

# San Diego Chapter AAll – Risk Management SIG

## June 26, 2024

### “The Best of the Best”

#### How to Find the Best Funds in the Best Asset Classes

Presented by

Rob Bernstein, President RGB Capital Group LLC

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# Upcoming Events

Current calendar can be found at [www.aaiisandiego.com](http://www.aaiisandiego.com)

## Upcoming Meeting Dates



**July 13, 2024 – “Adapting to a Higher Tide: Opportunities in Global Fixed Income Investing”**, presented by Tim Dubost, Client Portfolio Manager, Nuveen Investments

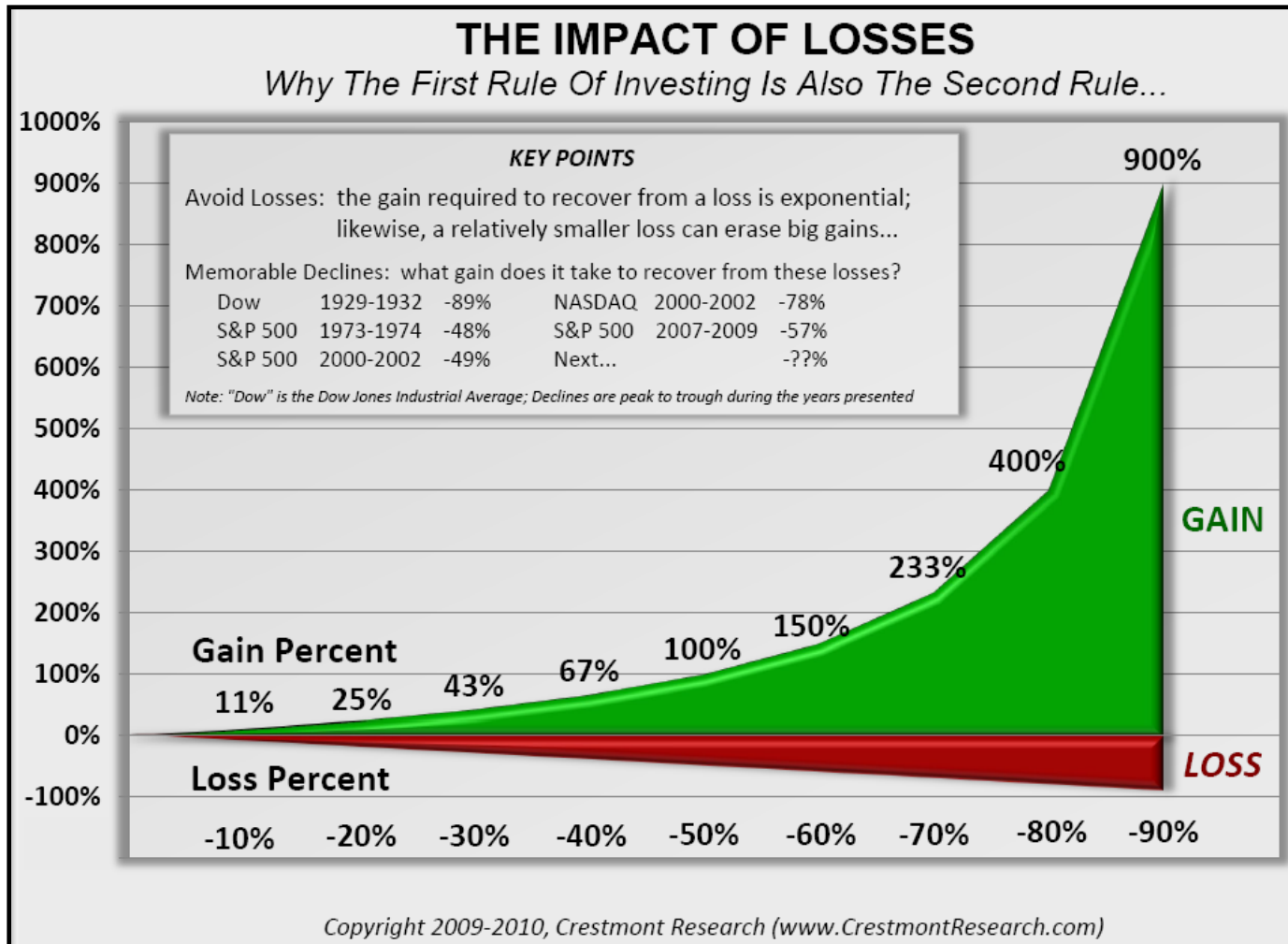
**September 14, 2024 – “Unlocking the Power of ETFs”**, presented by Dustin Sheppard, Sr. Vice President, ETF Strategy and Distribution, PIMCO



**October 19, 2024** – presentation by Janet Brown, Investment Advisor and Managing Director, FundX

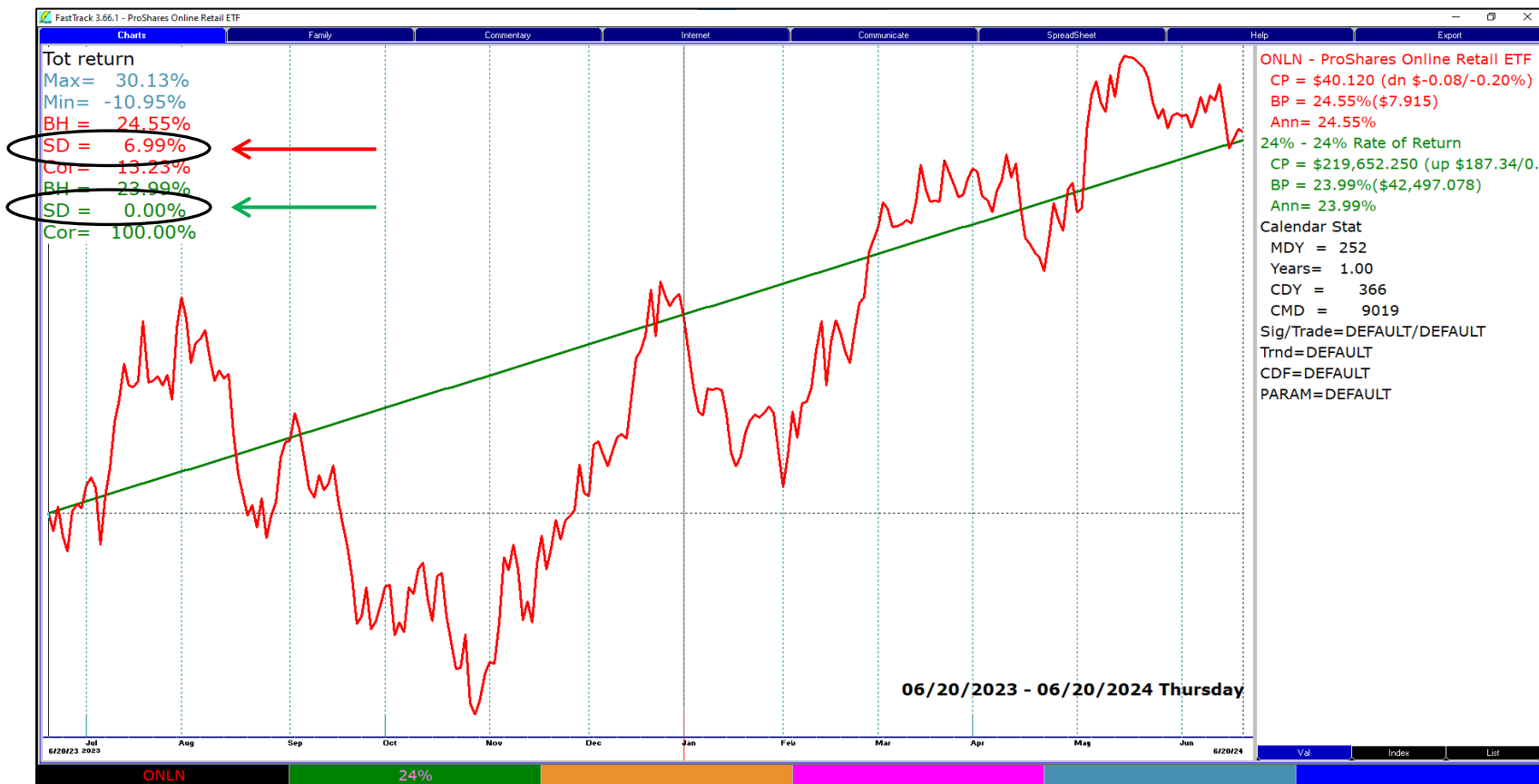


# What is Risk?



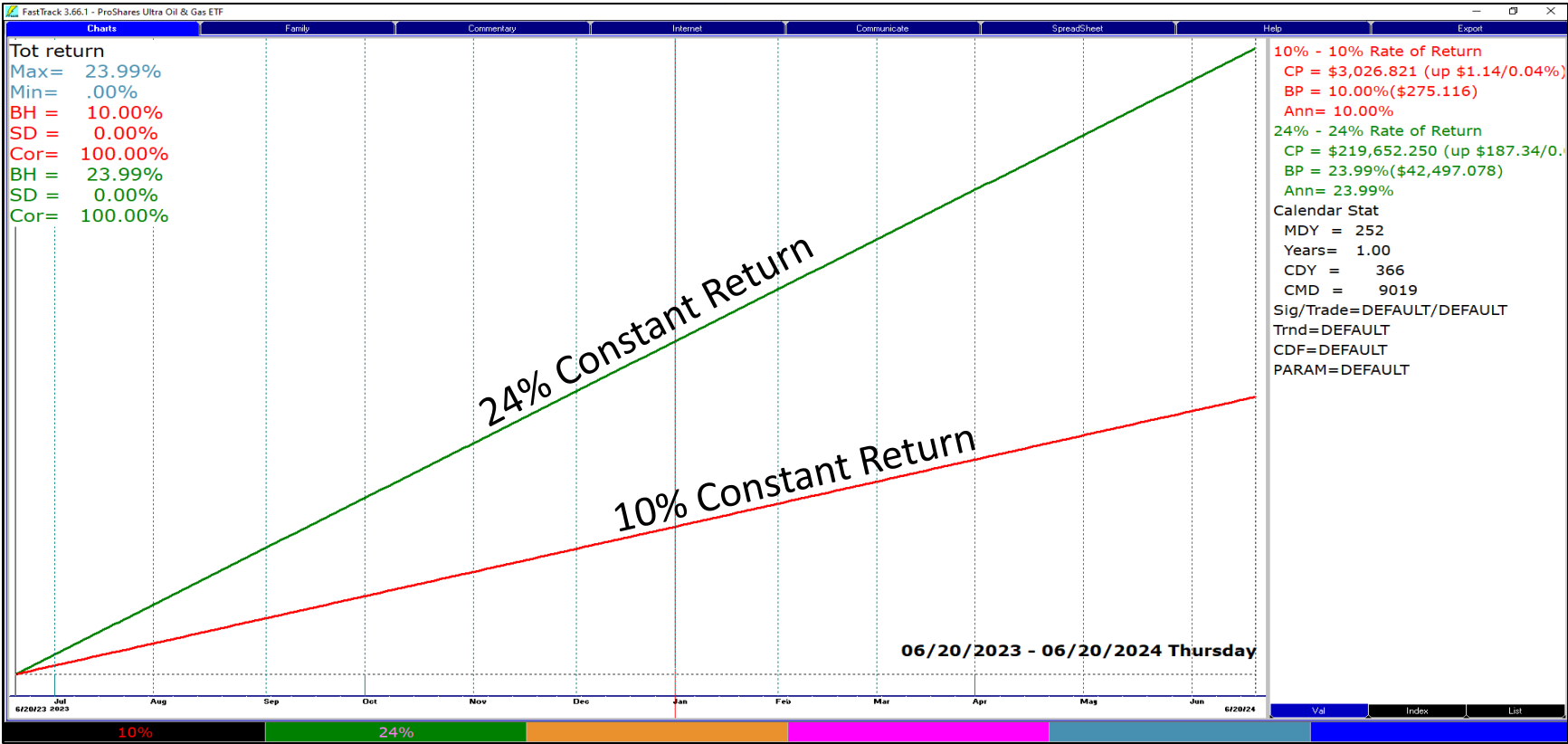
- Recovering from a steep loss is difficult and usually takes a long time. Steep declines are detrimental to an investor's ability to create wealth.
- Managing risk is critical to minimize losses.

# Standard Deviation



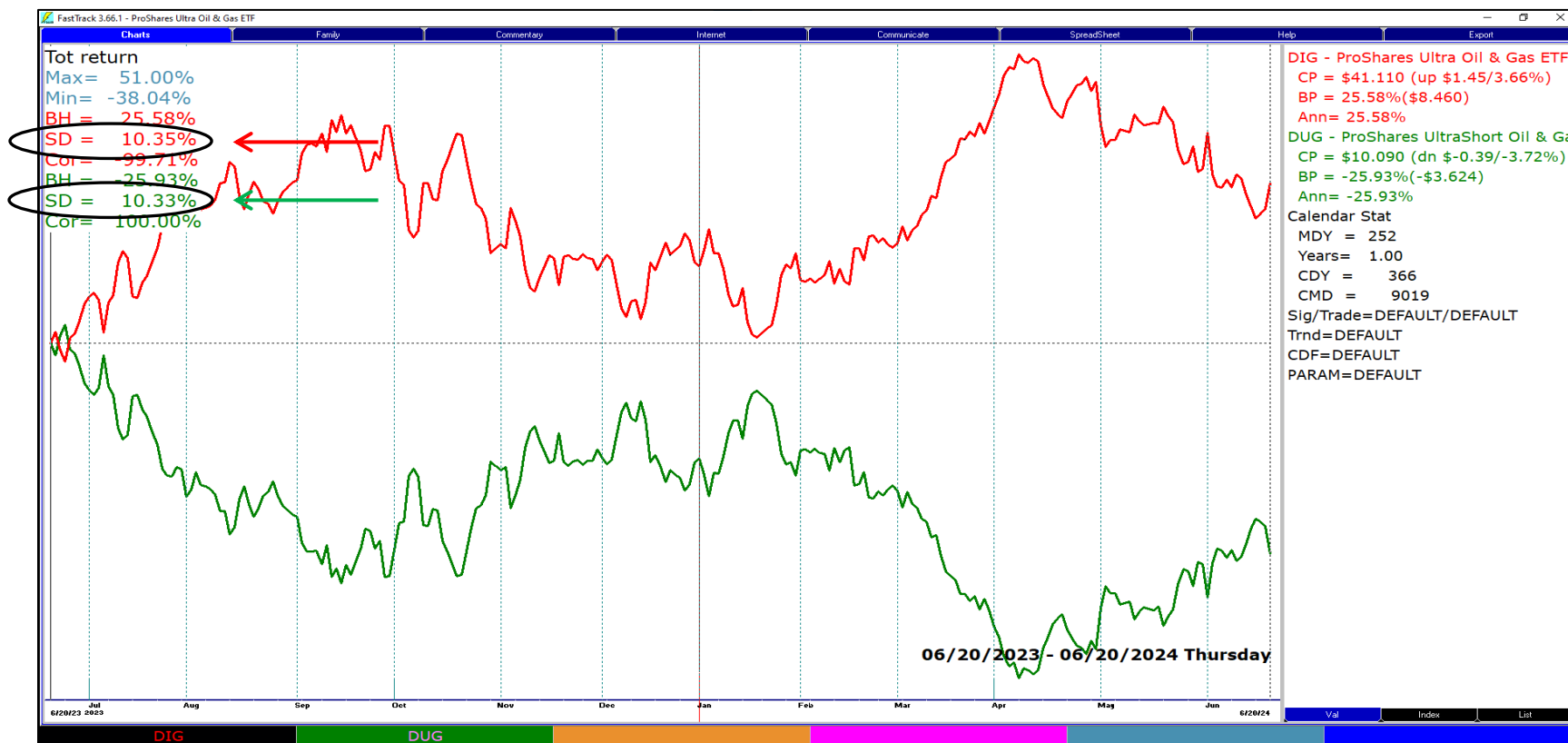
- Standard deviation is a measure of volatility; volatility implies risk.
- Assuming two investment choices that were expected to provide the same return but one has a fraction of the expected risk, which investment would you select?

# Standard Deviation



- A constant return line is shown as a straight line on a log chart.
- By definition, a constant return line has a standard deviation of 0%.
- Standard deviation does not account for the strength of a trend.

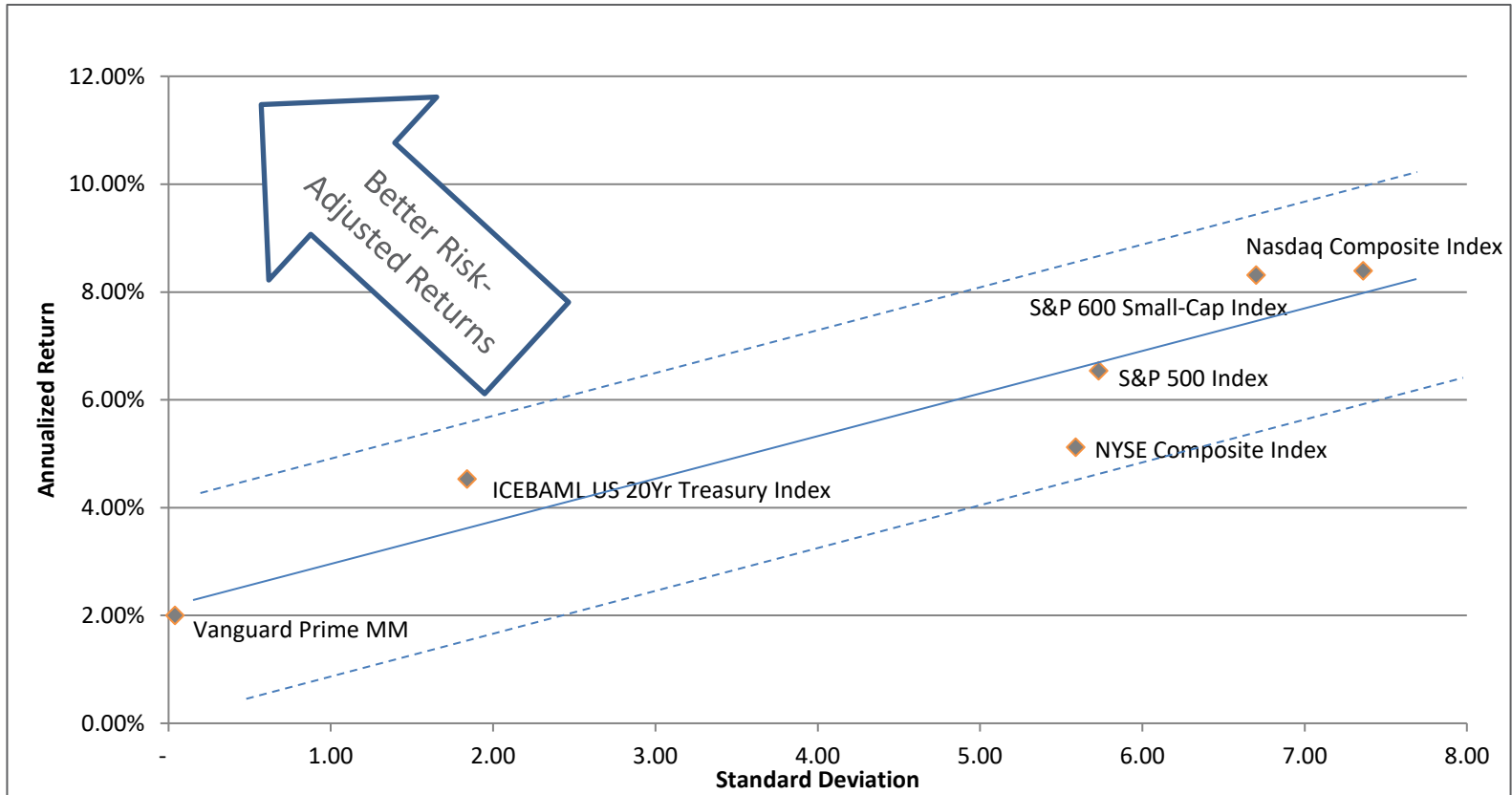
# Standard Deviation



- Standard deviation does not differentiate between upside and downside volatility.
- It is best to measure standard deviation in context of something else (i.e. return).

# Risk vs. Reward

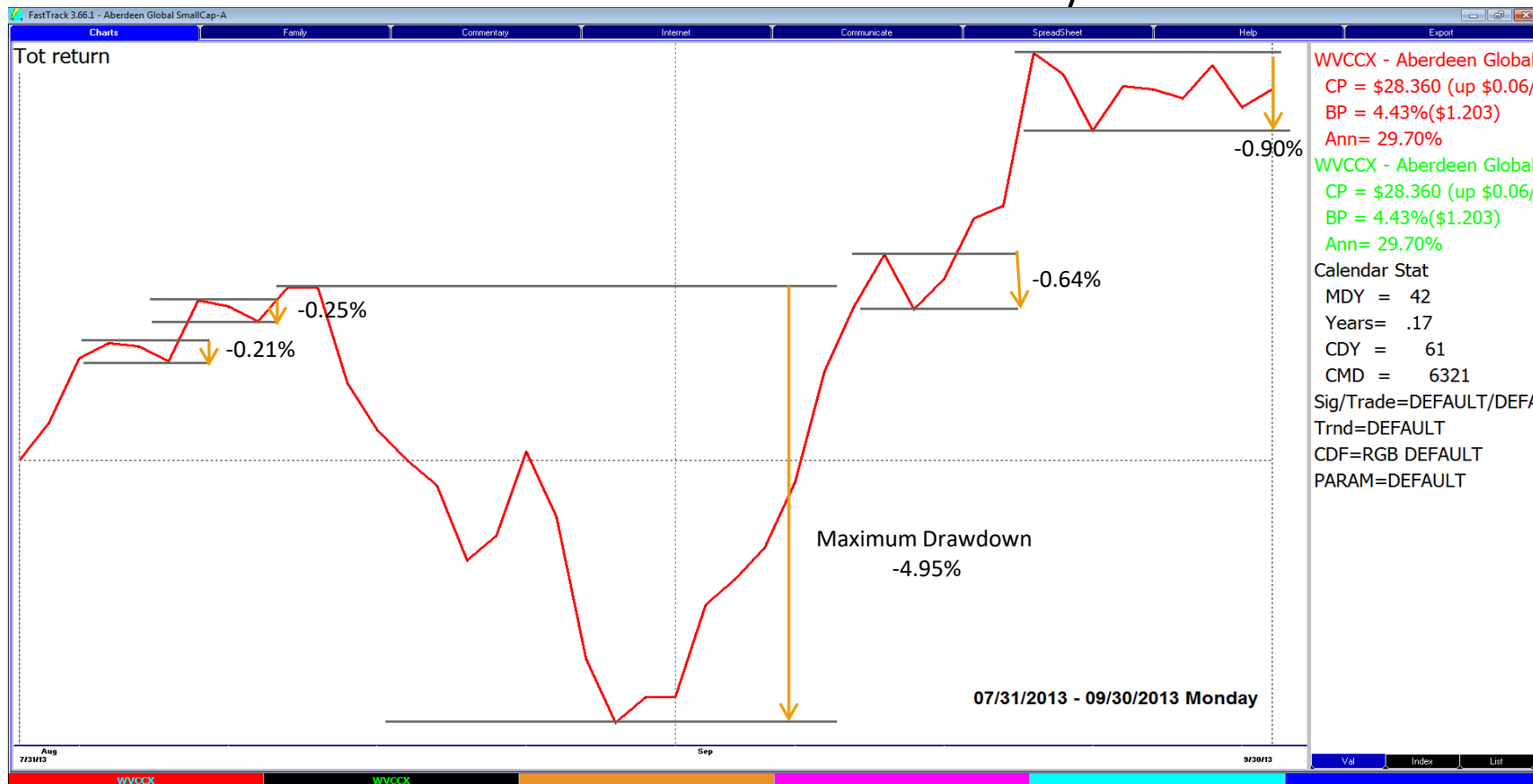
12/31/1999 – 3/31/2022



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).

# Drawdown

## A Measure of Downside Volatility



- Most investors are concerned with downside volatility.
- Drawdown (or retracement) measures the % price decline from a peak to a trough. The maximum drawdown for WVCCX from 07/31/2013 – 09/30/2013 was 4.95%.
- Drawdown does not measure the duration of the decline.



# Ulcer Index

- The Ulcer Index (UI) is a measure of risk that incorporates the depth and duration of drawdowns from a previous high.
- Calculation:
  - 1) Square the % Price Decline:** For each period, square the % price decline from the previous high.
  - 2) Calculate the Mean of the Squares:** Sum the values from Step 1 and divide by the number of periods.
  - 3) Calculate the Square Root:** Take the square root of the value from Step 2.
- The lower the ulcer index, the less volatile the fund.

# Ulcer Index

## Sample Calculation

The calculation of the Ulcer Index (UI) for WVCCX for a two-month period is shown below.

Date	NAV	Drawdown		
		\$\$	Percent	% Squared
7/31/2013	27.54	0.00	0.00	0.00
8/1/2013	27.66	0.00	0.00	0.00
8/2/2013	27.87	0.00	0.00	0.00
8/5/2013	27.92	0.00	0.00	0.00
8/6/2013	27.91	0.01	0.04	0.00
8/7/2013	27.86	0.06	0.21	0.05
8/8/2013	28.06	0.00	0.00	0.00
8/9/2013	28.04	0.02	0.07	0.01
8/12/2013	27.99	0.07	0.25	0.06
8/13/2013	28.10	0.00	0.00	0.00
8/14/2013	28.10	0.00	0.00	0.00
8/15/2013	27.79	0.31	1.10	1.22
8/16/2013	27.64	0.46	1.64	2.68
8/19/2013	27.54	0.56	1.99	3.97
8/20/2013	27.46	0.64	2.28	5.19
8/21/2013	27.22	0.88	3.13	9.81
8/22/2013	27.30	0.80	2.85	8.11
8/23/2013	27.57	0.53	1.89	3.56
8/26/2013	27.36	0.74	2.63	6.94
8/27/2013	26.91	1.19	4.23	17.93
8/28/2013	26.71	1.39	4.95	24.47
8/29/2013	26.79	1.31	4.66	21.73
8/30/2013	26.79	1.31	4.66	21.73

Date	NAV	Drawdown		
		\$\$	Percent	% Squared
9/3/2013	27.08	1.02	3.63	13.18
9/4/2013	27.16	0.94	3.35	11.19
9/5/2013	27.26	0.84	2.99	8.94
9/6/2013	27.47	0.63	2.24	5.03
9/9/2013	27.83	0.27	0.96	0.92
9/10/2013	28.04	0.06	0.21	0.05
9/11/2013	28.21	0.00	0.00	0.00
9/12/2013	28.03	0.18	0.64	0.41
9/13/2013	28.13	0.08	0.28	0.08
9/16/2013	28.33	0.00	0.00	0.00
9/17/2013	28.37	0.00	0.00	0.00
9/18/2013	28.88	0.00	0.00	0.00
9/19/2013	28.81	0.07	0.24	0.06
9/20/2013	28.62	0.26	0.90	0.81
9/23/2013	28.77	0.11	0.38	0.15
9/24/2013	28.76	0.12	0.42	0.17
9/25/2013	28.73	0.15	0.52	0.27
9/26/2013	28.84	0.04	0.14	0.02
9/27/2013	28.70	0.18	0.62	0.39
9/30/2013	28.76	0.12	0.42	0.17
Sum of Squares				169.27
Average				4.03
Square Root (UI)				2.01

# Ulcer Performance Index

- Ulcer Performance Index (UPI) is a risk-adjusted return that takes into account downside risk, duration of drawdowns and the strength of a return.

$$\text{UPI} = (\text{Annualized Total Return} - \text{Annualized Risk-Free Return}) / \text{UI}$$

- Using WVCCX and Vanguards Money Market Fund (VMFXX) as the risk-free return, we get:

$$\text{UPI} = (29.70\% - 0.05\%) / 2.01$$

$$\text{UPI} = 14.75$$

- The higher the UPI, the better the risk-adjusted return.
- The Ulcer Index and the Ulcer Performance Index can be calculated in FastTrack.

# Risk Summary

- Investors can control risk, but not returns.
- Focus on the downside risk factors that are important to you as an investor.
  - a) Drawdown (or retracement),
  - b) Ulcer Index (UI), and
  - c) Ulcer Performance Index.
- Be aware of the calculation period that you select. Those funds that produce good risk-adjusted returns in an uptrending market will not necessarily provide the best risk-adjusted returns in a market downtrend.
- Analyze how funds perform over different time periods.
- Don't rely on quantitative measurements alone. Look at the charts to make sure the fund is something that you want in your portfolio.

# FastTrack

FT4web



or

FT Cloud



+



For more information visit [www.fasttrack.net](http://www.fasttrack.net) or call (866) 295-0166

# FastTrack

- FastTrack
  - a) Over 30 years of clean, historical data
    - 15,000+ mutual funds
    - 3,400+ ETFs
    - 4,000 largest US common stocks
    - Over 1,900 Indices
  - b) Accurate, dividend adjusted data
  - c) Powerful Spreadsheet Capability

# Best of the Best

## Low Volatility Asset Classes

<b>Symbol</b>	<b>Description</b>	<b>Sensitivity</b>
RGB01	RGB US Treasury Index	Interest Rate
RGB02	RGB Corporate Bond Index	Interest Rate
RGB03	RGB Floating Rate Index	Economic
RGB04	RGB Junk Bond Index	Economic
RGB05	RGB Muni Bond index	Interest Rate
RGB06	RGB High-Yield Muni Index	Interest Rate
RGB07	RGB Securitized Credit Index	Economic
RGB08	RGB Emerging Market Debt Index	Economic
RGB09	RGB Inflation Protected Bond Index	Interest Rate
RGB10	RGB Preferred Securities Index	Economic

- Historically, the best risk-adjusted returns have come from lower volatility asset classes including the groups listed above.
- The RGB indices are developed from an equal-weighted average of mutual funds that represent each category.
- The RGB indices are available in FastTrack (both FT4Web and FTCloud) and are updated daily.
- Index charts and data are also available via the complimentary, monthly RGB Market Monitor newsletter.

## Best of the Best

- Use FastTrack to find the best performing groups:
  - a) Review charts of 10 RGB indices
  - b) Rank indices by UI and Max Draw Down to find lowest volatility groups.
  - c) Rank indices by UPI to find best risk-adjusted returns.



## Best of the Best

- Use FastTrack “families” to identify individual funds. FastTrack families are simply groups of funds with some commonality.

Symbol	Description	FT4Web Family	FTCloud Family
RGB01	RGB US Treasury Index	BD-USGOV	Government - Short Term, Intermediate, Long Term
RGB02	RGB Corporate Bond Index	BD-CORPORATE	Corporate Bond
RGB03	RGB Floating Rate Index	BD-FLOAT	Bank Loans
RGB04	RGB Junk Bond Index	BD-JUNK	Junk Bonds
RGB05	RGB Muni Bond index	BD-MUNI	Muni
RGB06	RGB High-Yield Muni Index	BD-MUNIYILD	Muni Junk
RGB07	RGB Securitized Credit Index	N/A	N/A
RGB08	RGB Emerging Market Debt Index	BD-EMERGE	Emerging Markets Bond
RGB09	RGB Inflation Protected Bond Index	BD-INFLT	Inflation-Protected Bond
RGB10	RGB Preferred Securities Index	PREFERRED	Preferred Stock

- Rank by UI and Max Draw Down to find lowest volatility funds
- Rank by UPI to find best risk-adjusted returns

# Additional Resources

There are several resources available on the Risk Management SIG page of the [www.aaiisandiego.com](http://www.aaiisandiego.com) website. In particular, the following will be helpful for investors who want to learn about FastTrack and how to further leverage the concepts discussed in today's presentation.

- FTCloud Training (including a manual): June 30 – July 13, 2021
  - a) Introduction
  - b) Chart Basics
  - c) Charts
  - d) Data – Families, Static Models and FNUs
  - e) Spreadsheet – A Powerful Tool
  - f) Other Useful Tools
- Moving Average Timing: June 12, 2021

## Additional Resources

- RGB Market Monitor Newsletter – a complimentary, monthly newsletter designed for individual investors.
  - a) Stock Market Scorecard – technical and fundamental assessment of overall market conditions
  - b) Bond / Income Groups

Fasttrack	Symbol	Description	FTCloud Family	Statistics for 10/19/23 - 06/12/24					YTD	One-Year	
				Return	Annual Return	Ulcer	UPI	MaxDrawDown	SD	Return	Return
	RGB03	RGB Floating Rate Index	Bank Loan	7.18%	11.41%	0.12	51.83	-0.43%	0.78%	3.75%	11.46%
	RGB10	RGB Preferred Securities Index	Preferred Stock	14.34%	23.20%	0.46	38.95	-1.79%	0.96%	4.91%	13.04%
	RGB04	RGB Junk Bond Index	High Yield	10.81%	17.34%	0.47	25.33	-1.66%	1.09%	2.42%	9.96%
	RGB06	RGB High-Yield Muni Index	High Yield Muni	12.95%	20.88%	0.70	22.18	-1.83%	1.30%	2.36%	5.71%
	RGB08	RGB Emerging Market Debt Index	Emerging Markets	14.05%	22.71%	0.98	17.63	-2.89%	1.66%	2.31%	11.56%
	RGB07	RGB Securitized Credit Index	N/A	7.56%	12.01%	0.42	15.97	-1.08%	0.85%	2.69%	7.25%
	RGB05	RGB Muni Bond Index	Muni National	9.48%	15.15%	0.72	13.57	-1.77%	1.05%	0.32%	4.55%
	RGB02	RGB Corporate Bond Index	Corporate	10.91%	17.49%	1.42	8.57	-3.38%	1.83%	0.38%	5.49%
	RGB09	RGB Inflation Protected Bond Index	Inflation-Protected	6.03%	9.55%	0.89	4.71	-1.94%	1.48%	0.64%	2.69%
	RGB01	RGB US Treasury Index	Government	9.02%	14.39%	2.28	3.96	-4.92%	2.21%	-1.25%	0.57%

*If you would like to receive the newsletter each month, please send Rob an email at [rob@rgbcapitalgroup.com](mailto:rob@rgbcapitalgroup.com)*

# 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 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.
- **Be prepared to take advantage of low volatility trends with bond/income funds for better risk-adjusted returns.**

Thank You

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