Defending Capital. Redefining Risk.

April 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

The current bull market turned six years old on March 9th, and according to Bespoke Investment Group, is the fourth longest and strongest in U.S. history in terms of S&P 500 gains. The S&P 500 hasn't seen a 10% correction since October 2011, despite the historical average of 10% corrections occurring every 18 months. Volatility has been percolating for the last 16 months, but not consistently in absolute terms. YTD through April, we've seen 6 points of lower highs in terms of the Vix Index, but the volatility of the Vix has made for frustrating times. This volatility of volatility is one more reason investors might be looking over their shoulder for the next bear market. Despite the volatility of volatility, the RPg Tactical equity portfolios remain in a bullish stance.

RPg Tactical US Equity

The Tactical US Equity portfolio remained positioned in a bullish posture, having 8 of the 9 sectors allocated to with Energy being added mid-month for the first time since mid-September 2014. The Utilities sector remains to be excluded. The portfolio experienced material participation in April, largely driven by exposure to both the Energy and Materials sectors. Negative contributors to the portfolio's performance were led by the allocation to Consumer Staples and Health Care.

RPg Tactical US Long/Short Equity

The Tactical US Long/Short portfolio remained positioned in a bullish posture, having 8 of the 9 sectors allocated to long exposure and only Utilities an inverse position. The Energy sector went from inverse to long within the month of April, for the first time since mid-September 2014. Performance for the portfolio was mixed for the month, with a small drawdown experienced in the final days of the month. Positive contributions to April's performance were largely driven by allocations to the Energy and Materials Sectors. Negative contributors for the month were led by the long positions in Consumer Staples and Health Care sectors.

RPg Tactical Global Balanced

The 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 April.

US Equity: The US Equity sleeve experienced material participation for the month being fully invested. The Energy sector was added mid-month for the first time since September of 2014. The sleeve remains in a bullish posture with 8 of 9 sectors allocated and only Utilities remaining out of the sleeve.

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Global Fixed Income: With dovish global central bank activity, the Global Fixed Income sleeve saw US Inflation Protection and EM Sovereign Debt sector ETFs continue to perform throughout April. The sleeve continues to have 7 of 10 fixed income sector ETFs included and continues to favor higher yielding securities, high quality corporates, and US Government sector ETFs.

International Equity: April marked the first time the Canada sector entered the sleeve since September of 2014, which brought the sleeve to all six international sector ETFs allocated to. Positive contributors within the asset class continue to include: EM, Europe, Asia-ex Japan, and Japan sector ETFs. The International Equity sleeve has evolved since January from a bearish posture, with only the Japan sector on and 75% in cash equivalents; to a bullish posture, with all six sectors on and the sleeve fully invested.

Alternatives: The asset class experienced some whipsaw in April, as Gold was added and then removed during the month. The REITS sector was also removed during the month. For the first time this year, the MLP sector was allocated to.

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:

- Bullish trend for US Equities continues
- Bullish trends for the International Equity sectors
- Bullish trends have rotated to higher yielding fixed income sectors like High Yield and EM Debt
- Heightened levels of volatility in alternatives such as Gold and REITs.

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.

"ActiveParadigm" is a quantitative methodology that is proprietary to RPg. The RPg tactical strategies ("RPg Tactical U.S. Equities", "RPg U.S. Long-Short Equities", and "RPg 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.

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, Bespoke Investment Group.

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

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