BTS GOLD TACTICAL ASSET ALLOCATION PORTFOLIO

by Matthew Pasts, CMT, Chief Executive Officer
& Isaac Braley, President & Co-Portfolio Manager, BTS Asset Management

Opportunities in Gold

BTS ASSET MANAGEMENT

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BEING TACTICAL WITH GOLD

Gold has long been a store of value and a hedge against inflation, but what merit is there in allocating a part of a conservative fixed income portfolio into gold? The current state of Fiscal and Monetary policies presents risks to even the safest of investments, such as U.S. Treasuries. It is with this in mind that gold may be able to act as a hedge against rising rates and a potential bear market in bonds.

The Potential for a Bear Market in Bonds

A bear market in bonds would be exacerbated with higher inflation. With easy monetary policy and a debt-to-GDP ratio quickly approaching the historical highs set during the post-WWII era, rates will eventually have to move higher to attract demand for the continued issuance of debt. In short, sustained easy access to money and increasing deficits is a cause for concern that inflation will re-emerge in the economy and send yields higher.

A Rare Gold Bull Run

In the last 56 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 - 12/31/74	423%	3
8/31/76 - 9/30/1980	541%	2
2/28/1985 - 11/30/1987	71%	0
8/31/1999 - 8/31/2011	614%	2
12/31/2015 - 5/31/2021	79%	4

Source: Bloomberg

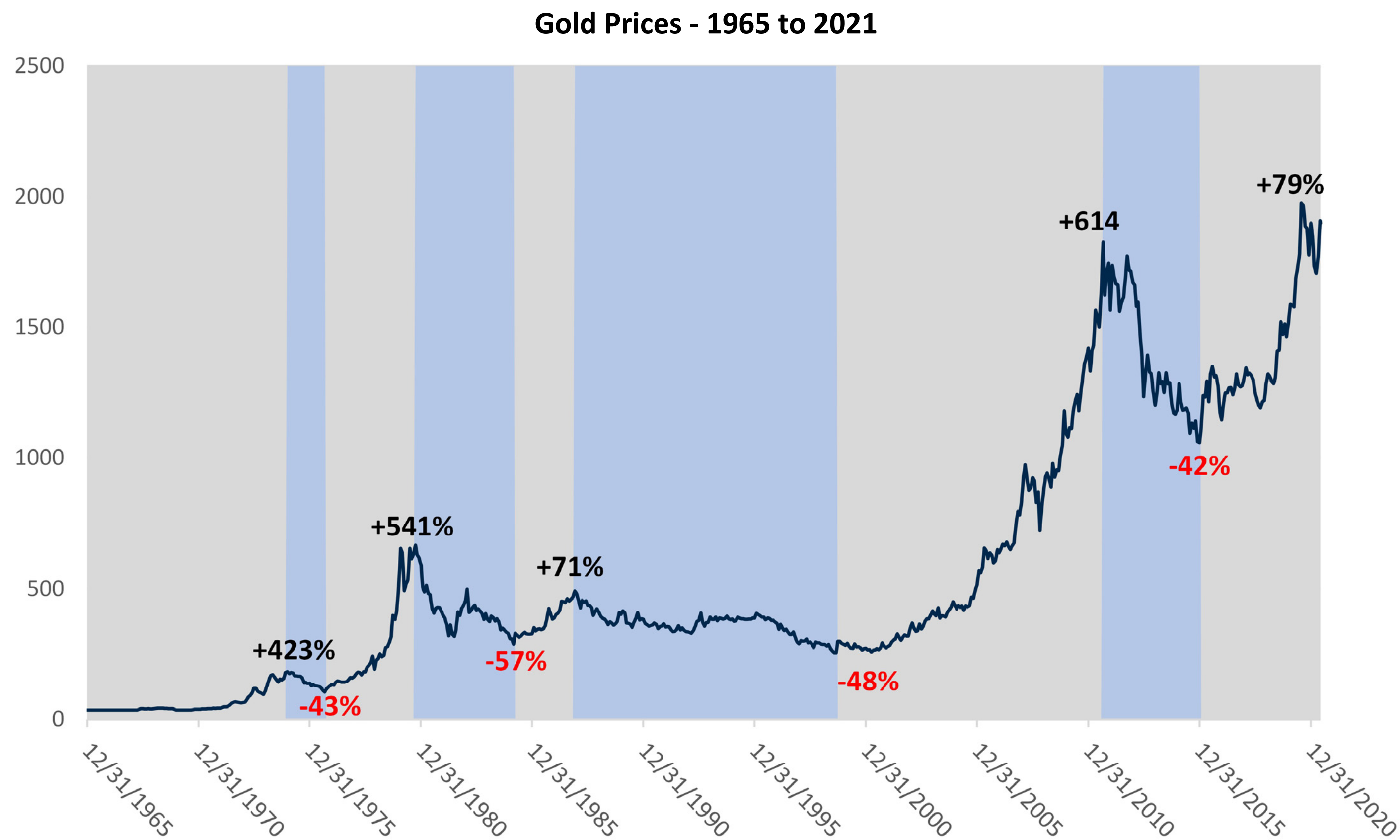
10% Counter-Rallies in a Bear Market

TIME PERIOD	TOTAL RETURN	# OF COUNTER-RALLIES > 10%
12/31/1974 - 8/31/76	-43%	0
9/30/80 - 2/28/1985	-57%	3
11/30/1987 - 8/31/1999	-48%	4
8/31/2011 - 12/31/2015	-42%	4

Source: Bloomberg

Being Tactical May Be Essential for Gold

The main reason gold falls in and out of favor with investors is that it is a commodity and does not offer the income of bonds or the growth of stocks. However, when gold is trending due to economic underpinnings like inflation or uncertainty with the future state of the economy, it has the potential to boost a fixed income portfolio. In times of inflation when rates rise and bonds do poorly, gold will offer a hedge to that part of the portfolio. On the other hand, when there is immense fear in the market and bonds soar, gold usually follows suit. It thus has a 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 it is essential to use a tactical approach to successfully allocate a portion of one's portfolio to gold.



Source: Bloomberg

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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 preserve capital
- Aims to offer downside protection and upside potential
- Strives to reduce volatility while delivering consistent long-term returns

BTS® ASSET MANAGEMENT

BTS Asset Management
420 Bedford Street, Suite 340
Lexington, MA 02420
800 343 3040
Fax: 781 860 9051
Email: info@btsmanagement.com
Website: www.btsmanagement.com

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