

# The days of 60/40 are over. This strategy could be the stagflation solution.

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## Summary:

- R. G. Niederhoffer daily liquid, short-term quant futures programs up 23-44% YTD, AUM \$1B.
- All programs negatively correlated to stocks/bonds/HFs, low to CTAs.
- End of Fed Put means Bonds are no longer diversifying; RGN Funds are "long realized volatility" and can provide valuable convexity/diversification/protection for stock, bond, hedge fund and CTA portfolios.
- Environment is best-ever for strategy, with no end in sight since inflation risk means Fed can't save markets/crush vol with liquidity.

Dear Investor,

I'm writing to update you on developments, growth and performance at R. G. Niederhoffer Capital Management. It would be great to schedule a brief call to catch up with you and hear your thoughts on the second half.

As we enter our 30<sup>th</sup> year of trading, our funds are up 23-44% year to date. Risk-adjusted performance has been our best ever, assets exceed \$1 Billion, and we maintain our strong portfolio-protective and diversifying characteristics, distinguishing us from other managers. We closed June nearly at our high of the year, despite the significant fixed income trend reversal. Meanwhile, the macro environment looks favorable as far as the eye can see, and we are launching several interesting new products including an innovative market-neutral DeFi fund spinout.

Central Bank tightening and the end of the Fed Put have created an ideal environment for our strategy. But will current conditions persist? I believe so, because Central Banks are completely boxed in. Easing to fight a recession risks even more inflation and volatility rather than calming markets. And raising interest rates to fight inflation risks an even bigger blow to the global economy, combined with massive interest costs to fund the National Debt in the US and elsewhere.

With stocks and bonds now positively correlated, portfolio construction must be reconsidered. We believe short-term quant trading is one of the only positive-return, downside-protective, diversifying strategies available, now that 60/40 and Risk Parity are no longer viable options.

The tails just got fatter, and positive-carry convexity just got rarer. As famed trader Stanley Druckenmiller points out, Central Banks have never successfully fought inflation without a short rate higher than the inflation rate. A US short rate above 4% means that >100% of US tax revenues will be required just to pay the interest on the National Debt. With no end to market volatility in sight, all four of our products are positioned to succeed going forward.

The **RGN Diversified Program** — as it has in every crisis since 1993 — prospered during these volatile times, gaining 44% as of EOM June following +31% in 2020 and +15% in 2021. This program has produced 20% annualized alpha over the S&P 500 (with a -0.4 Beta/-0.3 correlation) since 2000, and has about \$400M AUM right now. Its aggressive 18% volatility combined with negatively correlated alpha in the most difficult periods for stocks helps our clients protect their portfolios and sail confidently through volatile periods like this one.

The Diversified Program recently ranked in #6 Hedge Fund for H1 2022 according to the HSBC flash report, has a 30 year track record, and has performed remarkably well in recent bull equity markets. While prior bull runs did prove challenging, we would now welcome a bull equity market like that of 2020-2021. We have transitioned to a primarily machine learning approach and this has paid off handsomely particularly during recent stock market rallies.

Our “all weather” product, as of EOM June the **RGN Smart Alpha Program**, is up 23%, with over \$400M AUM. Designed to provide positive return convexity with downside *and* upside stock and bond tail risk protection, it is available as an Offshore/Onshore Fund, UCITS, and SMA, and can be swapped in combination with a client’s existing exposure such as S&P 500, an individual stock portfolio, or bonds. Some of these combinations are quite interesting. For example, 50% Smart Alpha + 100% MSCI World has 4X the return of MSCI World with less vol. and 0.95 correlation to MSCI World with minimal tracking error.

Overall, the Smart Alpha Program produces 8-11% of negatively correlated, portable alpha for stock, bond, hedge fund and CTA portfolios, and has about 10% annualized return and 10% volatility. This program trades liquid Fixed income and FX, so many investors can classify this as zero risk weight under Basel III.

We have a new product with higher capacity and a 5-10 day investment duration (compared to the 1-3 day hold of Smart Alpha and Diversified), called the **RGN Emerald Program**. With about \$200M right now, this program is up 33% as of EOM June and is designed as a superior alternative to trend following with a more responsive profile — it tends not to give back as much during big trend reversals like late June's Fixed Income rally, and can rapidly take anti-trend positions even during the largest trends.

Finally, we plan to launch a **Market Neutral DeFi Program**, which I would love to tell you about in person. As you probably know, I've been a heavy participant in the crypto world since 2011, and we have traded crypto at RGNCM since 2017. We are strong believers in the space, and we feel that given the carnage this year in particular, the best opportunities are enormous and may be achieved without taking directional crypto exposure. We have a strong team who have been trading significant prop capital for years. They are now ready to capture the post-Q2 opportunities for clients.

In short, exciting times. Volatility is likely to stay high indefinitely because the Central Banks are, in my view, permanently unable to deploy the volatility-crushing liquidity that has been their modus operandi since October 20, 1987. This will impact both public and private markets. Of course, not only do we have known financial, geopolitical and continuing pandemic risks, but there is also the potential for massive unknown unknowns to jolt financial markets just as Covid and Ukraine did.

Finally, I want to call your attention to [this article](#) about the Bank for International Settlement's decision to allow member banks to place 1% of Tier I reserves in Bitcoin. My highly bullish potential (though maybe not most likely) outcome for Bitcoin has revolved around it achieving reserve currency status. 1% would mean an 8X appreciation from today's 19K level, 10% would mean 80X. As the saying goes, once the nose of the camel is in the tent, the rest of the camel will soon follow. For this reason, we are including exchange traded cryptocurrency futures in our programs wherever possible.

I believe that every multi-strategy portfolio needs to be carefully reconsidered. Is this new Fed order impacting your portfolio construction? I'd love to hear your views.

With this in mind, can we set up a Zoom or call in the next couple of weeks?

I hope the first half has gone well for you, and that you and those you love are happy, prosperous, healthy and safe. I look forward to speaking with you again soon.

Warm regards,

Roy

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