Special Edition: Advisor Q+A

We're mixing things up this week. The below commentary is a compilation of the questions and answers that came out of a monthly webinar our team hosted last week with professional advisors around the country. The advisors that participated are currently using our portfolios for their own clients, and in my opinion, had some very good and timely questions. I hope everyone enjoys and even learns a little from some of the thoughts and back and forth taking place among those of us that do this for a living. These advisors are on the front lines of taking care of their clients during really difficult times.

1. How do you believe the recent Fed activity impacts Cabana's investment process and the relevancy of the different factors that we pay attention to and reallocate on, if at all?

Short term, restarting QE and dropping interest rates has an impact on asset pricing, whether it is stocks, bonds, real estate, commodities or the U.S. dollar. Each major asset class is judged by its relationship to a risk-free rate of return, which is being manipulated directly or indirectly by the Fed's actions.

Long term, investing is always a zero-sum game and capital flows from one asset class to another in search of yield (or return) relative to perceived risk. This is what makes the outcome consistent from one cycle to the next. It's all relative, and the most attractive asset at any given time wins. Our algorithm is monitoring interest rates across the yield curve, earnings, as well as the price of the broad U.S. market (using the S&P 500 as a proxy). We believe it is these basic data points that make up and reflect the cyclical economy, regardless of how or why they move. It is only necessary to know that they have moved and that they are inherently related.

2. I have a few potential new clients with a current advisor telling them to stay long. What would you tell them? Why invest in Cabana's portfolios now at the detriment of locking in loss?

While it is ultimately up to the advisor to determine what is suitable for their client or prospect, to me, the most important elements of investing are first, having a process that can be systematically employed and secondly, avoiding large losses. These concepts flow from one another. If your "system" allows for large losses when things get tough, we believe it is unlikely that it will be followed and thus it is not a system at all. Conversely, if an individual's portfolio avoids large losses during adverse market conditions, we believe the investor will have the confidence to stick to his or her process and in doing so will be more likely to adopt a system that can be successful over a reasonable investment horizon of three to five years.

3. Can you expand on how the portfolios will be free of capital gains taxes this year?

As you know, our portfolios are invested primarily in ETFs (exchange-traded funds). Recent proposed changes in regulation have amended rules relating to the redemption process of underlying shares of tactical ETFs. This change may result in tax neutral transactions, which occur inside the wrapper of the ETF. Our investment committee is working on various scenarios that would allow us to take advantage of this potential change, and will keep our clients and partners updated.

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G. Chadd Mason
CEO, The Cabana Group

RIA SURVEY & RANKING 2019
Cabana Asset Management
Ranked #2 Fastest-Growing Firm in the U.S. in *Financial Advisor* magazine's 2019 ranking and survey.

RIA SURVEY & RANKING 2018
Cabana Asset Management
Ranked #1 Fastest-Growing Firm in the U.S. in *Financial Advisor* magazine's 2018 ranking and survey.

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4. Why haven't there been any equity buys since the market bottom?

Our portfolios currently have approximately a 20% equity position in a large cap/value dividend ETF. This is one of the reasons our portfolios are moving up on days when the equity market bounces.

We have a process of allocating our capital to the assets that our algorithm deems are relatively attractive at given a point in the repeating economic cycle. Our algorithm is focused on a combination of fundamental data, as well as technical data. With this information, we have a picture of what the risk/reward conditions are among stocks, bonds, real estate, commodities and the U.S. dollar. We purchase those assets that are deemed attractive, and then hedge with other assets that are inversely or non-correlated with our target assets. This is one of the methods our algorithm uses to manage risk when stocks sell off.

The other way is that we respond to the changes that our algorithm is seeing and reallocate out of stocks when they no longer appear attractive - based upon the data we are analyzing. Currently, we remain in what we call our Bearish "Scene" as defined by this same data. The current fundamental and technical facts suggest that it is prudent to remain hedged across all assets. Essentially, we are invested with the goal of avoiding large and sudden losses resulting from falling stocks, but also invested to allow for gain if stocks bounce and data improves. We are happy to collect some dividends and bond interest while we wait for a confirmed signal to reallocate and add equity exposure. While continuing improvement in equity prices is a part of that decision, it is not the only factor.

5. Do you fear missing out on a market recovery while waiting for the algorithm to signal a change?

No. We are investors and not traders. We are not interested in guessing, predicting or trying to catch tops and bottoms. We have a systematic approach that focuses on protection of capital first and profits second. We have produced several marketing pieces that exhibit our portfolios' upside and downside capture versus the S&P 500 during both good and bad markets. These simple mathematical examples evidence the long-term (and short-term) value of minimizing losses, even if it means being a little late back to the party.

Interested in viewing these materials? Send a request to info@thecabanagroup.com

6. Is the algorithm predicting another selloff?

The algorithm currently shows that we remain in bear market conditions and that equities are not relatively attractive compared to other assets. Should the current environment persist, we would expect for stocks to continue to perform poorly in comparison to other assets like bonds, gold and the U.S. dollar.

7. I have a client in the Target Drawdown Income 5 who asked if he/she should move into the Target Drawdown 10, 13 or 16 to capture more of the rebound. What are your thoughts?

Again, determining the suitability of any portfolio falls on the responsibility of you as their advisor. With that in mind, all Target Drawdown Portfolios, including the Income 5, are currently invested in the exact same positions. Moreover, each portfolio will reallocate at the same time. The amount of risk added at the reallocation will be dependent upon the drawdown target of the respective portfolio. The Target Drawdown Income 5, 7 and 10 will add risk on more slowly than the 13 and 16. It is rarely a good idea to try and play catch up and chase returns. We believe that if we stick to our process and remain invested, we will make up ground.

Last week's commentary can be found here.

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The COVID-19 health epidemic has had substantial global economic impact on financial markets. As of March of 2020, restrictions to travel and business spanning the economy for activities not deemed essential have been imposed throughout the United States. These restrictions have caused unprecedented volatility and uncertainty in capital markets and have negatively impacted the economy. It is unknown how severe the impact to the economy and capital markets will be if the epidemic persists for an extended period of time. The epidemic may have a material adverse impact on Cabana's investment advisory business including, but not limited to, the performance of our portfolio strategies.

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