RPg asset management

Defending Capital. Redefining Risk.

September 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

September's market dynamics echoed August's: China, US interest rates and energy prices dominated the news flow as volatility escalated globally. High correlations persisted in Europe and EM and other international developed markets. The frustrating market environment for momentum based strategies continues given choppy sector performance, but we're not alone in our frustration. Most markets globally have returned very little since the beginning of 2014 and many sectors have produced negative returns. Additionally, the Fed's announcement that it would not raise rates created concern about the health of the global economy.

RPg Tactical US Equity

The two positive sectors within the S&P 500 in September were Utilities and Consumer Staples. The Utilities sector was whipsawed during the month, going out and then coming into the portfolio. Health Care and Financials saw some activity during the month being removed from the portfolio. The strategy position at month's end was bearish, with 1 of the 9 sectors allocated to and 75% allocation to cash. Positive contributors to performance for the month were largely driven by our allocation to Utilities and avoiding for the entire month the Energy and Materials sectors.

RPg Tactical US Equity FT

In September, The RPg Tactical US Equity FT portfolio removed Consumer Discretionary, Health Care, Financials and Consumer Staples, ending the month out of all but the Utilities sector and a 75% cash allocation, a bearish posture.

RPg Tactical US Long/Short Equity

The RPg Tactical US Long/Short Equity portfolio benefitted from the continued pressure in Energy and Materials as the portfolio was inverse both of those sectors all month. As well, the portfolio initiated inverse positions in Financials and Health Care. At month end, the portfolio was positioned mildly bearish having 1sector long, Utilities, and 6 inverse, with the two consumer sectors experiencing enough volatility for the strategy to raise the cash position to greater than 50%.

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 September.

US Equity: In September, The US Equity sleeve sold Consumer Discretionary, Health Care, Financials and Consumer Staples, ending the month out of all but Utilities. Overall, the US equity portion of the strategy was able to resist some of the draw down in the US equity markets. At month end, the sleeve held 1 out of 9 sectors, a bearish posture.

Global Fixed Income: During the month of September, International Treasuries and EM Sovereign Debt came on joining International Corporates, Mortgage Backed Securities, the 7 – 10 Year Treasury, and Senior Loans. At month end, 6 of the 10 fixed income sectors were allocated to favoring high quality and avoiding inflation protected securities.

International Equity: This sleeve came into the month of September with 100% cash and had no changes representing a bearish stance in the international markets.

Alternatives: The sleeve came into the month of September with 100% in cash and had no changes representing a bearish stance in the alternatives complex.

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 moved to bearish stance in US equities
- International Equity 100% in cash which represents the most defensive stance
- Global Fixed Income has seen a rotation to a defensive posture positioned in a short duration/high liquidity oriented portfolio
- Heightened levels of volatility in alternatives like Gold, REITs and MLPs continue

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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