USING A TACTICAL INVESTMENT STRATEGY TO HELP MANAGE RISK

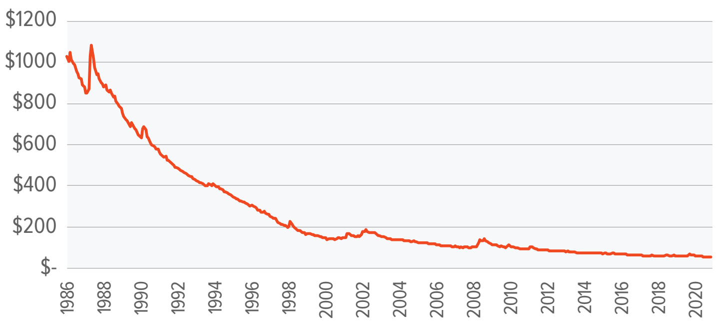
Global X Adaptive U.S. Risk Management ETF (ONOF)

Investors inherently want to protect their investments from uncertain and volatile environments, while at the same time participate over the long run in appreciating markets.

ONE METHOD IS TO SEEK PORTFOLIO PROTECTION IN THE FORM OF PUT OPTIONS AGAINST BROAD MARKET INDEXES. BUT THIS PROTECTION IS EXPENSIVE AND HAS HISTORICALLY LED TO SHARPLY NEGATIVE RETURNS.

AT-THE-MONEY (ATM) S&P 500 PUT OPTIONS, ROLLED MONTHLY

Source: Bloomberg. As of May 31, 2021.

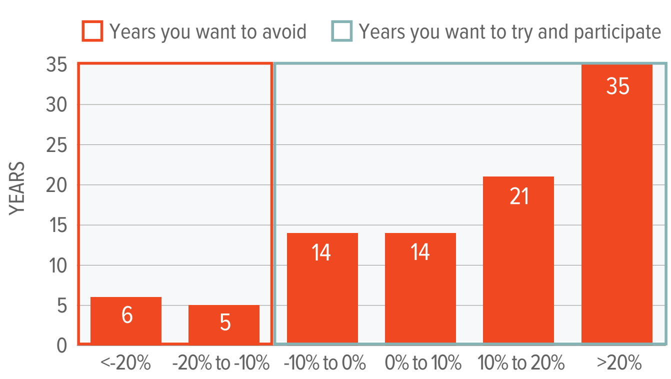


Over time, the cumulative loss due to buying put options for continuous protection has far outweighed the periodic benefit.

ANOTHER METHOD IS TO FOLLOW A RULES-BASED APPROACH THAT SYSTEMATICALLY CONSIDERS VARIOUS MARKET SIGNALS TO DETERMINE WHEN TO INVEST IN STOCKS AND WHEN TO SEEK PROTECTION IN TREASURIES.

DISTRIBUTIONS OF RETURNS SINCE 1926 TO 2020 - S&P 500 AVERAGE ANNUAL TOTAL RETURNS

Source: Adaptive Wealth Strategies. As of Dec 31, 2020.

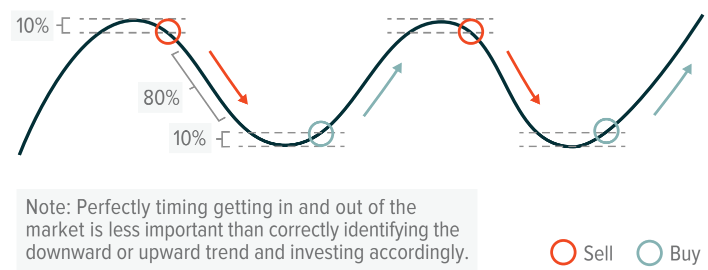


Note: The S&P 500 index, formerly called the Composite Index (and later Standard & Poor's Composite Index), began tracking 90 stocks in 1926 and expanded to 500 in 1957.

Timing the markets is hard, yet the less you lose in a given drawdown, the less you have to make up to recover losses.

INTRODUCING THE ADAPTIVE WEALTH STRATEGIES U.S. RISK MANAGEMENT INDEX: A SYSTEMATIC TACTICAL INVESTMENT STRATEGY

The Adaptive Wealth Strategies U.S. Risk Management Index seeks to participate in equity markets when conditions are favorable, and move to defensive fixed income positions when market signals anticipate a correction.



Note: Missing the top/bottom 10% of the peak-to-trough move but avoiding the 80% could enhance long-term returns

HOW DOES THE ADAPTIVE WEALTH STRATEGIES U.S. RISK MANAGEMENT INDEX WORK?

The strategy uses four different signals to determine when it is 'risk on', investing in U.S. equities, and when it is 'risk off', investing in fixed income. By using four quantitative signals, the strategy removes human bias from the decision-making process and avoids relying too much on any one metric.

WHAT ARE THE FOUR SIGNALS?

SHORTER TERM

- **MACD: Moving Average Convergence Divergence**

  MACD is designed to capture short-turning points in the market both up and down. The MACD can be one of the first technical indicators to signal a risk-off environment. MACD is a momentum indicator, reflecting the spread between the 12-period exponential moving average (EMA) and the 26-period EMA. A positive spread between the two EMAs indicates upward momentum, while a negative spread indicates downward momentum.

- **VOLATILITY**

  Volatility is also short-term in nature and can signal heightened uncertainty in the markets which tends to favor a risk off approach.

LONGER TERM

- **200-day Simple Moving Average**

  The 200-day average is designed to detect longer-term trends in the market and used in an effort to provide stability, as this trend doesn't change significantly from day to day.

- **Drawdown**

  Drawdown has its roots in the behavioral side of investing. It's measured as the absolute drawdown from the prior high-point in the market. This indicator potentially indicates the market is headed toward a longer-term trend downward.

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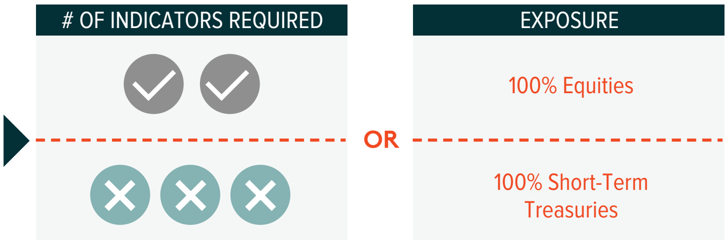
FAQ: FREQUENTLY ASKED QUESTIONS

1. HOW ARE THE FOUR SIGNALS USED?

If two or more of the signals are positive, the strategy will invest in U.S. equities. If three or more of the signals are negative, the strategy moves to fixed income. This is designed to tilt the strategy more often towards equities than fixed income, but to still allow for a shift to defensive positioning when several signals flash warning signs.



2. WHY IS THE STRATEGY BIASED TOWARDS EQUITIES OVER FIXED INCOME?

The objectives of the strategy are to remain invested in equities as much as possible, achieve a low tracking-error, have minimal internal expenses and provide significant risk mitigation, while still producing alpha* generation. In an effort to meet these objectives, a bias towards remaining invested in equities over fixed income is necessary and we believe positive for long term returns.

*Alpha: excess return of an investment relative to the return of a benchmark.

3. HOW OFTEN WILL THE STRATEGY BE DEFENSIVELY POSITIONED IN FIXED INCOME?

We would except the strategy to be invested in treasuries or be “risk-off” about 20% of the time.

4. WHAT ENVIRONMENT WOULD THIS STRATEGY STRUGGLE IN?

The strategy could struggle in a prolonged sideways market with multiple small moves up and down paired with high levels of volatility. The strategy is likely to be in a risk-off mode during much of that time and has the potential to re-enter at an inopportune time as the market struggles to find direction.

5. HOW COULD ONE USE THIS STRATEGY IN A PORTFOLIO?

This strategy could fit well into the part of the portfolio where the advisor would ordinarily look to trim equity exposure during risk-off environments and potentially limit taxable gains. This is a great complement to broad core allocations, as this is expected to act as a risk reduction tool inside the portfolio.

6. IS THERE A RISK OF HIGH CAPITAL GAINS DISTRIBUTIONS WITH THE ETF THAT TRACKS THIS STRATEGY?

By moving from equities to treasuries, with the goal of reducing risk, the ETF vehicle is expected to eliminate capital gains issues faced when we needed to trim equity exposure.

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