

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

During the month of October, the market recognized the 30th anniversary of Black Monday, an event which shook the global financial system dropping more than 20% in ONE DAY. Fast forward to October of 2017 and the S&P hit a fresh high the 27th of the month at 2,581. While the 2000 – 2002 period and the Global Financial Crisis suffered greater peak to trough losses neither contained a single-day drop in the neighborhood of 20%. Thus the month that owns the spooky holiday of Halloween always seems to generate spooky headlines about the potential of a recurrence due to the time of the year.

The S&P 500 during the month of October 2017 couldn't have delivered a month less spooky in comparison to 1987. The index was up over 2.35 and the biggest drawdown was 0.70%, hardly a freighting experience. Economic growth was stable as 3Q US GDP growth came in at 3% in a quarter which the country's 4th largest city was "shut-down" for a week. Additionally, it seems significant progress was made towards a sizable tax cut in October that will be sure to get negotiated in the coming weeks/months.

With tax policy moving in a generally positive way, the jobs market firm and earnings registering the fifth straight quarter of positive growth since the recovery of the oil collapse, risk assets experienced very little volatility in October. Inflation remains low and the volatility index currently trades around 10 and hasn't traded above 20 since November of 2016. We are firmly in the camp that the market is in an environment of expansion, not contraction which is a road we've been on for so long that market pundits are starting to benchmark when the next bear market will start. More central to our investment decision making process, we remain fully invested across the equity spectrum, and as always, we remain vigilant to the changing data in an effort to defend the capital we collectively work so hard to grow.

RPg Tactical US Equity

The portfolio came into October fully invested in eight (8) sectors equally weighted, and ended the month equally distributed to the same eight (8) sectors within our universe with no changes. During September, the portfolio switched the Energy Sector ON and the Utilities Sector OFF. Technology, Utilities and Materials led the way for the S&P 500 as hope for fiscal stimulus was driven by the proposed tax bill from the Trump administration. Consumer Staples Health Care and Energy were the laggards. The market has endured cyclical to defensive rotation, and back, and our durable process has endured to deliver material participation within our mandate of participate and protect.

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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 October.

US Equity: The portfolio came into October fully invested in eight (8) sectors equally weighted, and ended the month equally distributed to the same eight (8) sectors within our universe with no changes. During September, the portfolio switched the Energy Sector ON and the Utilities Sector OFF. Technology, Utilities and Materials led the way for the S&P 500 as hope for fiscal stimulus was driven by the proposed tax bill from the Trump administration. Consumer Staples Health Care and Energy were the laggards. The market has endured cyclical to defensive rotation, and back, and our durable process has endured to deliver material participation within our mandate of participate and protect. The biggest headwind to Tactical Global Balanced has been factors such as the mid and small cap exposure, and the even split between growth and value.

Global Fixed Income: The sleeve came into October invested in four (4) of the ten (10) Fixed Income sectors, and ended the month invested in the same four (4) of the ten (10) sectors. While tighter Federal Reserve policy (Quantitative Tightening or QT) and greater fiscal stimulus may help transition from a low rate regime to that of a rising rate regime, global economic growth, the evolving composition of monetary policy, and a sustainable shift towards higher US inflation may be the foundation to sustain the transition. The ActiveParadigm model is currently evenly split between credit sensitive bonds and rates sensitive bonds as of the end of October. From a scoring methodology standpoint, we are seeing credit sensitive bonds and income generative asset classes score better than rates sensitive asset classes like Treasuries. We are also watching the yield curve very closely as its as flat as its been in a decade.

International Equity: The International Equity sleeve entered the month of October fully invested in all six (6) of the possible six (6) International ETF exposures. In mid-December 2016, the model turned on Emerging Markets, Europe, and Asia ex-Japan bringing the portfolio to a fully invested posture. Emerging Markets and Europe and Japan continue to drive performance from our international sleeve.

Alternatives: The sleeve ended October invested in core S&P 500, REITs and Gold. The S&P 500 was the biggest contributor to performance in the sleeve in the month of October.

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:

- We are still positioned in a fully invested posture given the risk/return dynamics in the equity markets with an equally weighted allocation to the sectors of the S&P 500.
- The thirst for yield continues which we believe favors a tactical approach to income generation with the ability to defend capital if a rising interest rate environment ensues. With international rates so low, and many posting negative yields, we have chosen to avoid the exposure due to an enormous amount of unknown unknowns with a negative interest rate regime.
- Economic data is supportive of a Goldilocks economic environment in the U.S., and equity prices are starting to reflect some of the potential catalysts for market volatility, namely policy surprises, election surprises and rising populism which could create obstacles on the reflation road and induce market volatility. We view this as a good time to be tactical.

Important Disclosures:

Risk Paradigm Group, LLC (“RPg Asset Management” or “RPg”) 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.

RPg does not provide tax or legal advice. Please consult an independent tax advisor for additional guidance.

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“ActiveParadigm” is a quantitative methodology that is proprietary to RPg. The RPg tactical strategies (“RPg Tactical US Equity”, “RPg Tactical US Equity FT”, “RPg Tactical US 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.

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.

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.

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