Global Risk Controlled Equity (GRCE)

June 2020

GRCE is an equity focused investment strategy managed by The Morton Group. The strategy seeks to maximize risk adjusted returns. Investors seeking to maximize returns in the equity markets may not be aware that they are also possibly maximizing risk to their capital. We balance client portfolios, working to maximize returns while minimizing risk.

We classify risk in two ways:

1. **The risk of large drawdowns in the strategy.** Excessively large drawdowns cause undue stress to investors, potentially causing them to change longer term asset allocation. By holding ETFs that typically move up in price when stocks are falling, drawdowns can be reduced.

2. **The risk of permanent loss of capital**. We use Exchange Traded Funds (ETFs) that are widely diversified, each one typically holding hundreds of stocks. Investors purchasing individual stocks are subject to significant single company risk. Indexes such as the S&P 500 hold 509 different stocks, substantially reducing the risk of a permanent loss of capital. We accept the tradeoff that by diversifying there is a smaller chance of large gains had we correctly picked a single winning stock.

The stock market has become more volatile in 2020, with big price moves seen almost daily. In our view, it is an appropriate time to reduce equity risk, particularly when the price swings are seemingly not linked to economic performance.

To lessen GRCE's performance being dependent upon the ups and downs of the equity markets (referred to as the portfolio "Beta") we added several new ETF positions to the portfolio in late March.

"Risk On"

We have two stock ETFs providing our "risk on" market participation:

- **S&P 500 ETF** (from Vanguard, symbol VSP) - This gets us exposure to the largest stocks in the U.S. Importantly, the S&P 500 has a large weighting to the FAANG stocks (Facebook, Apple, Amazon, Netflix, Google) + Microsoft, providing exposure to positive economic disruption.

- **NASDAQ100** (from Invesco, symbol QQC'F) - This also gets us large US stocks, but with a larger tilt towards technology stocks.

"Risk Off "

The following five ETFs are "risk off" ETFs that we use to cushion losses on the stock ETFs when stock corrections occur. Our expectation is that these "risk off" ETFS have, collectively, a positive return in the long run. Basically, they are designed and held in the portfolio to dampen volatility in times of substantial equity market corrections. We have added several different ETFs in this portion of the portfolio to maximize diversification:

- **Anti-Beta** (from AGF, symbol QBTL) - This ETF buys low volatility stocks and shorts high volatility stocks. Historically, low volatility commonly outperforms high volatility when stocks are falling.
- **Mid-term US Treasury Bonds** (from Horizons, symbol HTB) - This ETF buys US Government Bonds maturing in 7 to 10 years. Historically, demand for these bonds usually increases when stocks fall as investors look for potentially safer investments.
- **Long-term US Treasury Bonds** (from iShares, symbol TLT) - This ETF buys US Government Bonds maturing in more than 20 years. Historically, this has added diversification to the mid-term bonds as periodically one has outperformed the other.
- **Tail Risk** (from Cambria, symbol TAIL) - This ETF is a mix of Mid-term US Treasury Bonds and of out of the money put options on the US market. A put option is very much like buying insurance on the stock market. You pay a premium for the right to sell stocks (or indexes) at a minimum price. Historically, this insurance has performed well when stock prices are falling.
- **Physical Gold** (from iShares, symbol CGL) - This ETF owns gold. Historically, the price of gold can rise when stocks prices fall, as investors look for potentially alternative investments. In our view inflation will be an issue in several years. Gold has historically increased in price over the long term with a positive price relationship to increasing inflation.

<u>The Current Strategy Composition (as of June 2, 2020)</u>

Risk On		
Vanguard S&P500 ETF	VSP	18.75%
Invesco QQQ ETF	QQC'F	12.50%
Risk Off		
Horizons US 7-10 Year Treasury Bond ETF	HTB	12.50%
iShares 20+ Year Treasury Bond ETF	TLT	12.50%
Cambria Tail Risk ETF	TAIL	12.50%
iShares Gold Bullion ETF	CGL	12.50%
AGFIQ US Market Neutral Anti-Beta ETF	QBTL	18.75%

Some of these ETFs are quite technical, don't hesitate to ask for further detail on any of them or anything related to our GRCE investment strategy.

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