

The Case for ABR 75/25: 45% Better Annual Return than S&P 500 (13.0% vs. 9.0%), Lower Max Drawdown

As we enter 2023, many advisers are more concerned with their current portfolio construction than they have been in years. If you are looking for a potentially unique potential long-term solution for your client’s portfolios that could separate you from your peers, please reply to this email or reach out to ABR Dynamic Funds at +1.212.918.4664 or use info@abrfunds.com to discuss the ABR 75/25 Volatility Strategy.

Background

The ABR 75/25 Volatility Strategy has achieved significant long-term net annualized outperformance of the S&P 500 – approximately 45% better over the full history since 2006 (13.0% vs. 9.0%), with a similar standard deviation and lower max drawdown. (Note: this period includes a significant portion of pre-inception hypothetical performance. See below for important information regarding the uses and limits of pre-inception hypothetical performance.)

This overall outperformance doesn’t mean, however, that the Strategy ALWAYS beats the S&P 500. In 1H 2022, ABR 75/25 struggled in what was a 1-in-50-year event for volatility: despite the S&P 500 being down 20%, realized volatility was still under 25. Since then, volatility normalized, the Strategy’s performance improved, and the ABR 75/25 Strategy outperformed the S&P in 2H 2022.

The Case for ABR 75/25 as an Alternative to Equity

1. Multiple Ways to Win

- a. The ABR 75/25 Volatility Strategy is a dynamic strategy intended to perform well in multiple market conditions, vs. the S&P 500, which only wins when the market goes up.

2. Significant Outperformance with Diversification

- a. As a result of performing well in multiple market conditions, the strategy has outperformed the S&P 500 while offering diversification to it.

3. Partial Equity or Core Alternative

- a. Therefore, the ABR 75/25 Volatility Strategy has improved portfolio performance when used as a partial equity or partial core replacement.

Evidence & Explanation

1. Multiple Ways to Win

Over time, the ABR 75/25 Volatility Strategy has generally performed well both in equity bull markets, such as 2019 and 2021, and in major equity crises marked in part by large and extended uptrends in volatility, such as the GFC (pre-inception) and Covid-19 (live). Nothing wins all the time, and the Strategy has not performed as well during lower volatility equity corrections and downturns, such as Q4 2018 and H1 2022.

Rolling 6-Month Returns & Correlations (2006 to Present)

S&P 500 6-Month Performance	Average Correlation	Average 6-Month Return		Observations	
		S&P 500	ABR 75/25	Count	%
Market Up	0.89	9.9%	8.7%	151	76%
Market Down & VIX High < 40	0.95	-7.1%	-8.2%	23	12%
Market Down & VIX High > 40	0.29	-12.4%	10.2%	25	13%

2. Significant Outperformance with Diversification

As shown below, and as a result of generally having performed well in 2 of these 3 scenarios (vs. only 1 of 3 for the S&P 500 Index, of course), the ABR 75/25 Volatility Strategy has outperformed the S&P 500 using several different measures over several time periods and provided diversification benefits to it.

ABR 75/25 Volatility Strategy vs. S&P 500 Index (2006-2022)

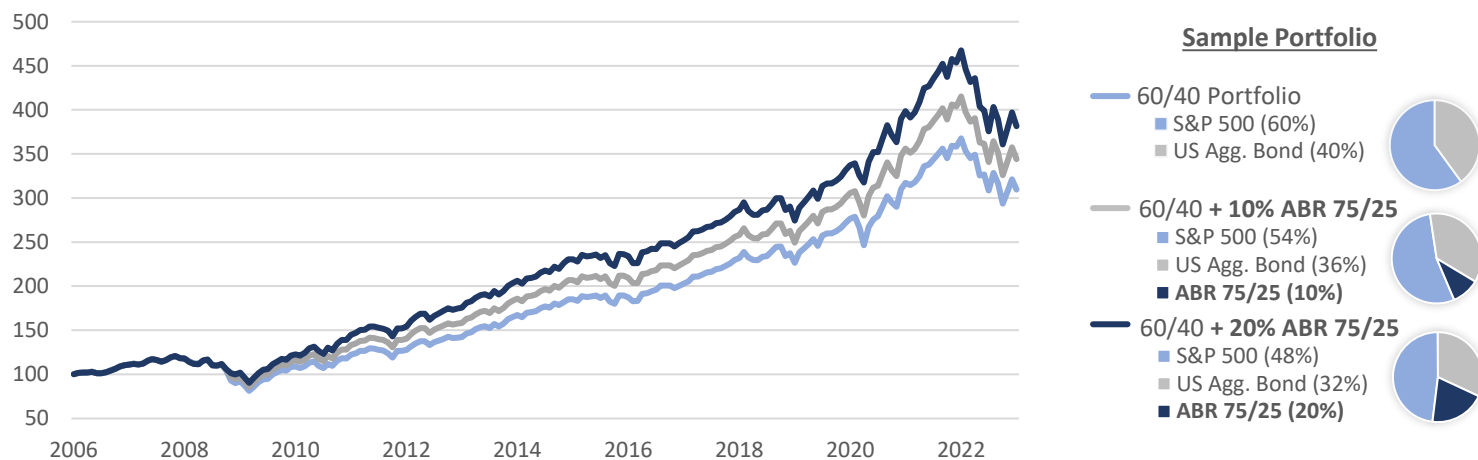
(Includes hypothetical performance. See disclosures for important information.)

Statistic	Winner		Result	
	ABR 75/25	S&P 500	ABR 75/25	S&P 500
Annualized Return	✓	✗	13.0%	9.0%
Sharpe ratio	✓	✗	0.8	0.50
Sortino ratio	✓	✗	1.26	0.66
Maximum Drawdown	✓	✗	33%	51%
Time to gain max DD (1/MAR)	✓	✗	2.6 years	5.6 years
Alpha	✓	✗	8%	0%
Best Month	✓	✗	21%	13%
Worst Month	✓	✗	-10%	-17%
Best Quarter	✓	✗	30%	26%
Worst Quarter	✓	✗	-22%	-30%
Best Year	✓	✗	57%	56%
Worst Year	✓	✗	-28%	-43%
Best 3 Years	✓	✗	167%	100%
Worst 3 Years	✓	✗	4%	-39%
Best 5 Years	✓	✗	286%	182%
Worst 5 Years	✓	✗	23%	-6%
Best 10 Years	✓	✗	482%	367%
Worst 10 Years	✓	✗	97%	87%
GFC (Q4 2008)	✓	✗	30%	-22%
Covid (Q1 2020)	✓	✗	15%	-20%
Q4 2018	✓	✗	-12%	-14%
H1 2022	✗	✓	-33%	-20%

3. Partial Equity or Core Alternative

Using the ABR 75/25 Volatility Strategy as a partial equity or partial core replacement has delivered both diversification and outperformance. Note that the graph shown below includes pre-inception (hypothetical) performance for the strategy (2006-Jan 2017).

60/40 Portfolio vs. 60/40 + ABR 75/25



Risk Values - Full History

Sample Portfolio	Annualized Return	Standard Deviation	Sharpe Ratio	Down Deviation	Beta	Alpha	Treynor Ratio	Sortino Ratio	MAR Ratio	Maximum Drawdown
60/40 Portfolio	6.9%	9.7%	0.57	7.7%	1.00	0.00	0.06	0.73	0.21	33%
60/40 + 10% ABR 75/25	7.5%	9.6%	0.65	6.9%	0.98	0.01	0.06	0.90	0.26	29%
60/40 + 20% ABR 75/25	8.2%	9.7%	0.71	6.7%	0.97	0.02	0.07	1.04	0.33	25%

(Includes hypothetical performance. See disclosures for important information.)

Disclosures:

The standardized returns of the ABR 75/25 Volatility Strategy for the periods ending 31 Dec 2022 were -28.4% for one year, +4.5% for three years, +4.7% for five years, +7.5% for 10 years, and +13.0% for the full history since 2006. The information shown includes pre-inception hypothetical performance. Past performance does not guarantee future results.

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Calculations in the second table are based on all rolling periods of the indicated length using monthly data from 2006 through 2022, and the figures are not annualized. The “time to gain max DD” is 1 divided by the MAR ratio. The MAR ratio is the annual return divided by the maximum historical drawdown. Therefore, 1 / MAR is approximately the amount of time, using long-term returns, that would be required to gain the maximum drawdown. As such, 1 / MAR is not the actual amount of time that a strategy took to recover the one particular instance of its maximum drawdown, or the time spent “underwater” during its maximum drawdown.

Certain performance information shown above is hypothetical, and certain comparisons shown above use pre-inception (hypothetical) performance information. Hypothetical performance does not reflect actual trading experience and does not necessarily reflect the deduction of all expenses. HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS.

“60/40” is 60% equities plus 40% bonds. Equities are represented in the above material by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index.

The “ABR 75/25” Volatility Strategy is represented by 75% of the returns of the ABR Dynamic Blend Equity and Volatility Index Powered by Wilshire (ABRVXX) and 25% of the returns of the ABR Enhanced Short Volatility Index Powered by Wilshire (ABRXIV) respectively (collectively, the ABR Indexes), net of hypothetical expenses of 2.00% fixed and 20.00% incentive. Actual expenses may vary. ABRVXX was launched 30 Apr 2015, and ABRXIV was launched 31 Jan 2017, such that performance information before those dates constitutes pre-inception (hypothetical) index performance. The hypothetical performance history was systematically calculated utilizing a static blend of the firm’s long and short volatility models. These results are based on hypothetical performance results that have certain inherent limitations. Hypothetical trading programs in general are designed with the benefit of hindsight. Investors cannot invest directly in an index.

There is a pooled vehicle which utilizes the ABR 75/25 Volatility Strategy; its inception date was 10 Oct 2021. For more information on the live-trading performance of various ABR-advised strategies or the hypothetical performance presented, please contact us. Wilshire® is a service mark of Wilshire Associates Incorporated (Wilshire) and has been licensed for use by ABR Dynamic Funds, LLC. The ABR Indexes are not sponsored, endorsed, sold or promoted by Wilshire, and Wilshire makes no representations or warranties with respect to the ABR Indexes. ABR Dynamic Funds, LLC may receive compensation in connection with licensing the ABR indices to third parties.

The Strategy may acquire or enter into derivatives instruments and transactions. Derivatives are financial instruments that have a value which depends upon, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indexes, or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest; in other words, a small investment in a derivative may have a large impact on the Strategies’ performance. The successful use of derivatives generally depends on the ability to predict market movements. There may be an imperfect correlation between a derivative and its reference asset. Certain transactions, such as those involving investing in certain derivatives, may give rise to leverage, causing the Strategy to be more volatile than if it had not been leveraged.

Incorporating a dynamic volatility strategy into a portfolio is designed to help an investor potentially mitigate, and potentially benefit from, volatility in the U.S. stock market. However, all investing involves risk including the possible loss of principal. There can be no assurance such a strategy will achieve a gain or prevent a loss. Volatility assets and strategies may not be suitable for some investors due to their financial circumstances and risk tolerance. A volatility strategy should not be viewed as a complete investment program.

Volatility assets entail their own unique risks that investors should consider when evaluating a volatility strategy. Volatility-based futures can become volatile and difficult to value and can be imperfectly correlated to the underlying asset or index. Due to leverage, the loss on a long futures contract could greatly exceed the initial investment. The loss on a short contract theoretically is unlimited since the appreciation of the shorted asset also theoretically is unlimited. Thus, a small investment in derivatives could have a large potential impact on the performance of a portfolio. Further, a volatility strategy may at times call for high portfolio turnover rates, which increases brokerage costs. High turnover also may generate net short-term capital gains.

Dynamic Funds for a Dynamic Future



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