

# Managing Equity Risk in Uncertain Times

Silicon Valley Chapter - AAI

Presented by Rob Bernstein, President RGB Capital Group LLC

October 19, 2019

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# My Assumptions

- There is no perfect investment strategy.
- The market environment has changed, making it more difficult to manage equity risk.
- Traditional indicators are not working as they have in the past.
- Our goal as investors is to manage risk and seek returns that meet our financial goals; not to 'keep up with the market'.

# Markets Have Changed

- Commoditization of Information
- Central Bankers to the Rescue
- Algorithmic / High Frequency Trading

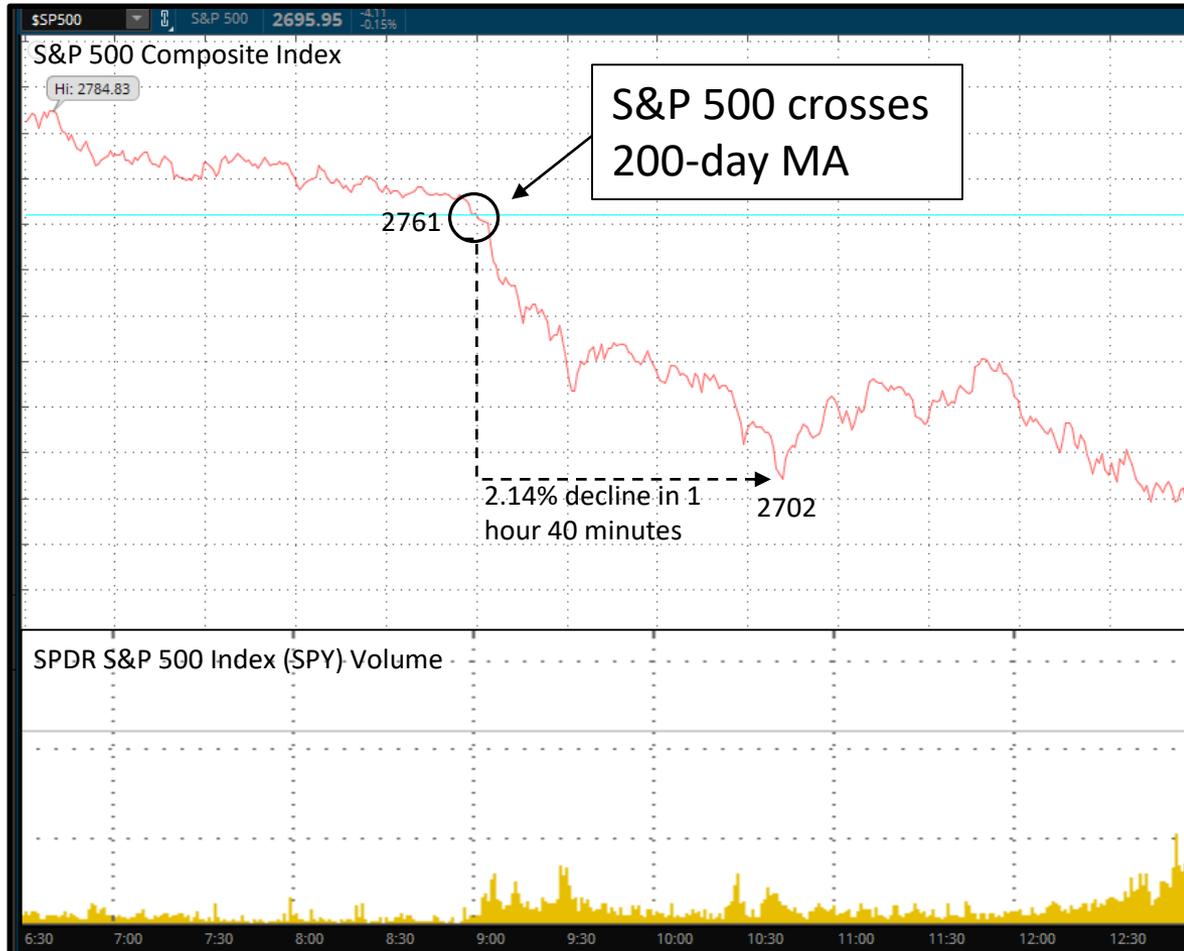
# Commoditization of Information



# Central Bankers to the Rescue



# Who is in Charge Here? Algorithmic / High Frequency Trading



S&P 500 – 1 Minute Chart 12/4/2018

# A Weight of the Evidence Approach

Approach: Use multiple indicators, across multiple time frames to provide guidance on the future direction of the stock market to reduce the reliance on any single indicator and provide conviction when majority of indicators are pointing in the same direction.

- Technical Indicators: “what the market is doing”
  - Trend
  - Momentum
- Fundamental Indicators: “what the market should be doing”
  - Economy
  - Earnings
  - Monetary Policy
  - Inflation
  - Valuation
- Credit Conditions: “the canary in the coal mine”
- Early Warning Indicators
  - Trend Reversal - Overbought / Oversold
  - Investor Sentiment

# Weight of the Evidence Scorecard

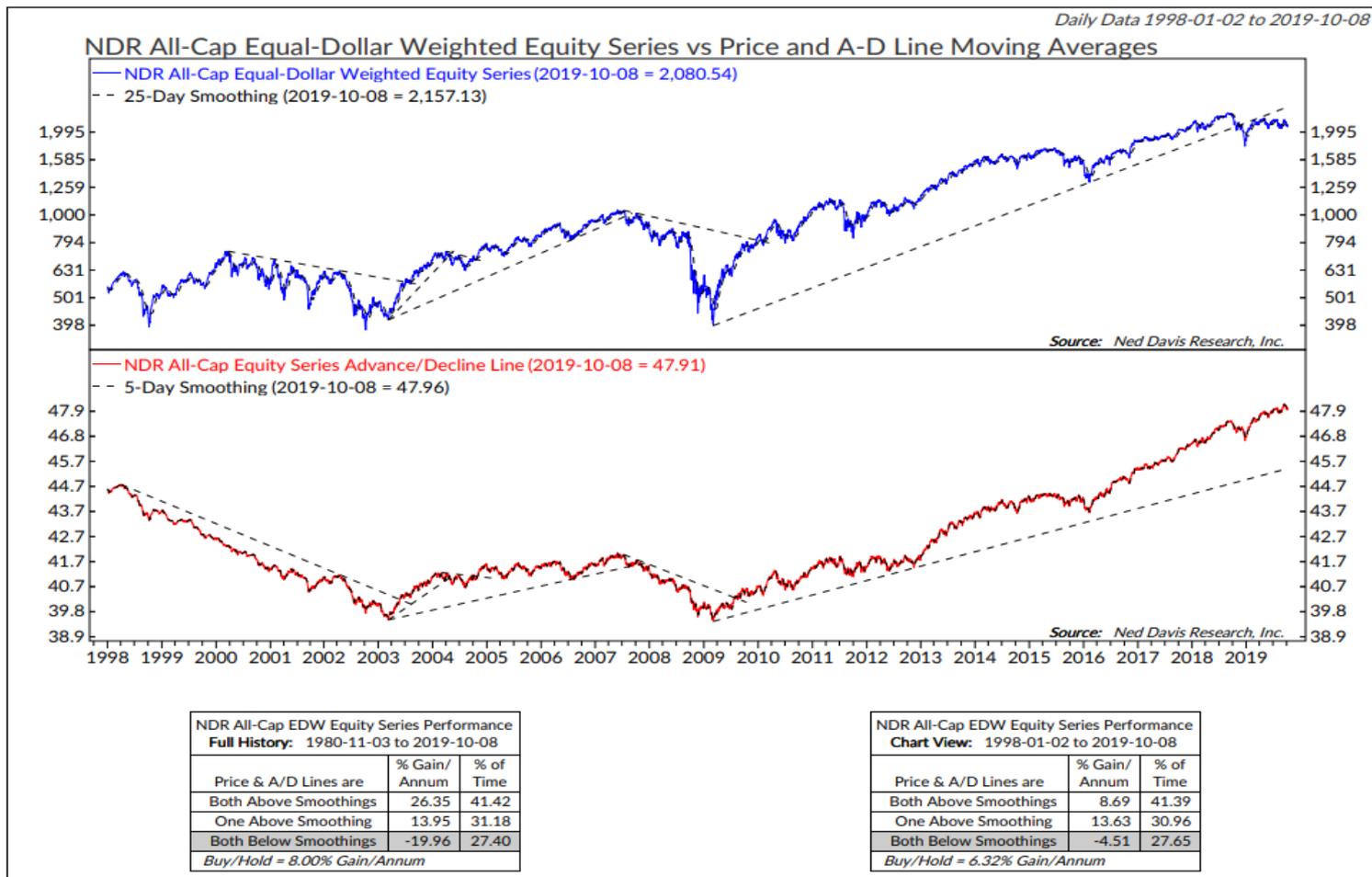
RGB Capital Group			
Stock Market Scorecard			
October 14, 2019			
	Current Signal	Indicator Rating	S&P 500 Historical Return
<b>Indicator/Model</b>			
<b>Primary Cycle Analysis:</b>			
Secular Market Cycle		Bull Market	
Cyclical Market Cycle		Bull Market	
<b>Trend Analysis:</b>			
Short-Term Trend Rating	Buy	Positive	NA
Intermediate-Term Trend Rating	Buy	Positive	NA
Long-Term Trend Rating	Buy	Positive	9.5%
<b>Momentum Analysis:</b>			
Short-Term Momentum Model	Hold	Neutral	14.1%
Intermediate-Term Momentum Model	Buy	Moderately Positive	13.1%
Long-Term Momentum Model	Buy	Positive	15.5%
<b>Fundamental Analysis:</b>			
Economic Model	Buy	Positive	11.2%
Earnings Model	Hold	Neutral	-5.2%
Monetary Model	Hold	Neutral	10.2%
Inflation Model	Buy	Positive	13.1%
Valuation Model	Hold	Neutral	3.8%
<b>Credit Conditions Analysis:</b>			
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA
<b>Overbought/Oversold Analysis:</b>			
Short-Term Overbought/Oversold Signal	Hold	Neutral	NA
Intermediate-Term Overbought/Oversold Signal	Hold	Neutral	10.0%
Long-Term Overbought/Oversold Signal	Buy	Positive	NA
<b>Investor Sentiment Analysis:</b>			
Short-Term Sentiment Model	Buy	Positive	29.9%
Intermediate-Term Sentiment Model	Buy	Positive	32.7%
Long-Term Sentiment Model	Buy	Positive	10.9%
<b>The Weight of the Evidence Average:</b>			<b>13.0%</b>
<b>S&amp;P 500 average gain/annum from 11/16/1979:</b>			<b>8.7%</b>

Explanations of each indicator and source information can be found in the Appendix to this presentation.

# Sample Chart: Intermediate-Term Trend



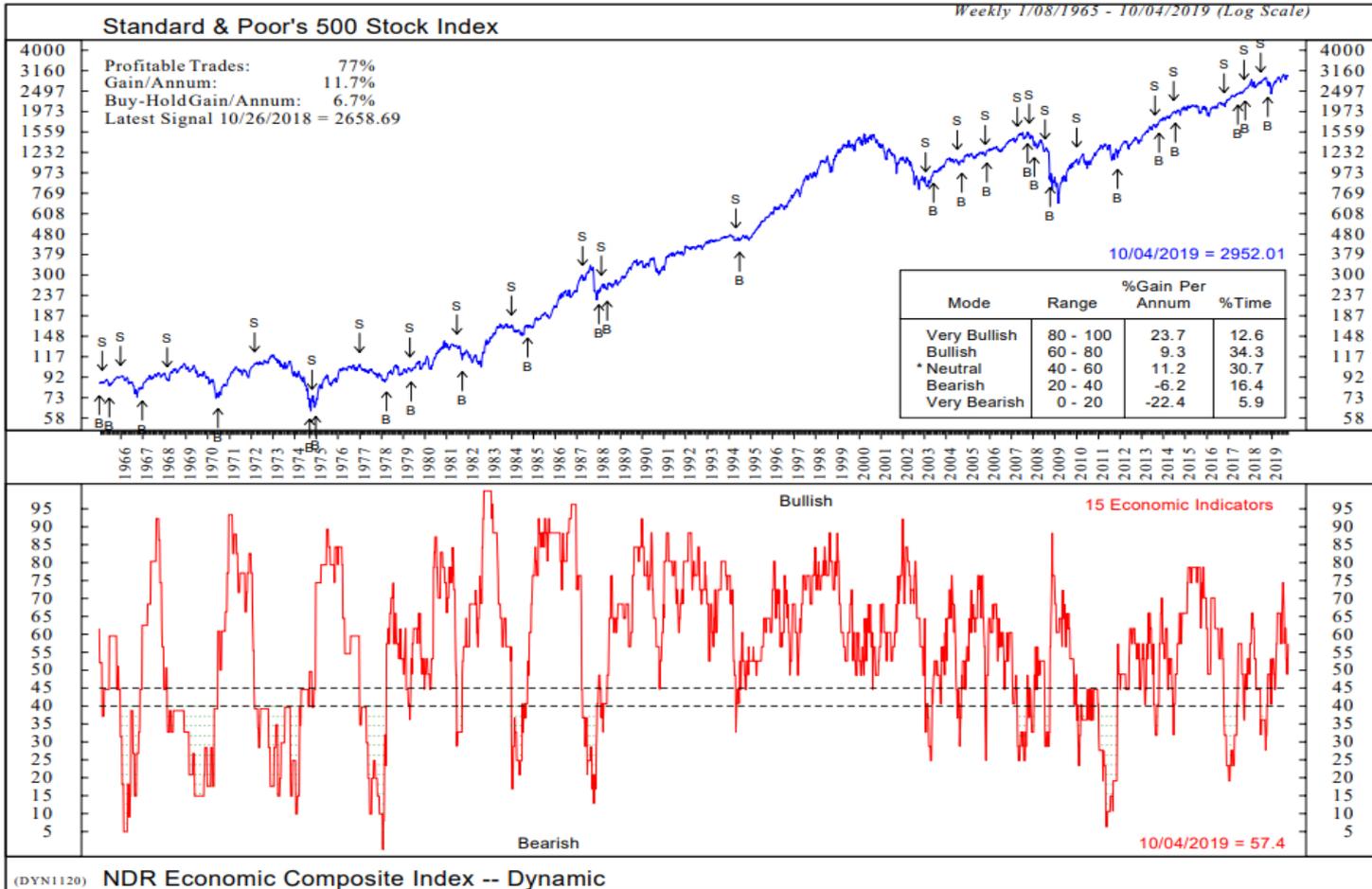
# Sample Chart: Short-Term Momentum



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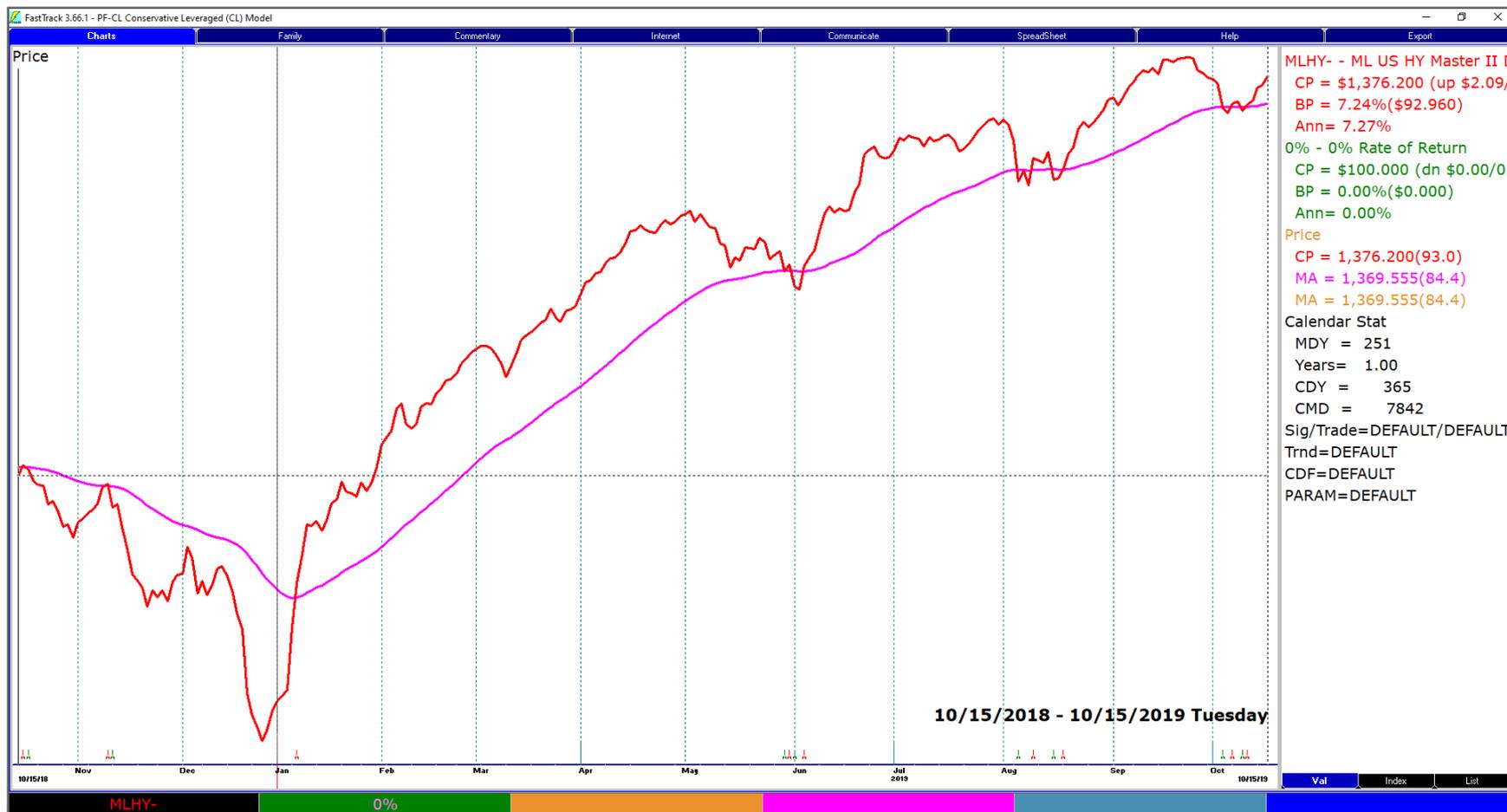
# Sample Chart: Economic Model



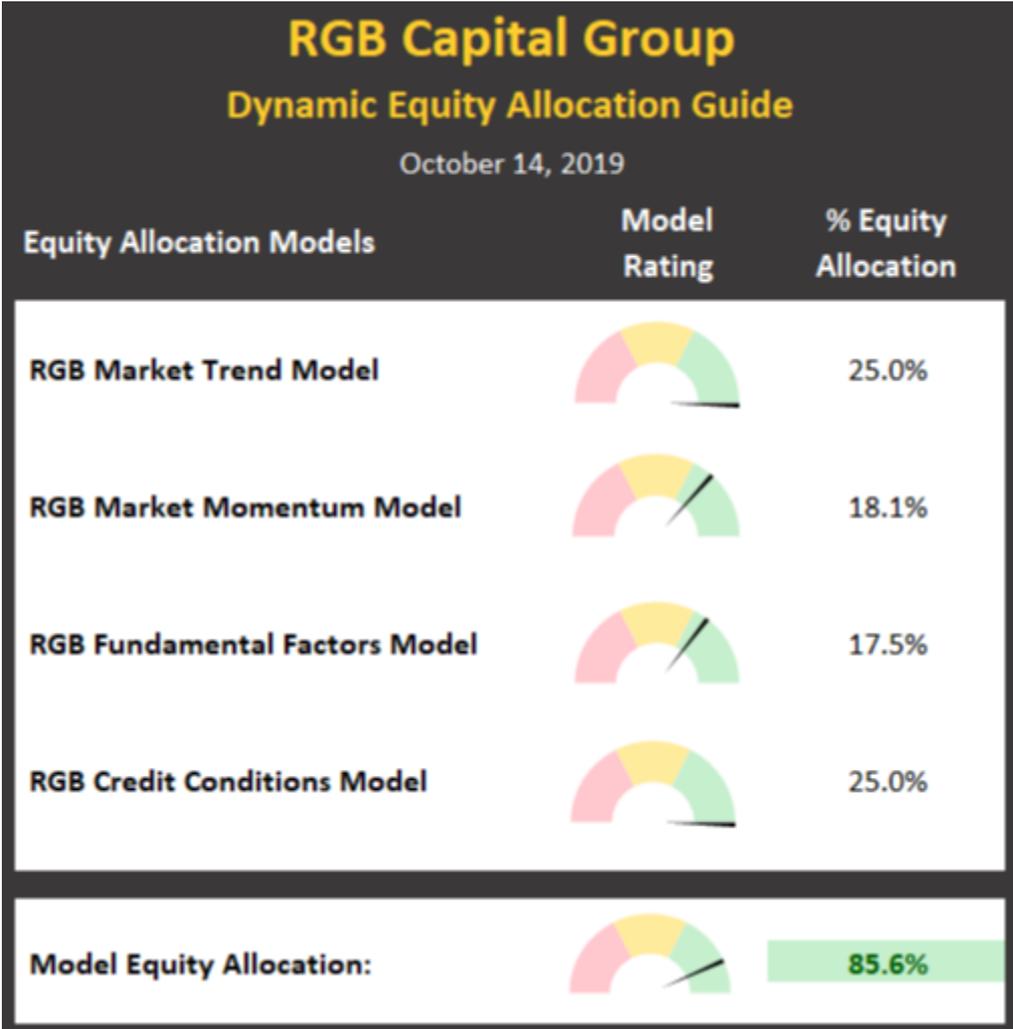
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# Sample Chart: Short-Term Credit Conditions

## Merrill Lynch High-Yield Master II Index



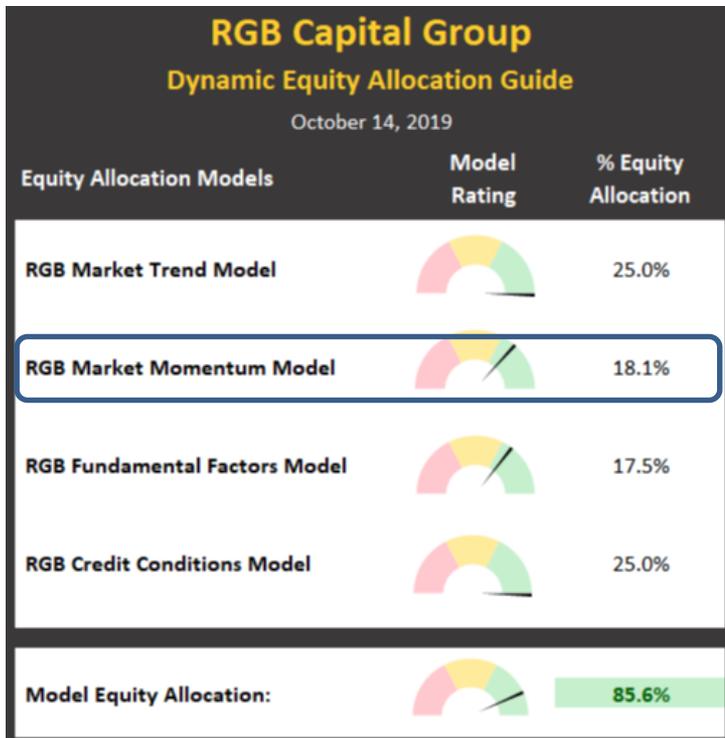
# Dynamic Equity Allocation Model



# Dynamic Equity Allocation Guide

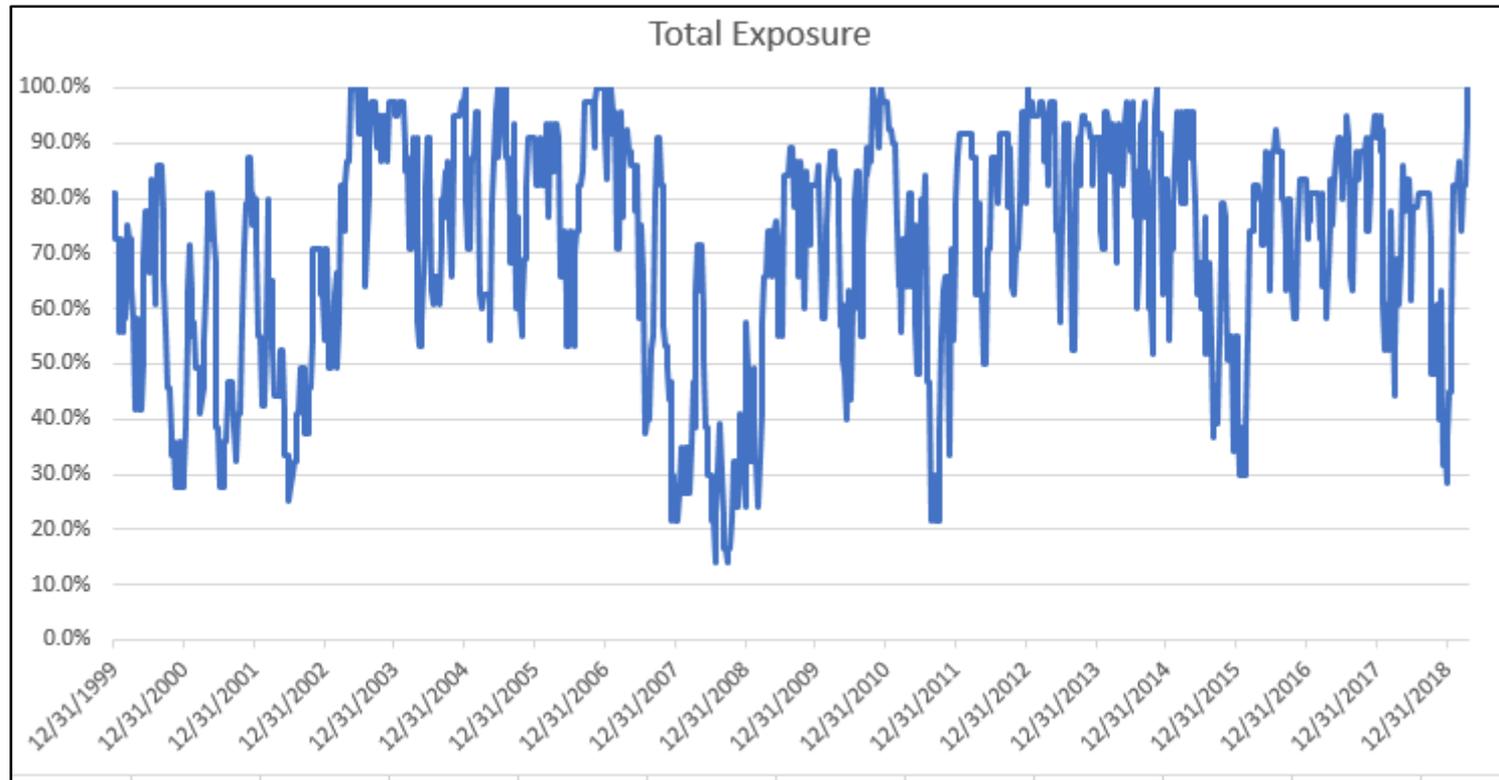
Indicator Weightings	
Positive	1.00
Moderately Positive	0.67
Neutral	0.50
Negative	0.00

RGB Momentum Model	Indicator Rating	Indicator Weighting
Short-Term Momentum Model	Neutral	0.5
Intermediate-Term Momentum Model	Mod Positive	0.67
Long-Term Momentum Model	Positive	1
Average Weighting		72.33%
Model Weighting		25%
Total Equity Allocation		18.1%



- 1 Apply indicator weightings
- 2 Calculate average model weighting
- 3 Apply model weighting
- 4 Sum model allocation

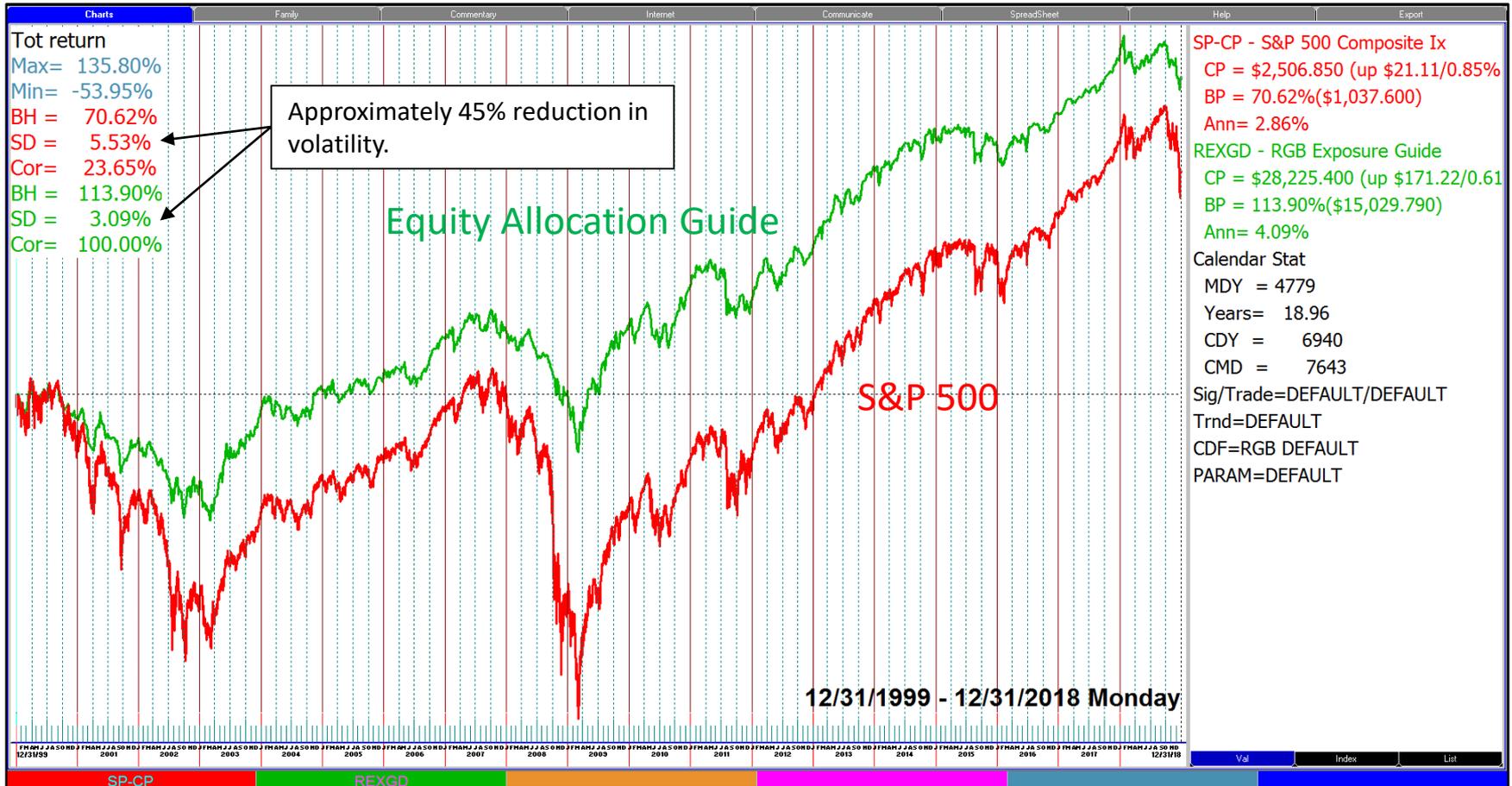
# Equity Allocation Guide 12/31/1999 – 4/22/2019



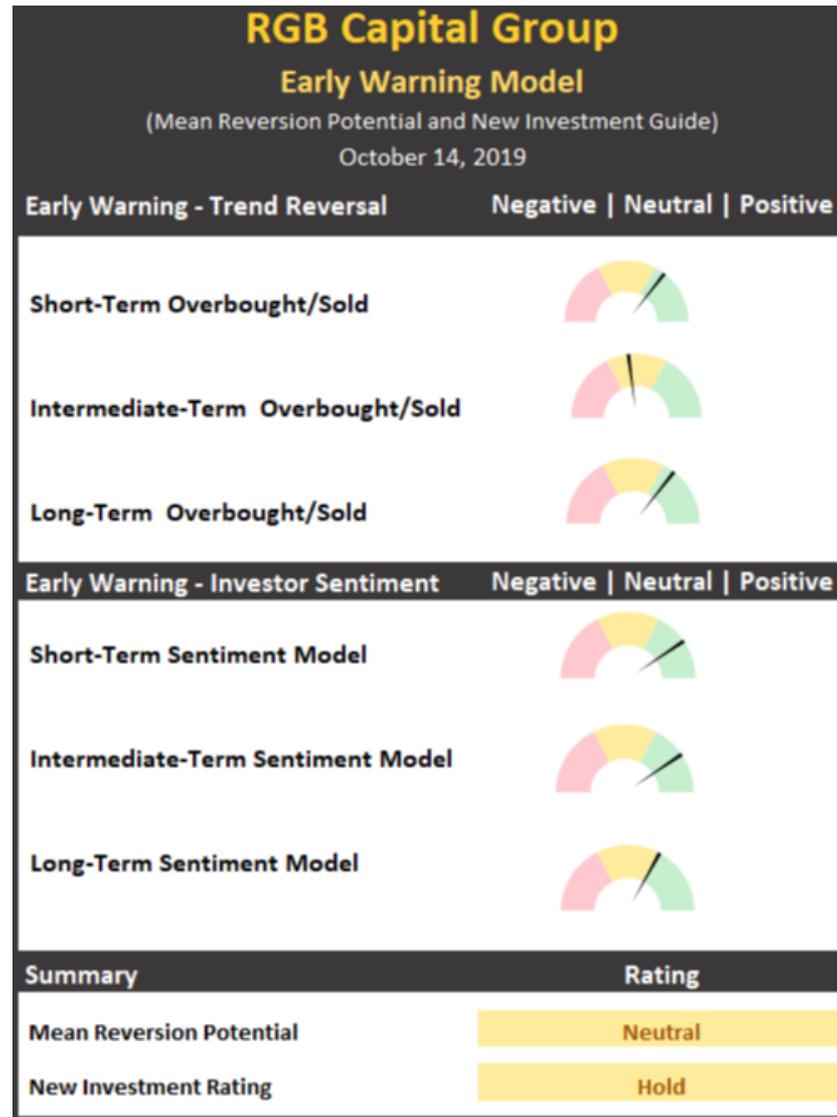
# Equity Exposure Guide – Results 2000 - 2018

Year	Weekly Exposure	
	Guide	S&P 500
2000	-6.13%	-10.14%
2001	-4.09%	-13.04%
2002	-9.96%	-23.37%
2003	22.11%	26.16%
2004	5.93%	8.60%
2005	2.58%	3.60%
2006	9.19%	13.61%
2007	0.67%	3.54%
2008	-10.41%	-38.49%
2009	15.65%	23.45%
2010	9.98%	12.80%
2011	-4.93%	-0.02%
2012	13.22%	13.41%
2013	20.06%	29.60%
2014	6.57%	11.39%
2015	-2.03%	-0.73%
2016	8.01%	9.54%
2017	15.32%	19.42%
2018	-4.83%	-6.24%
<b>Cumulative</b>	<b>115.43%</b>	<b>70.70%</b>

# Exposure Guide vs. S&P 500



# Early Warning Model



## Market Monitor Tools

- The **Market Monitor Tools** (RGB Scorecard, Dynamic Equity Allocation Guide and Early Warning Model) are designed to provide general stock market guidance.
- Not an investment recommendation.
- Use as a guide to confirm your overall investment exposure.

## How to Access These Tools

- **Market Monitor Tools** (RGB Scorecard, Dynamic Equity Allocation Guide and Early Warning Model) available each Monday at [www.rgbcapitalgroup.com](http://www.rgbcapitalgroup.com).
- **Market Monitor Newsletter:** intended to help individual investors with a desire to manage the conflicting goals of managing risk and earning a fair return by providing a unique perspective of general market conditions.
  - What is the market doing?
  - What do we expect the market to be doing?
  - Should we expect a reversal of the current trend?
  - Should I apply new money in the current environment?
  - How are the lower volatility, bond / income groups performing?
  - Includes the RGB Capital Group Stock Market Scorecard, Dynamic Equity Allocation Guide and Early Warning Model.
  - Written on the second Wednesday of the month and distributed on Thursday morning.

# Continue Learning Free Resources

Weekly – RGB Perspectives  
1 Page

Monthly – Market Monitor  
8 – 10 Pages

Annual Meeting  
Open To Everyone

**RGB Perspectives**

Written by Rob Bernstein ([rob@rgbcapitalgroup.com](mailto:rob@rgbcapitalgroup.com))

RGB Capital Group LLC • 858-367-5200 • [www.rgbcapitalgroup.com](http://www.rgbcapitalgroup.com)

October 7, 2019

The RGB Capital Group Annual Meeting is scheduled for Saturday, November 2 at 10 am PDT at the DoubleTree by Hilton San Diego – Del Mar and simultaneously broadcast via a live webinar. The meeting is open to both clients and non-clients who want to learn more about our risk management techniques and business operations. Details of the meeting can be found at [www.rgbcapitalgroup.com/events](http://www.rgbcapitalgroup.com/events). To attend, you must register using one of the two links below.

[Register to Attend in Person](#)      [Register to Attend the Webinar](#)

If you plan to attend, please register by October 18<sup>th</sup> so that we can make the necessary arrangements. Thank you.

The stock market has been weak over the last three weeks. While the short-term trend is down, the intermediate-term trend continues to move in a choppy, sideways trading pattern. The S&P 500 Composite Index is about the same place it was at the end of May and less than 2% above where it was a year ago.

Small-cap stocks have a similar chart pattern moving down over the last several weeks but remains in a wide trading range over the last eight months. The Russell 2000 Index is at about the same level it was at the end of January and is down over 8% from where it was a year ago.

While the stock market remains in a trading range, junk bonds continue to trend up. The BoFA Merrill Lynch High-Yield Master II index pulled back slightly over the last few weeks but remains in an intermediate-term uptrend. The index is less than 1% away from its all-time high and up over 6% from where it was at this time last year.

The effects of the U.S.–China trade war are starting to impact the overall economy with manufacturing and services output declining sharply. These reports were offset with an increased likelihood that the Fed will continue to reduce interest rates to bolster the economy. With this type of environment, it is not surprising to see a choppy stock market. If junk bonds turn down sharply with a significant drop below their 50-day moving average, I will be more concerned about the U.S. economy.

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Prepared with data through 10/7/2019

**Market Monitor**

Version 2019-10

Written by Rob Bernstein

October 10, 2019

The Market Monitor newsletter is intended for individual investors with a desire to manage the conflicting goals of managing risk and earning a fair return by providing a unique perspective of general market conditions.

The stock market remains in a trading range unable to break above the highs set earlier this year but holding above the August lows. There seems to be a balance currently between an economic slowdown that is unfolding and bets that the Federal Reserve and other world banks will come to the rescue with more interest rate cuts and additional quantitative easing.

The September ISM Manufacturing data indicates declines in manufacturing production, inventories, deliveries and employment. In fact, the contraction was the steepest month-to-month decline in manufacturing in over ten years!! This is likely, in part, caused by the ongoing trade war with China which may be taking a toll on the US economy.

Of course, all this bad news may be good news as investors are betting that the Federal Reserve will likely reduce interest rates for a third time this year. According to the CME Group, there is an 85% chance that the Fed will reduce rates another 1/4% point at their next FOMC meeting scheduled for later this month.

The anticipation of lower interest rates has been positive for interest rate sensitive groups. Sectors, such as real estate and utilities, have been outperforming the market on a relative basis. Interest rate sensitive bond/income groups that we track in the Market Monitor have recovered the losses that were incurred in September when interest rates spiked higher. Recall, the 10-Year Treasury yield jumped from 1.47% to 1.90% (a 30% increase) in seven trading days!! Subsequently, 10-Year Treasury yields have come back down and are now at 1.59%, which has benefited most interest rate sensitive groups.

With a slowing economy, market risks are certainly elevated. The market can move quickly so make sure you have your stops set to protect your capital when things get ugly. The market will likely be driven in the short-term by U.S.–China trade negotiations taking place this week in Washington D.C. and third quarter earnings which will be released over the next several weeks.

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## RGB Annual Meeting

### November 2, 2019

### 10:00 am PDT

In Person:  
DoubleTree by Hilton Del Mar  
San Diego, CA

Webinar:  
Live stream from your computer

Registration Required:  
Complete survey form or  
[www.rgbcapitalgroup.com/events](http://www.rgbcapitalgroup.com/events)

To sign up, please complete a survey form today or send an email to [info@rgbcapitalgroup.com](mailto:info@rgbcapitalgroup.com).

Thank You!!



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Please return your evaluation forms. I appreciate your feedback.

# Survey Form



## A Practical Approach for Conservative Investors & Managing Equity Risk in Uncertain Times

Saturday, October 19, 2019

AAll – Silicon Valley

Please return this form at the meeting or email to [info@rgbcapitalgroup.com](mailto:info@rgbcapitalgroup.com) or fax to 858-324-2050

Name: \_\_\_\_\_ Phone: \_\_\_\_\_

Email: \_\_\_\_\_

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1. Today's Presentation – Would you like to receive an electronic copy of today's presentation?  Yes  No, thanks
2. RGB Perspectives – Interested in our **free**, weekly market commentary?  Yes  No, thanks
3. Would you like to receive our **free**, monthly *Market Monitor* newsletter?  Yes  No, thanks
4. Are you interested in participating in our Annual Meeting on November 2<sup>nd</sup> (in person or webinar) to learn about our services and how we manage risk for clients?  Yes  No, thanks

Comments / Questions / Feedback on today's presentation: \_\_\_\_\_

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