

# How to Invest Like a Professional

AAll – San Diego

February 5, 2015

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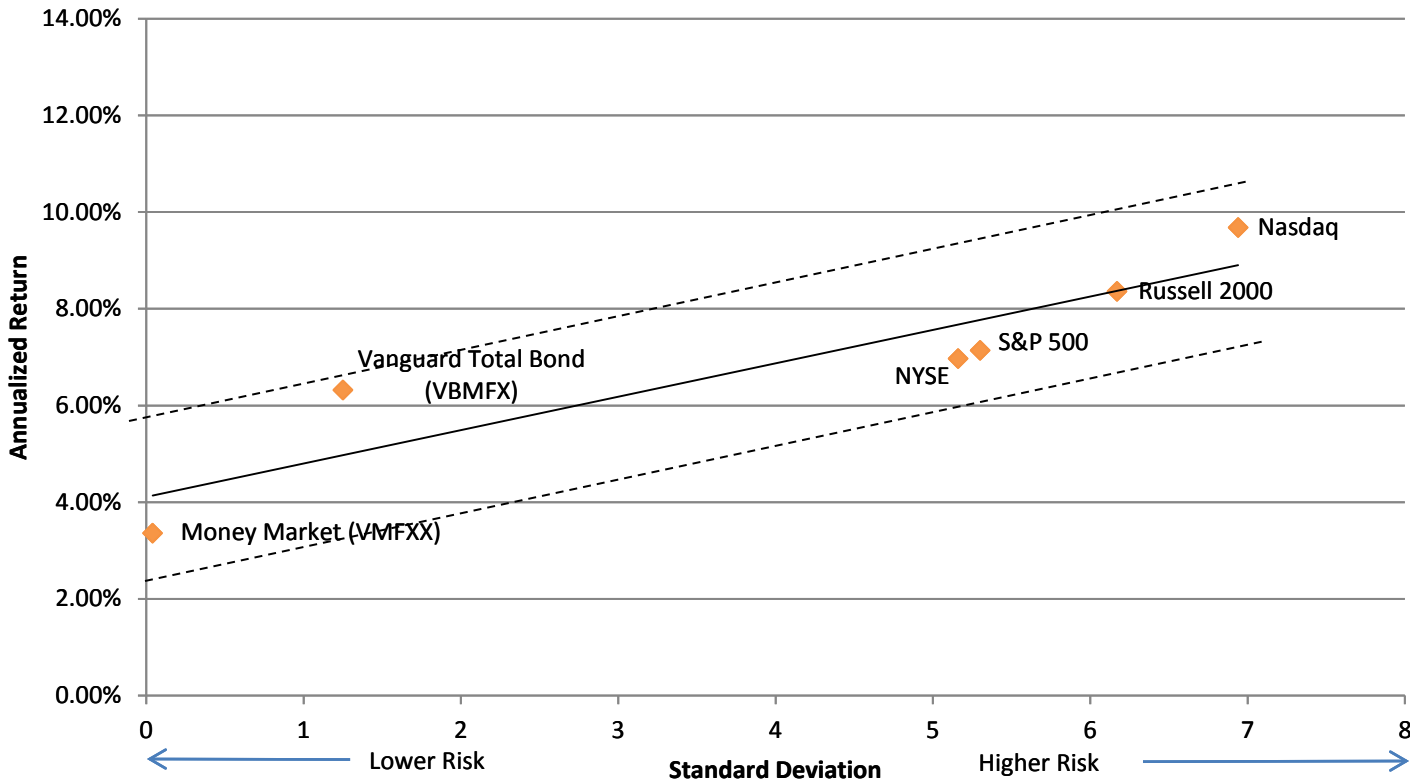
# Rob Bernstein

- President, RGB Capital Group LLC
- Licensed - Series 65
- Prior Work Experience
  - a) Senior Manager, Deloitte & Touche
  - b) Chief Information Officer – Newland Communities
- M.B.A., Finance and Accounting, William E. Simon School of Business, University of Rochester
- B.A., Quantitative Economics and Decision Sciences, University of California, San Diego
- President, AAll – San Diego Chapter
- Board Member and Finance Committee Chair – Serving Seniors



# Risk vs. Reward

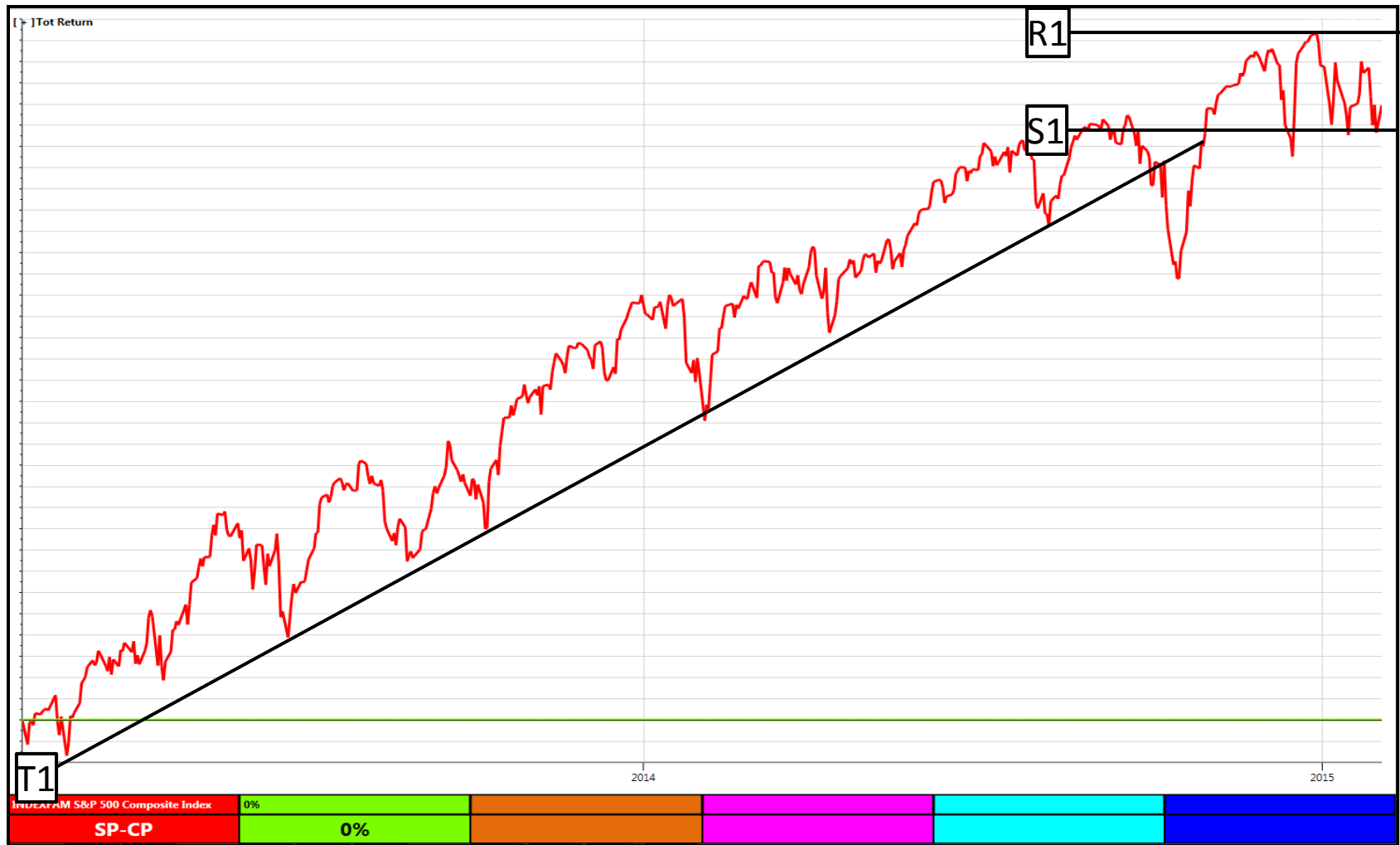
12/29/1989 – 12/31/2013



- Plotting standard deviation against annualized return provides investors the ability to visualize the trade-off between risk and return.
- Our goal as investors is to achieve returns outside the long-term, expected return channel.

# S&P 500

Two-Year Chart (1/31/2013 – 2/2/2015)



# A Vast Investment Universe

(as of 12/31/2013)

<b>Investment Vehicle</b>	<b>Quantity</b>
Mutual Funds*	7,707
Mutual Fund Share Classes*	23,353
Exchange-Traded Funds*	1,294
Stocks**	5,008

\* Investment Company Institute. 2014. *2014 Investment Company Fact Book: A Review of Trends and Activity in the Investment Company Industry*. Washington, DC: Investment Company Institute. Available at [www.icifactbook.org](http://www.icifactbook.org).

\*\* *Wall Street Journal*, February 5, 2014

# Managing the Investment Universe

<b>Bond and Income (10)</b>
US Treasuries
Corporate Bonds
Floating Rate Bonds
Junk Bonds
Municipal Bonds
High-Yield Muni Bonds
Mortgage-backed Securities
Emerging Market Bond
Inflation Protected Bonds
Preferred Securities

<b>Equities (15)</b>
Aerospace/Defense
Banking/Financials
Biotechnology
Construction
Consumer Discretionary
Consumer Staples
Healthcare
Industrials
Insurance
Materials
Real Estate
Technology
Telecommunications
Transportation
Utilities <sup>7</sup>

<b>Commodity (5)</b>
Agriculture
General
Metals
Precious Metals
Energy

<b>Style (2)</b>
Growth
Value

<b>Capitalization (3)</b>
Large Cap
Mid Cap
Small Cap

# Setting up Custom Groups

**Static Models - Create and Edit**

A Static Model is an investment strategy of investing fixed proportions (as a percent of total assets) into specific funds/stocks.  
Example: '80% VFIX and 20% VUSTX' (80% equities, 20% bonds)

Name	Num Tickers	Date Created
BD01 - US TREASURIES	10	2015-02-03
BD02 - CORPORATE BONDS	10	2015-02-03
BD03 - FLOATING RATE BONDS	10	2015-02-03
BD04 - JUNK BONDS	10	2015-02-03
BD05 - MUNICIPAL BONDS	10	2015-02-03
BD06 - HIGH YIELD MUNICIPAL	10	2015-02-03
BD07 - MORTGAGE-BACKED SEC	10	2015-02-03
BD08 - EMERGING MARKET DEB	10	2015-02-03
BD09 - INFLATION PROTECTED I	10	2015-02-03
BD10 - PREFERRED SECURITIES	4	2015-02-03
CO01 - COMMODITY AGRICULT	23	2015-02-03
CO02 - COMMODITY GENERAL	10	2015-02-03
CO03 - COMMODITY METALS	17	2015-02-03
CO04 - COMMODITIES PRECIOU	13	2015-02-03
CO05 - COMMODITY ENERGY	17	2015-02-03
EQ01 - AEROSPACE/DEFENSE	4	2015-02-03
EQ02 - BANKING / FINANCIALS	14	2015-01-17
EQ03 - BIOTECHNOLOGY	6	2015-01-17
EQ04 - CONSTRUCTION	5	2015-01-17
EQ05 - CONSUMER DISCRECTIO	13	2015-01-17
EQ06 - CONSUMER STAPLES	9	2015-01-17
EQ07 - HEALTHCARE	12	2015-01-17
EQ08 - INDUSTRIALS	6	2015-01-17
EQ09 - INSURANCE	3	2015-01-17
EQ10 - MATERIALS	5	2015-01-17
EQ11 - REAL ESTATE	6	2015-01-17
EQ12 - TECHNOLOGY	20	2015-01-17
EQ13 - TELECOMMUNICATION	7	2015-01-17
EQ14 - TRANSPORTATION	6	2015-01-17
EQ15 - UTILITIES	9	2015-01-17
EQ16 - CAP LARGE	9	2015-02-02
EQ17 - CAP MID	18	2015-01-17
EQ18 - CAP SMALL	13	2015-01-17
EQ19 - STYLE GROWTH	16	2015-01-17

**Create FNU**

Ticker:   
Name:   
Start Date:    
Rebalance:

**Details**

Ticker	Name	Percent
1	ABTAX AmerCent Government Bond-A	10
2	CPTNX AmerCent INV:Government Bon	10
3	FBIDX Fidelity INV:Spartan US Bond Inc	10
4	FGOVX Fidelity Government Income	10
5	HLGAX JPMorgan Government Bond Sel	10
6	PFGAX Pimco Long-Term US Governme	10
7	VBMFX Vanguard INV:Total Bond Marke	10
8	VFISX Vanguard INV:Short-Term Treasu	10
9	VFIUX Vanguard ADM:Interm-Term Tre	10
10	VUSTX Vanguard INV:Long-Term US Tre	10
11		
<b>Total</b>		100.00%

Static models can be created based on how you view the market.



# Example: Filtering Custom Groups by UPI

FT Cloud - PRO

Login Data FT Cloud FT Cloud+ Chart - Refresh FNUs

Compute Chart New Corr Matrix Quick View Load Family

Preload

Common YTD 1d 5d 1m 3m 6m 9m 1Y 3Y 5Y 7y 10Y Max Current Family: MARKET WATCH LIST

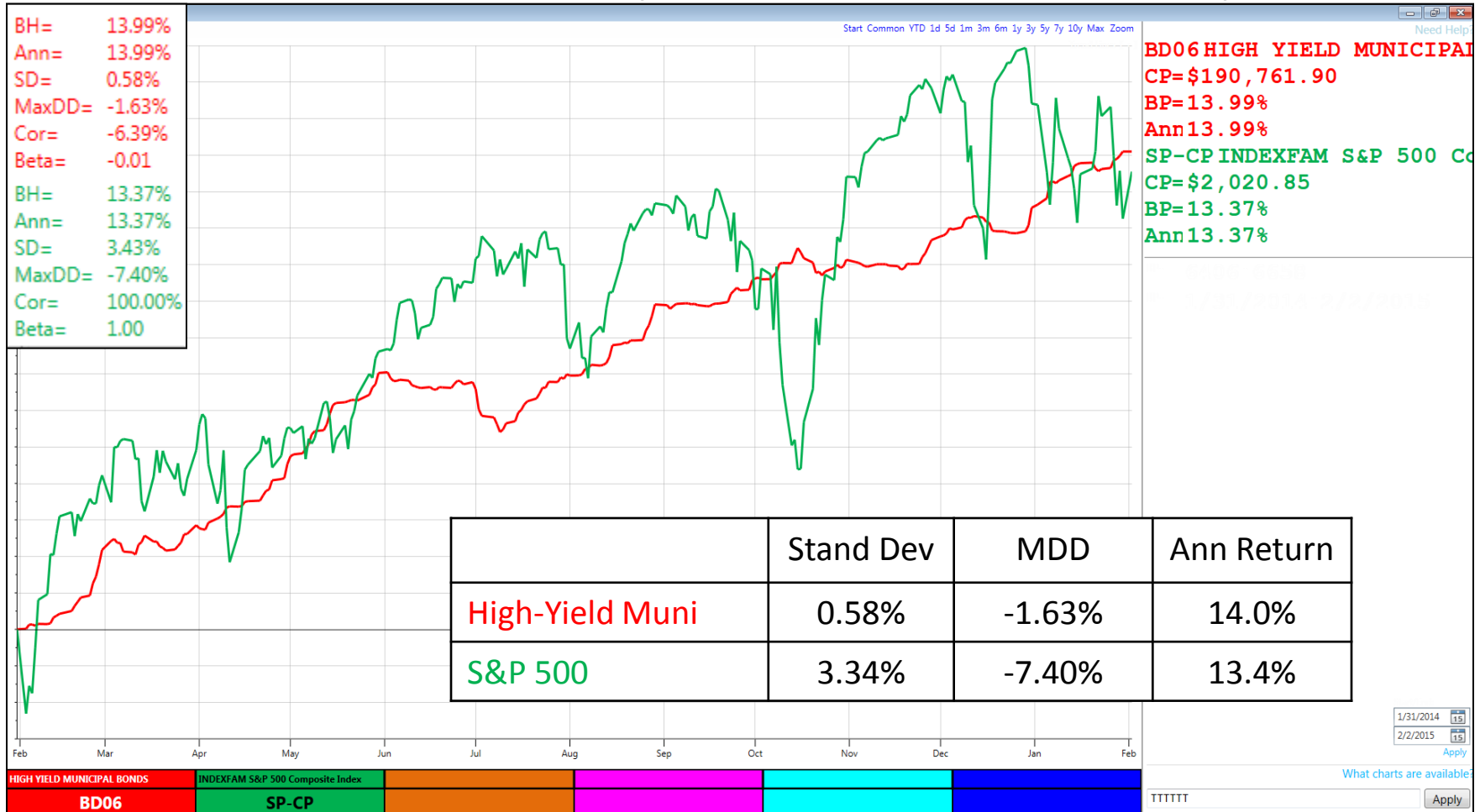
	Ticker	Name	Start Date	Return	Ann	UI	UPI	Max Draw	SD
1	BD06	High Yield Municipal Bonds	9/1/1998	13.99 %	13.99 %	0.36	36.15	-1.63 %	0.58 %
2	BD10	Preferred Securities	9/1/1998	9.57 %	9.57 %	0.34	25.04	-1.11 %	0.51 %
3	BD05	Municipal Bonds	9/1/1998	8.91 %	8.91 %	0.42	18.72	-1.17 %	0.52 %
4	EQ06	Consumer Staples	9/1/1998	22.07 %	22.07 %	1.32	15.88	-4.89 %	2.89 %
5	EQ11	Real Estate	9/1/1998	27.49 %	27.49 %	1.99	13.25	-6.99 %	2.95 %
6	BD01	US Treasuries	9/1/1998	9.05 %	9.05 %	0.63	12.62	-1.69 %	1.15 %
7	BD02	Corporate Bonds	9/1/1998	6.88 %	6.88 %	0.52	11.06	-1.55 %	0.82 %
8	BD07	Mortgage-backed Securities	9/1/1998	3.86 %	3.86 %	0.30	9.14	-0.94 %	0.62 %
9	EQ15	Utilities	9/1/1998	25.01 %	25.01 %	2.63	9.09	-8.52 %	3.64 %
10	EQ07	Healthcare	9/1/1998	25.60 %	25.60 %	2.82	8.70	-8.95 %	4.25 %
11	EQ16	Cap - Large	9/1/1998	15.62 %	15.62 %	1.92	7.56	-7.48 %	3.42 %
12	EQ14	Transportation	9/1/1998	20.81 %	20.81 %	2.84	6.94	-12.44 %	4.59 %
13	EQ12	Technology	9/1/1998	13.22 %	13.22 %	3.13	3.88	-9.73 %	4.30 %
14	EQ05	Consumer Discretionary	9/1/1998	13.09 %	13.09 %	3.16	3.80	-8.15 %	3.85 %
15	EQ09	Insurance	9/1/1998	10.64 %	10.64 %	2.52	3.80	-8.01 %	3.65 %
16	EQ20	Style - Value	9/1/1998	10.52 %	10.52 %	2.66	3.55	-9.07 %	3.56 %
17	EQ19	Style - Growth	9/1/1998	11.57 %	11.57 %	3.01	3.48	-9.56 %	4.09 %
18	EQ03	Biotechnology	9/1/1998	33.67 %	33.67 %	9.61	3.39	-23.87 %	8.34 %
19	EQ17	Cap - Mid	9/1/1998	10.81 %	10.81 %	2.88	3.38	-10.54 %	3.81 %
20	EQ01	Aerospace /Defense	9/1/1998	10.87 %	10.87 %	4.06	2.41	-10.86 %	4.22 %
21	EQ08	Industrials	9/1/1998	8.26 %	8.26 %	3.49	2.06	-12.30 %	4.14 %
22	EQ13	Telecommunication	9/1/1998	6.49 %	6.49 %	2.72	1.99	-8.95 %	3.53 %
23	BD09	Inflation Protected Bonds	9/1/1998	3.96 %	3.96 %	1.56	1.85	-3.57 %	1.24 %
24	EQ02	Banking / Financials	9/1/1998	6.87 %	6.87 %	3.19	1.82	-8.40 %	4.01 %
25	EQ18	Cap - Small	9/1/1998	5.91 %	5.91 %	4.42	1.09	-12.66 %	4.57 %
26	EQ10	Materials	9/1/1998	4.34 %	4.34 %	4.42	0.74	-12.83 %	4.21 %
27	BD11	Bd/Inc - Energy Income	9/1/1998	5.24 %	5.24 %	6.13	0.68	-17.33 %	4.51 %
28	BD08	Emerging Market Debt	9/1/1998	3.17 %	3.17 %	3.44	0.61	-10.61 %	1.58 %
29	EQ04	Construction	9/1/1998	2.83 %	2.83 %	5.44	0.32	-14.79 %	4.35 %
30	BD04	Junk Bonds	9/1/1998	1.49 %	1.49 %	1.74	0.24	-5.93 %	0.97 %
31	CO04	Precious Metals	9/1/1998	-3.34 %	-3.34 %	12.72	-0.35	-26.78 %	6.55 %
32	CO01	Agriculture	9/1/1998	-8.21 %	-8.21 %	12.77	-0.73	-23.61 %	3.40 %
33	CO03	Metals	9/1/1998	-6.22 %	-6.22 %	7.20	-1.01	-19.24 %	3.55 %

Start/End 1/31/2014 - 2/2/2015 Apply

- Custom groups can be charted and analyzed similar to any other stock, mutual fund or ETF in the FastTrack database.
- Sorting by an appropriate risk metric or risk-adjusted return will filter the better performing groups to the top of the list.
- Don't ignore the bottom of the list. This may be where the future opportunities are hiding.

# High-Yield Muni Bonds vs. S&P 500

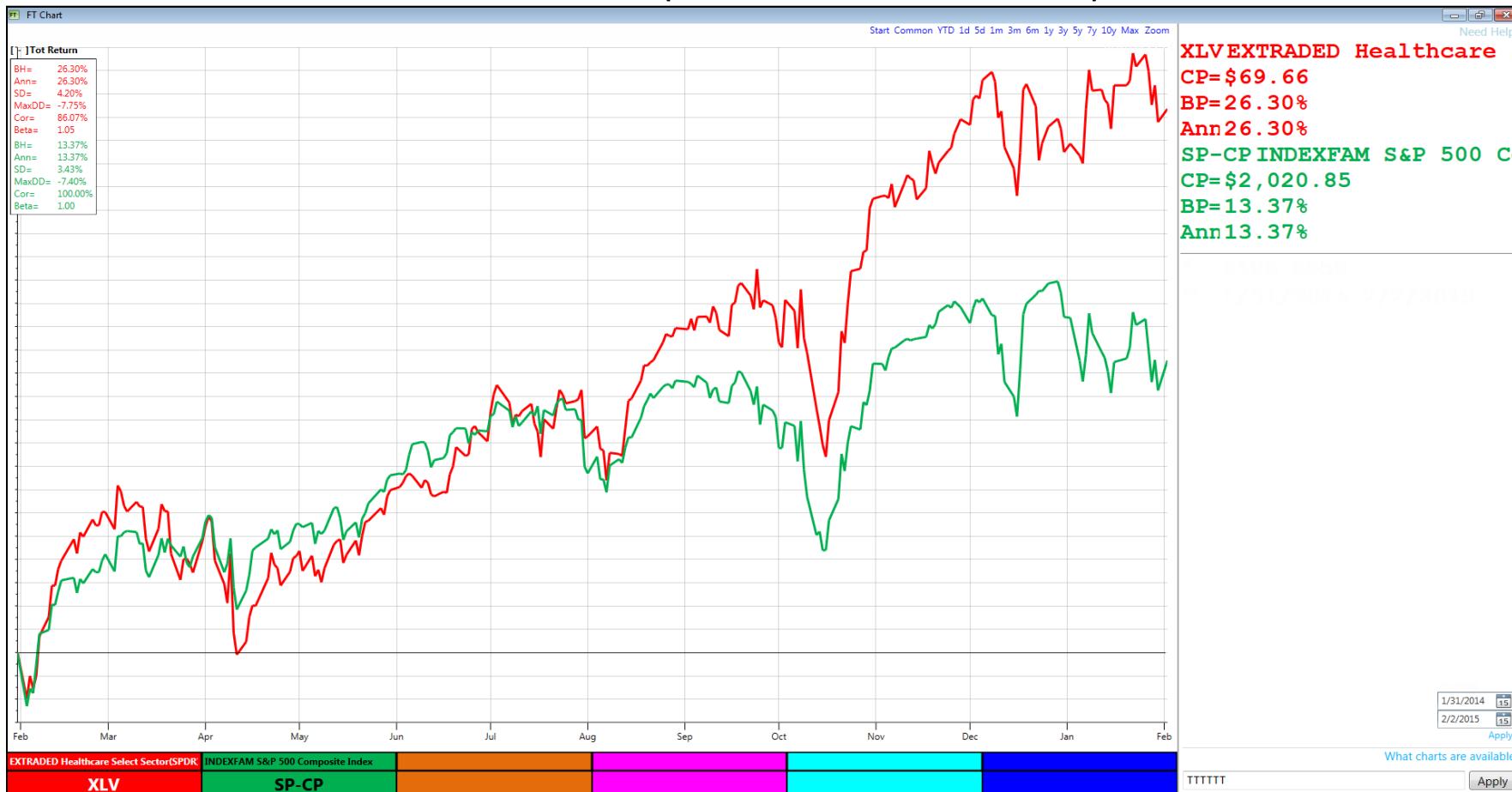
One-Year Chart (1/31/2014 – 2/2/2015)



High-yield muni bonds have demonstrated similar returns on a fraction of the volatility compared to the S&P 500 during this time period.

# Relative Trends

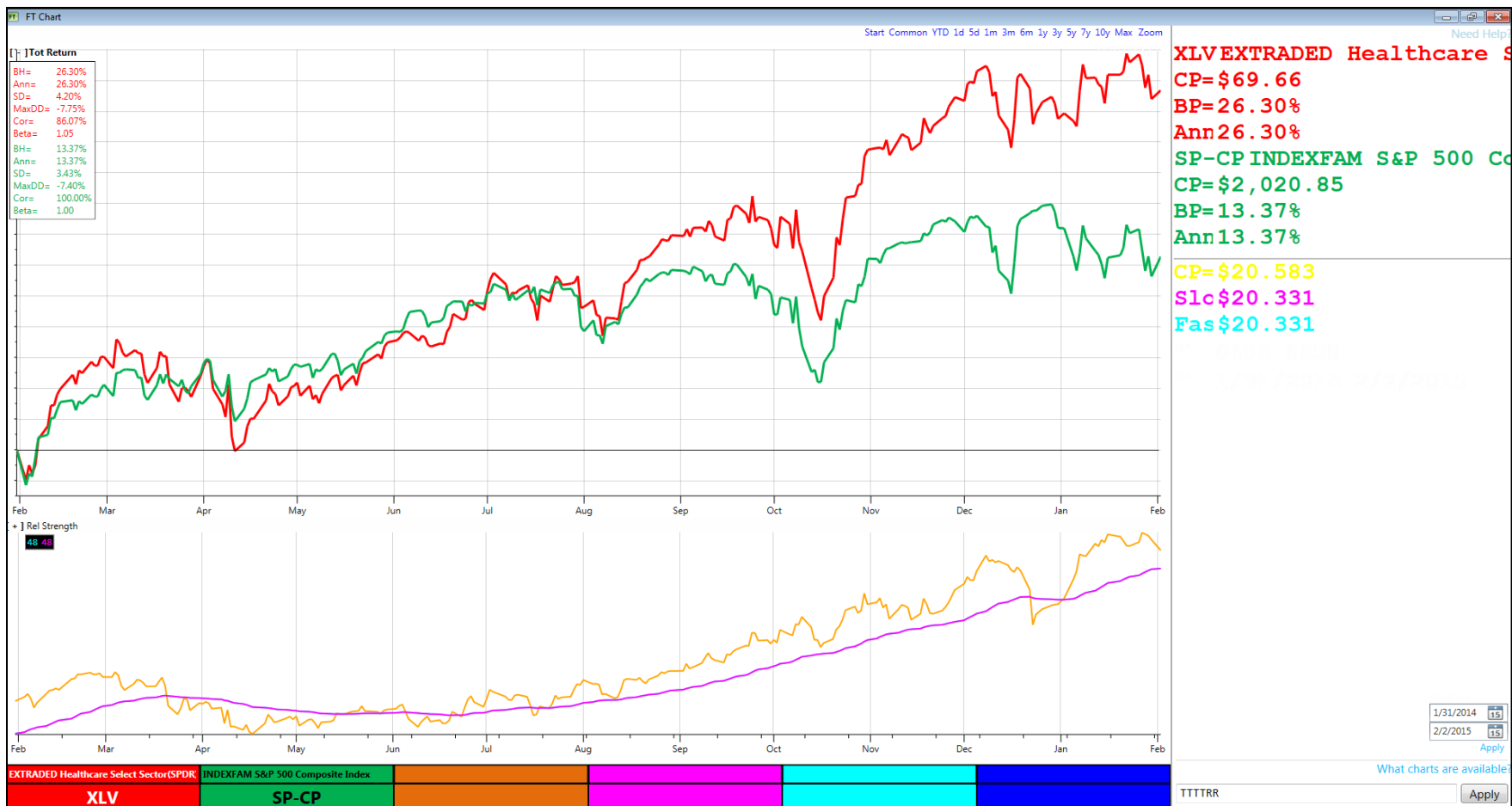
## One-Year Chart (1/31/2014 – 2/2/2014)



- It may be difficult to determine the relative performance of two investments simply by looking at a chart.

# Relative Trends

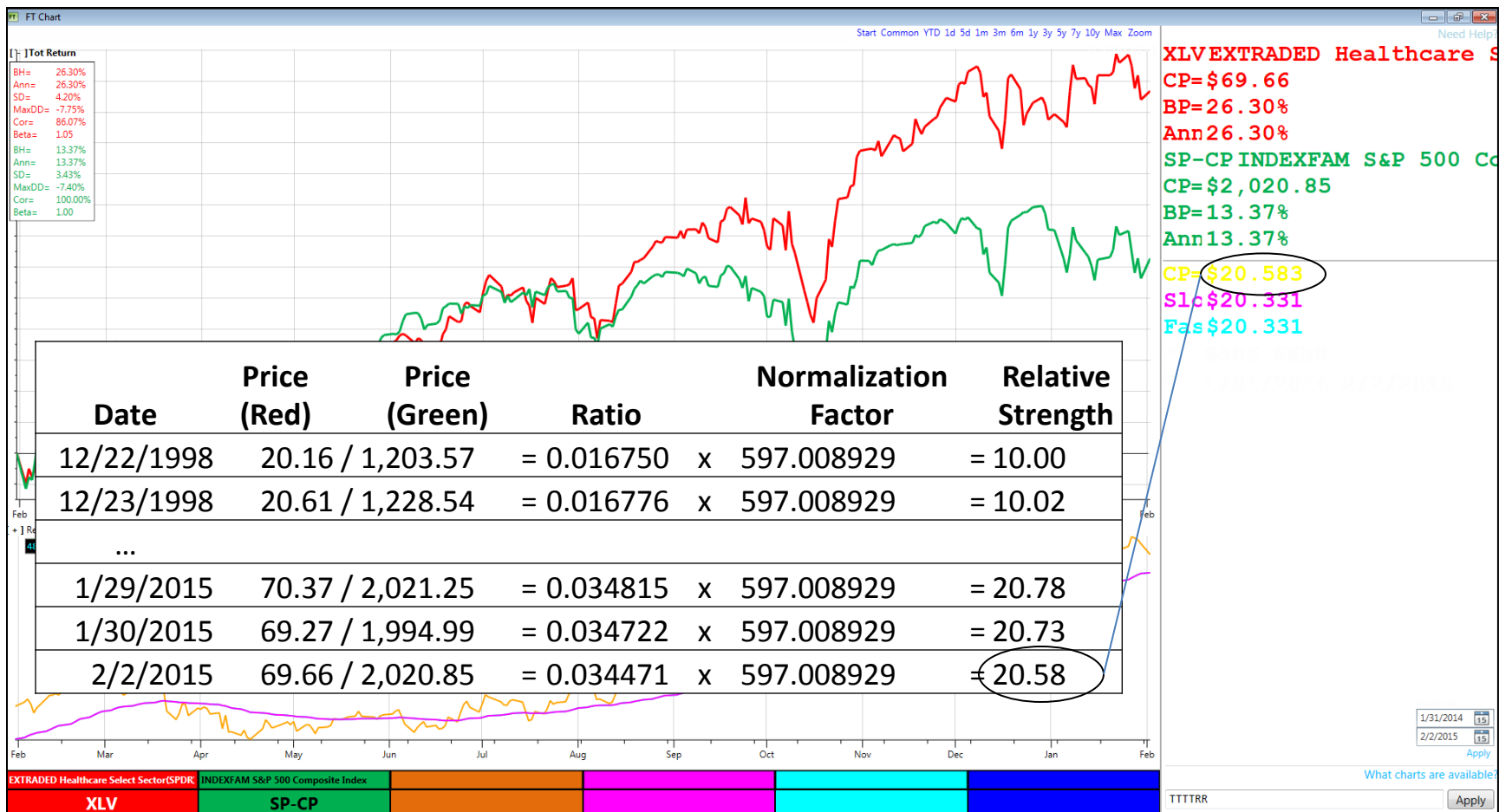
(1/31/2014 – 2/2/2014)



- A relative strength chart shows that XLV outperformed the S&P 500 for most of the 1-year time period.

# Relative Trends

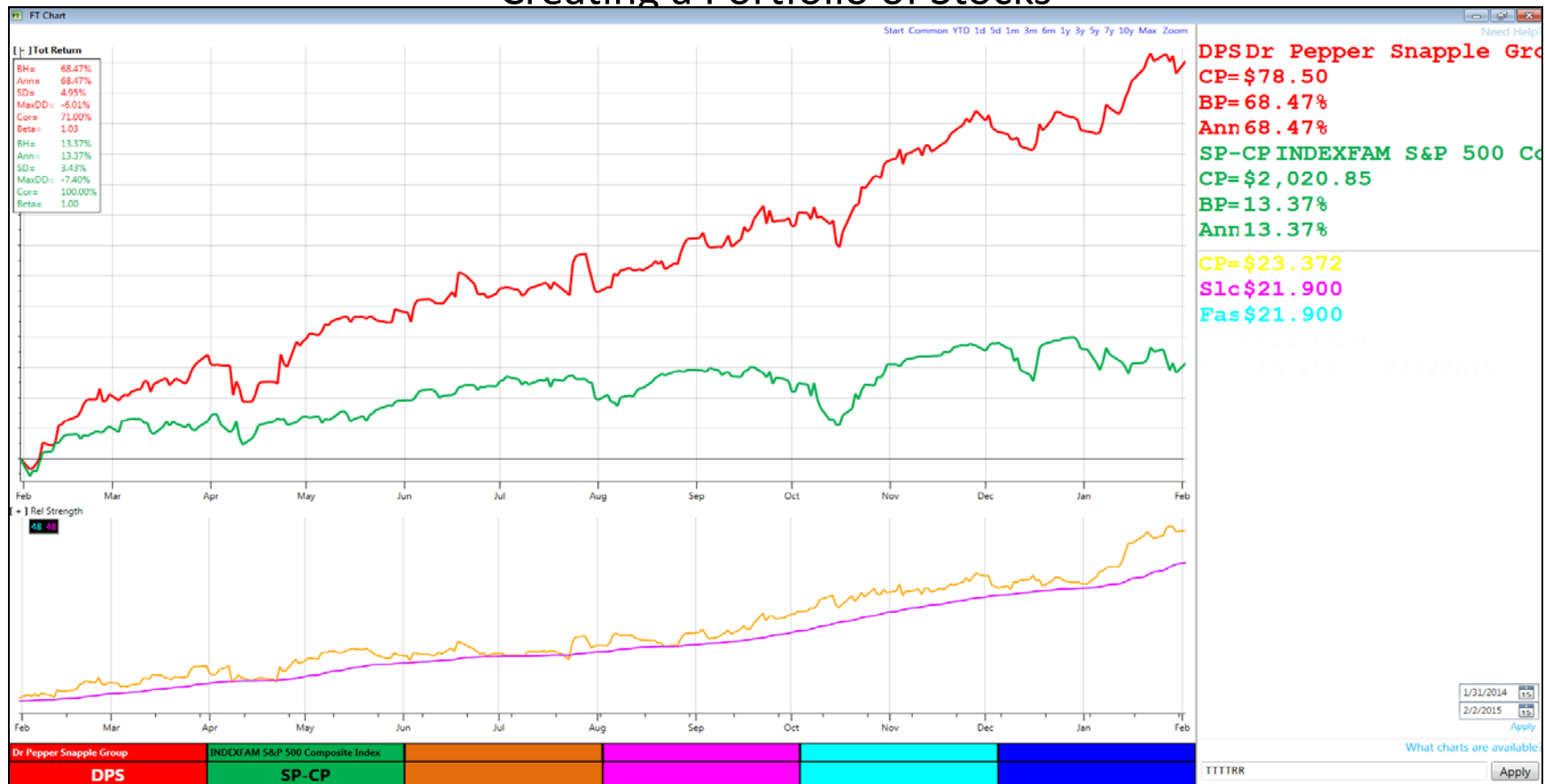
## (1/31/2014 – 2/2/2014)



- Relative Strength is calculated by dividing the price of the red color cell by the price of the green color cell. That result (or ratio) is then multiplied by a normalization factor.
- Normalization factor is calculated based on price data on the first date of the database that sets the relative strength equal to 10.

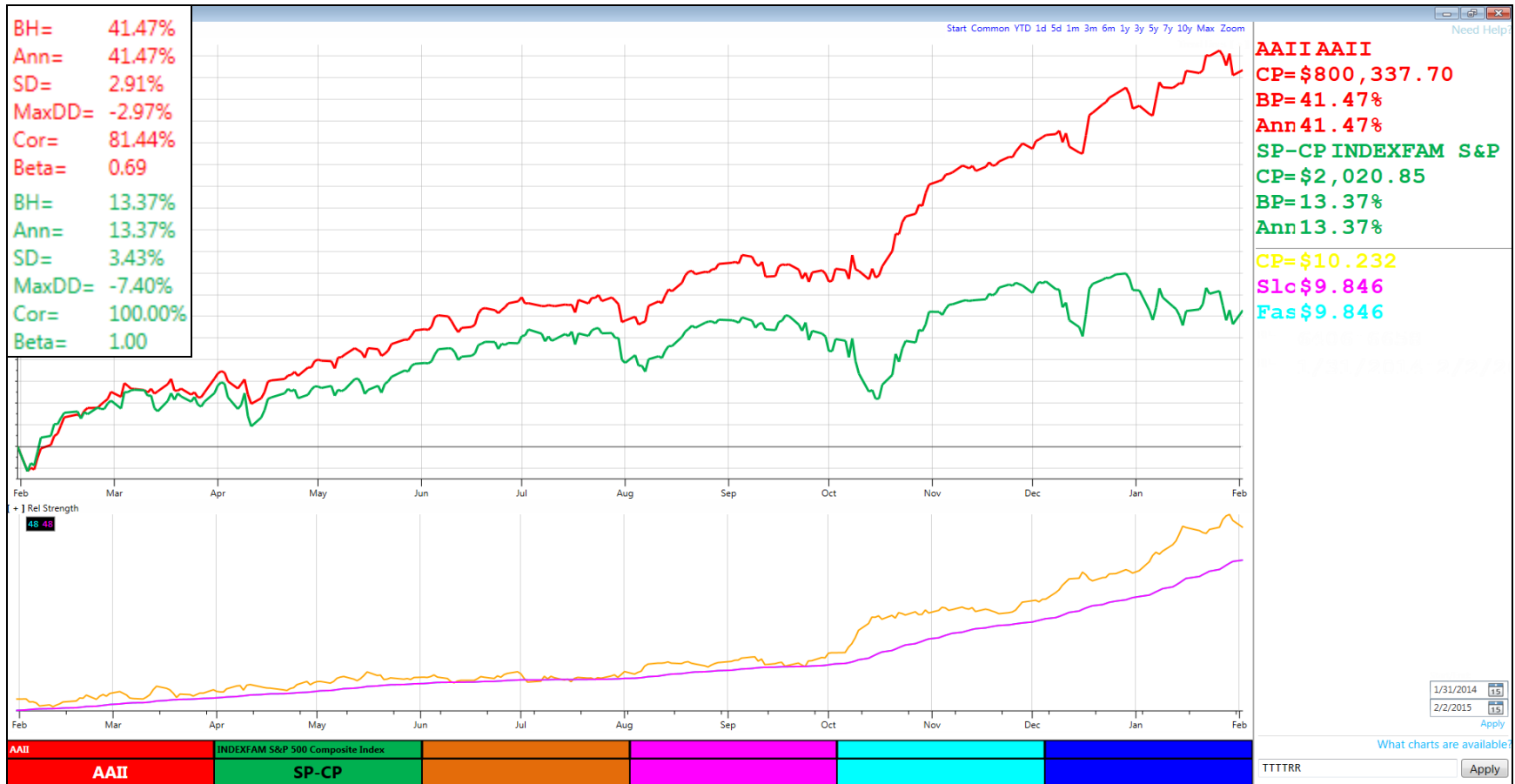
# Relative Trend Example

## Creating a Portfolio of Stocks



- In this example, we selected 50 stocks that showed good relative performance to the S&P 500. One of the selections was DPS that had good relative performance during the 1-year time period shown.
- We placed all 50 stocks into a group (i.e. static model) called AAll and created a plot of that portfolio.

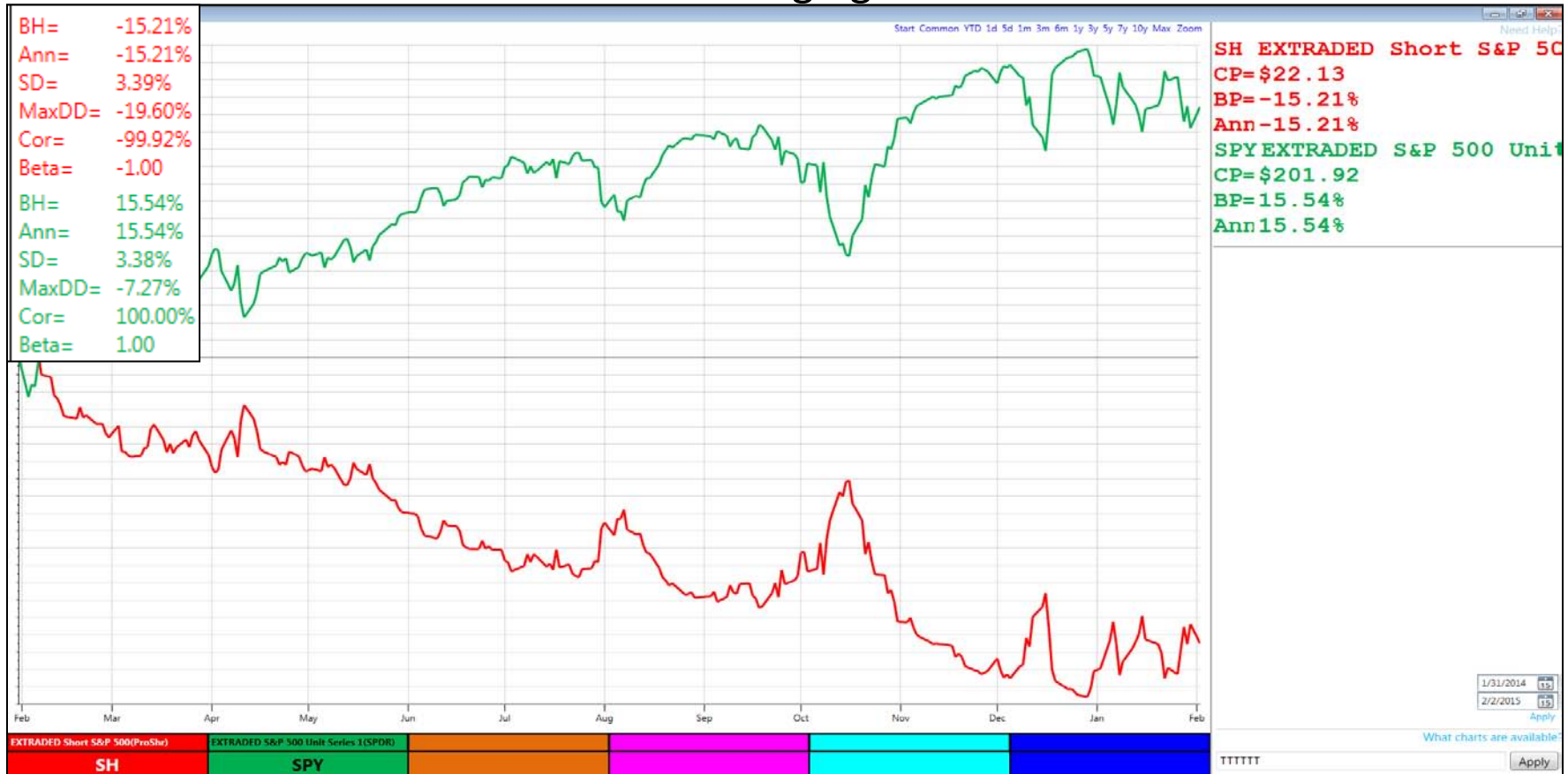
# Relative Trend Example



- Using the 'Static Models' we created a plot of the 50 holdings.
- Based on the selection criteria, it is not surprising that the group has good relative performance compared to the S&P 500.
- What if you were concerned about increased volatility or a prolonged downtrend?

# Short Positions

## The Basis for Hedging a Portfolio



- A short or inverse position tracks the opposite of an index or equity.
- Shorts can be used by investors to hedge a position or a portfolio to take advantage of relative trends in the market.



# Determining Your Hedge

FT Cloud - PRO

Login Data FT Cloud FT Cloud+ Chart - Refresh FNU

Compare Trade Trade Optimizer **Hedge Optimizer**

Parameters Data

Calculate

# Combinations: 4

Family

AAII-HEDGE

	Ticker	Name
1	AAII	AAII
2		

Start Date 9/1/1988 15

Model Params

2 Positions  3 Positions  4 Positions

50%  60%  70%  80%  90%

save percents

Hedges

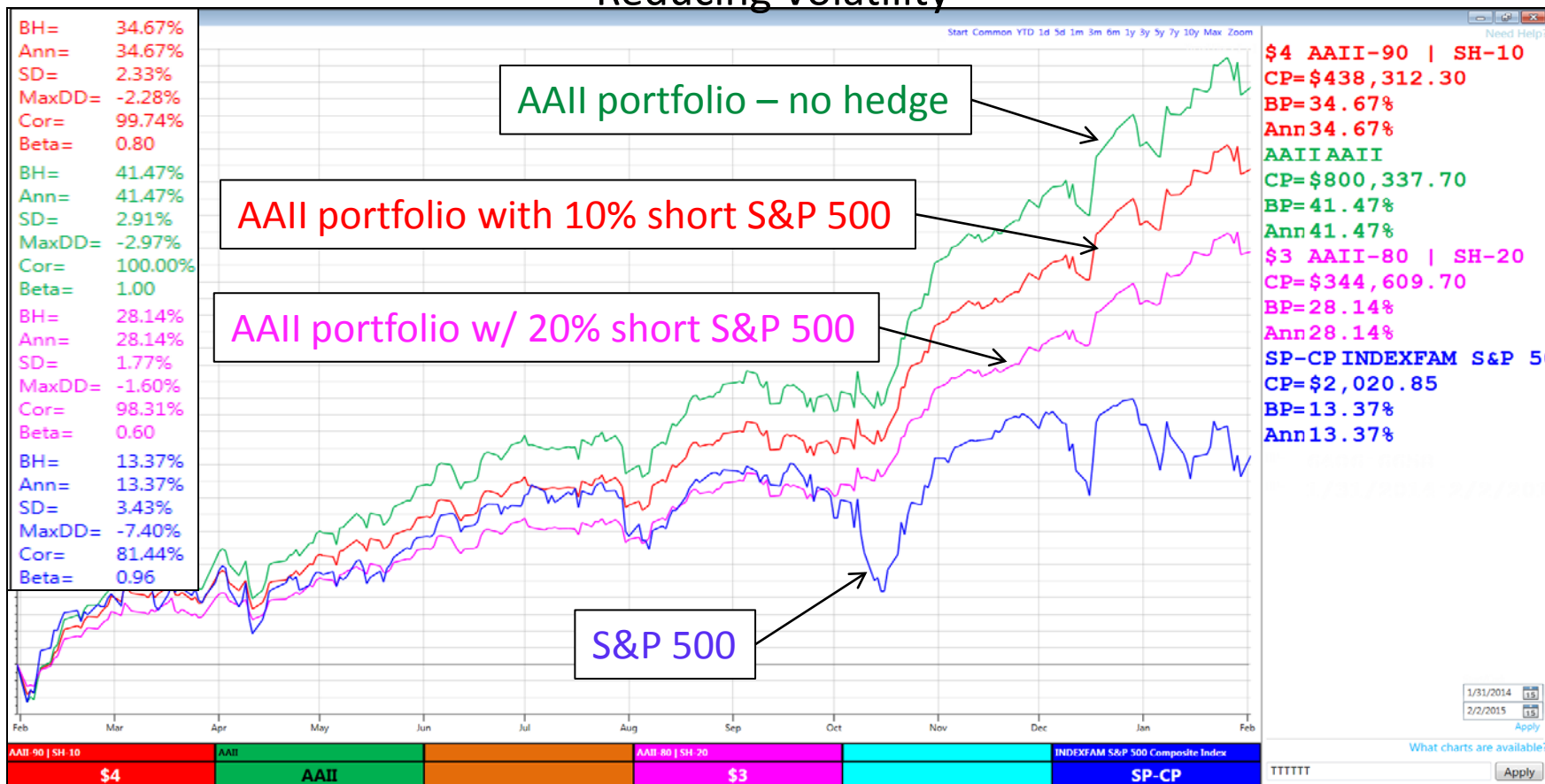
RGB-HEDGES

	Ticker	Name
1	SH	EXTRADED Short S&P 500(ProShr)
2	RWM	EXTRADED Short Russell 2000(Pro)
3		

- FT Cloud provides a Hedge Optimizer to help investors determine an appropriate hedge for a given purpose.
- Hedged portfolios can be charted and analyzed in the FT Cloud similar to any other stock, mutual fund or ETF.
- Hedging can be used to reduce volatility or protect capital.

# Hedged Portfolio Example

## Reducing Volatility



	MDD	SD	UI	UPI	Return
S&P 500	-7.40%	3.43%	1.93	-1.12	13.37%
AAll-no hedge	-2.97%	2.91%	0.97	26.65	41.47%
AAll – 10% short S&P 500	-2.28%	2.33%	0.77	24.98	34.67%
AAll – 20% short S&P 500	-1.60%	1.77%	0.57	21.96	28.14%

# Hedged Portfolio Example

## How To Create a Hedged Portfolio

- To achieve a hedged position, multiply the long position by the hedge factor in the table to the right.
- To achieve a 80/20 hedged position with our AAll portfolio and a short S&P 500, multiply the value of the long positions by 0.67. The result will be the amount of short S&P 500 required to achieve a 80/20 portfolio.
- For example, if our AAll portfolio was worth \$100K you would purchase \$25K of a short S&P 500. This would result in \$125K total investment.
  - AAll Example Portfolio:  $\$100,000/\$125,000 = 80\%$
  - Short S&P 500:  $\$ 25,000/\$125,000 = 20\%$

Long Position	Short Position	Hedge Factor
95%	5%	0.05
90%	10%	0.11
85%	15%	0.18
80%	20%	0.25
75%	25%	0.33
70%	30%	0.43
65%	35%	0.54
60%	40%	0.67
55%	45%	0.82
50%	50%	1.00
45%	55%	1.22
40%	60%	1.50
35%	65%	1.86
30%	70%	2.33
25%	75%	3.00
20%	80%	4.00
15%	85%	5.67
10%	90%	9.00
5%	95%	19.00

# Hedging Options

- There are a number inverse funds available to 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 Bonds
- Select an inverse fund that is correlated to the position that you are trying to hedge. This will generally provide the lowest volatility combined position. For example, hedging a real estate position with an inverse real estate fund.
- Aggressive investors may consider shorting a weak index (one that may not be highly correlated to the position), which may provide higher returns along with greater volatility.

# Hedging

## Wrap Up

- Hedging is not a perfect science and requires frequent revaluation as market conditions change.
- The use of 2x funds will reduce the amount of capital required to hedge a position one-half.
- Having an exit strategy is a key aspect to managing risk and protecting capital. Have a plan in place that allows you to protect your capital if market conditions change quickly. Exit strategies can include selling or hedging your position.

## Upcoming Training Classes

- FT Cloud Training
- Fund Investing and Market Analysis Course

### Contact Information

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