RGB Perspectives

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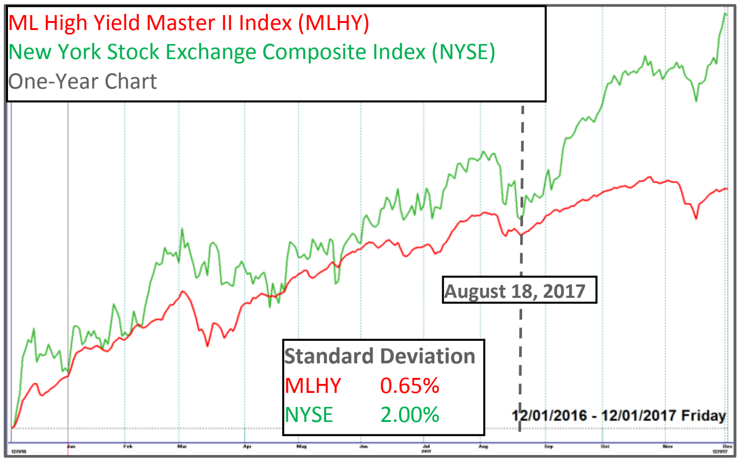
Written by Rob Bernstein (rob@rgbcapitalgroup.com)

RGB Capital Group LLC • 858-367-5200 • www.rgbcapitalgroup.com

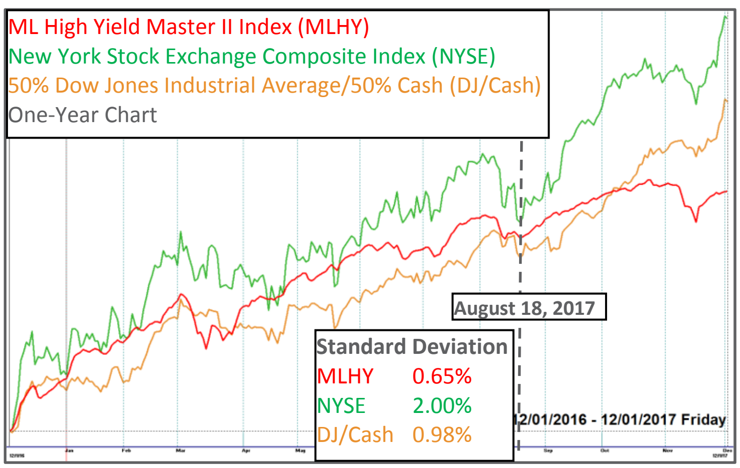
Junk bonds have played an important role in the RGB Capital Group model portfolios since the Financial Crisis. Historically, junk bonds have provided good risk-adjusted returns, meaning that they provide reasonable returns with low volatility. It is these risk and return characteristics that make these types of investments attractive to investors that are focused on managing risk and avoiding large declines in their portfolios. Other bond/income funds have provided similar risk and return characteristics during this time period.



Junk bonds, represented here by the Merrill Lynch High-Yield Master II Index, provided similar returns to the New York Stock Exchange Composite Index for most of the last year. In mid-August, however, equities continued to trend higher while the returns of junk bonds flattened out relative to equities.

One notable difference between equities and junk bonds is the level of volatility. The volatility of junk bonds during this period is less than one-third of the NYSE, as measured by standard deviation.

When junk bonds level off, I look for other ways to create portfolios that have similar risk characteristics to junk bonds by using other types of investments. This can include the use of equities, commodities, currencies, cash, etc.



As an example, creating a portfolio with a 50% allocation to the Dow Jones Industiral Average and 50% cash produces a relatively low volatility portfolio when compared to the broader market. The standard deviation of the 50/50 strategy is slightly higher than junk bonds, but it is only half the standard deviation of the NYSE. However, in mid-August when junk bond returns started to level off, this 50/50 strategy continued to trend up. I believe that the small incremental increase in risk is warranted given the current market conitions.

Although I believe junk bonds can continue to do okay if the economy continues to grow, I think that the upside potential for junk bonds is somewhat limited in the current market environment. As such, I increased our exposure to equities over the last few months in all the RGB Capital Group models with the goal of creating low volatility portfolios with reasonable returns. Whether I am using junk bonds or other investment vehicles, I will continue to manage risk and strive to minimize portfolio drawdowns.

The RGB Capital Group models were all up 1% or more for the month of November with the exception of the Conservative Unlevered model, which was up slightly less than 1%.

Prepared with data through 12/1/2017