THE CABANA NEWSLETTER

Q1 2019

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The Cabana Newsletter: Q1 2019

LETTER TO INVESTORS

It is hard to believe that we are already several months into 2019. Before I touch on the major growth we've seen in the market (and even in our small Cabana family) so far this year, I'd like to discuss 2018.

Looking back on what may have been the worst year for investors since 1901

Wow, what a year 2018 was! Following an incredibly smooth 2017 for investors, 2018 was a complete reversal. Volatility exploded in February as a result of rapidly-rising interest rates and our Federal Reserve removing monetary support from the system. In sum, our economy was forced to stand on its own two feet after more than a decade of being swaddled by our central bankers. This new reality caused a repricing of all assets. The U.S. economy stood out as the strongest worldwide and the U.S. dollar reflected it. The higher dollar, in conjunction with rising U.S. interest rates, pressured other international equity markets, which proceeded to head steadily downward throughout the year. The trade war with various long-term allies, as well as China, served to further decouple the U.S. economy from every other country. By the end of summer, U.S. markets were working to reach new highs while everyone else entered corrections or official bear markets. I wrote at that time that something would have to give. Either the other world economies would catch up to the U.S., or the U.S. would be pulled down. Unfortunately, it was the latter. The fourth quarter of 2018 was as bad as we have ever seen for the U.S. equity markets. We saw moves up and down of two and three percent on a daily basis. In just a few short weeks, the major indexes all sold off 20% by the low that was reached on Christmas Eve. All in all, many say that 2018 was the worst year for all investors worldwide, across all asset classes, since 1901. Not one major asset class ended up in the black at the end of the year.

How did we hold up?

At Cabana, we reallocated our portfolios in response to 2018's rapidly-changing conditions, consistent with our mantra of avoiding losses where possible. As you know, that is our main objective, in addition to always staying within the identified drawdown parameter(s) of our portfolios. It is our belief that if we can keep losses contained during volatile years, like 2018, while staying invested, we stand to succeed over the long term. I am pleased to say that our portfolios all performed as designed, with each removing risk during reallocations in proportion to the risk (target drawdown) parameters of the portfolio. In other words, our most conservative portfolios took the risk off much quicker than our more aggressive portfolios – just as they are designed to do. Even our most aggressive portfolios far outperformed the broader indexes during the fourth quarter selloff. While we were down for the year, losses were contained, and we stayed invested, which allowed us to make up for last year's loss in just the first month of 2019. It is this systematic and objective tactical reallocation that makes me most proud and ultimately makes Cabana stand out from other money managers. I believe that anyone can make money when times are good, and it is only when confronted with a year like 2018 that you really know your money manager's worth. Like Warren Buffet famously said, "Only when the tide goes out do you discover who's been swimming naked."

For more details on Cabana's January and February gains in comparison to the market drop in December, please see *Removing Risk like the Layers of an Onion* on pages 5 and 6.

For detailed information regarding 2018 performance, reach out to info@cabanaportfolio.com.

Continue reading on page 3.

LETTER TO INVESTORS CONT.

Cabana in the news

In 2018, we received national recognition from several industry publications. We were ranked the #1 fastest growing registered investment adviser in the country by Financial Advisor magazine, the largest and most-read publication in the industry. We grew by more than 900% from year-end 2016 to year-end 2017, and we even made the cover of the August issue! We were named Asset Manager of the Year in the Southern U.S. by Wealth and Finance International. Lastly, we made the Inc. 5000 list of fastest growing privately held companies in the U.S. Of course, we could not have received any of these accolades if it weren't for the support and belief shown to us by our partner clients.

As Cabana's founder, I cannot begin to express my thanks to all who trusted in this crazy idea to start a different and better way to invest and change lives.

What's next for Cabana in 2019?

Introducing Cabana Retirement Solutions

On January 1, we officially rolled out Cabana Retirement Solutions, which offers holistic retirement plan services to all of our business owner clients. With that, we are proud to welcome Kelly Majdan to the team as VP of institutional retirement plans. Kelly has more than 20 years of experience in the industry and specializes in helping plan fiduciaries navigate the complex world of retirement plan benefits. For more information about Kelly and/or our retirement plan services, visit our website at www.cabanaportfolio.com or email her at Kelly@cabanaportfolio.com.

Arkansas roots deepen in Little Rock

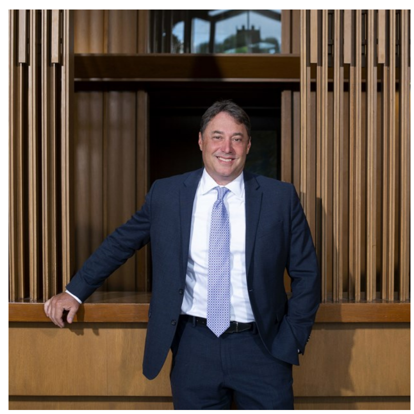
In partnership with longtime advisors and financial planners, Tim Ridge, Brandon Stalcup and Christopher Magann, we now have an office in Little Rock. We believe this expansion will not only grow our footprint and client base, but with their expertise, we have the tools to offer more complex tax services, business valuation services, insurance and annuity solutions and financial planning to **all** Cabana clients. For more information on our Little Rock team, visit our website at www.cabanaportfolio.com.

Elevating the client experience

Our team attended TD Ameritrade's National LINC Conference in February, and while we brought back many learnings and takeaways, the greatest was the importance of **your** experience with our firm. We have always prioritized client relationships, but as we grow it is more important than ever to stay true to our core values. A major focus for us in 2019 will be to invest in the technology and resources that help make your financial life easier and more accessible. We hope you will provide feedback and suggestions along the way.

As always, thank you for your support and partnership.

Sincerely,
G. Chadd Mason, CEO



Clients should carefully review the disclaimers and award ranking methodology found on page 7.

TARGET DRAWDOWN SERIES PORTFOLIO PERFORMANCE & REBRAND

Year-to-date portfolio performance as of February 28, 2019 is presented below - net of trading costs and our highest advisory fees and commissions.

Core Tactical 7: +6.16%
Core Tactical 10: +6.94%
Core Tactical 13: +7.85%
Core Tactical 16: +10.04%
Core Tactical 20: +12.80%
Core Tactical Income 5: +2.56%
Core Tactical Efficient 10: +1.77%

After months of research and testing, on Dec. 1, 2018, we rolled out the Cabana Target Drawdown Series of Portfolios to emphasize our portfolios' inherent design and benefit to our clients. All Cabana portfolios are constructed with the primary goal of avoiding or minimizing losses where possible, and especially losses that may exceed the risk tolerance of the investor (you). We refer to this identified tolerance for risk (or loss) as "target drawdown". The name now given to each portfolio mirrors its identified target drawdown percentage.

ASSET-BASED PRICING NOTICE

As of this quarter, "Asset-Based Pricing" is available to our clients who custody their assets at TD Ameritrade. Those clients will now have the option of migrating their accounts to Asset-Based Pricing from Transaction-Based Pricing, which is currently in place. Asset-Based Pricing is a fee that allows for unlimited trading and is priced based on the value of assets in the account.

This applies to clients who are either:

1. Currently invested in Cabana's Accumulator Portfolio; or
2. Currently have one or more account(s) with a balance of $400,000 or less.

A notice with more information was emailed and mailed to the above mentioned clients on March 7, 2019. If you have questions or concerns, please contact us at operations@cabanaportfolio.com as soon as possible.

FREE TAX WEBINAR TUESDAY, MARCH 26

Date: Tuesday, March 26
Time: 11:30am CST
Registration required: To register, visit https://cabanaportfolio.com/events or email georgia@cabanaportfolio.com.

Examining the Tax Cuts and Jobs Act: Key Changes and Their Impact on Individuals and Small Business Owners

Hosted by Putnam Investments

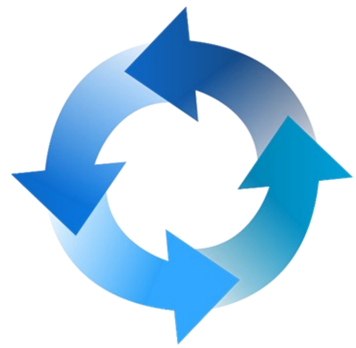
Putnam INVESTMENTS

Clients should carefully review the disclaimers on page 7.

REMOVING RISK LIKE THE LAYERS OF AN ONION

Managing risk is one of the fundamentals of investing. At Cabana, we have a systems-based approach to managing risk within our portfolios. We believe that the risk of a particular asset class is inherently correlated with where we are in the economic cycle. In other words, there are certain periods within the repeating cycle when all major asset classes become risky. This, of course, is due to the omnipresent desire of all investors to seek the greatest return on their money relative to the perceived risk of the investment. As a rule, the more risk assumed by an investor, the more opportunity for gain. When perceived risk increases, the relative attractiveness of the investment changes, and at a point, the increased risk no longer justifies the increased opportunity for gain.

The economic cycle in stages



Perceived risk is inherently tied to economic indicators like interest rates, corporate earnings and valuation (price) of assets. When interest rates are low, earnings are robust and price is generally reflective of these conditions, the perceived risk of assets like stocks is low, and the opportunity for positive returns is high. During such a period, equities outperform other asset classes, like treasuries, corporate bonds, commodities and cash. This is reflective of the initial stages of a bull market and can last for many years. Throughout this time, we frequently see more subdued growth in other assets, given that their opportunity for return is less.

Eventually, such favorable conditions lead to the prospect of inflation as a result of years of demand-side growth. When this occurs, interest rates begin to rise, which causes the risk associated with assets that are sensitive to interest rates to rise. These assets include treasuries, corporate bonds, real estate and dividend-paying stocks. This period represents a maturing bull market and growth assets (like stocks) may continue to outperform.

What happens next? The continuing rise in interest rates begins to negatively impact money supply within the economy and importantly, corporate earnings. When this happens, investors begin to perceive greater risk in stocks and eventually become unable to justify the opportunity for return in these assets. Investors move money from stocks to other assets like commodities, which have less perceived risk in the face of rising interest rates. In fact, it is often the rise in commodity prices that causes the rising rates in the first place. This period reflects the end of the bull market.

As market participants perceive greater and greater risk to the economy, they become less concerned with growth opportunities and more concerned with receiving a safe return on their investment. Money flows into things like corporate bonds and preferred stocks. As corporate earnings deteriorate, investors continue to move money from equities into “safer” assets. This results in further price declines in stocks and a pullback in interest rates. This period reflects the beginning of the bear market. In time, investors perceive risk in even safe assets, like investment grade bonds, and become less concerned with a return on their money, but rather simply want their money returned.

Money then flows into treasuries, gold and the U.S. dollar. Interest rates drop precipitously, and the price of “risk free” assets rises. This period represents the depths of the bear market and leads to the beginnings of the new bull market.

At a certain point, interest rates drop, along with inflationary pressures (i.e. input costs like commodities and labor). A company’s prospects for borrowing at fair rates and investing in their own products begins to improve. The risk associated with owning equity assets diminishes, and investors begin to once again justify the opportunity for reward in owning stocks. The economic cycle begins again as a new bull market is born.

Continue reading on page 6.

A systems-based approach to managing risk

This outline of the economic cycle is neither seamless nor completely linear. There are fits and starts at each step along the way as millions and millions of investors digest the constant flow of relevant information. It is this ongoing process that results in the pricing and re-pricing of assets, all with the idea of potential reward relative to perceived risk. Often there is one step back for every two steps forward. **We believe that it is important to focus on the forest, rather than on the trees.** We don't try to outsmart or time the natural process described above. We simply strive to identify, in a general sense, where we are in the macroeconomic cycle and invest our money in those assets that are relatively attractive within that period of the cycle. All Cabana portfolios follow this same process and run off a proprietary algorithm that attempts to do just this. In short, we establish when things are changing and remove "risky" assets from our portfolios. As we move through the economic cycle, we reallocate to match the conditions with the most attractive assets. The most attractive assets are also the least risky. Think about **that** for a second. **We are constantly removing risk from our portfolios in response to the economy - just like peeling off layers of an onion.**

Staying within identified drawdown parameters

This same principle applies to improving economic conditions. For example, treasury bonds, corporate bonds and fixed-income assets may be perceived as "risky" in a bull market with rising interest rates. In response, we peel off those risk assets (just like an onion) and replace them with more attractive assets like stocks. The speed at which risk is peeled off is dependent upon the identified target drawdown percentage of each portfolio. For example, our Core Tactical **7** Portfolio peels off risk during a deteriorating market quicker than our Core Tactical **13** Portfolio. The amount of risk within each portfolio at a given time reflects the target drawdown percentage of the portfolio. The lower the target drawdown, the less risk (and opportunity for gain) found in the portfolio at any given point. With this said, by the time we reach the depths of a bear market, all portfolios have had their risk peeled away. The higher target drawdown portfolios just peel it away more slowly. The process I describe is how we seek to stay within the drawdown parameters of each portfolio. This process also allows us to participate in the upside as markets recover. Because we remove risk in layers, rather than all at once, we keep the possibility for gains on the table as long as possible.

Peeling the Onion in the Real World

Below you will find the down-market capture ratio relative to the S&P 500 in the fourth quarter of 2018, as well as the up-market capture ratio relative to the S&P 500 in January and February.

The below statistics provide an example of our efforts to protect against the downside in stressed market conditions and participate in the upside as market conditions recover.

Removing risk in deteriorating conditions	Removing risk gradually as markets recover
Downside v. the S&P 500 (Oct. 1 – Dec. 31)	**Upside v. the S&P 500 (Jan. 1 – Feb. 28)**
Core Tactical 7: 37%	**Core Tactical 7: 54.2%**
Core Tactical 10: 58%	**Core Tactical 10: 60.6%**
Core Tactical 13: 74%	**Core Tactical 13: 68.3%**
Core Tactical 16: 95%	**Core Tactical 16: 86.6%**
Core Tactical 20: 92%	**Core Tactical 20: 109.5%**

To determine the above calculations, Cabana's gross-of-fees return for the time period noted is divided by that of the S&P 500. Cabana's income and tax-efficient portfolios do not apply here, as they run on a variation of Cabana's algorithm that manages drawdown differently and therefore trade less frequently.

Clients should carefully review the disclaimers on page 7.

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Statistics are presented gross of fees, while performance returns are presented net of fees.

Past performance may not be indicative of future returns. No current or prospective client should assume that the future performance of any specific investment or strategy will be profitable or equal to past performance levels.

All investment strategies have the potential for profit or loss. All strategies have different degrees of risk. There is no guarantee that any specific investment or strategy will be suitable or profitable for a particular client.

Historical performance results for investment indexes and/or categories typically do not show the impact of transaction and/or custodial charges or the deduction of an advisory fee, which may decrease historical performance results. There can be no assurances that a strategy will match or exceed its benchmark.

Some performance returns do not represent actual trading using client assets but were achieved through retroactive application of a model designed with the benefit of hindsight. Model returns have inherent limitations. Specifically, these returns do not represent actual trading and may not reflect the impact of material economic and market factors on the adviser's decision-making if the adviser had actually managed the client's money during this time frame.

Cabana, LLC manages assets on multiple custodial platforms. Performance results may vary based upon differences in associated costs and asset availability within the Cabana Model.

For additional information regarding Cabana's performance methodology, please visit https://cabanaportfolio.com/Performance-Reporting-Methodology-Cabana.

AWARDS AND RANKINGS: (i) Generally: Third-party rankings, awards listings and/or recognition by unaffiliated third-party rating services and/or publications are not indicative of Cabana's future performance, may not be representative of actual client experiences, and should not be viewed as an endorsement or testimonial of Cabana or its affiliates. Working with a highly-rated investment adviser also does not ensure that a client or prospective client will experience a higher level of performance. Generally, but not always, ratings, rankings and recognition are based on information provided by Cabana. (ii) Financial Advisor Magazine 2018 Top 50 Fastest-Growing Firm ranking methodology: Cabana did not pay a fee to participate in the ranking and survey and is not affiliated with Financial Advisor Magazine. RIAs were ranked based on percentage growth in year-end 2017 AUM over year-end 2016 AUM with a minimum AUM of $250 million, assets per client, and growth in percentage assets per client. Visit http://www.fa-mag.com/ for more information regarding the ranking; (iii) Inc. 5000 2018 ranking methodology: Cabana paid an application fee to participate in the ranking. The 2018 Inc. 5000 is ranked according to percentage revenue growth when comparing 2014 and 2018. To qualify, companies must have been founded and generating revenue by March 31, 2014. They had to be U.S.-based, privately held, for profit, and independent—not subsidiaries or divisions of other companies—as of December 31, 2017. The minimum revenue required for 2014 is $100,000; the minimum for 2017 is $2 million. Visit www.inc.com for more information;(iv) The 2018 Wealth & Finance International Award methodology: The award is not indicative of Cabana's future performance, may not be representative of actual client experiences, and should not be viewed as an endorsement or specific client evaluation of Cabana. Cabana did not pay an application fee to participate in the ranking and was anonymously nominated. Cabana is not affiliated with Wealth & Finance Magazine. Investment advisory services provided through Cabana, LLC, a subsidiary of Cabana Holdings.

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