San Diego Chapter AAII – Risk Management SIG
March 6, 2024

Presented by

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Upcoming Events

Current calendar can be found at www.aaiisandiego.com

Upcoming Meeting Dates

April 13, 2024 – "Protecting Your Personal Information", presented by Anne Saita, Editorial Director & Managing Partner, Twirling Tiger Media

May 11, 2024 – "Unlocking the Power of ETFs", presented by Dustin Sheppard, Sr. Vice President, ETF Strategy and Distribution, PIMCO

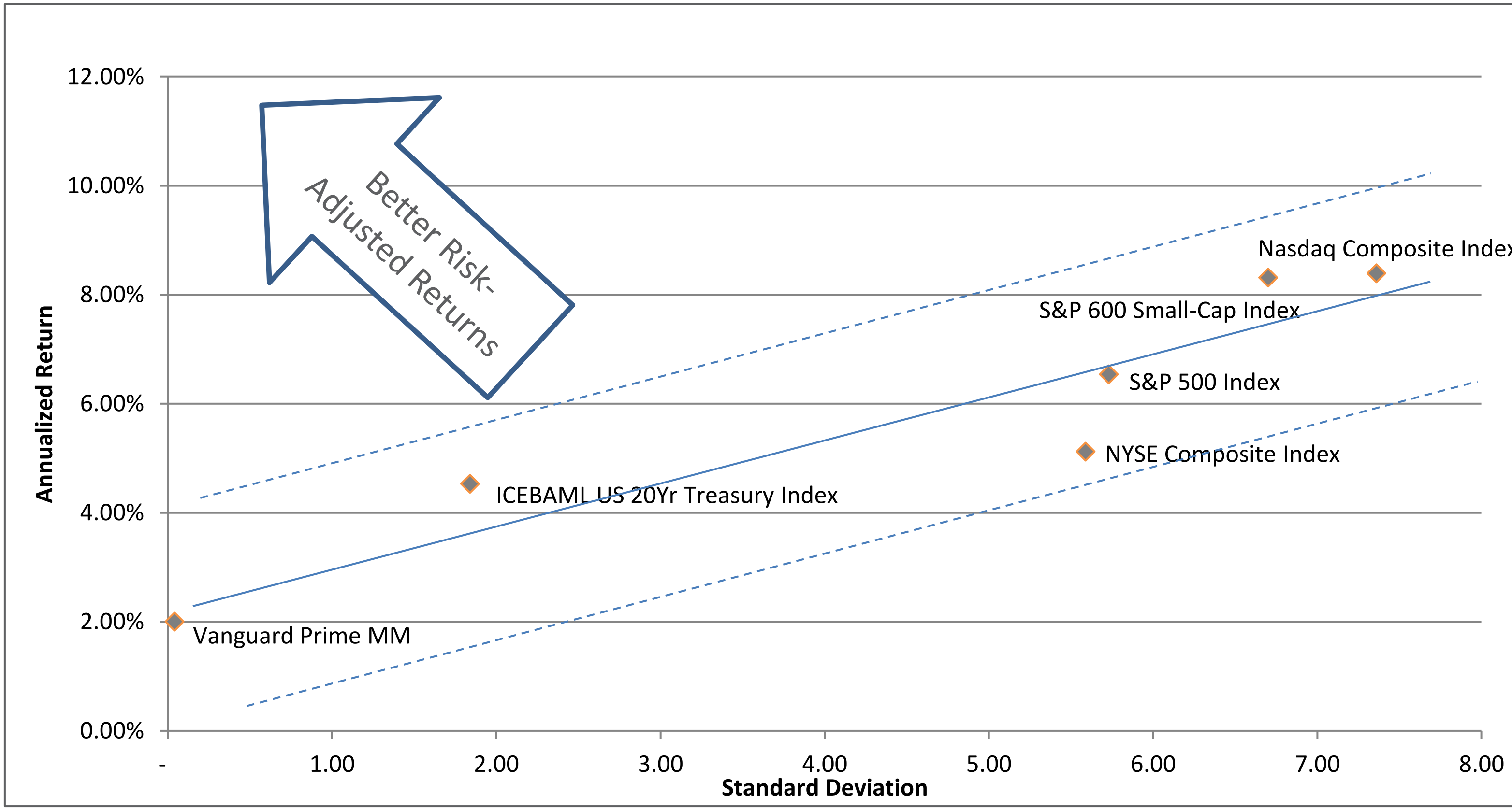
July 13, 2024 – Bond Market Outlook, presented by Tim Dubost, CFA, Client Portfolio Manager, Nuveen Investments

Flexible Meeting Fees
Make a Payment Here

The Current Market Environment

- Inflation is in the near view mirror and the Fed has clearly indicated they are ready to reduce rates.
- Typically, the Fed holds rates too high for too long.
- The current market environment is favorable for stocks. Some segments are over extended.
- Bonds surged in Q4 2023, but that rally has waned in Q1 2024.
- As long as inflation stays under control, the future path of interest rates is down under most scenarios:
  a) Inflation continues to trend to 2% target.
  b) Economy slides into a recession.
- Use pull backs to add to equity positions.
- **Be prepared to take advantage of low volatility trends with bond/income funds for better risk-adjusted returns.**

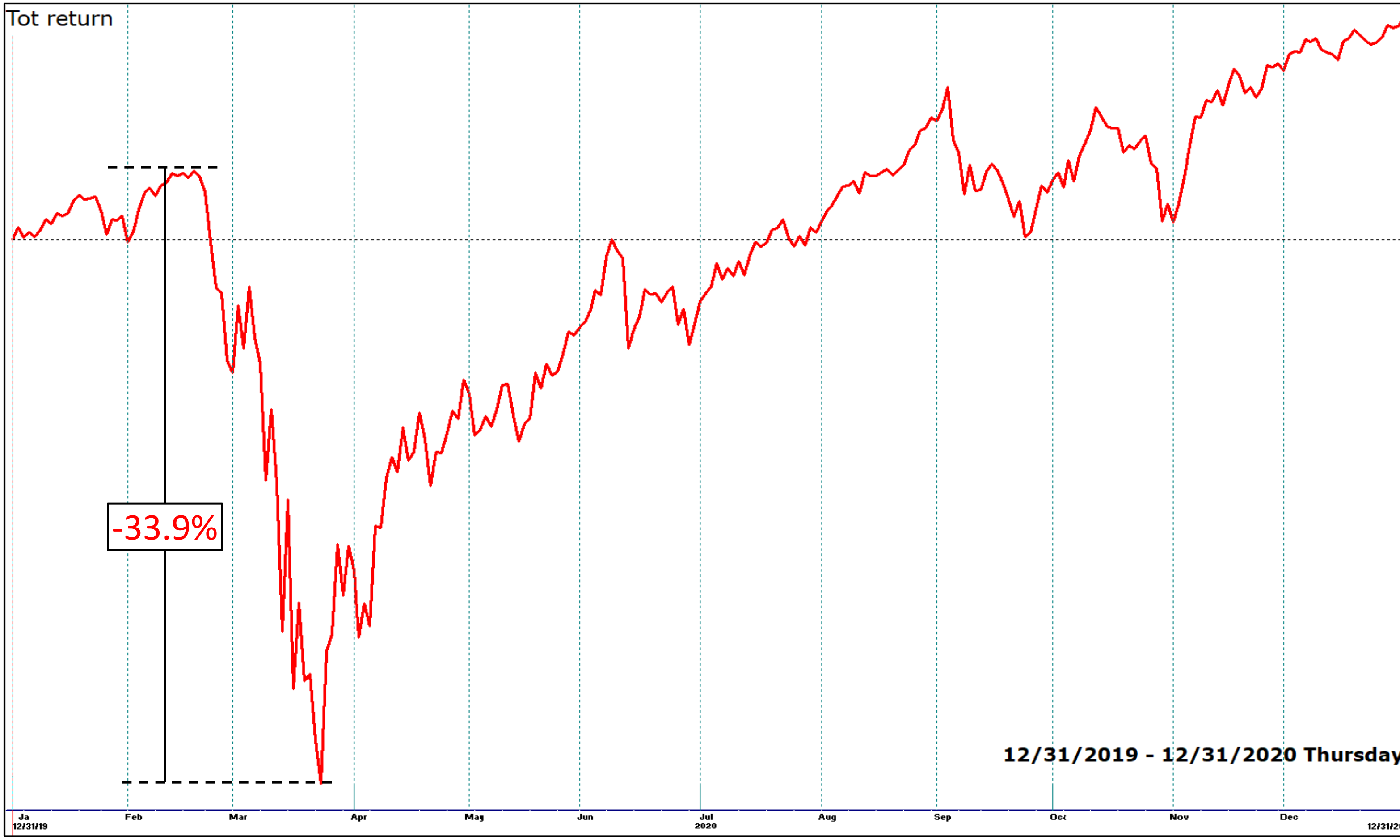
Risk vs. Reward
12/31/1999 – 3/31/2022



Our goal as investors is to achieve returns outside the long-term, expected return channel by striving for better risk-adjusted returns (i.e. upper left-hand quadrant).

Maximum Drawdown

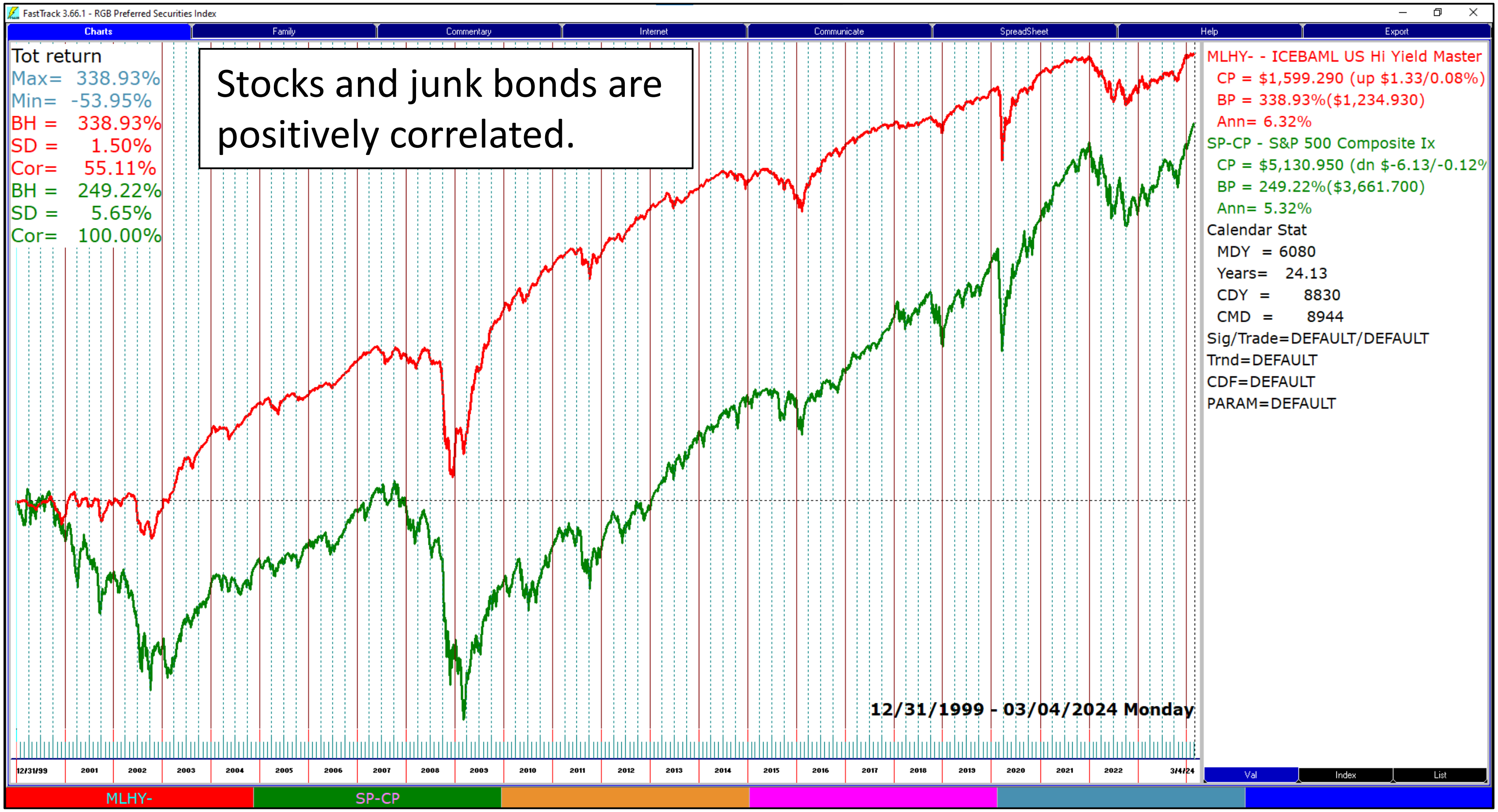
S&P 500 Index (12/31/2019 – 12/31/2020)



Maximum drawdown is a measure of volatility and risk that refers to the largest peak-to-trough decline in the value of an investment or portfolio over a specific time period, typically expressed as a percentage.

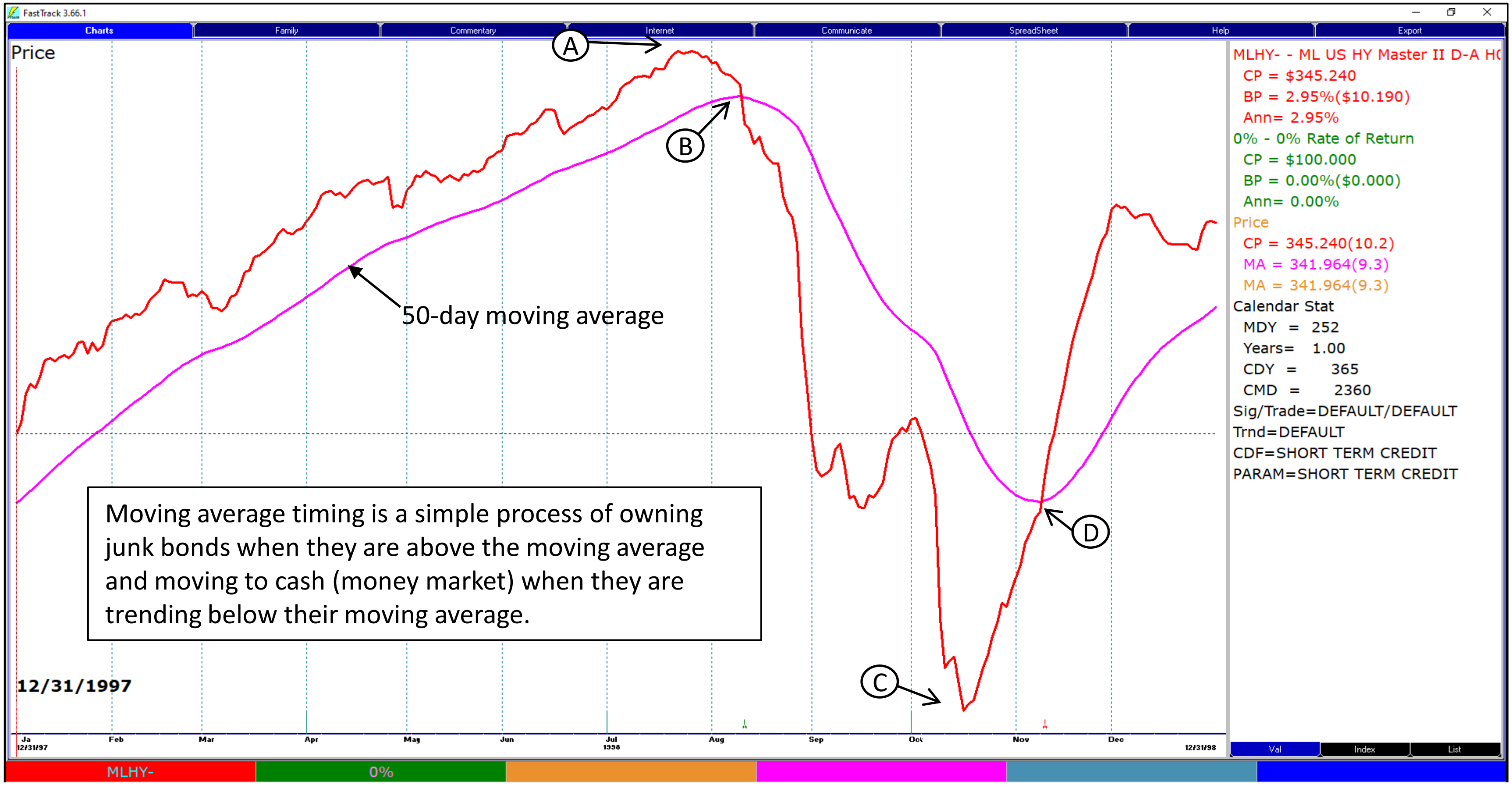
Junk Bonds vs. S&P 500 Index

12/31/1999 – 3/4/2022



MLHY- Timed with a 50-day Moving Average

12/31/1997 – 12/31/1998

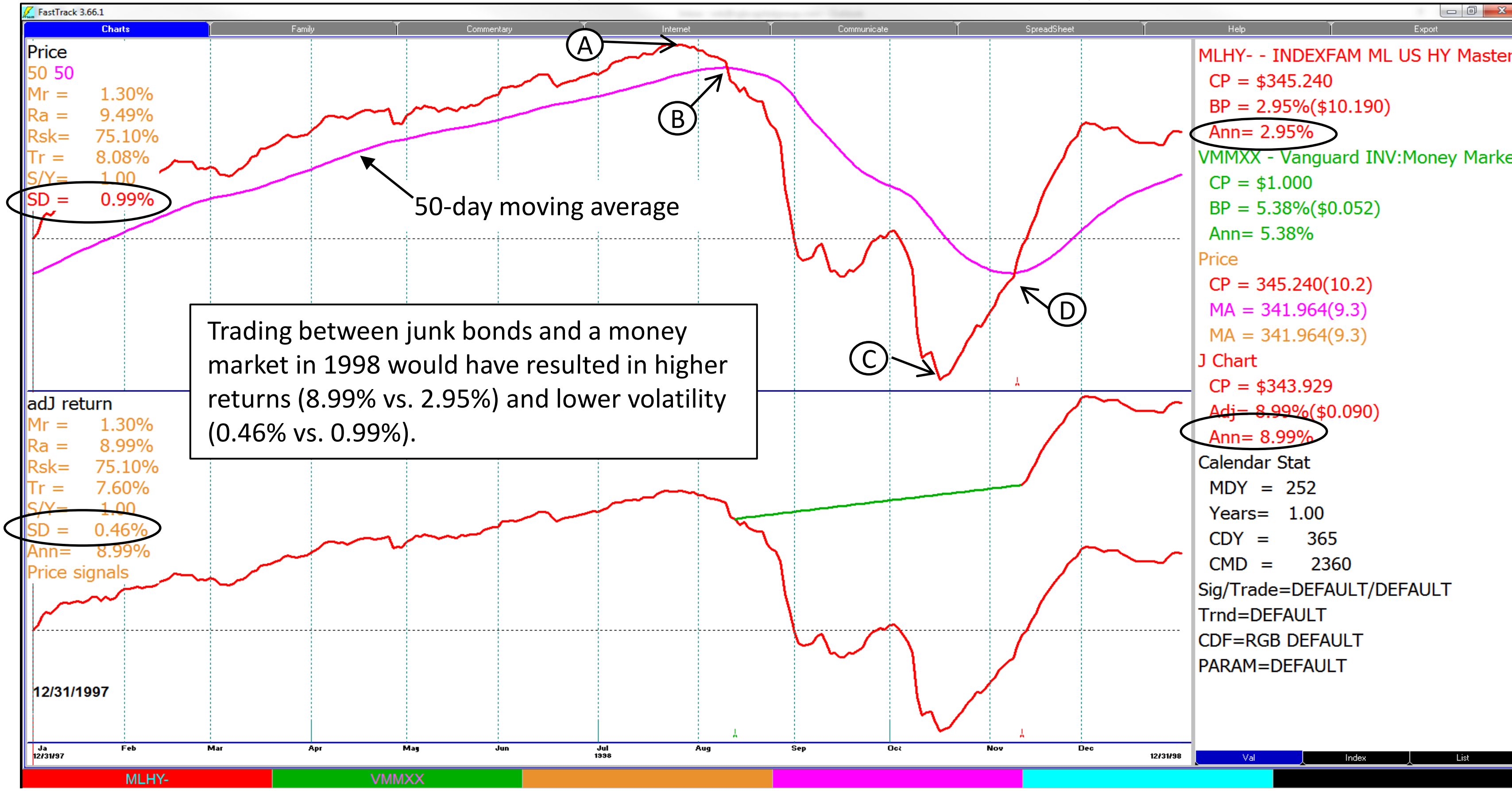


- A: Peak in junk bond index
- B: Junk bond index crosses below moving average
- C: Bottom (trough)
- D: Junk bond index moves above moving average

Timed drawdown (A→B) is very predictable.
Total drawdown (A→C) is not predictable.

Moving Average Timing

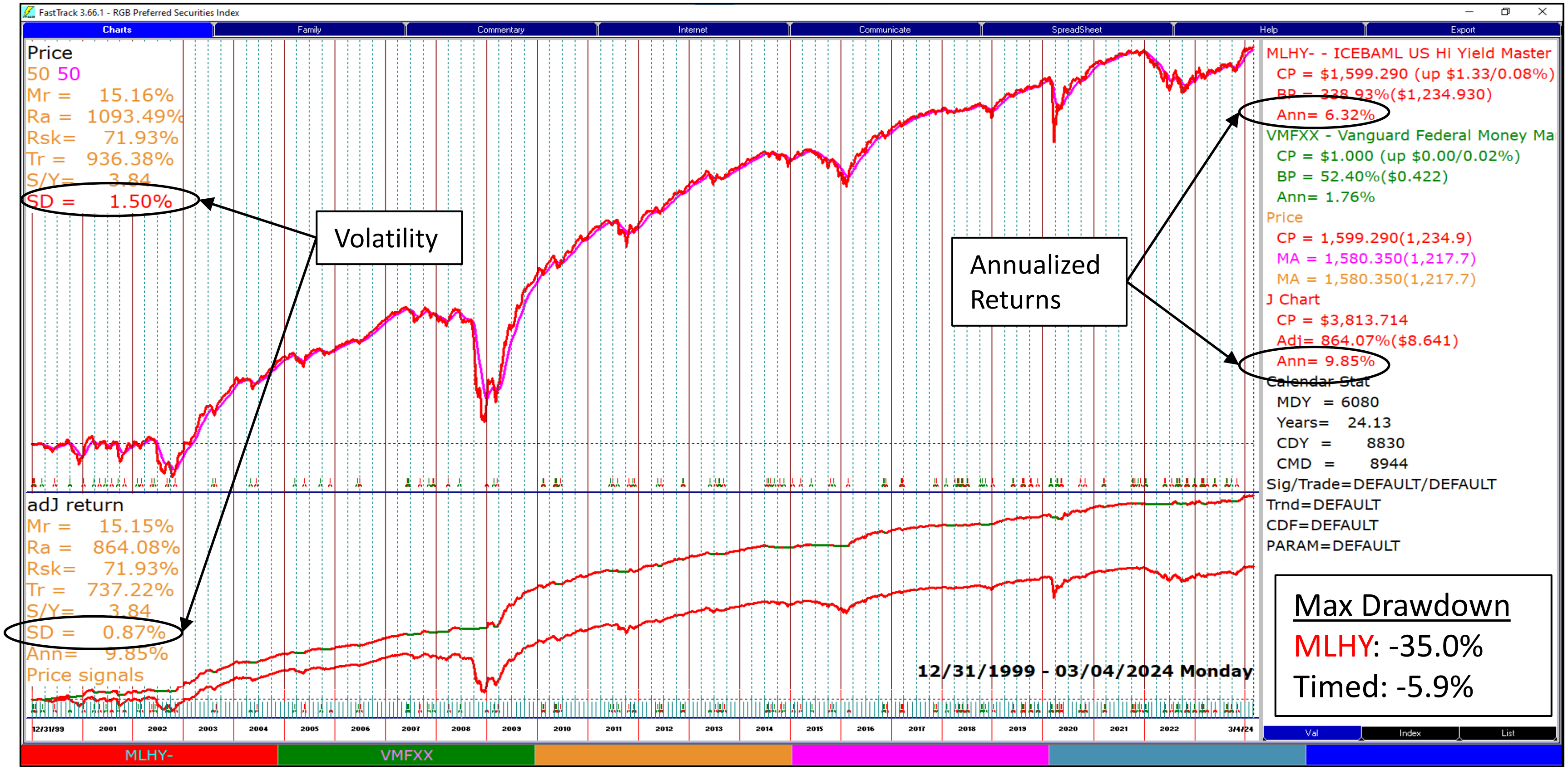
MLHY- (12/31/1997 – 12/31/1998)



- Moving average timing can provide appropriate entry and exit points when investing in junk bonds.
- The timed drawdown (A→B) was -1.0%; the total drawdown (A→C) was -8.7%.
- During 1998, a 50-day moving average would have increased returns and reduced overall volatility/drawdown.

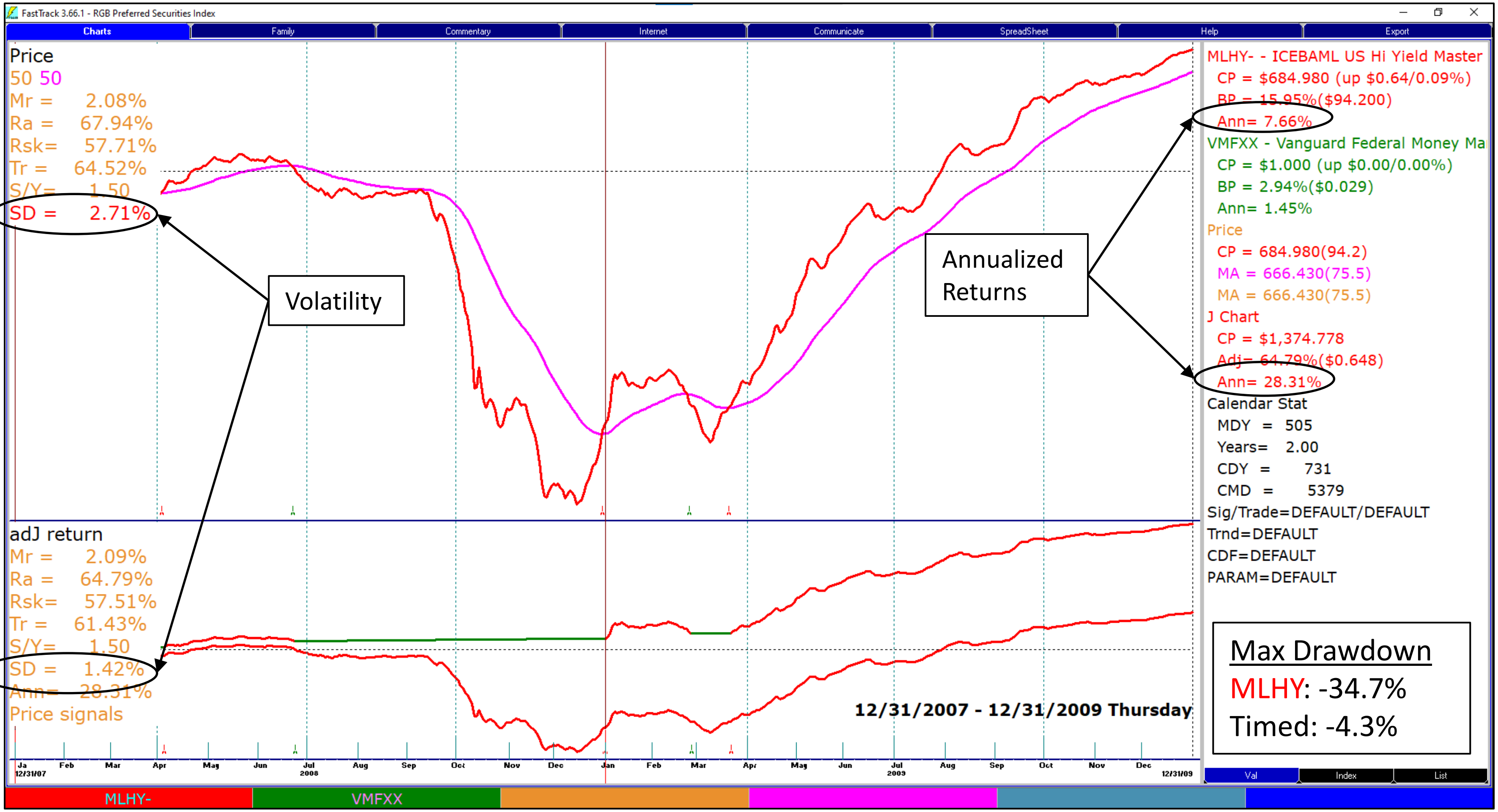
Moving Average Timing

12/31/1999 – 3/4/2024



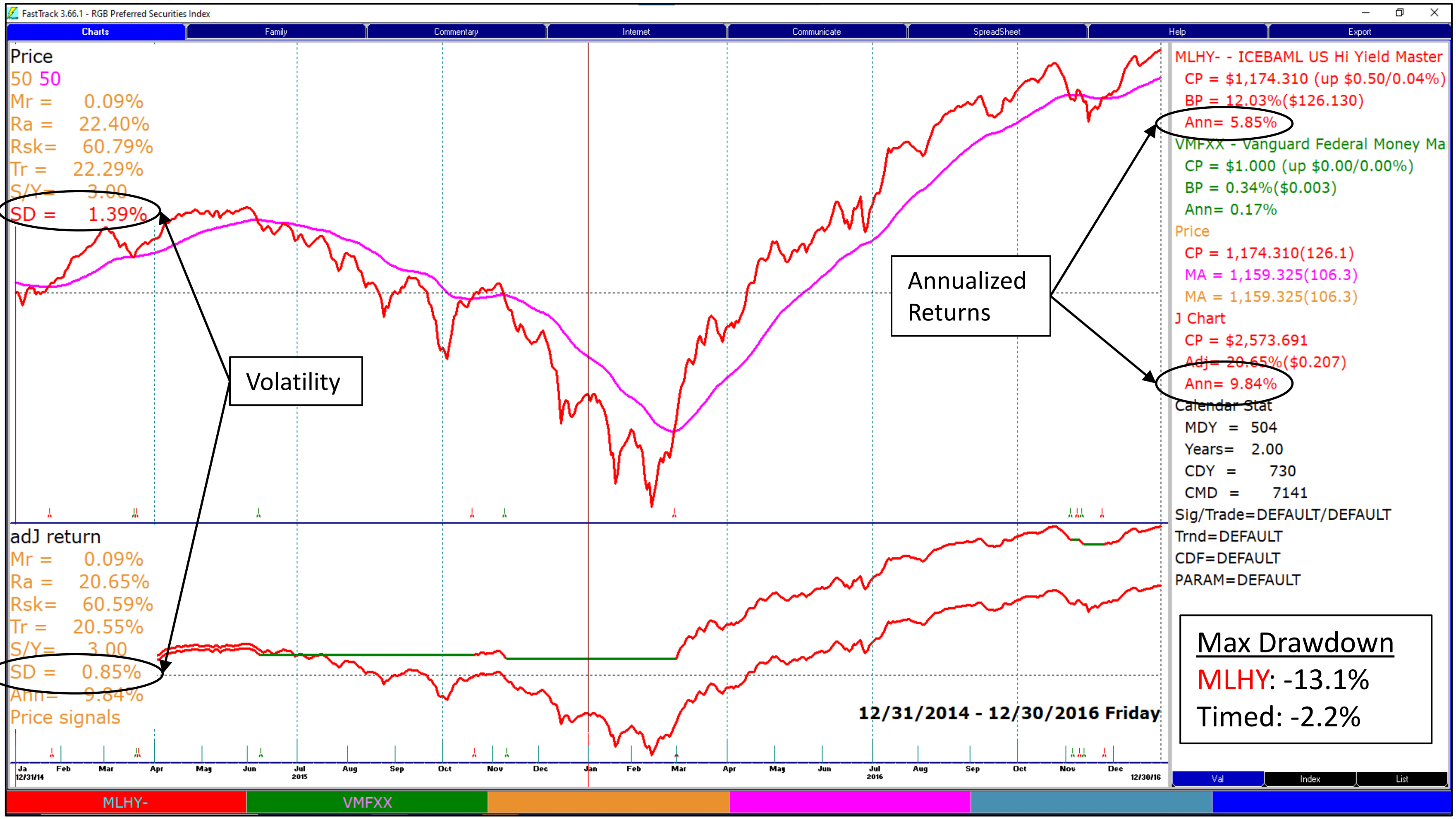
- Over the last 24 years, using a 50-day moving average has resulted in higher annualized returns and lower volatility.
- The maximum drawdown for the timed strategy is less than 6%.

Great Financial Crisis
12/31/2007 – 12/31/2009



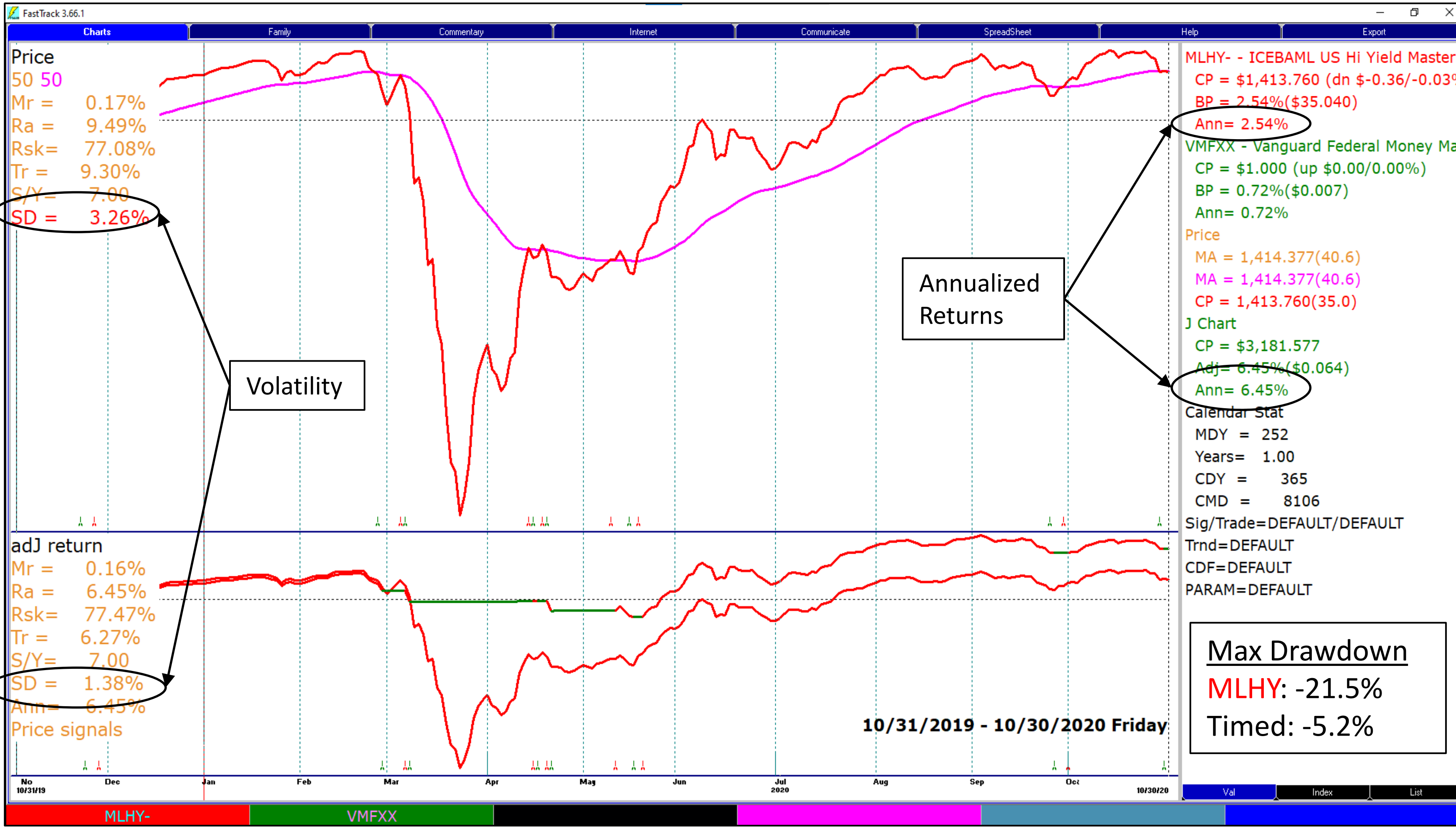
Stealth Bear Market

12/31/2014 – 12/31/2016



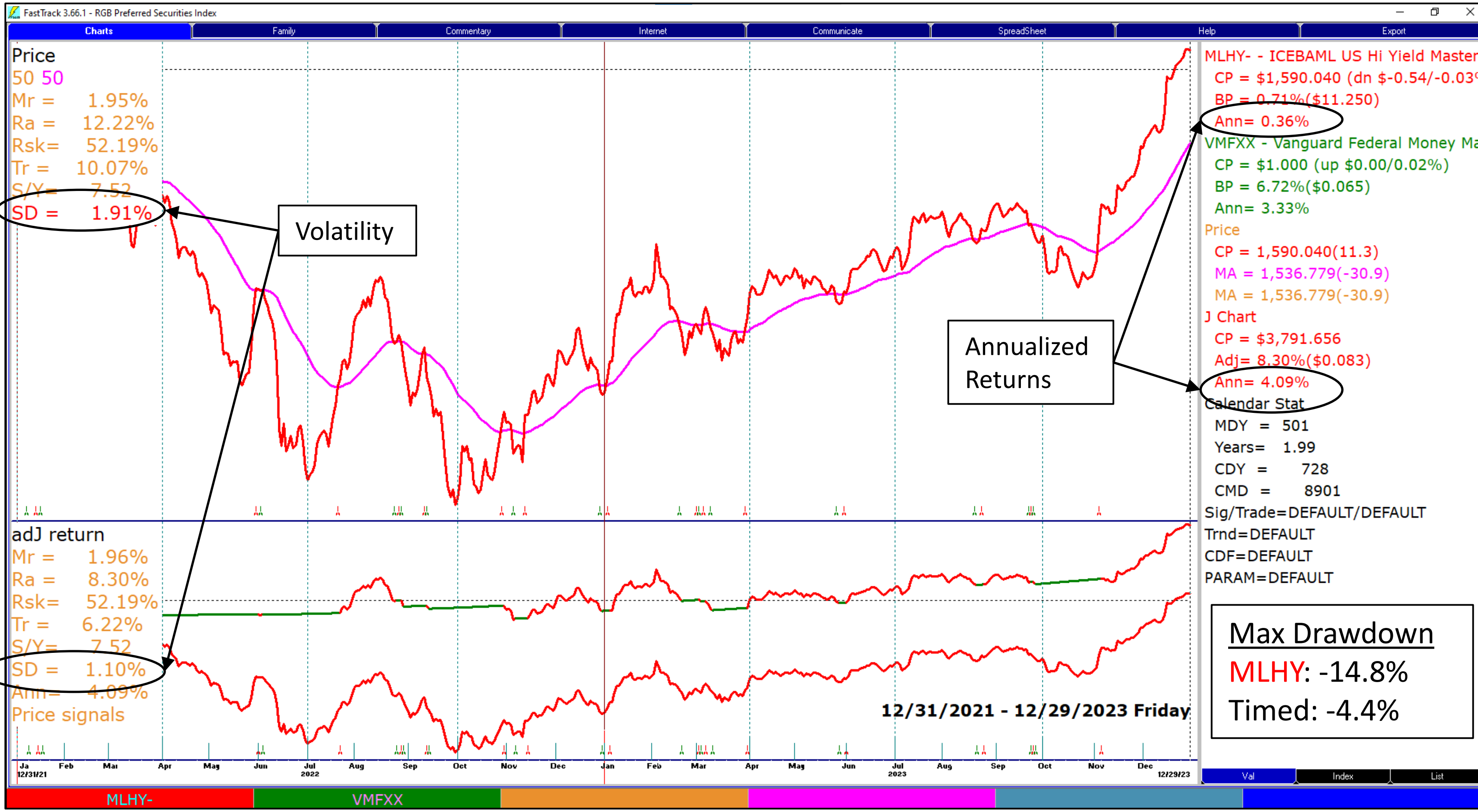
Covid Crash

10/31/2019 – 10/29/2020



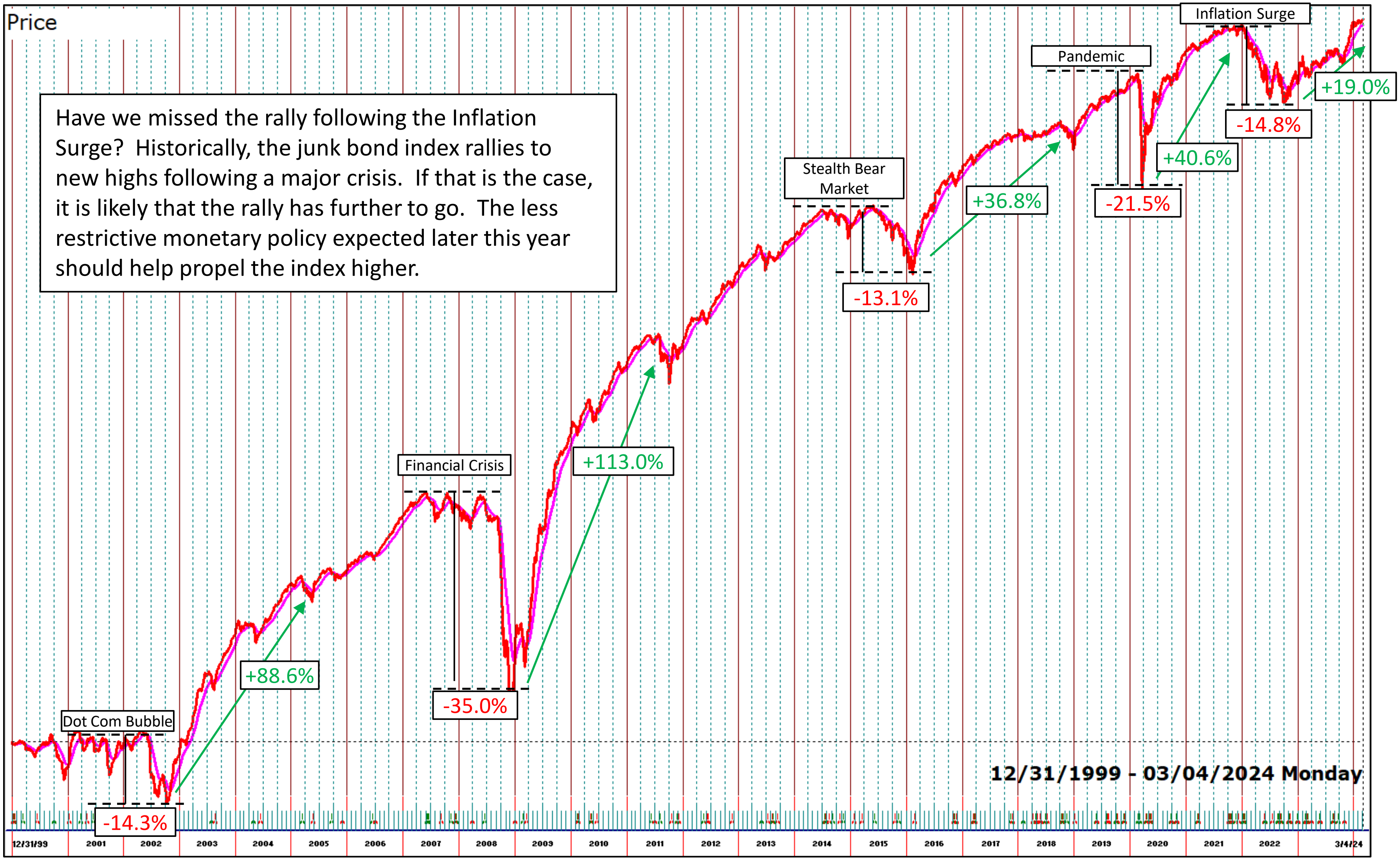
Inflation Surge

12-31/2021 -12/31/2023



Junk Bonds - The Current Market Environment

12/31/1999 – 3/4/2024



Other Low Volatility Asset Classes

An Opportunity in the Making

Symbol	Description	Sensitivity	FTCloud Family
RGB01	RGB US Treasury Index	Interest Rate	Government
RGB02	RGB Corporate Bond Index	Interest Rate	Corporate
RGB03	RGB Floating Rate Index	Economic	Bank Loan
RGB04	RGB Junk Bond Index	Economic	High Yield
RGB05	RGB Muni Bond Index	Interest Rate	Muni National
RGB06	RGB High-Yield Muni Index	Interest Rate	High Yield Muni
RGB07	RGB Securitized Credit Index	Economic	N/A
RGB08	RGB Emerging Market Debt Index	Economic	Emerging Markets
RGB09	RGB Inflation Protected Bond Index	Interest Rate	Inflation-Protected
RGB10	RGB Preferred Securities Index	Economic	Preferred Stock

- Moving average timing tends to perform best with the economic sensitive bond groups.
- The RGB indices are available in FastTrack (both FT4Web and FTCloud). A Fasttrack subscription is required to access the data. RGB is not affiliated with FastTrack and does not benefit from your subscription.
- Monthly charts are also available via the complimentary RGB Market Monitor newsletter.

Wrap Up

- I am optimistic about using moving average timing on the economic sensitive bond / income groups.
- Rates will likely be volatile until the Fed clarifies the timing of interest rate cuts.
- When rates start to decline, bonds will have the benefit of higher yields and price appreciation that can create outsized gains on low volatility.
- Approach may be appropriate for:
  a) Conservative investors.
  b) Investors with cash on the sidelines.
  c) Investors that want to reduce risk in their portfolios.

Thank You

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Make a Contribution to AAII San Diego

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