July 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 portfolios available as separately managed accounts.

Overview

Rebounding from a risk-off June in the US equity markets, July responded with the S&P 500 rallying back extending the whipsaw environment that began in early 2014. Additionally, persistently soft global demand along with U.S. Dollar strength has increased levels of volatility globally, which many don't expect to subside unless the US Fed cools its hawkish rhetoric towards interest rates. The frustrating market environment for momentum based strategies continues given the tight trading range and choppy sector performance. Most sectors globally however are still reflecting strength according to our quantitative methodology.

RPg Tactical US Equity

Two of the most positive sectors within the S&P 500 in July as well as for the RPg Tactical US Equity portfolio were Consumer Staples and Discretionary sectors. The Utilities sector was whipsawed during the month, coming in and then going out of the portfolio. Materials, Energy and Industrials sectors also saw some activity during the month being removed from the portfolio. The strategy position at month's end was mildly bullish, with 5 of the 9 sectors allocated to. Positive performance for the month was largely driven by allocation to the two Consumer sectors (Discretionary & Staples) as well as Financials, Technology and Healthcare. Avoiding Energy for the majority of the month also contributed to performance for the month. Utilities, Industrials and Materials were detracting factors of performance for July.

RPg Tactical US Equity FT

Two of the most positive sectors within the S&P 500 in July as well as for the RPg Tactical US Equity FT portfolio were Consumer Staples and Discretionary sectors. The month was very active in terms of activity with Utilities, Materials, Industrials, and Energy being removed from the portfolio. The strategy position at month's end was mildly bullish, with 5 of the 9 sectors allocated to. Positive performance for the month was largely driven by allocation to the two Consumer sectors (Discretionary & Staples), as well as Financials, Technology and Healthcare for the entire month of July. Avoiding Energy for the majority of the month also contributed to performance for the month. Utilities, Industrials and Materials were detracting factors of performance for July.

RPg Tactical US Long/Short Equity

Two of the most positive sectors within the S&P 500 in July and for the RPg Tactical US Long/Short Equity portfolio were both Consumer Staples and Discretionary sectors. The Utilities sector was whipsawed during the month moving from inverse to long to inverse. Materials, Energy and Industrials all moved from long to inverse in July. At month end, the portfolio was positioned mildly bullish having 5 sectors long and 4 inverse. Positive July performance was largely driven by long allocation to the two Consumer sectors, as well as Financials, Technology and Healthcare, as well as the inverse position in Energy.

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 March.

US Equity: The US Equity sleeve had Materials, Industrials, Energy removed from the allocation and Utilities continued to be whipsawed, ending the month out of the allocation. Overall, the US equity portion of the strategy contributed positive performance in July with Consumer Staples and Discretionary sectors contributing the most to performance. The sleeve at month end was positioned in 5 out of 9 sectors, a mildly bullish posture.

Global Fixed Income: During the month of July, High Yield, Mortgage Backed Securities, and International Inflation Protection sectors were removed. At month end, only 3 of the 10 fixed income sectors were allocated to: High Quality International Corporate Bonds, EM Sovereign Debt, and High Quality Floating Rate Securities along with a 25% cash position.

International Equity: This sleeve shifted from all sectors fully allocated to in June to removing Asia ex-japan, Emerging Markets, Canada, and building a 25% cash position in July. Only Europe, Japan, and the Developed World ex-US sectors were allocated to as of month end.

Alternatives: The sleeve saw MLPs be removed from the allocation in July, and at month end now only has an allocation to the S&P 500 reflecting heightened levels of volatility within our Alternatives sleeve.

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:

- Increased volatility has mildly dampened the bullish trend in US Equities
- International Equity is currently de-risking with 25% in cash
- Global Fixed Income has seen a rotation to a defensive posture positioned in a short duration/high liquidity oriented portfolio, with 25% in cash
- Heightened levels of volatility in alternatives like Gold, REITs and MLPs continue

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.

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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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