

BTS GOLD TACTICAL ASSET ALLOCATION PORTFOLIO

Q&A WITH CO-PORTFOLIO MANAGERS MATTHEW PASTS AND ISAAC BRALEY



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Q: Why would an investor want gold in their portfolio?

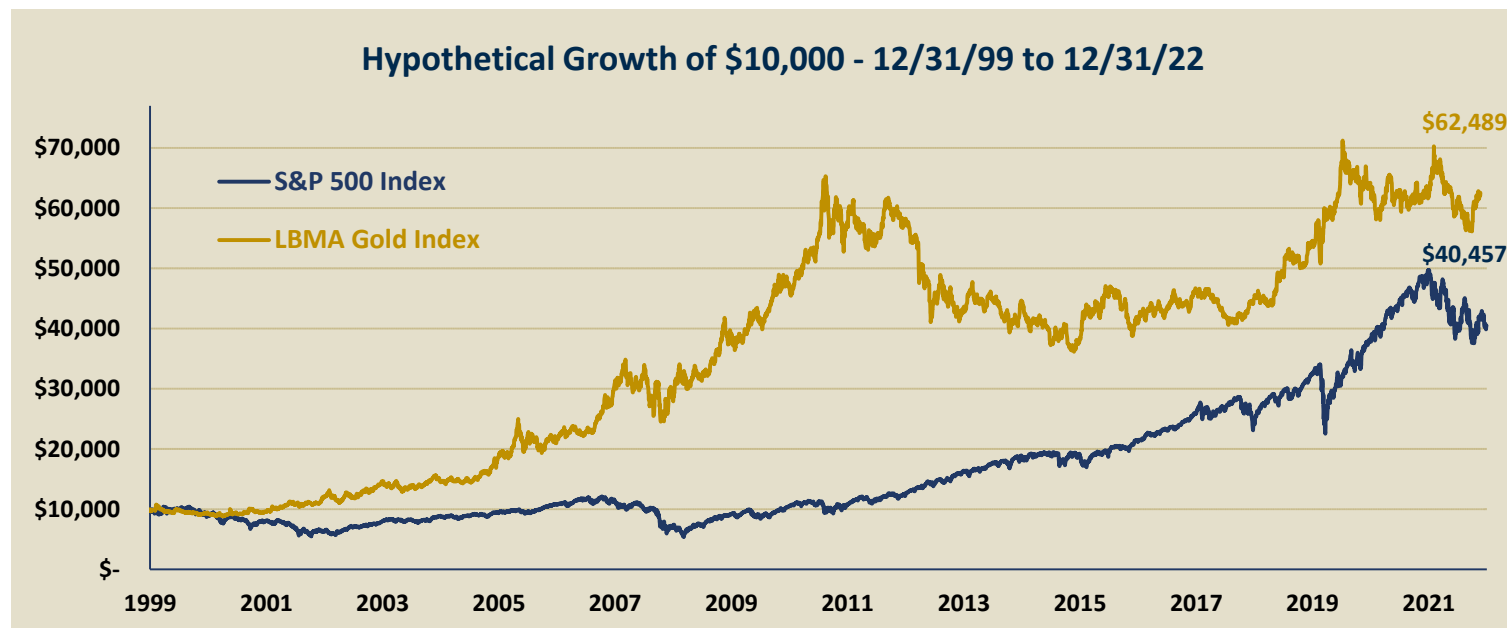
Pasts: The investment case for gold has gained interest recently with higher domestic and global inflation, geopolitical uncertainty, and an unprecedented increase in fiscal and monetary stimulus from central banks.

Q: Do most Advisors have a percentage of an investor's portfolio allocated to gold?

Braley: Many advisors seek to allocate two to six percent of clients' portfolios to gold as a hedge against a market collapse¹. However, client pushback is common. Many clients view gold as a "dead" asset, given its inability to generate income. (Warren Buffet has espoused this view with his famous criticism that gold is something people dig up from the ground only to put back in the ground.) Other traditional arguments against holding gold have been largely focused around the cost of storage, and its volatility.

Q: Is gold a good long-term investment?

Pasts: Yes, for many investors it is. Gold has a respectable long-term track record as an asset class and has outperformed the S&P 500 TR Index over the last twenty-three years between 12/31/1999 through 12/31/2022, as seen in the line chart below. Not only has gold outperformed the S&P over that time frame, it has done so with less risk as defined by Average Drawdown and Max Drawdown, and with extremely low Correlation to equities, illustrated in the stats table below.



Source: Bloomberg

12/31/1999 through 12/31/2022	Annual Return	Correlation	Average Drawdown	Max Drawdown
LBMA Gold Price PM Index	8.29%	-	-14.73%	-44.62%
S&P 500 Index	6.28%	0.00	-16.24%	-55.25%

Source: Morningstar Direct

Q: Isn't a timing strategy inconsistent with why people own gold?

Pasts: People own gold for many reasons. A timing strategy might not be right for a committed “gold bug” who simply wants to accumulate the metal. But it might be beneficial for an investor who wants an inflation hedge that’s part of a larger, diversified portfolio.

The potential benefit of a timing strategy is that the asset may be there when you need it with respect to inflation—while also potentially generating returns.

Q: When did you begin trading the Gold Tactical Asset Allocation Portfolio?

Pasts: The BTS Gold Tactical Asset Allocation Portfolio has been active since 1/6/2020.

Q: What is the strategy's objective?

Pasts: The aim of the strategy is to participate in the capital appreciation of gold in a risk-managed manner.

Our focus is medium-term price trends. If we see a positive medium-term trend, we invest primarily in gold. If we think the trend is sideways, we're more likely than not to be invested. When we see a down trend, we shift to cash or money market funds and watch for an attractive reentry point. We believe a tactical approach can offer investors a risk-managed exposure to gold with lower volatility, lower drawdowns, and a superior risk/return profile.

Q: How would you characterize the core of your quantitative model?

Pasts: Our trading is technically based where buy and sell signals are generated according to trend and momentum indicators.

The models are monitored daily by a portfolio management team to monitor their effectiveness. We always try to manage through a fluid model process. We are reviewing potential strengths and weaknesses and looking for ways to improve the entry and exit points.

Q: What instruments does the strategy trade?

Braley: There are many ways to trade the price of gold, from exchange-traded funds, to gold miners, to the physical metal itself. Since this is a timing strategy—and not a “buy it and forget it” strategy—our focus is on trading liquidity, convenience and avoiding unnecessary costs.

Exchange-traded funds best fit those parameters. In addition, the strategy may make allocations to gold miners and to other precious metal asset classes.

Q: What is the LBMA Gold Price Index?

Braley: It is the global benchmark price for unallocated gold delivered in London. Producers, banks, and market participants from all around the globe make transactions using the benchmark as a reference price. The price is set twice daily at 10:30 AM and 3:00 PM London Time each business day. While we as tactical managers don't necessarily benchmark to the index, we do use it as a way to gauge the performance of our models.

Q: Does the LBMA Gold Price Index correlate with the equity and bond markets?

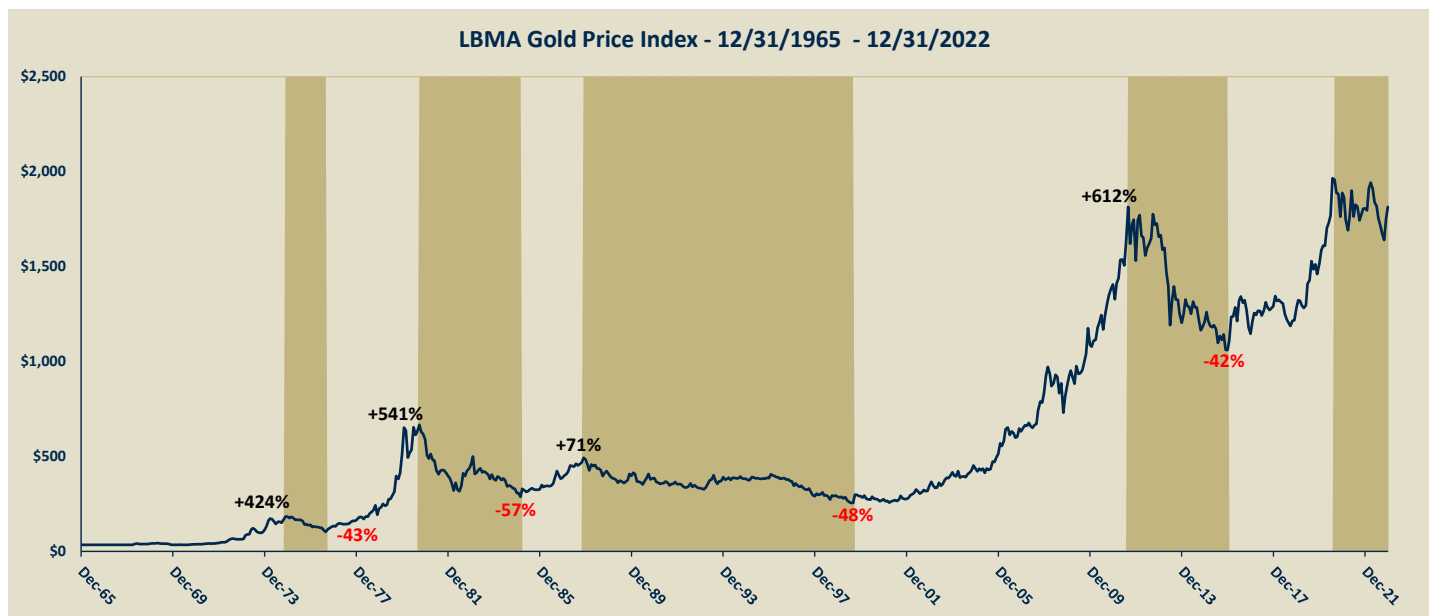
Braley: No, gold has very low correlation to the major indexes.

12/31/2002 through 12/31/2022	Correlation
LBMA Gold Price PM Index	1.00
Bloomberg Agg Bond Index	0.31
Bloomberg US Treasury 10+ Year Index	0.23
Dow Jones Industrial Average Index	0.03
S&P 500 Index	0.06
MSCI ACWI Ex-US Global Equity Index	0.15
US Dollar Broad Index	-0.32

Source: Morningstar Direct

Q: What should clients be concerned about regarding investing in Gold?

Pasts: Gold has the potential to serve as a hedge to both the bond and the equity parts of one's portfolio, making it a versatile instrument. It is not, however, without periods of high volatility and large drawdowns, and thus we feel it is essential to use a tactical approach to successfully allocate a portion of one's portfolio to gold. The volatility of Gold can be seen in the below chart.



Source: Bloomberg

In the last 60 years, there have only been five sustained gold bull runs, the most recent of which is still taking place today. The ends of these runs have historically led to substantial selloffs, but within these bull runs there are many times where there are 10% or greater declines. Conversely, during bear markets, there are periods of time where the market rallies greater than 10%. This inability for the market to operate in a straight line highlights the need for tactical management.

10% Drawdowns in a Bull Market

Time Period	Total Return	# of Drawdowns > 10%
12/31/1965 - 11/29/1974	424%	3
8/31/1976 - 9/30/1980	541%	2
2/28/1985 - 11/30/1987	71%	0
8/31/1999 - 8/31/2011	612%	4
12/31/2015 - 8/31/2020	84%	3

Source: Bloomberg

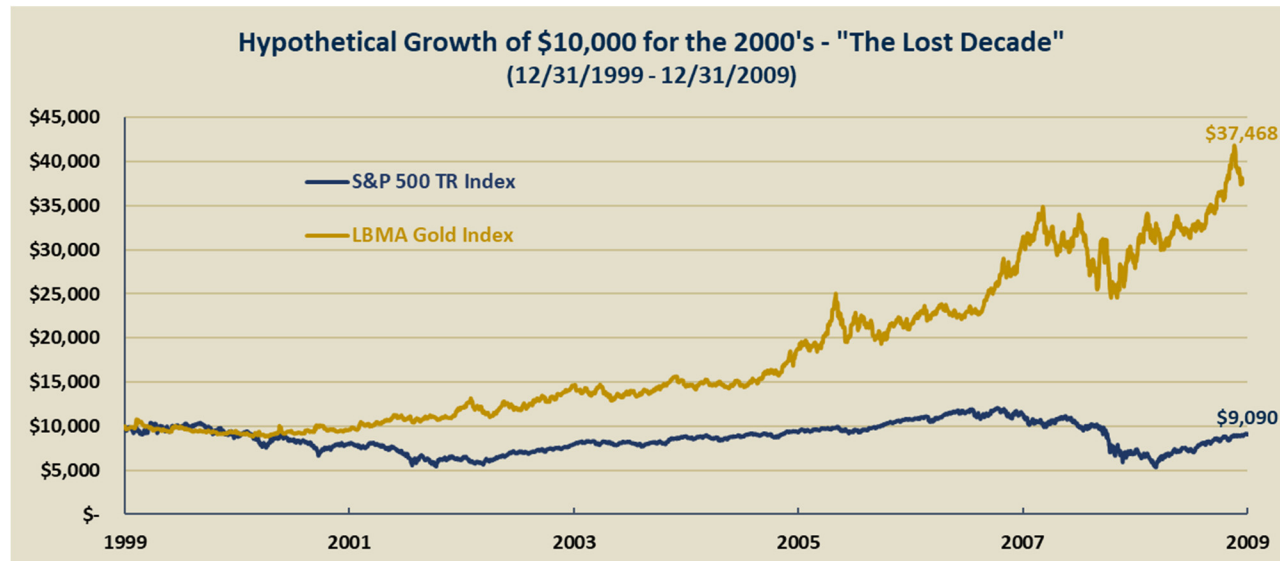
10% Counter-Rallies in a Bear Market

Time Period	Total Return	# of Counter-Rallies > 10%
11/29/1974 - 8/31/1976	-43%	0
9/30/1980 - 2/28/1985	-57%	3
11/30/1987 - 8/31/1999	-48%	4
8/31/2011 - 12/31/2015	-42%	4
8/31/2020 - 12/31/2022	-7%	4

Source: Bloomberg

Q: What conditions would produce a positive return in gold?

Braley: Gold tends to produce a positive trend when there is uncertainty in the economy. This can be seen in the chart below during the “Lost Decade” of the 2000s when the S&P TR Index produced an annualized return of just -0.95%, including the reinvestment of dividends, and Gold produced an annualized return of 14.12%.



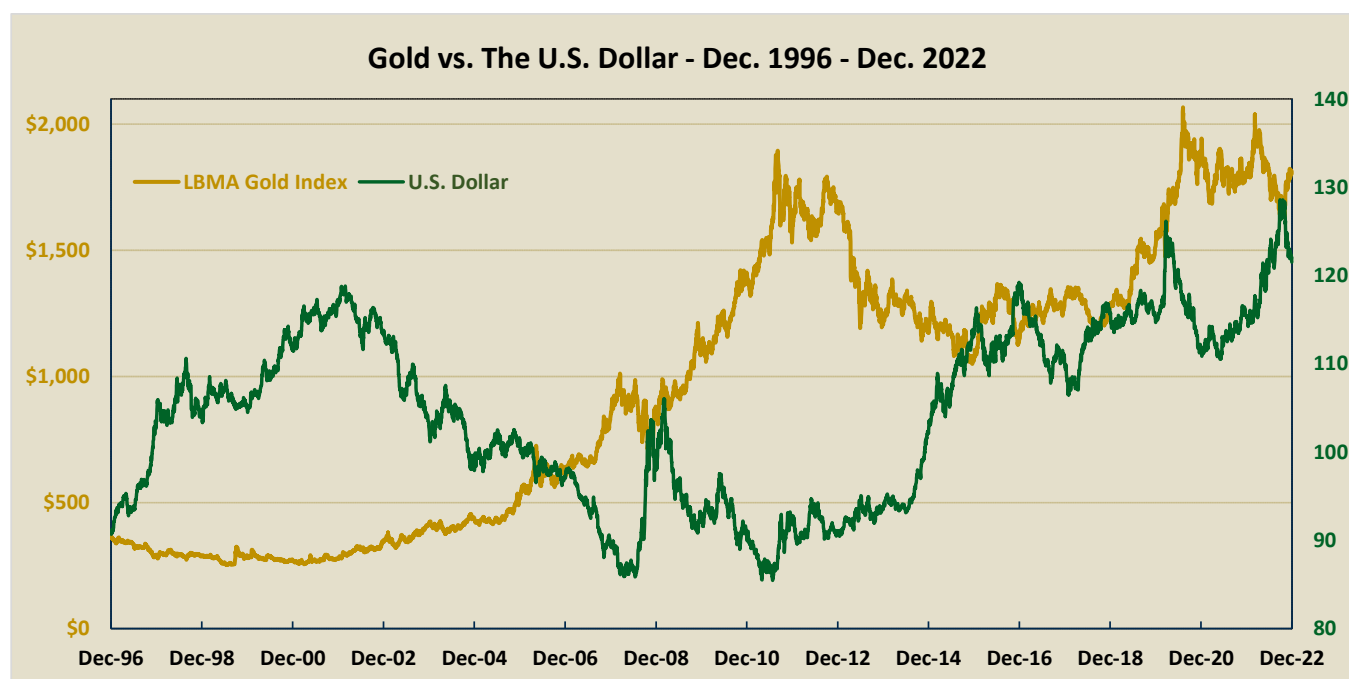
Source: Bloomberg

1/1/2000-12/31/2009	Annual Return	Correlation	Average Drawdown	Max Drawdown
LBMA Gold Price PM Index	14.12%	-	-14.28%	-29.54%
S&P 500 Index	-0.95%	-0.06	-20.05%	-55.25%

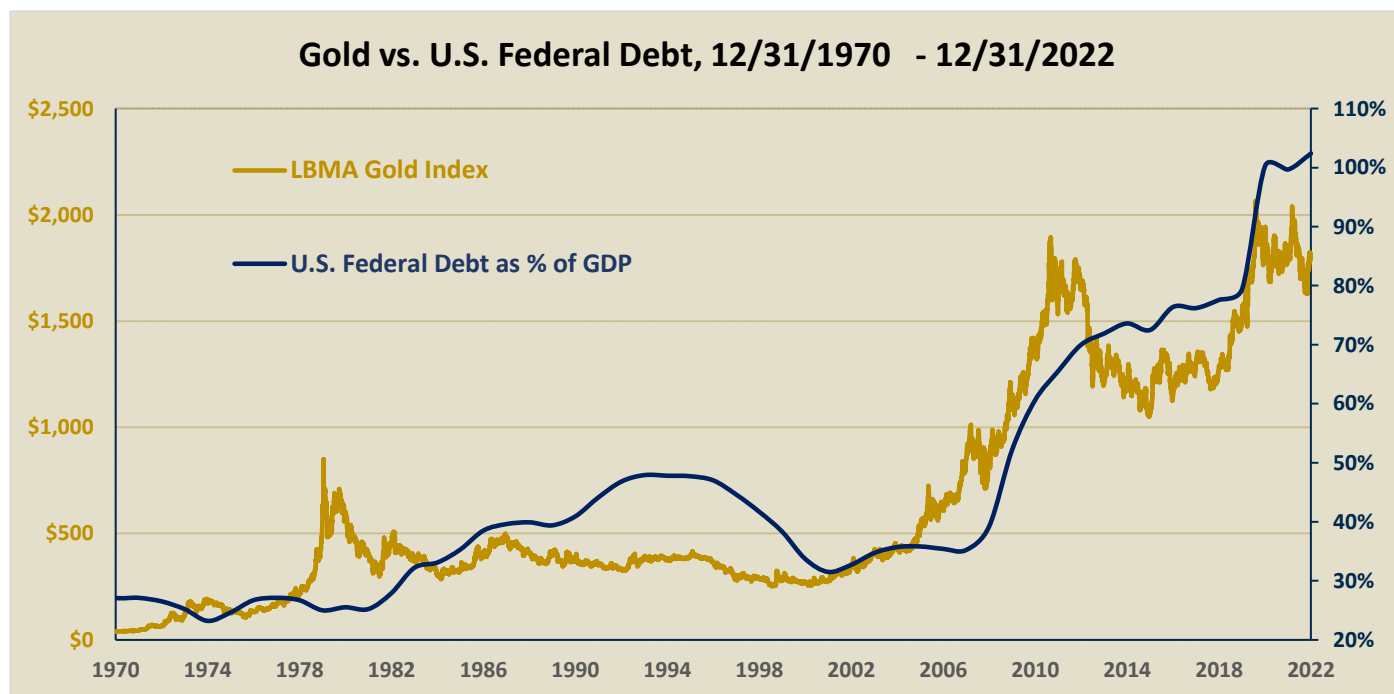
Source: Morningstar Direct

Q: How does Gold relate to U.S. Government Debt and the U.S. Dollar?

Pasts: Price movements of gold are strongly influenced by both the U.S. Federal Debt, and consequently, the U.S. Dollar. When the national debt soars, it undermines confidence in the economy as well as the U.S. Dollar, and thus spurs safe-haven demand for gold. This is largely due to worries about inflation and concerns about whether the government will be able to meet its growing debt payments, or if it will be forced to cut spending or increase taxes, potentially hampering economic growth. This can be seen in the following two charts, first as the strong inverse relationship between gold and the U.S. Dollar, and secondly, the tendency for the price of gold to grow alongside the level of federal debt.



Source: Bloomberg



Source: Bloomberg

Q: What conditions would create negative returns for gold?

Braley: While gold is often seen as a safe haven, it is still a produced commodity that is subject to the forces of supply and demand. When miners produce gold in excess, there may be downward pressure on the price of gold. On the other side of the equation, demand for gold may wane when the market anticipates certain economic conditions such as low future inflation or a surge in the stock market.

Q: Can Gold improve the efficiency of a diversified portfolio?

Braley: Gold's unique investment characteristics mean that adding a long-term allocation can potentially improve overall efficiency of a diversified portfolio. Gold's persistently low correlation to other assets and ability to reduce portfolio drawdowns can improve a diversified portfolio.

12/31/2002 through 12/31/2022	Annual Return	Correlation	Average Drawdown	Max Drawdown	Standard Deviation
LBMA Gold Price PM Index	8.62%	1.00%	-11.35%	-41.55%	17.04%
Bloomberg Agg Bond Index	3.10%	0.31%	-2.61%	-17.18%	3.88%
Bloomberg US Treasury 10+ Year Index	4.08%	0.23%	-8.70%	-39.06%	11.44%
Dow Jones Industrial Average Index	9.78%	0.03%	-9.48%	-47.16%	14.34%
S&P 500 Index	9.80%	0.06%	-9.92%	-50.95%	14.76%
MSCI ACWI Ex-US Global Equity Index	8.04%	0.15%	-11.18%	-54.92%	15.56%

Source: Morningstar Direct

Citations:

¹ <https://www.thestreet.com/retirement-daily/your-money/what-to-know-before-adding-gold-to-your-portfolio>

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Founded in 1979, BTS Asset Management is one of the oldest risk managers, managing traditional assets with a nontraditional approach. BTS has a multi-year track record in tactical fixed income and equity management. Our goal is to find opportunities with the potential to take advantage of rising markets while working to manage losses during downturns.

BTS:

- Seeks to defend capital
- Aims to offer upside potential
- Strives to reduce volatility while delivering consistent long-term returns



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