The Trinity Portfolio

Why I'm Investing Most of My Money in Just One Fund

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Not too long ago, **Financial Times published an article** with some alarming takeaways…

Half of the 15,000 mutual funds in the US are run by portfolio managers who don't invest any personal monies into their products.

We often say that there is a good reason for this – these mutual fund managers are smart! I'd guess they realize that their own management fees are high and that the mutual fund structure is tax-inefficient for many investment styles.

As I've written before, I believe this lack of "eating-your-own-cooking" is a major black eye for our industry. After all, if a manager believes his/her fund is so great that it deserves inclusion in your portfolio, shouldn't they have already sunk their own dollars into it?

In part, due to this reason, I've already invested nearly 100% of the investible dollars that I've allocated for public investments into Cambria funds and portfolios. For years, I've published and updated this information on **my blog.**

Today, I'm excited to update you on some allocation changes. While I'm still going to be fully invested in Cambria offerings, I've simplified everything: By the end of the year, most of my public assets will be invested in one fund: the new Cambria Trinity ETF (**ticker: TRTY**).

There are two principal reasons why I've chosen to go with TRTY. The first, we just addressed. I believe managers have a fiduciary responsibility to eat their own cooking. If your own fund isn't good enough for your own dollars, it has no business being marketed to others.

The second reason why I'm nearly all-in with TRTY is simple: I genuinely believe in its market approach.

Given that many of you may be unfamiliar with Trinity or need a refresher, I'll briefly walk through its methodology (the reasons why I believe in its market approach), then I'll provide more details about the new TRTY ETF, while contrasting it with our Trinity digital portfolio offering through Betterment.

Why the Trinity Approach Works for Me

I'm a quantitative investor. This simply means I tend to rely on mathematical models and rules to help me with my investment decisions. Part of what steered me toward quantitative investing was my awareness of what happens when I invest based on my own hunches and gut-feelings, what the academics like to call behavioral biases. If you've listened to **my podcast**, you've likely heard me discuss my early-career experience with biotech equities and options, in which my instincts resulted in some painful losses.

So, when we designed our Trinity portfolios, we wanted to root them in rules-based frameworks, but then refine them by taking an added step which addresses the behavioral challenges we face as investors. Let's talk about these two aspects of Trinity, starting with its quantitative foundation.

The name "Trinity" is a reference to the three pillars of the strategy's quantitative approach: globally-diversified assets, weightings toward value and momentum investments, and trend following.

Trinity starts where many modern-day portfolios do – the classic "60/40" portfolio (60% U.S. stocks and 40% U.S. bonds). But then we expand, including global stocks and bonds. This helps mitigate risk by diversifying wealth across a broader set of investments. We then add real assets, including commodities and real estate for the purpose of helping reduce volatility and drawdowns, and increasing returns.

Second, with these broad, global assets in place, we then refine them using concentrated factor-based investment strategies. Specifically, we tilt our portfolios towards "value" and "momentum" investments. This means investments exhibiting traditional traits of being priced at low valuations, and investments that are enjoying more upward momentum in market pricing relative to other, similar investments. We do this as our research suggests it has the potential to increase returns.

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Third, we apply a strategy known as trend following. This is a tool that helps us identify when we want to keep an investment in our portfolio, versus when it's time to move to cash or hedge our holdings to help protect our wealth. Our research suggests that trend following can potentially result in yet another significant increase in returns, while potentially helping to reduce portfolio volatility losses during bear markets.

These are the quantitative steps that underpin Trinity, but what about the behavioral aspect I referenced earlier? How does Trinity help us sidestep emotionally-based bad investment behavior?

Well, at this point in Trinity's construction, it's part buy-and-hold, part trend following. But a question arises – which strategy should receive a heavier weighting? It's not an easy question to answer.

Many investors find a passive buy-and-hold approach to be challenging when markets are headed south. But the irony is that investors can also struggle with trend following, or being too different from the world in general. Being different is great when your strategy is outperforming, such as trend following did in 2008. But it's painful when your strategy is going through periods of underperformance, which every strategy experiences at some point. This underperformance is even more difficult to endure when your buy-and-hold neighbor is making big gains and you are not.

So, with both buy-and-hold and trend following presenting their own unique challenges, what's the answer?

Well, the best investment strategy is the one that you'll be able to stick with, year-in-year out. That makes it dangerous to tilt too heavily in either direction – after all, there could be years when one style underperforms the other. And if that were to happen, our natural tendency as emotionally-based investors would be to jump ship, abandoning our approach, often at the wrong time, with injurious results.

Given this, we constructed Trinity to allocate about half to both approaches. This reduces the chances you'll abandon your strategy. That's because regardless of which type of market it is, part of your portfolio has the potential to be benefitting from either buy-and-hold or trend, or both.

It's this methodology – a quantitative foundation with a behavioral overlay, that makes Trinity the right approach for me, and the reason why I'm virtually 100% of my public assets into it.

At this point, let's touch on a few details for the new TRTY fund.

The Cambria Trinity ETF (TRTY) Details

First, if you'd like more details on the broad conceptual theory behind the Trinity methodology, please **click here** to read our white paper.

As to our new TRTY ETF, in a nutshell, it's a one-click way to own a basket of ETFs that then own over 20,000 global securities, diversified by geography and asset type. It does this by tracking the Cambria Trinity Index, which employs a balanced, systematic approach to asset allocation, focusing on diversification, value investing, and trend following. For those of you familiar with our Trinity Portfolios, the new Trinity ETF approximates a Trinity level between 3 and 4. We believe that's a moderate risk level.

TRTY's management fee is 0%. Given that it's a "fund of funds" that holds underlying ETFs, the total expense ratio is 0.66%.

Diversification does not ensure a profit or guarantee against a loss.

The Trinity ETF or Trinity Through Betterment?

If you're interested in the Trinity ETF, you might be wondering about investing in it versus investing in a Trinity portfolio offered through Betterment. There are a few slight differences.

Some investors will prefer the customization of our digital offering with Betterment. Investors who choose this option have greater flexibility in targeting a specific risk profile, since we offer six Trinity portfolios through Betterment. These portfolios sit at a different point along a risk continuum, ranging from 1 (conservative) to 6 (aggressive). Meanwhile, as detailed a moment ago, the Trinity ETF through the index largely approximates a moderate risk level (similar to a Trinity 3 or 4).

A second difference is that Trinity through Betterment incorporates tax loss harvesting into its process. Even though ETFs are quite tax efficient, some taxable investors may prefer the tax loss harvesting component of our digital offering.

A third difference is that investing in the Trinity ETF is a simpler process. One click, and you're done. Investing through Betterment requires opening an account, some paperwork, fund transfers, and so on. Additionally, there is a small passthrough fee to Betterment which Trinity ETF investors will not incur.

We're proud of both offerings, believing each to offer advantages, yet ultimately, the decision as to TRTY versus our digital offering is a personal one based on the unique investor's preferences.

So, there you have it – my latest investment allocation and the reasons behind it.

If you're interested in learning more about TRTY, you can click here for its fact sheet. And if you're an advisor curious as to whether TRTY might be a good addition to your client portfolios, feel free to get in touch. I'm happy to chat with you about this or whatever else might be on your mind. You can email me at mf@cambriainvestments.com.

Disclaimer

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expense before investing. This and other information can be found in the Fund's full and summary prospectus which may be obtained by calling 855-383-4636 (ETF INFO) or visiting our website at www.cambriafunds.com. Read the prospectus carefully before investing or sending money.

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Shares are bought and sold at market price (closing price) not net asset value (NAV) are not individually redeemed from the Fund. Market price returns are based on the midpoint of the bid/ask spread at 4:00 pm Eastern Time (when NAV is normally determined), and do not represent the return you would receive if you traded at other times. Buying and selling shares will result in brokerage commissions. Brokerage commissions will reduce returns.

There is no guarantee that the Fund will achieve its investment goal. Investing involves risk, including the possible loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from social, economic, or political instability in other nations. These risks are especially high in emerging markets. Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Investments in commodities are subject to higher volatility than more traditional investments. The fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses. The use of leverage by the fund managers may accelerate the velocity of potential losses. The Fund employs a "momentum" style of investing that emphasizes investing in securities that have had higher recent price performance compared to other securities. This style of investing is subject to the risk that these securities may be more volatile than a broad cross-section of securities or that the returns on securities that have previously exhibited price momentum are less than returns on other styles of investing or the overall stock market. Investments in smaller companies typically exhibit higher volatility. Diversification may not protect against market loss

This information is not intended to provide legal and/or tax advice. Please consult your tax/financial advisor for further information.