RGB Perspectives

September 6, 2022

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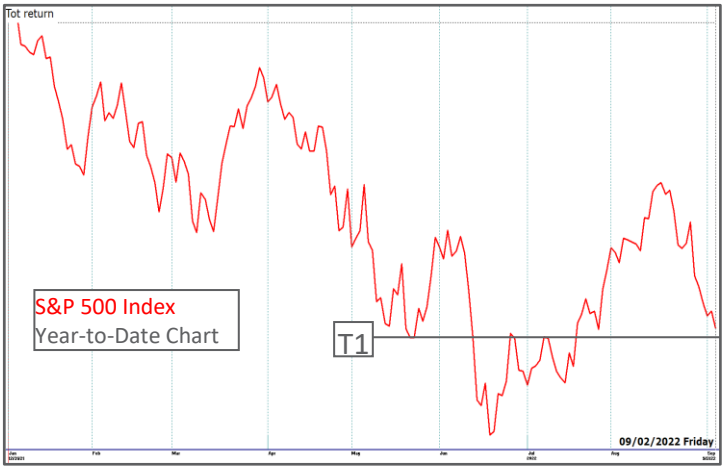
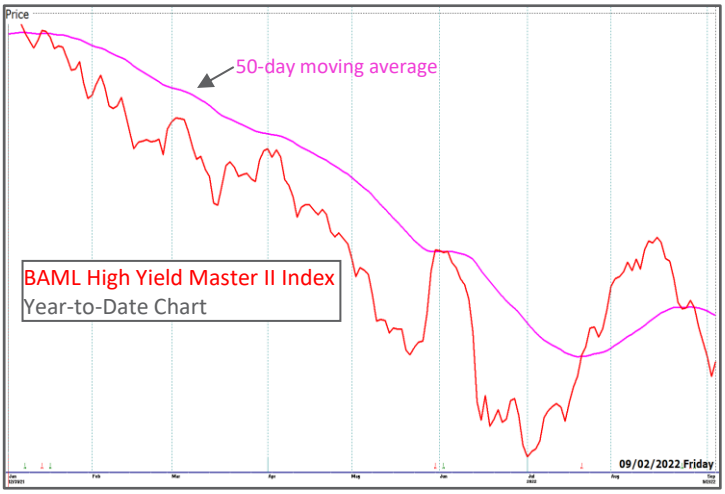


The S&P 500 Index continued the rally that started in mid-June with strong gains in the first half of August but gave those gains away and then some in the second half of the month. The index is now approaching an important level of support (T1) and at about the same level it was back in May. A break below T1 would likely lead to a test of the June lows. The market is a bit oversold now so a bounce at this level will not be too surprising.



Junk bonds also peaked in mid-August. The downtrend looked like a normal correction but Chairman Powell's recent comments about taking an aggressive stance against inflation sent the BAML High-Yield Master II Index (junk bond index) below its 50-day moving average.

The 50-day moving average of the junk bond index is a strong indicator of the trend of the market. There is nothing magical about this moving average, but it has served us well over many years. When the index is trending above its 50-day moving average, it generally indicates that market conditions are favorable for investors to take on risk. One of the attractive characteristics of junk bonds is that they have strong trend persistence. This simply means that when they start to trend in a particular direction they tend to continue to do so for an extended period. But of course, that doesn't always happen. When the trend turns on us relatively quickly, as it did this past month, managing risk again becomes my top priority.

The RGB Core and Balanced strategies moved into junk bonds and other low volatility funds as they broke above their 50-day moving average in late-July and early August. It is frustrating to have the market turn back down so quickly, necessitating a move back to cash, but that is what is required to manage risk. The Core strategy and the low volatility portion of the Balanced strategy are back to a fully cash position. The Flex+ strategy and equity portion of the Balanced strategy maintain a reduced risk exposure to the stock market.

Investing requires some risk and my job is to manage that risk (not avoid all risk). We have no way to know what will happen in the future, but we can use charts to evaluate the trends of the market. When the trends turn favorable again, and they will at some point in the future, we will shift our focus but for now I am comfortable with our attention to risk management.

Prepared with data through 9/2/2022