



Investing in Uncertain Times

How to Create Better Risk-Adjusted Returns

Presentation to the Houston Chapter of AAI
April 15, 2023



Paving a smoother road to financial success.

RGB Capital Group by the Numbers

2009

Year Founded

\$71M

Assets Under Management*

110+

Families Supported*

Top 3

Finalist in the NAAIM Active Investment Strategy Competition

* As of March 31, 2023



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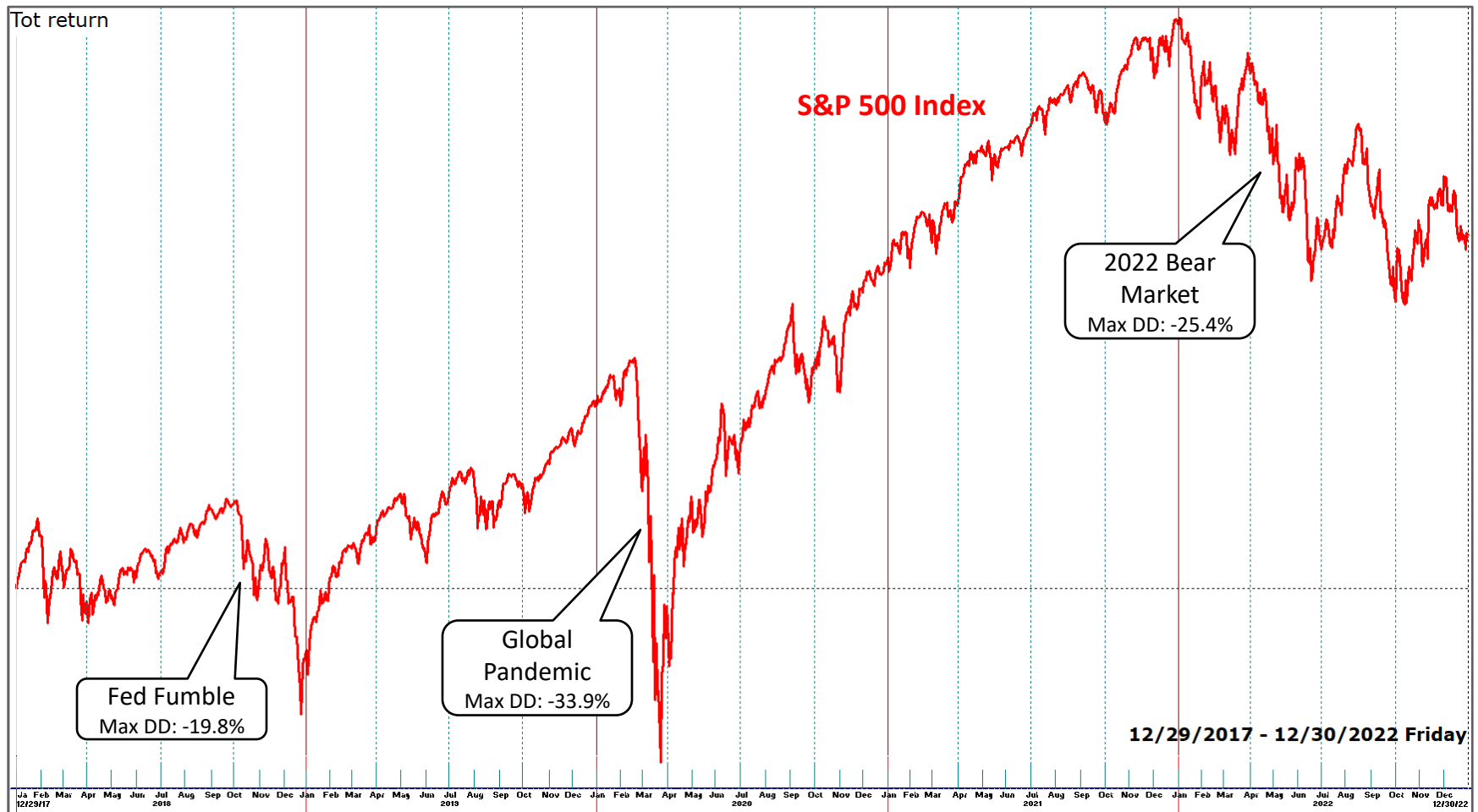
Agenda

1. The Current Market Environment
2. Importance of Better Risk-Adjusted Returns
3. Creating a Better Risk-Adjusted Return Portfolio

Poll #1

The Market Environment

Five-Year Chart (2018 – 2022)



Source: www.fasttrack.net

Bloomberg U.S. Agg. annual returns and intra-year declines

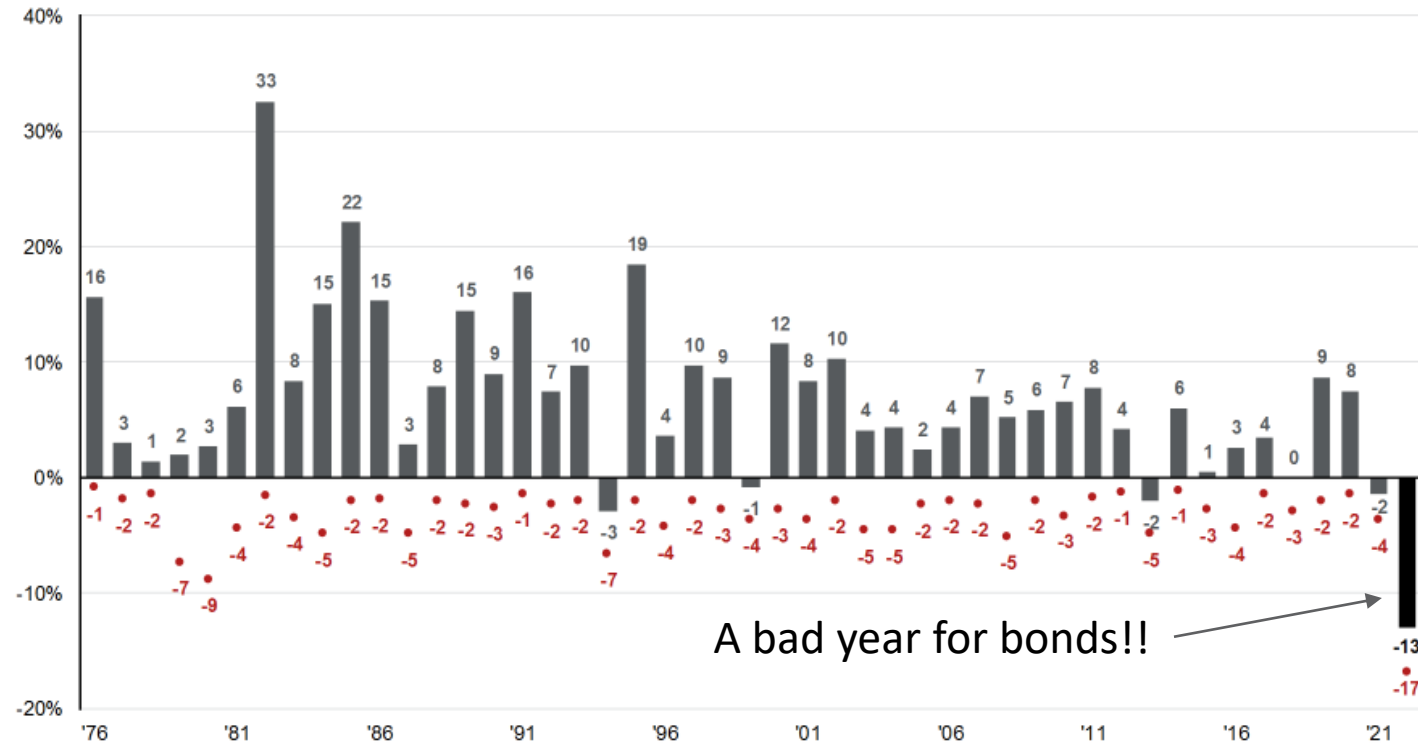
GTM

U.S.

44

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.3%, annual returns positive in 42 of 47 years



A bad year for bonds!!

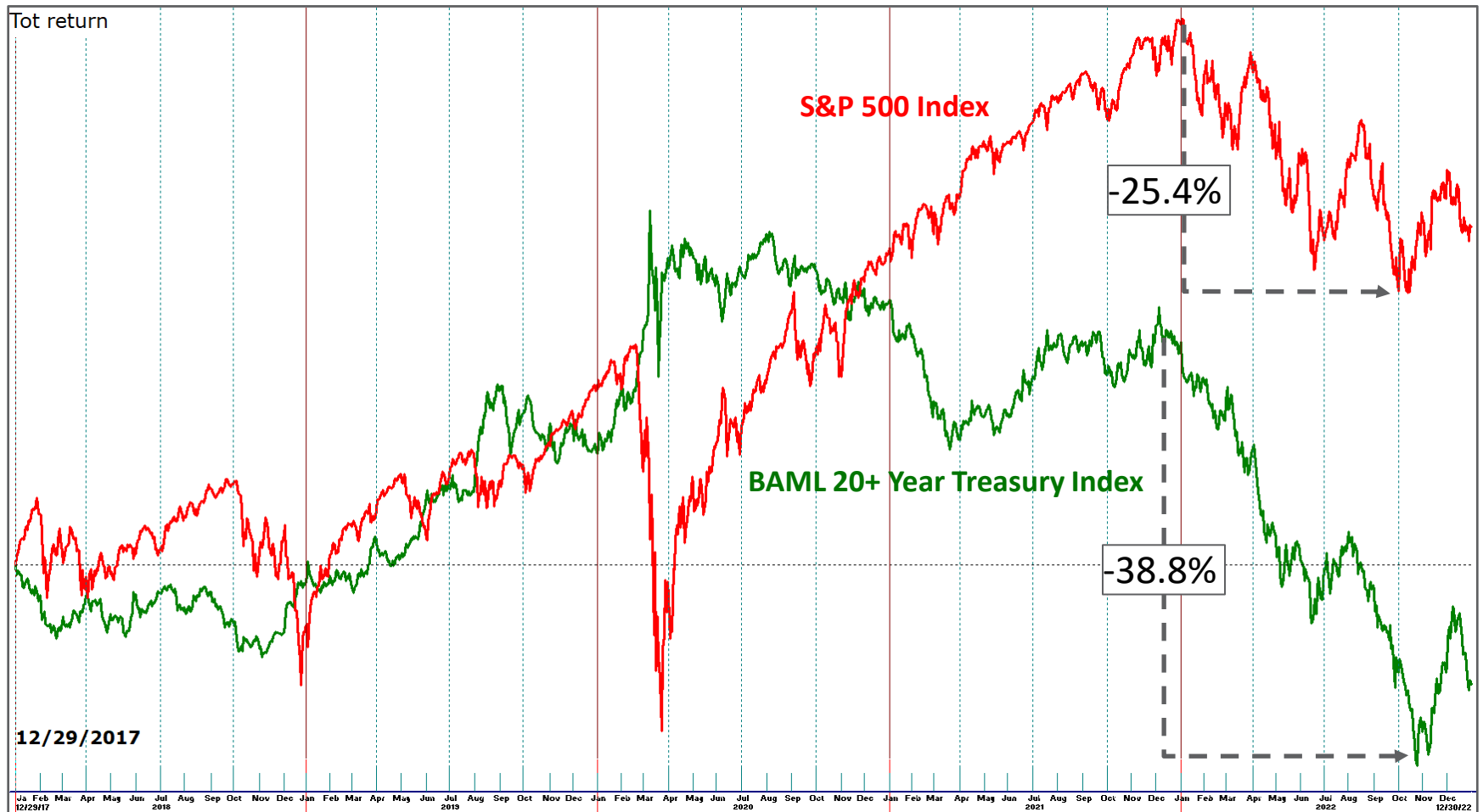
Source: Bloomberg, FactSet, J.P. Morgan Asset Management.

Returns are based on total return. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2022, over which time period the average annual return was 6.6%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterwards.

Guide to the Markets - U.S. Data are as of December 31, 2022.

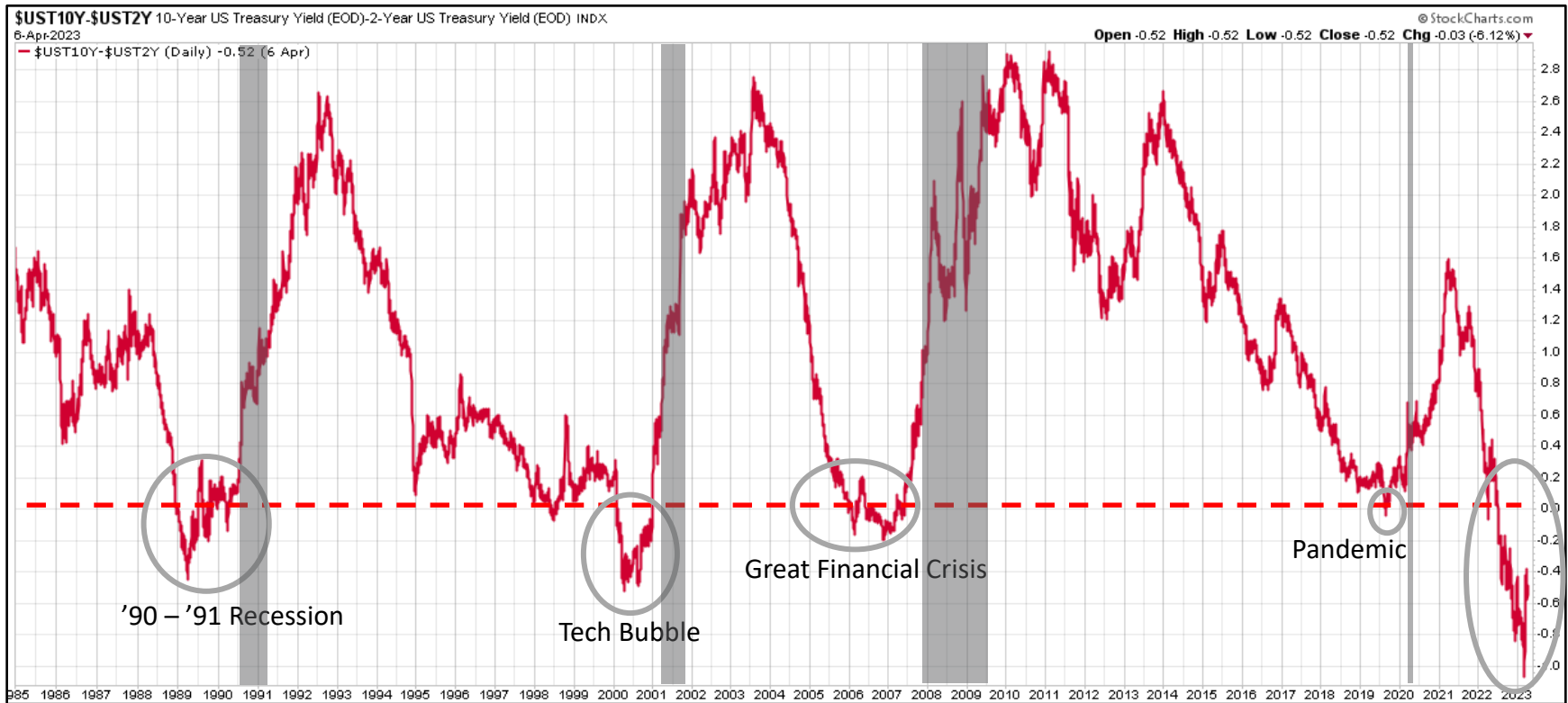
J.P.Morgan
ASSET MANAGEMENT

S&P 500 Index Five-Year Chart (2017 – 2022)



Source: www.fasttrack.net

What Does the Yield Curve Say About the Future?



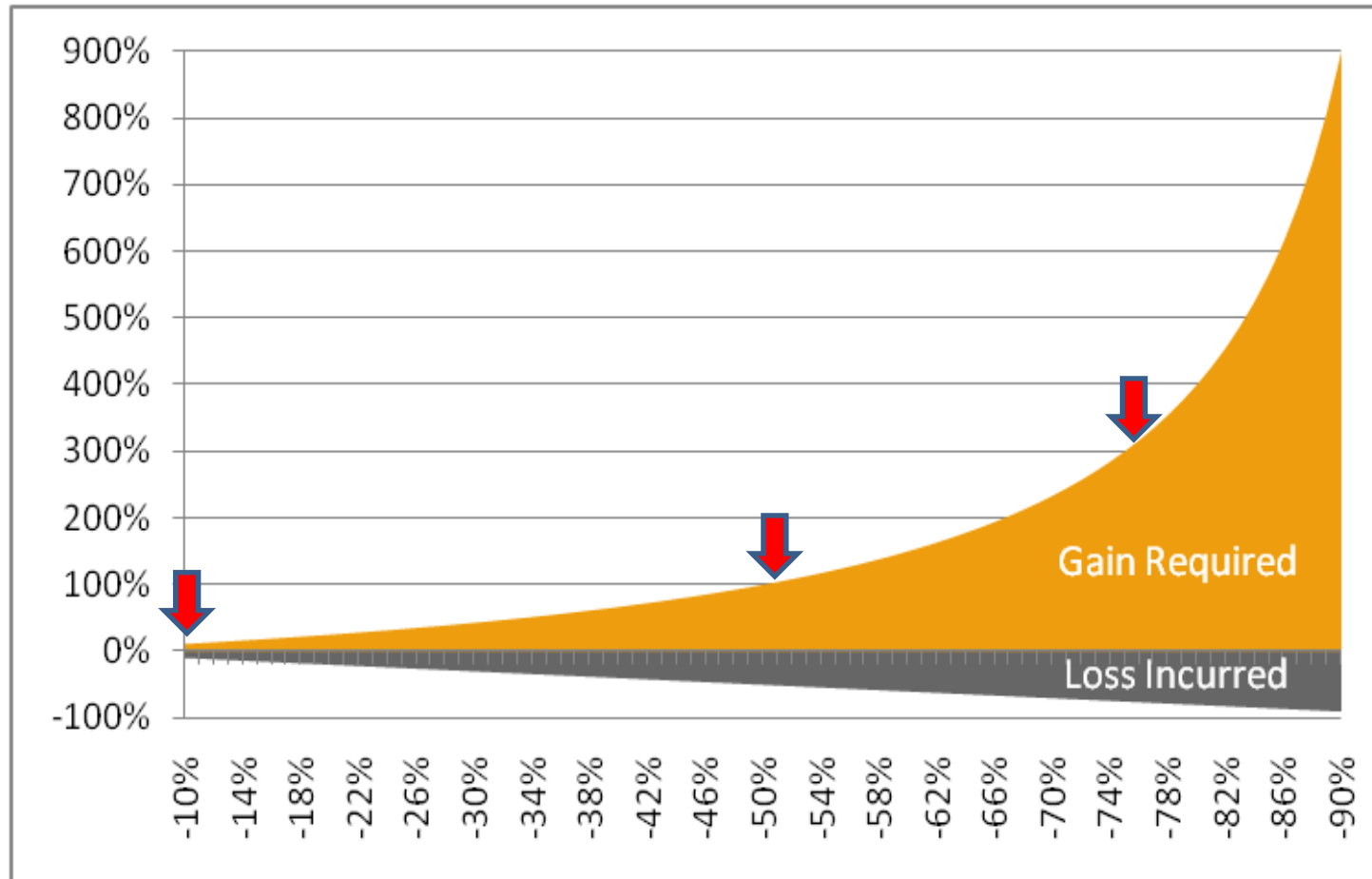
Recessions

Source: StockCharts.com

Poll #2

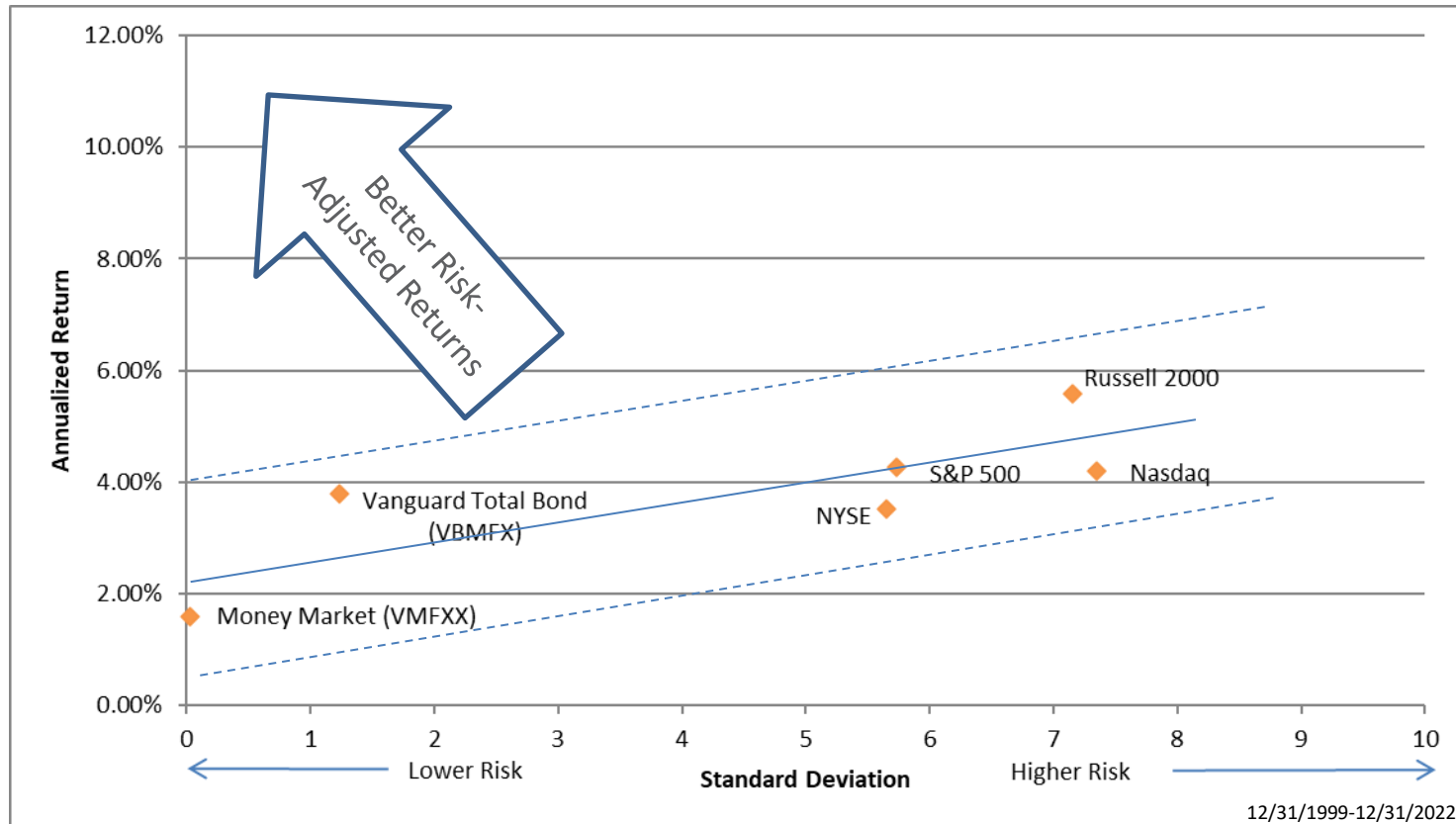
Risk Management

Rule #1: Avoid Steep Losses



The exponential impact of portfolio losses has a direct impact on the ability to create wealth.

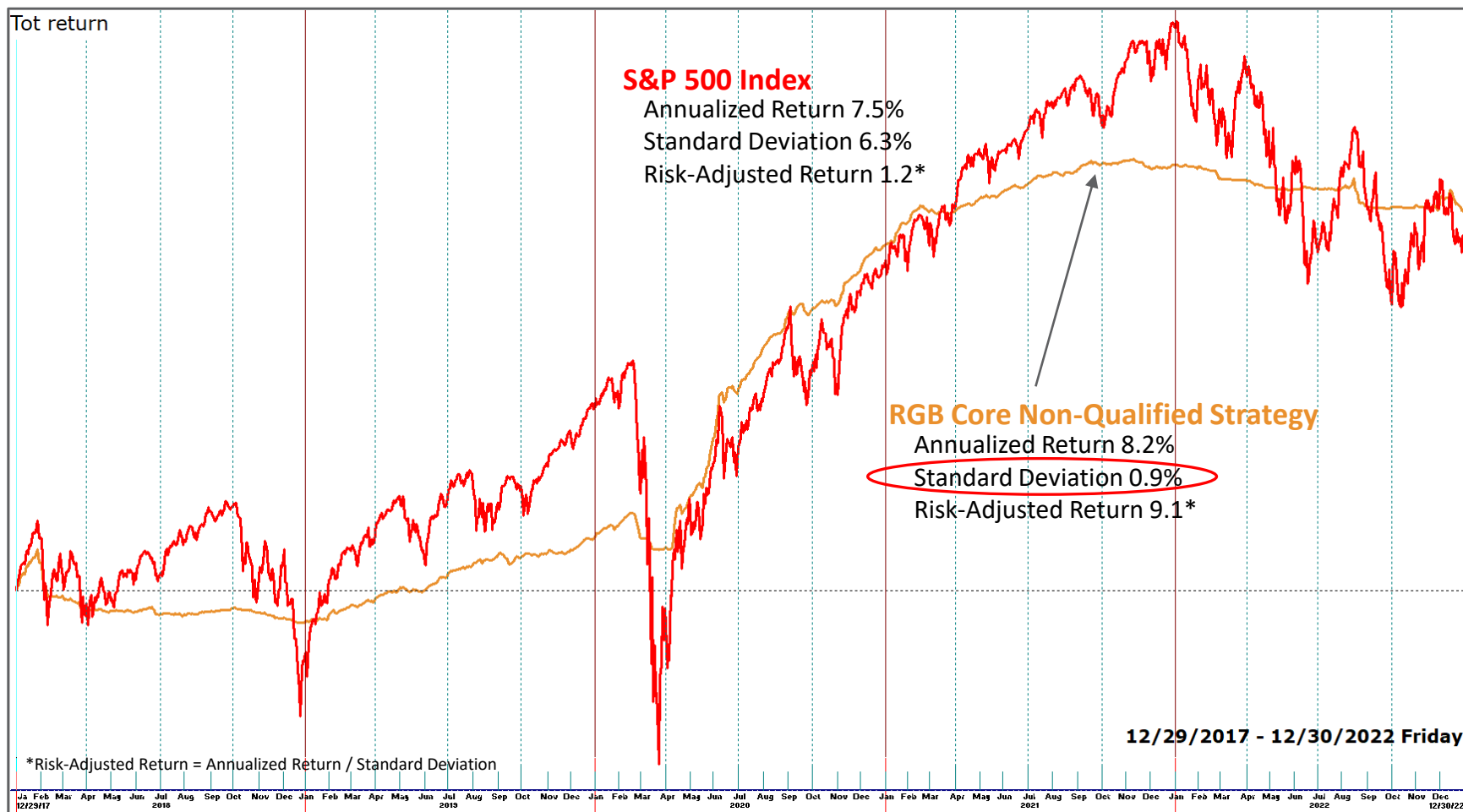
Better Risk-Adjusted Returns



Source: www.fasttrack.net

Our goal is to achieve returns outside the long-term, expected return channel by creating better risk-adjusted returns.

Equity-like Returns without the Volatility



Source: www.fasttrack.net

The actual performance of the RGB investment strategies reflect the performance of an account that has been managed by RGB Capital Group. The returns reflect the deduction of a 1.75% annual percentage based advisory fee, trading costs, and margin interest (where applicable). The returns also include the reinvestment of any dividends and capital gains distributions. Individual account results will vary due to timing of investments, deposits, withdrawals, fee structure and timing of fees, and actual securities used. Performance information is not audited. Past performance is not indicative of future results.

Poll #3

“If you fail to plan, you are planning to fail.”

- Benjamin Franklin

Creating Good Risk-Adjusted Returns

Selecting investments with attractive risk-return characteristics is key to achieving better risk-adjusted returns.

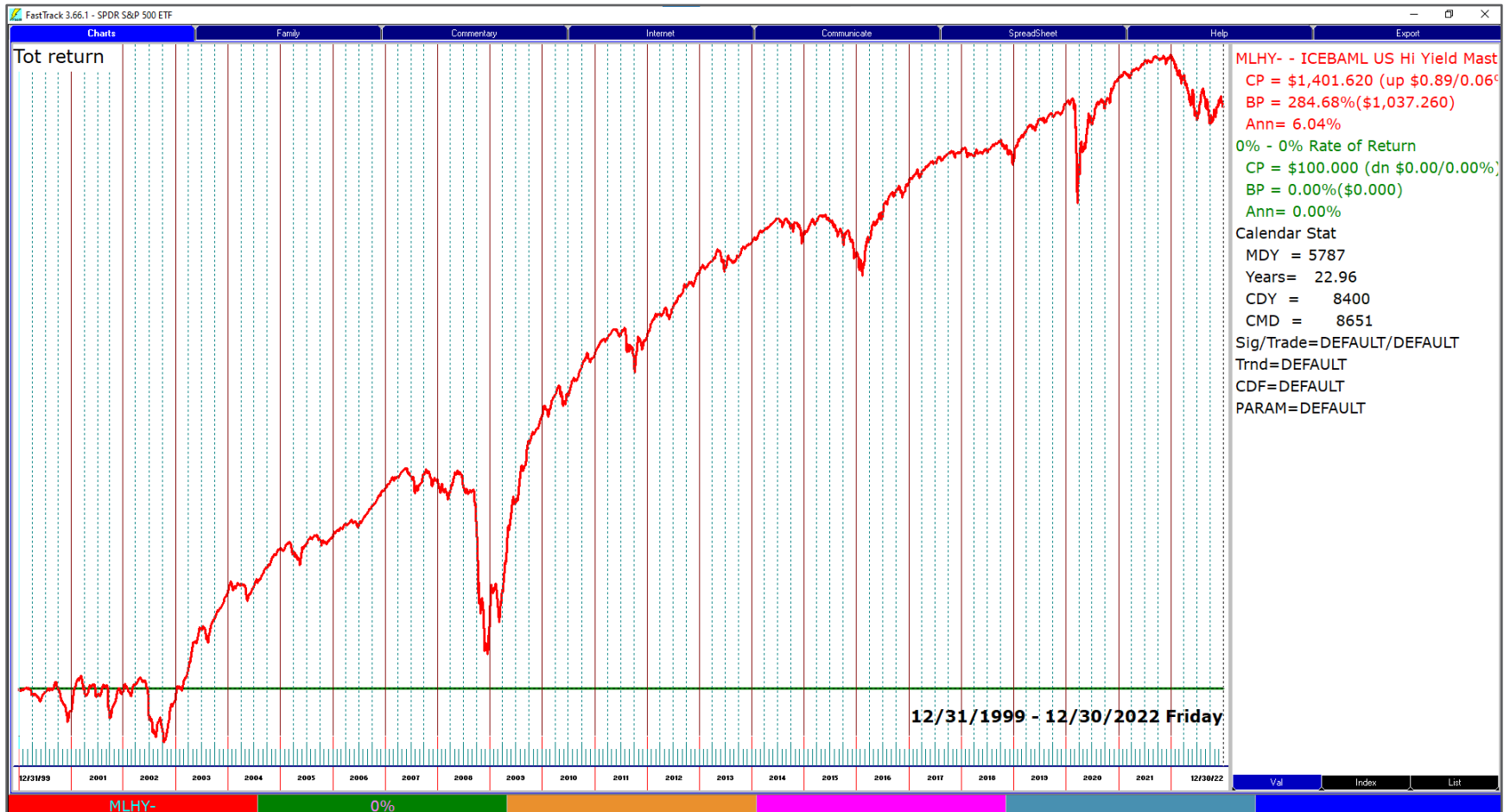
The following groups tend to provide low volatility returns:

- US Treasury Bonds
- Corporate Bonds
- Floating Rate Bonds
- Junk Bonds
- Municipal Bonds
- High-Yield Muni Bonds
- Securitized Credit Funds
- Emerging Market Bonds
- Inflation Protected Securities
- Preferred Securities

To track these groups, subscribe to my complimentary *RGB Market Monitor* newsletter.

Merrill Lynch US High-Yield Master II Index

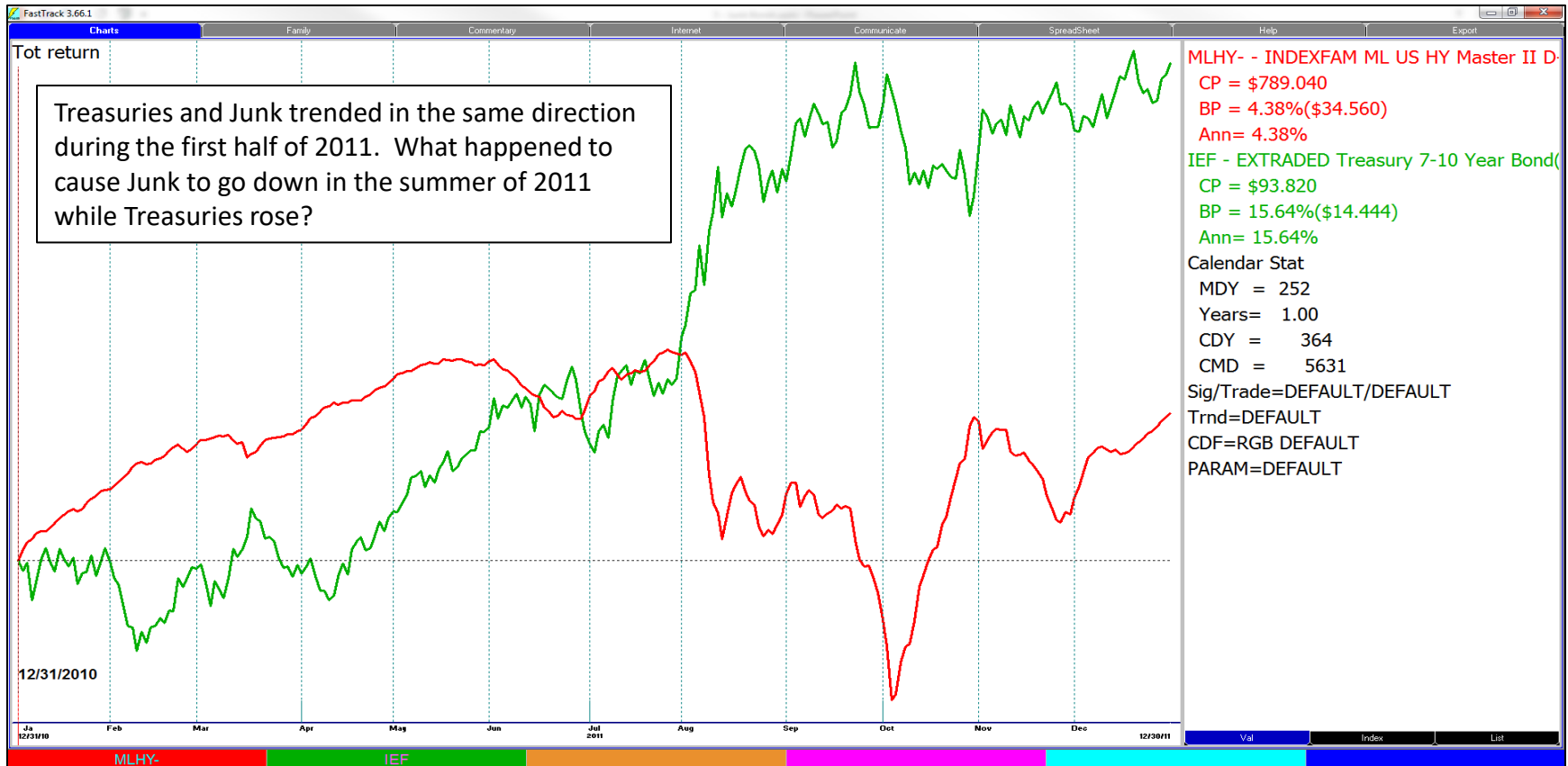
12/31/1999 – 12/30/2022



Source: www.fasttrack.net

Junk Bonds

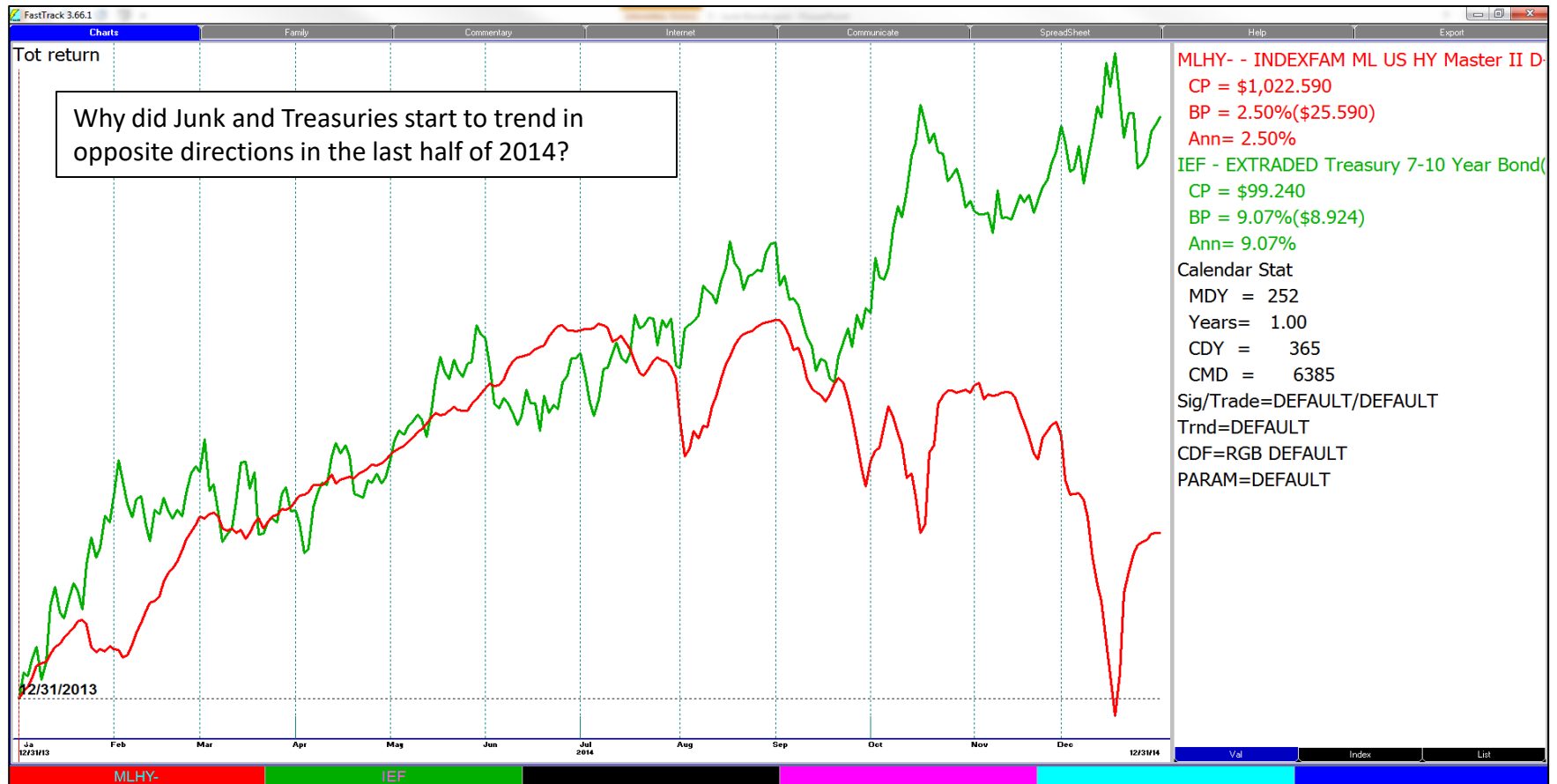
Are they bonds or equities?



Source: www.fasttrack.net

Junk Bonds

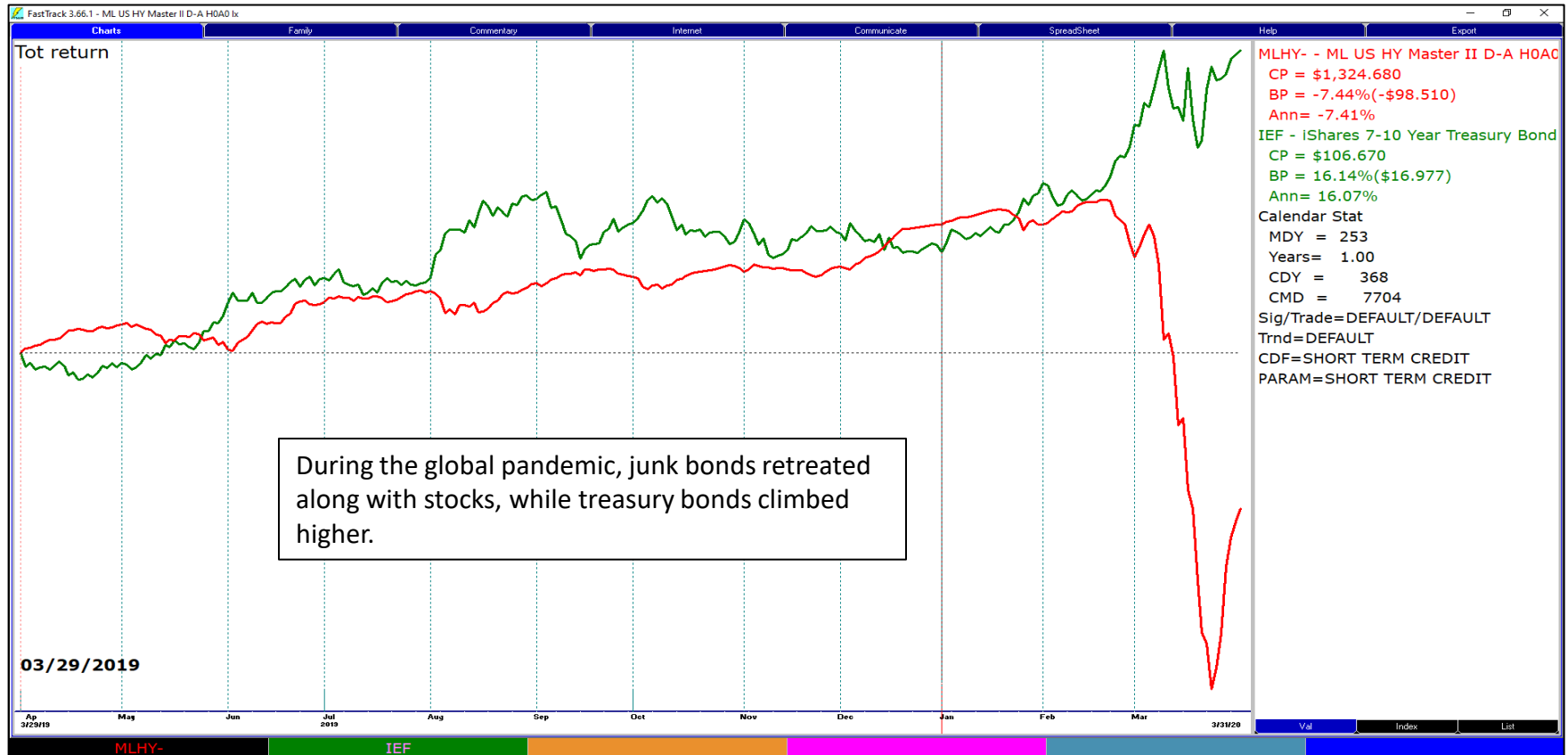
Are they bonds or equities?



Source: www.fasttrack.net

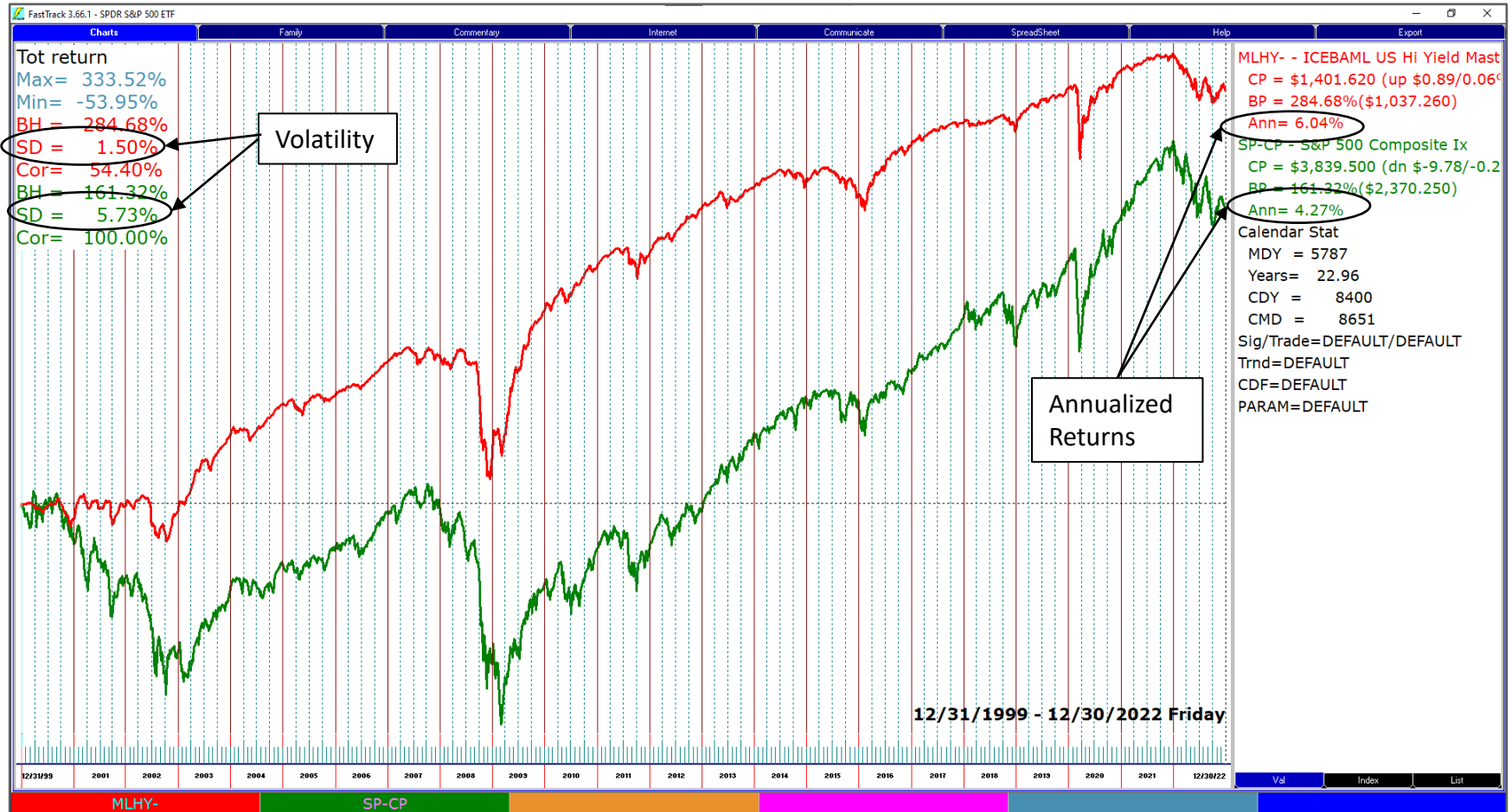
Junk Bonds

Are they bonds or equities?



Source: www.fasttrack.net

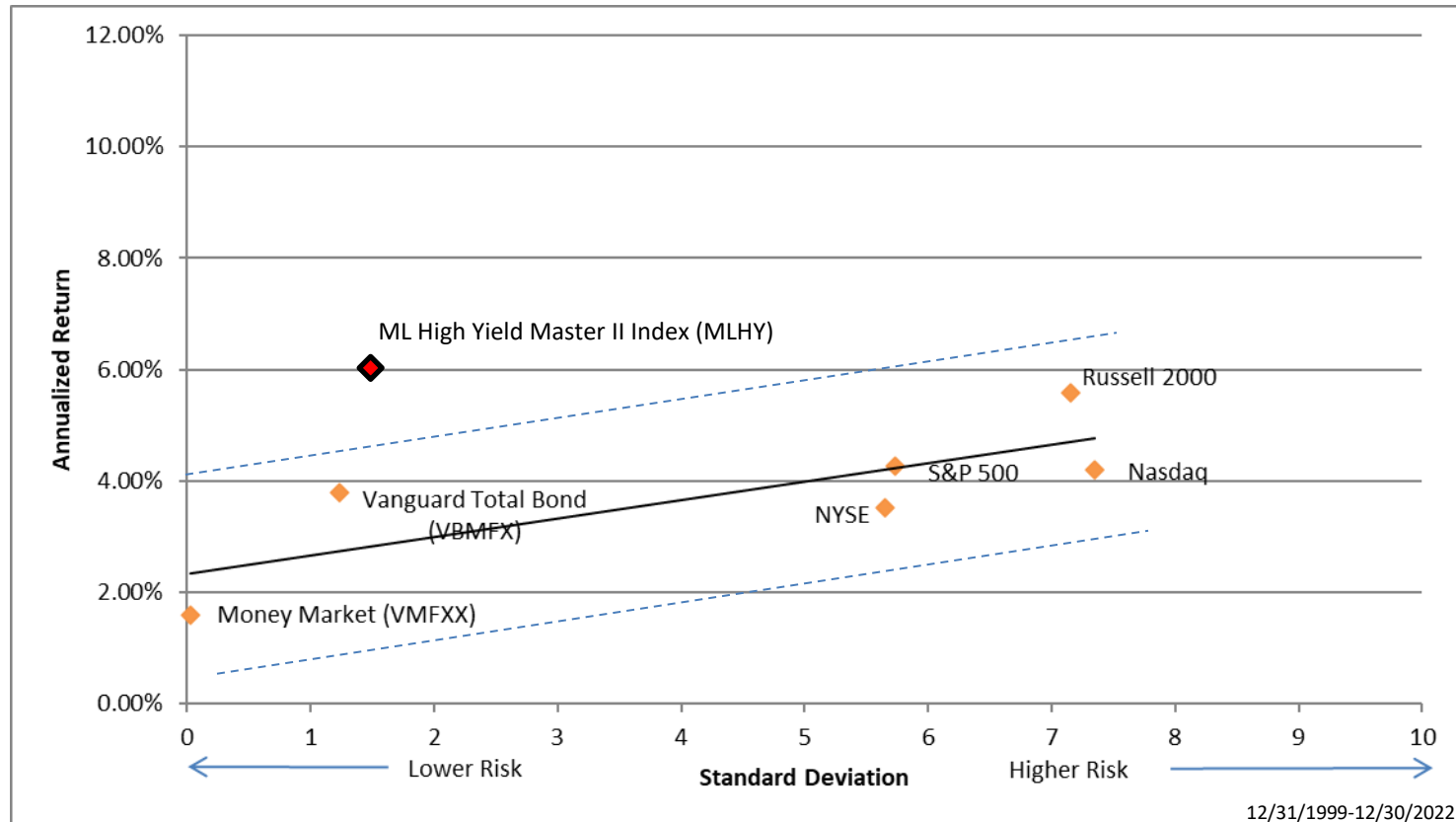
Junk Bonds vs. Equities



Source: www.fasttrack.net

Junk bonds tend to trend in the same direction as equities and provide better risk-adjusted returns.

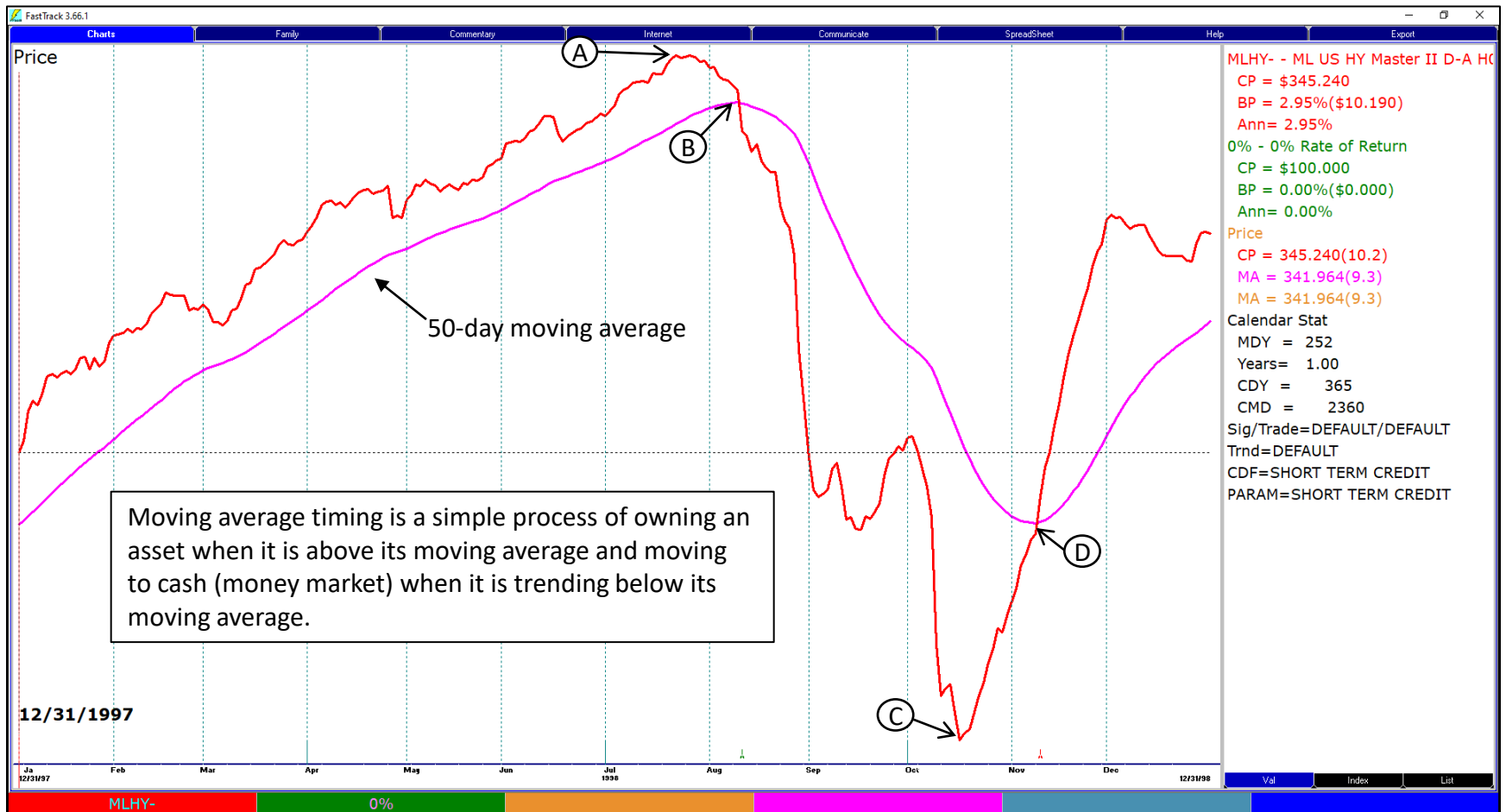
Creating Better Risk-Adjusted Returns



Source: www.fasttrack.net

Buying and holding junk bonds would have provided better absolute and risk-adjusted returns.

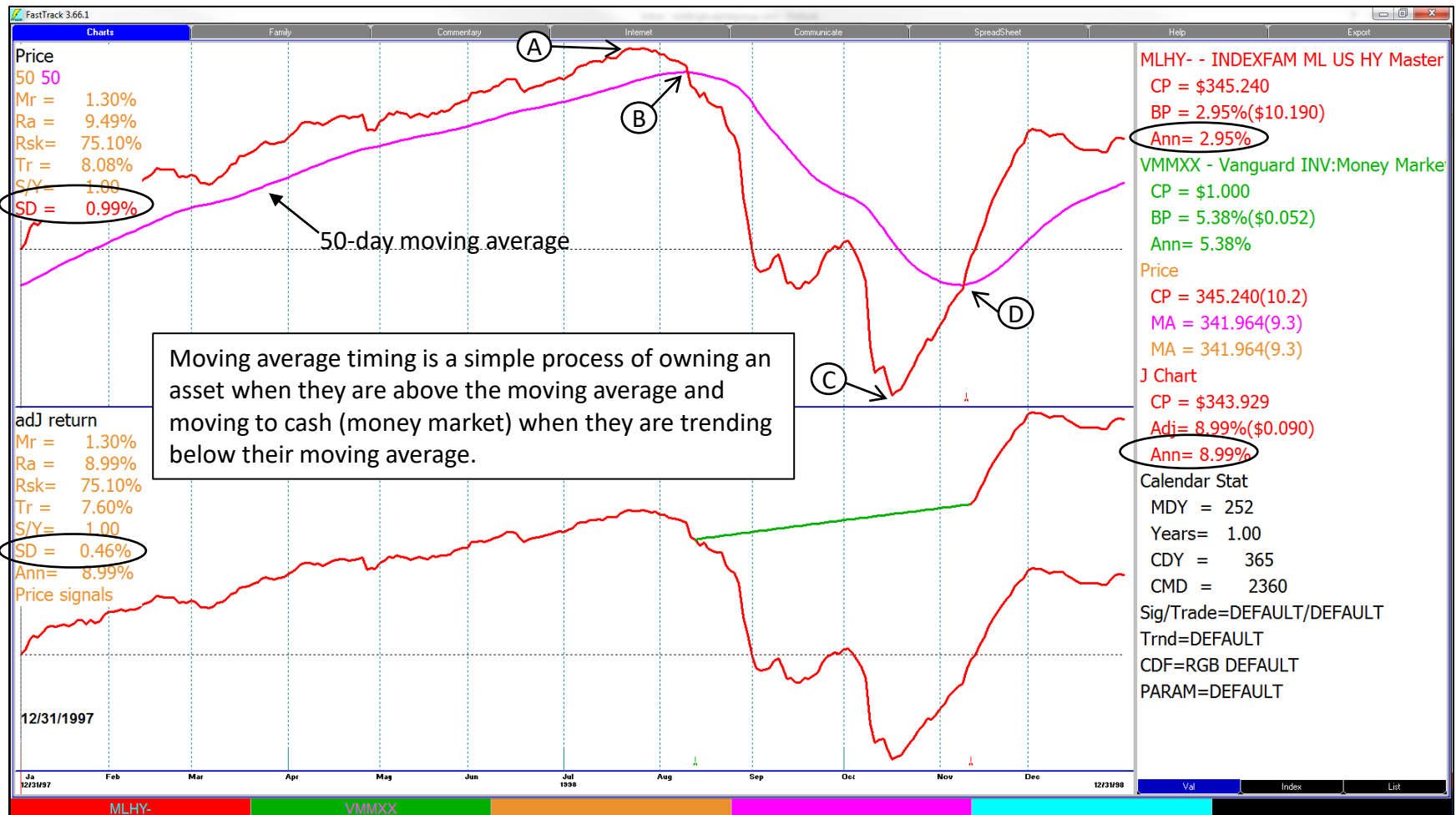
Moving Average Timing



Timed drawdown (A→B) is very predictable.
 Total drawdown (A→C) is not predictable.

Source: www.fasttrack.net

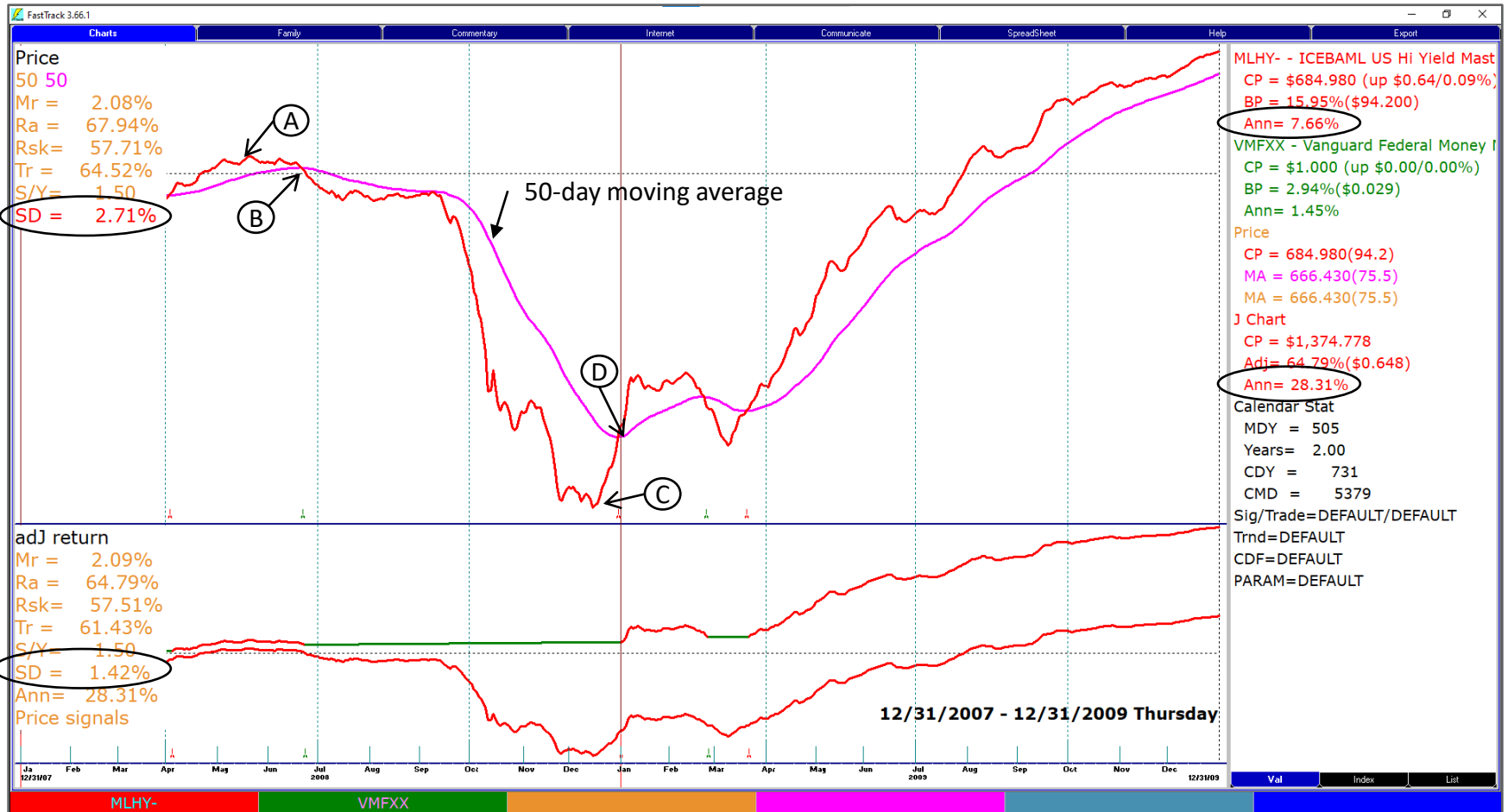
Moving Average Timing



Source: www.fasttrack.net

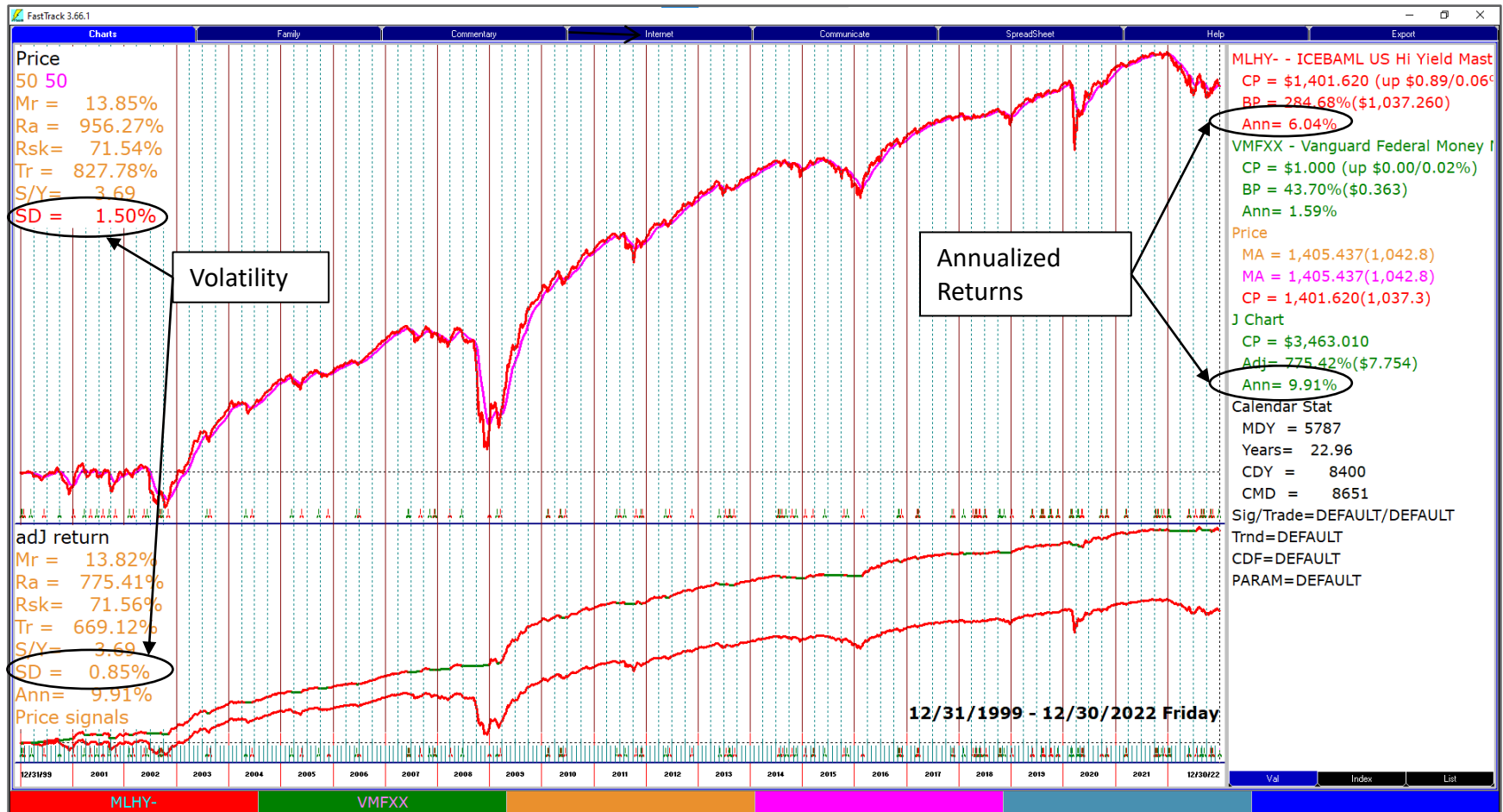
Moving Average Timing

2008 Financial Crisis



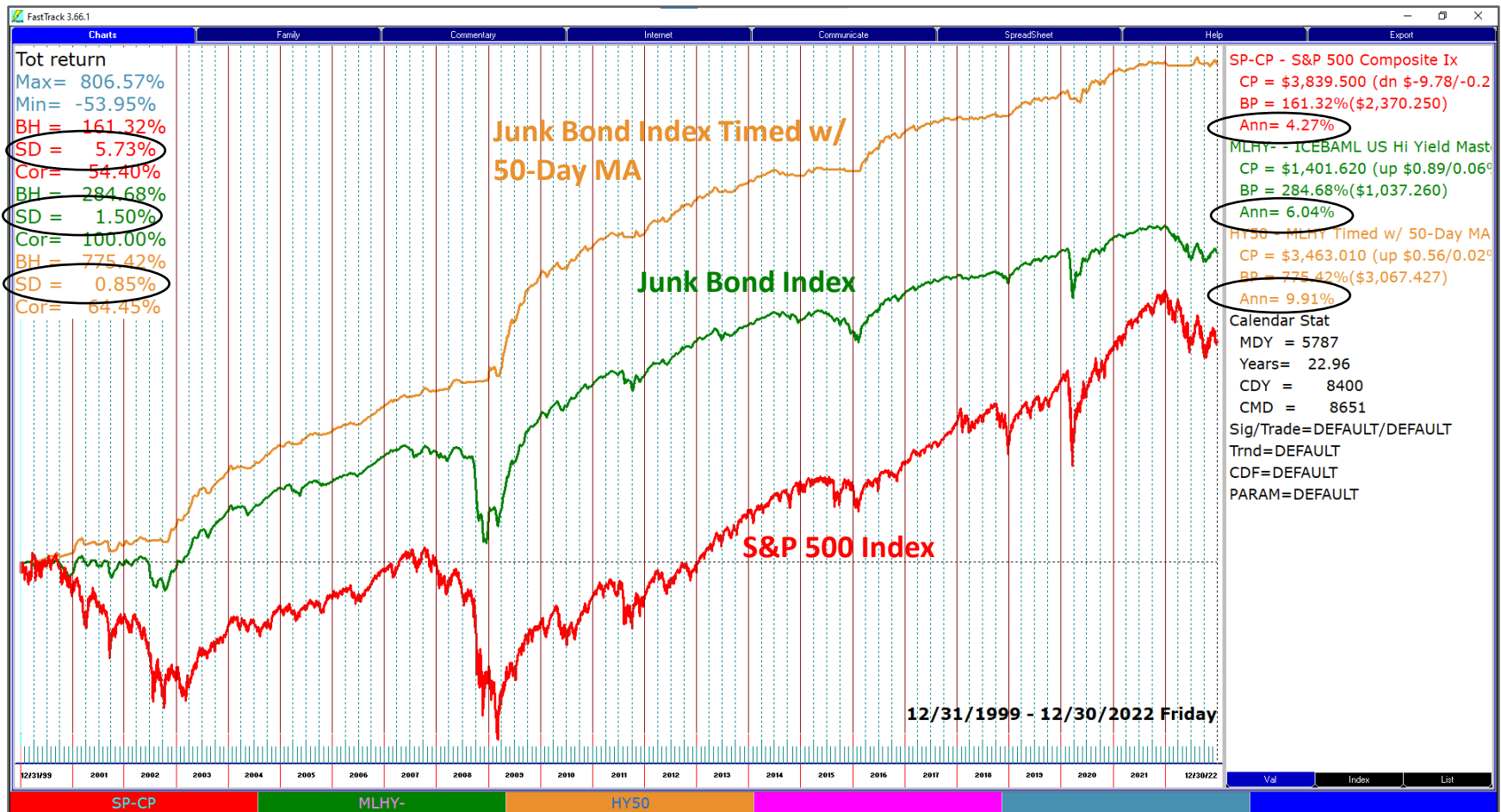
Source: www.fasttrack.net

Moving Average Timing



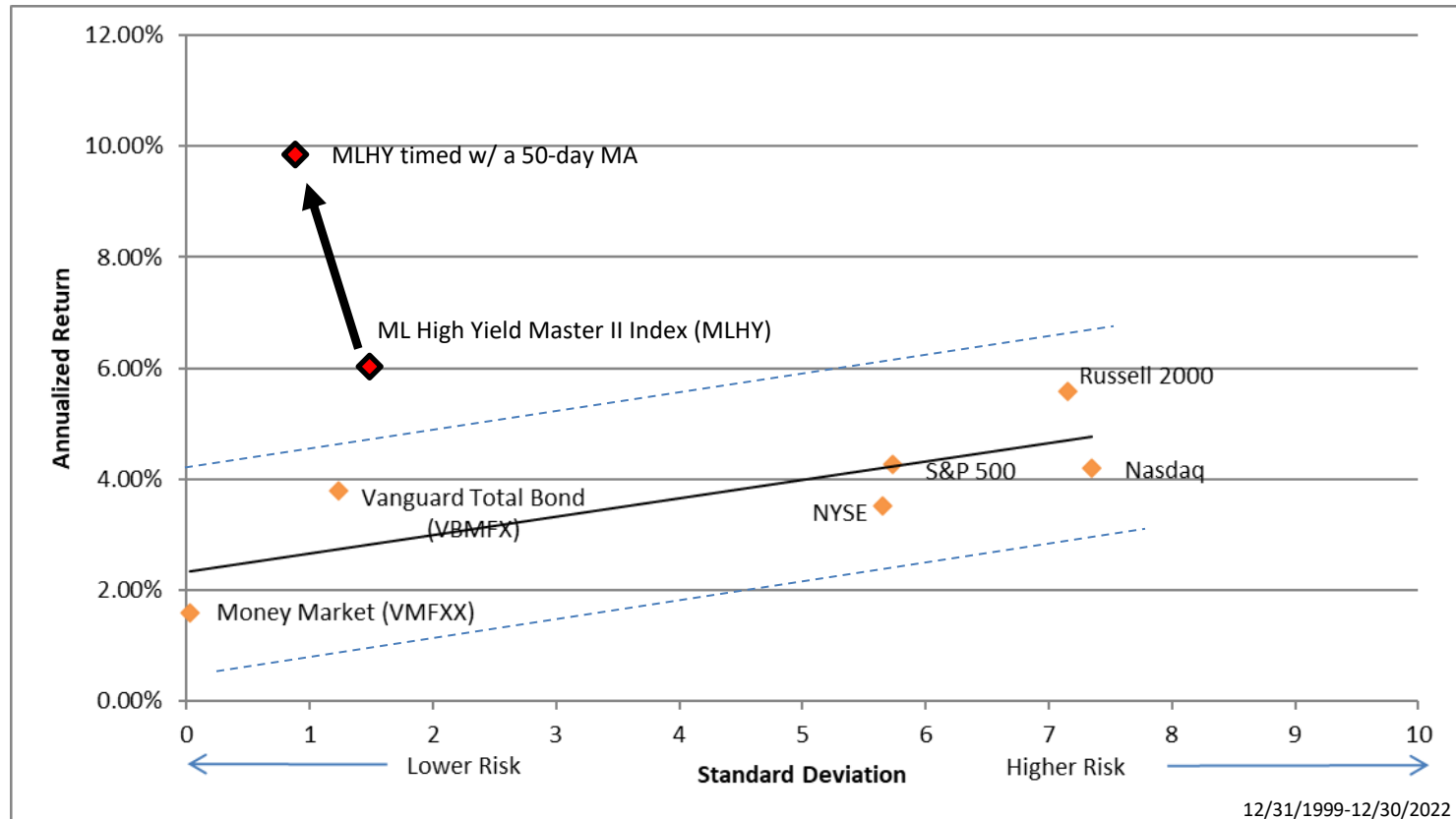
Source: www.fasttrack.net

Moving Average Timing



Source: www.fasttrack.net

Creating Better Risk-Adjusted Returns



Source: www.fasttrack.net

Using a 50-day moving average to time entry and exits from junk bonds produces better risk-adjusted returns.

Outlook For Moving Average Timing Low Volatility Assets

- **Capital Preservation:**

- Good tool for protecting capital if the bear market continues.
- Tends to limit draw downs during market “surprises”.

- **Upside Potential:**

- Fed is close to the end of current rate hike cycle.
- Interest rate sensitive bonds should do well when rates start to fall.
- Economic sensitive bonds should do well once economic activity starts to expand.

Resources

- Investors FastTrack Charting & Analysis Tools (www.fasttrack.net)
 - Good tool for mutual fund selection
 - Ability to monitor RGB low volatility indices
- AAI San Diego – Risk Management SIG (www.aaiisandiego.com)
 - Presentations and recordings
 - Fasttrack Training Manual and Classes
- Subscribe to the RGB Capital Group newsletters
 - RGB Perspectives (weekly, 1 page)
 - RGB Market Monitor (monthly, 10 pages + weekly Scorecard update)
- Email me: rob@rgbcapitalgroup.com

Survey

- We value your feedback on today's session. Please take a couple of minutes to complete the survey form. In addition, use survey form to:
 - **Subscribe to the RGB Perspectives, weekly note.**
 - **Subscribe to the Market Monitor, monthly newsletter.**
 - **Request a consultation with Rob to ask additional questions or review your personal situation.**

**Thank you for attending the Webinar.
Please click Continue to participate in
a short survey.**

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Thank You



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Frequently Asked Questions

Frequently Asked Questions

1. Where can I access the BAML High-Yield Master II Index?*

- Investors FastTrack Charting & Analysis Tool (subscription required) or
- The St. Louis Federal Reserve Economic Data website (free)

2. Why do you use a 50-day moving average?*

- There is no magic to a 50-day moving average. A 50-DMA provides a good balance between downside volatility, positive returns and a reasonable number of round trips.
- Adjust your moving average based on your own preferences.

3. What mutual fund should I use?*

- It depends on many factors including your tolerance for risk and recent fund performance.
- Use a charting tool (such as Investors FastTrack) to evaluate mutual funds prior to purchasing.
- Most of the major fund families have a high-yield (junk bond) mutual fund.

*Please find supporting information on the following pages.

Frequently Asked Questions (continued)

4. Can I use an ETF instead of a mutual fund?*

- You can but you will not likely get the results you expect.
- Bond / income ETFs tend to be 2 to 3 times as volatile as mutual funds; this increase in volatility makes these instruments less effective when using moving average timing

5. What about taxes?

- Taxes (in non-qualified accounts) are important, but less important than protecting capital. Remember Rule #1.
- No tax impact in qualified (IRA, Roth IRA, etc.) accounts.
- Except for long-term buy-and-hold investors, taxes are a part of investing. Focus on the risk-adjusted returns that are appropriate for your personal financial situation.

6. Where can I learn more about FastTrack?

- FastTrack Website: www.investorsfasttrack.com
- Resources available at the San Diego AAI Chapter website: www.aaiisandiego.com. Look for the Risk Management Sub-Group page.

*Please find supporting information on the following pages.

Frequently Asked Questions (continued)

7. Can I use the moving average timing techniques to for entry/exit into stocks?

- The volatility of stocks limits the effectiveness of using moving average timing. It does not work.
- Using the timing signals generated from the junk bond index with its 50-day moving average, does a poor job of signaling appropriate entry and exit points for stocks.

FAQ #1: Tracking the Junk Bond Index

Available in FastTrack (symbol: MLHY-) or the Federal Reserve Economic Data website.



- Investors Fasttrack: www.fasttrack.net or
- Go to <https://fred.stlouisfed.org/> and search for 'ICE BofAML US High Yield Master II Total Return Index Value'.

FAQ #2: Which Moving Average Should I Use?

Moving Average	Annualized Return	Max DrawDown	Standard Deviation	Switches / Year
10-day Moving Average	14.17%	-2.69%	0.75%	9.22
20-day Moving Average	13.46%	-2.50%	0.75%	5.05
30-day Moving Average	12.58%	-2.75%	0.74%	3.91
40-day Moving Average	11.41%	-4.63%	0.78%	3.18
50-day Moving Average	10.99%	-5.94%	0.78%	2.60
60-day Moving Average	10.30%	-6.61%	0.76%	2.34
70-day Moving Average	9.87%	-7.39%	0.76%	2.40
80-day Moving Average	9.59%	-7.32%	0.76%	2.50
90-day Moving Average	9.17%	-7.33%	0.77%	2.55

Time Period: 12/31/1996 – 3/8/2016

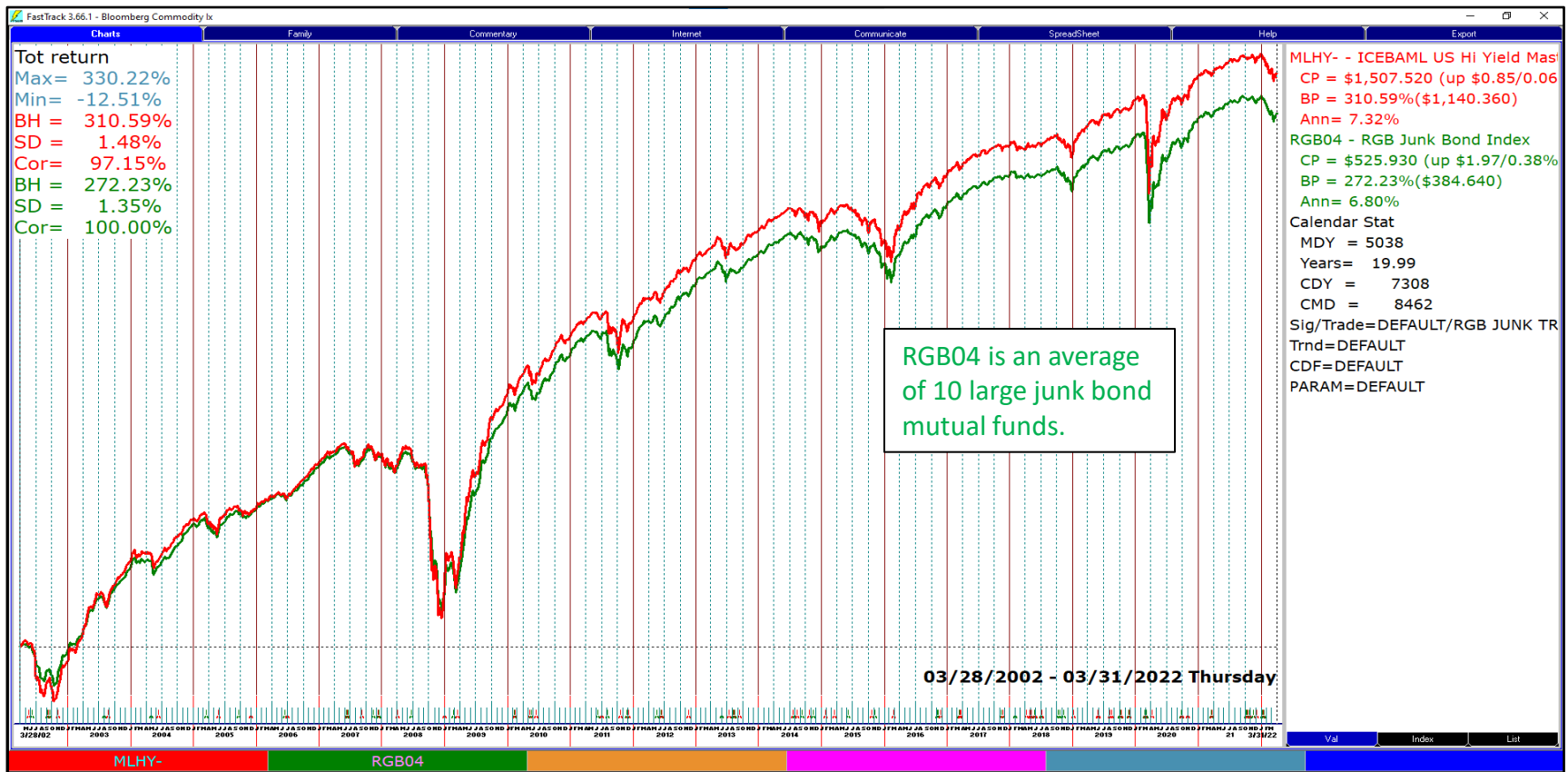
- Adjusting the moving average will impact risk and return – higher moving averages produce higher drawdown and lower return; the lower moving averages produce less drawdown and higher returns.
- Investors need to consider the switches per year (S/Y) due to restrictions on frequent trading with mutual funds.

FAQ #3: Selecting a Junk Bond Mutual Fund

- Look at dividend-adjusted charts of the funds you are considering.
- Select funds that meet your personal objectives. For example, you may consider:
 - Higher volatility funds that may have larger upside potential when they are trending above their moving average.
 - Funds that are highly correlated to the Merrill Lynch US High Yield Master II Index.
 - Lower volatility funds that are for more conservative investors.
- Before purchasing:
 - Understand the fees, including short-term redemption fees (avoid front-end loads and contingent deferred sales charges).
 - Verify the availability of the fund on your trading platform.
 - Review the prospectus.
- If you sell a fund, don't immediately buy back the same fund. Use a different fund family to avoid issues with frequent trading.

FAQ #4: Junk Bond Mutual Funds

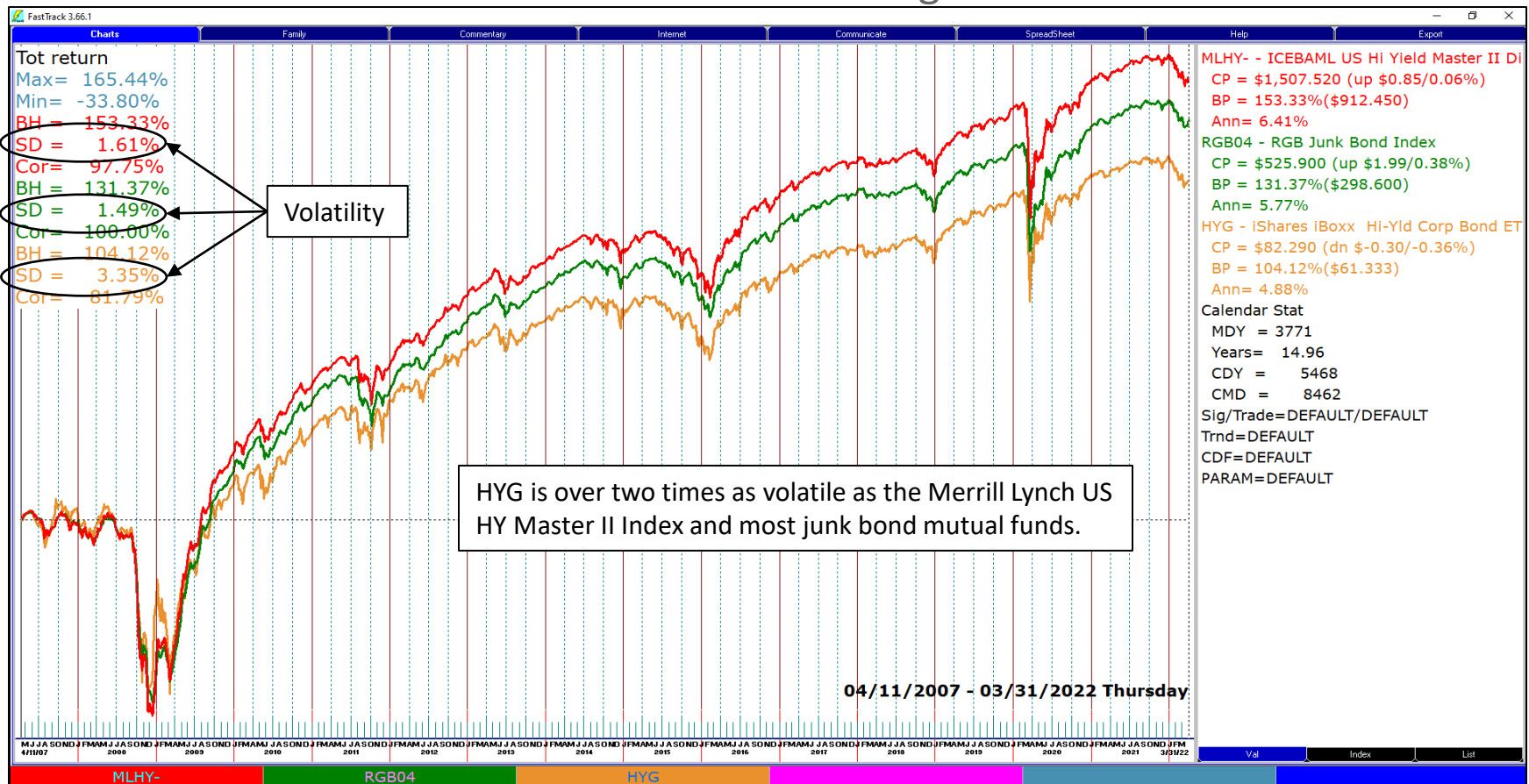
A Good Proxy for Merrill Lynch US High-Yield Master II Index



- You can not invest in the Merrill Lynch US High-Yield Master II Index. However, junk bond mutual funds do a good job of tracking the overall high-yield market as represented by the Merrill Lynch US High-Yield Master II Index.

FAQ #4: Junk Bond Mutual Funds vs. ETFs

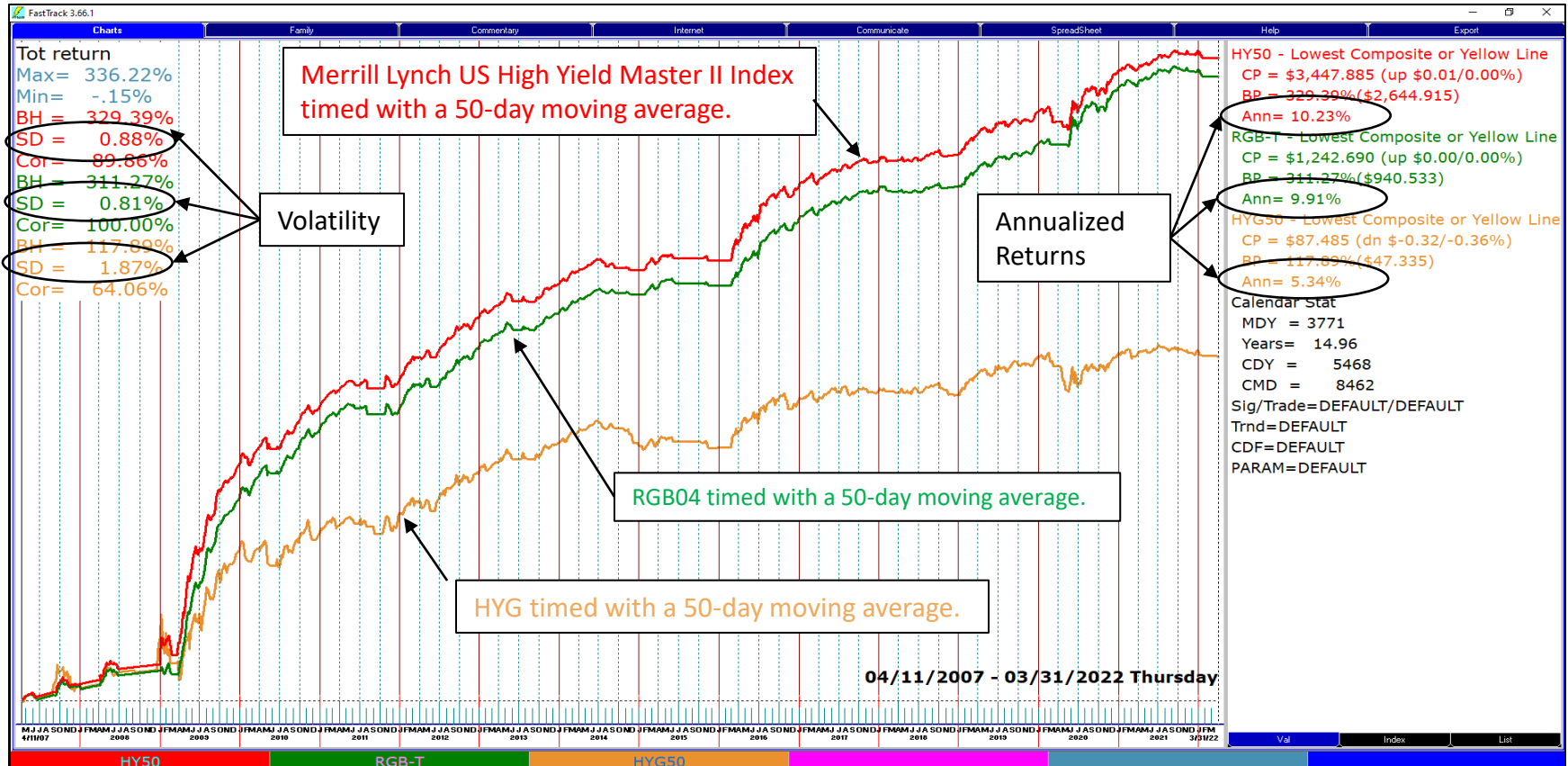
Junk Bond ETFs do a Poor Job of Tracking the Junk Bond Market



- RGB04, an average of junk bond mutual funds, provides similar risk and return characteristics as that of the BAML High-Yield Master II Index.
- Junk bond ETFs follow the general trend of the Merrill Lynch US High-Yield Master II Index and most junk bond mutual funds, however on increased volatility.
- The effectiveness of timing investments with a moving average is reduced as volatility increases.

FAQ #4: Mutual Funds vs. ETFs

Can I use Junk Bond ETFs with 50-day Moving Average?



- You can use junk bond ETFs with a 50-day moving average. However, using a 50-day moving average on HYG resulted in lower returns than RGB04 and higher volatility which is generally inconsistent with investors' desire for better risk-adjusted returns.

Important Disclosure Information

RGB Capital Group investment strategies are discretionary investment strategies using primarily equity and fixed income mutual funds and exchange-traded funds. The investment approach is based on a goal of capital preservation and reducing emphasis on risk management when market conditions are favorable. Leverage is used in certain investment strategies at the discretion of RGB Capital Group with a goal of increasing returns while maintaining below market volatility and risk. Cash is used to manage risk, when necessary. RGB Capital Group strategies may not be appropriate for all investors. Contact a RGB Capital Group representative to discuss whether these strategies may be appropriate for you.

This document does not constitute an offer to sell or a solicitation to buy a security, and is not an offer to provide any specific investment advice. Past performance is not indicative of future results. Changes in equities markets, interest rates, exchange rates, economic conditions, political conditions and other factors will influence future performance. RGB Capital Group may also periodically change its investment strategies, objectives and asset allocations. All investment strategies offered involve risk that could result in a loss of principal, which the client will bear.

The actual performance information of the RGB investment strategies reflect the performance of an account that has been managed by RGB Capital Group. The account was selected for illustration because (i) it is representative of a typical account that has been consistently invested in the strategy and (ii) there have been limited or no deposits to/withdrawals from the account over the time period shown. The returns reflect the deduction of a 1.75% annual percentage based advisory fee, trading costs, and margin interest (where applicable). The returns also include the reinvestment of any dividends and capital gains distributions. Individual account results will vary due to timing of investments, deposits, withdrawals, fee structure and timing of fees, and actual securities used. Performance information is not audited. Past performance is not indicative of future results.

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NYSE Composite Index: The NYSE Composite Index is a stock market index covering all common stock listed on the New York Stock Exchange including American Depository Receipts, real estate investment trusts, tracking stocks, and foreign listings. S&P 500 Index: The Standard and Poor's 500 Index is a capitalization weighted index of 500 stocks representing all major domestic industry groups. S&P 500 Equal Weight Index: The Standard and Poor's 500 Index which includes the S&P 500 companies each given a fixed, equal weight. Russell 2000 Index: Russell 2000 is the Russell 2000® Index, which is a total return index comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. NASDAQ Composite Index: The NASDAQ Composite Index is a market-value weighted price return index measuring all NASDAQ domestic and non-U.S. based common stocks listed in the NASDAQ Stock Market. Barclay's Aggregate Bond Index: The Barclays Capital Aggregate Bond Index provides a measure of the performance of the United States dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage-backed securities and asset backed securities that are publicly for sale in the United States.

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Questions regarding this document should be directed to Robert Bernstein at 858-367-5200 or at rob@rgbcapitalgroup.com.