors, and ended the month unchanged. Materials, Tech and Consumer Discretionary led the way for the S&P 500 as Energy, Financials and Utilities were the laggards.

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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: The portfolio came into January in a bullish posture, fully invested in seven (7) sectors with a bias towards the more cyclical sectors, and ended the month unchanged. Materials, Tech and Consumer Discretionary led the way for the S&P 500 as Energy, Financials and Utilities were the laggards.

Global Fixed Income: The sleeve came into January invested in three (3) of the ten (10) Fixed Income sectors, and ended the month invested in the same three (3) of the ten (10) sectors including only High Yield, Senior Loans and TIPS. January was another mild month in fixed income land. 2016 was a volatile year for bonds; the 10-year Treasury yield started the year at 2.27%, hit an all-time low of 1.37% in July (post-Brexit) and ended the year sharply higher at 2.45%.

International Equity: The International Equity sleeve entered the month of January fully invested in all six (6) of the possible six (6) International ETF exposures. In mid-December the model turned on Emerging Markets, Europe, and Asia ex-Japan bringing the portfolio to a fully invested posture all of which continued their momentum in January.

Alternatives: The sleeve started January invested only in core S&P 500 and finished the month having added MLPs mid-month. The sleeve continues to avoid REITs and Gold which are still currently off.

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 equities generally performed well in December, price movement was driven largely by managers positioning for the expected pro-business policies, and solid economic data. We are still positioned in a fully invested posture given the risk/return dynamics in the equity markets with a bias towards cyclical over defensive sectors.
- The thirst for yield continues to favor spread (credit) related fixed income sectors which our model is positioned for that to continue. We are also long inflation protection and employing shorter duration.
- Economic data is supportive of a healthy economy in the U.S., and equity prices are reflecting their potential from lower corporate tax rates, repatriation of overseas cash, less regulation and fiscal stimulus. Now it's time to see if the administration can deliver on what the market expects. We view this as a good time to be tactical.

Statements in this piece that reflect projections or expectations of future financial or economic performance of the markets in general are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements.

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.