

Hedging Managing Volatility and Downside Risk

Investment Strategy Special Interest Group
Los Angeles Chapter – AAI

Presented by Rob Bernstein, President RGB Capital Group LLC

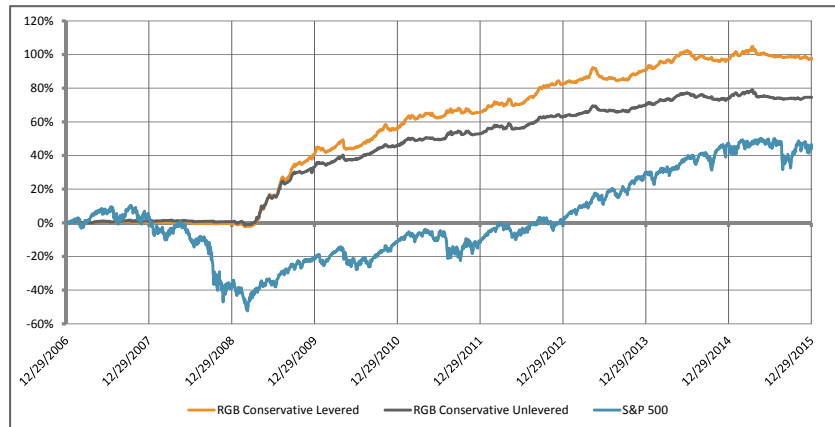
August 6, 2016

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RGB Conservative Models vs. S&P 500
12/31/2006 – 12/31/2015



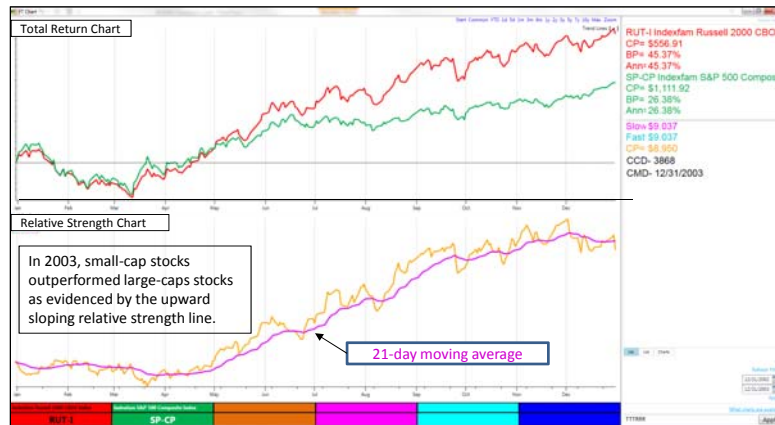
The performance of the RGB Capital Group Conservative models is actual performance for the time period shown. Starting in August 2009, the results reflect the composite performance of all client accounts associated with each model inclusive of advisory fees. Performance data prior to August 2009 represents performance of the model by Robert Bernstein as an individual investor and is adjusted to reflect a 1.75% advisory fee. Performance results reflect all trading costs and margin interest, where applicable, and include the reinvestment of dividends and capital gains distributions. Client account results may vary from RGB Capital Group composite data due to timing of investments, deposits, withdrawals, fee structure and actual securities used. The S&P 500 index is a capitalization weighted index of 500 stocks representing all major domestic industry groups and is not dividend adjusted. Past performance is not indicative of future results.

What is Hedging?

- Hedging is a technique that can be used to reduce the amount of uncertainty in a portfolio.
- Generally, hedging involves pairing an uncorrelated or negatively correlated asset with your portfolio for the purpose of:
 - a) Protecting capital
 - b) Reducing volatility
 - c) Increasing returns (for aggressive investors only)

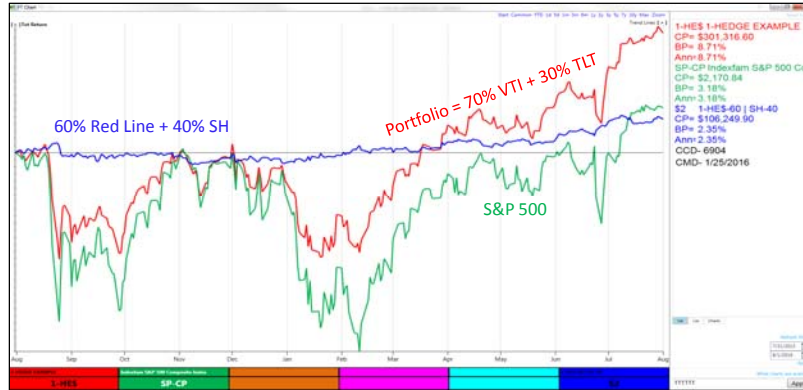
Relative Strength

Russell 2000 vs S&P 500 (12/31/2002 – 12/31/2003)



- Relative strength is the price performance of one investment compared to another. It is calculated by dividing the price of one investment by the price of another.
- The precise value of the relative strength calculation is not important. Focus on the trend of the relative strength line. A moving average can be used to help visualize the trend.

Example 1: Hedging to Protect Capital One-Year Chart (7/31/2015 – 8/1/2016)

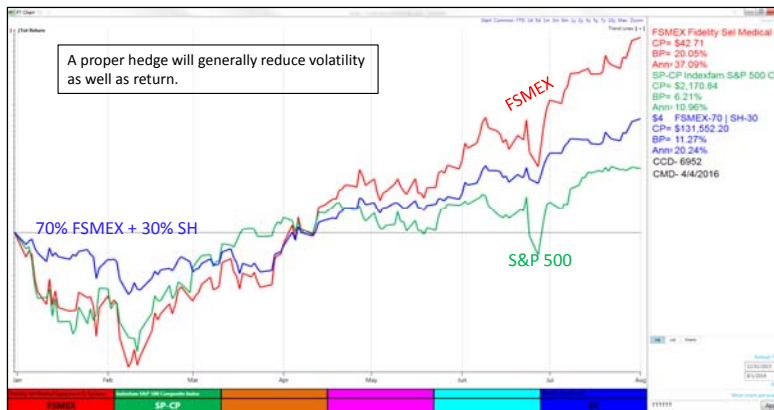


	Total Return	Standard Deviation	Max Drawdown
S&P 500	3.18%	4.98%	13.3%
Portfolio (70% VTI + 30% TLT)	8.71%	3.08%	7.8%
60% Portfolio + 40% SH	2.35%	0.71%	1.5%

5

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Example 2: Hedging to Reduce Volatility Year-to-Date Chart (12/31/2015 – 8/1/2016)



	Total Return	Standard Deviation	Max Drawdown
S&P 500	6.21%	4.40%	10.51%
Fidelity Select Medical Delivery (FSMEX)	20.05%	5.17%	11.79%
70% FSMEX + 30% SH	11.27%	2.71%	5.62%

6

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Example 3: Hedging to Increase Returns
One-Year Chart (12/31/2014 – 12/31/2015)



	Total Return	Standard Deviation	Max Drawdown
S&P 500	-0.73%	4.49%	12.35%
Portfolio (70% VTI + 30% TLT)	0.40%	2.87%	8.75%
60% Portfolio + 40% SNIPIX	8.09%	2.32%	4.72%

7

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Summary

- There are a number inverse funds available to individual investors to hedge an investment, including funds that track the inverse of:
 - S&P 500
 - Russell 2000
 - Nasdaq
 - Dow
 - Mid-Cap Stocks
 - Emerging Markets
 - China
 - Japan
 - Gold
 - Oil & Gas
 - Precious Metals
 - Real Estate
 - Financials
 - Treasuries
 - High Yield (Junk) Bonds
- Hedging is not a perfect science and requires frequent revaluation as market conditions change.
- To effectively hedge, use a charting and analysis tool to chart relative strength relationships and plot the results of hedging individual positions or portfolios.
- The use of 2x or 3x funds will reduce the amount of capital required to hedge a position.
- Consider using hedging as part of an overall risk management plan designed to protect your capital when market conditions deteriorate.

8

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