RGB Perspectives

February 5, 2018

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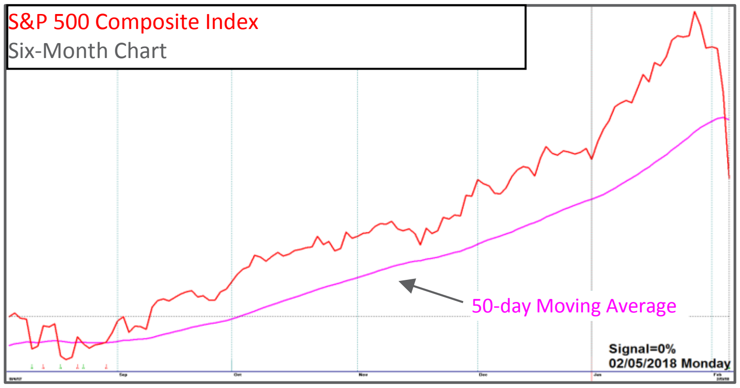
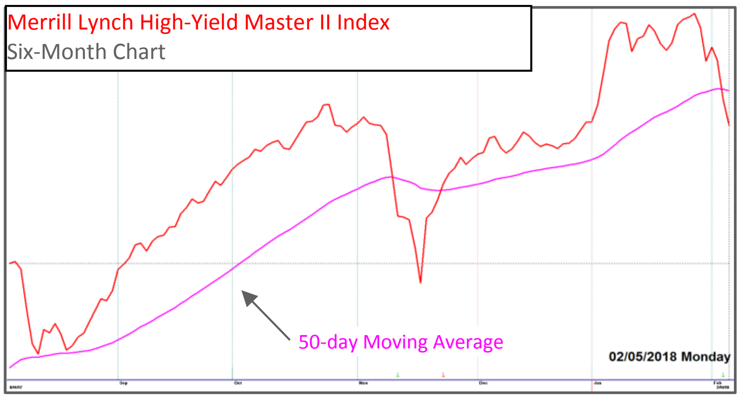
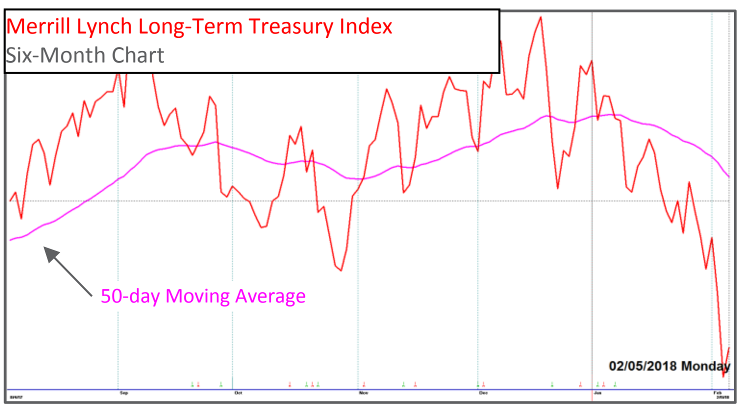


The financial markets started 2018 with a very strong January but have since entered into a short-term decline. The decline has been fast and steep with the S&P 500 Composite Index dropping 2.1% on Friday and another 4.1% today (Monday). Since the peak on January 31st, the S&P 500 Composite Index is down 7.8%, giving up all of the gains for the calendar year. The S&P 500 has now dropped below its' 50-day moving average, something that hasn't happened in almost six months. Most of the major equity indices have experienced similar declines.



The Merrill Lynch High-Yield Master II Index (junk bonds) has also turned down and crossed below its' 50-day moving average. The decline in the junk bond index from the January 31st peak is 1.0%. Although the decline is relatively small compared to the decline of the S&P 500 Composite Index, a declining junk bond index is an indication that risk is on the rise.



Typcially when risk is on the rise, we see a flight to safety that drives the prices of Treasury bonds higher. However, we have not seen a flight to safety during the recent decline. In fact, the Merrill Lynch Long-Term Treasury Index has steadily declined since mid-December. This index is down 6.0% since peaking on December 15 as interest rates (not shown) continue to climb.

The current decline is ugly and we don't know if the correction experienced over the last week is the start of a significant, longer-term decline or just a short-term correction. It will likely take several more weeks to determine if the cyclical bull market that started in 2016 is in jeopardy or if this correction will soon reverse course and resume trending up.

The RGB models were not immune to the recent market volatility. As mentioned in previous RGB Perspectives, the RGB models were positioned to take advantage of the strong market environment over the last several months. Although the Flexible models had a higher exposure to the market than the Conservative models, all the models have given back some of their recent gains during the last week. I started to reduce exposure to the market last week and will continue to take on a more conservative posture if the market decline continues. Short-term market declines are a normal part of investing. It is the large, protracted declines that we want to avoid. I will continue to strive for a balance between risk and return. Thank you for your continued trust.

Prepared with data through 2/5/2018