

Think Income and Growth Don't Exist Around the Globe? Think Again

In early 2017, we wrote a paper we've since updated, called "[Think Income and Growth Don't Exist in This Market? Think Again](#)" that sought to address a question facing many U.S. equity investors...

Was it possible to find a U.S. equity investment that could offer an attractive yield, yet come without a lofty, dangerous valuation?

We began that paper with the following investor-perspective...

"I need an investment that's going to provide me not only potential income, but potential growth too. Unfortunately, investors have been piling into dividend funds for years now in their search for yield. I'm worried that this has left me few reasonably-valued opportunities. If I invest in a potentially overvalued dividend fund today and this bull market finally runs out of steam tomorrow, then I'm risking serious losses. On the other hand, keeping my money on the sidelines is returning me zero. Is there an answer?"

Our paper concluded that we believed there was an answer. In our opinion, the [Cambria Shareholder Yield ETF](#) (ticker: SYLD) offered a potential solid shareholder yield coupled with an attractively-low valuation (watch a short, explanatory video about SYLD [here](#)).

Of course, the potential power of a shareholder yield strategy is not limited by geography. Neither is an investor's need for an attractive yield at a reasonable valuation. Yet, as our non-U.S. readers can attest, this has proved challenging as sovereign banks around the globe have pushed their interest rates into negative territory.

And so, investors considering income investments in the global opportunity set find themselves facing a similar predicament. Is there a balance between income and growth? We penned a foreign companion to our original US paper, and in this updated version, we still believe the answer is "yes" – in fact, this time, you have two potential options.

How We Got Into This Predicament

In the U.S., it was the Fed's zero interest rate policy (ZIRP), the ostensible end of a 30+ year bull market in bonds, and one of the lengthiest bull markets in stocks in U.S. history. All of these factors combined to funnel billions of dollars into any investment that even appeared to offer a reasonable dividend or cash distribution. Desperate, yield-hungry investors were left picking over the markets, stretching valuations and depressing yields.

We've seen a similar dynamic play out overseas. In 2014, several of Europe's central banks cut interest rates below zero.¹ ECB President Mario Draghi embarked on a government bond-buying plan worth about 1.1 trillion euros in March 2015. That program was later doubled.² The effect? Desperate, yield-hungry investors faced what seemed to be a challenge – a high-yielding investment that came at a lofty valuation, or a reasonably-valued investment that offered an anemic yield.

What's the answer?

We humbly request you consider the two sister-investments to Cambria's Shareholder Yield ETF – Cambria's Foreign Shareholder Yield ETF (FYLD), and Cambria's Emerging Shareholder Yield ETF (EYLD).

For those unfamiliar, we've engineered the entire "shareholder yield" suite with the goal of helping investors get exposure to quality value stocks that have returned significant free cash flow to shareholders via dividends and buybacks relative to the rest of the stock universe. But given that we're referencing Cambria funds, we'd rather not try to sway anyone based on our own opinion. Instead, let's go straight to the numbers so that you can decide for yourself.

¹ <https://www.bloomberg.com/quicktake/negative-interest-rates>

² <https://www.bloomberg.com/quicktake/europes-qe-quandary>

The Search for Income

Below we show the SEC 30-day dividend yields as of 3/31/2021 for FYLD and the category in which FYLD is placed (Morningstar Foreign Mid/Small Cap Value).

Name	30-Day SEC Yield	12- Month Yield
Cambria Foreign Shareholder Yield (FYLD)	3.32%	3.05%
Morningstar Foreign Small/Mid Value Category	1.51%	1.74%

Source: Morningstar. Past performance does not guarantee future results.

Please see standardized performance data.

Let's now include our emerging market investment set.

Below we show the SEC 30-day dividend yields as of 3/31/2021 for EYLD and the category in which EYLD is placed (Morningstar Diversified Emerging Markets).

Name	30-Day SEC Yield	12- Month Yield
Cambria Emerging Shareholder Yield (EYLD)	3.84%	3.05%
Morningstar Diversified Emerging Markets Category	0.66%	0.96%

Source: Morningstar. Past performance does not guarantee future results.

Please see standardized performance data.

As you can see from the data tables above, FYLD offered a healthy dividend yield at 3.32% and EYLD offered a dividend of 3.84%. But remember, we've engineered our suite of shareholder yield ETFs to reflect total cash distributions to investors from dividends and buybacks. When management rewards investors with buybacks, we wouldn't see that value-transfer reflected in the dividend yield.

If you're an investor focusing exclusively on dividend yield, you could be overlooking buybacks. But that could be a grave error as we believe what's important isn't just a dividend return but is the potential total cash return. If you're unsure as to the difference this makes, we'll show you in a moment. But first, let's address the argument against buybacks.

Why Buybacks Should Be Considered

A pure income investor might read our position above and say, “Say whatever you want, but I don’t care about buybacks. After all, it seems like overconfident CEOs are always buying back stock at all sorts of prices, regardless of valuations. Plus, they throw lucrative stock options to management, so trying to include buybacks isn’t worth it to me. I see better dividend yields up there than what FYLD and EYLD are offering, so I’m choosing one of them.”

It’s a logical response, but let’s challenge it.

Why, perhaps, should you be willing to pay more attention to buybacks?

Without getting into too much detail, corporate share buybacks can be an effective way for managers to return profits to shareholders – similar to dividends – yet without triggering the taxable event that occurs with dividends. This means shareholders are receiving value, but it’s subtler – generally camouflaged in the asset’s market price, rather than the obvious dividend payment that appears in your brokerage account one day. But that doesn’t mean the value isn’t there, it’s just in a different form. And at the end of the day, wouldn’t you prefer the highest total return possible, regardless of the source of that return?

If you’re still not convinced on the value of buybacks, consider famed investor, Warren Buffett’s opinion. From his [1984 letter to Berkshire Hathaway shareholders](#):

“When companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders as surely as repurchases.”

The key phrase for buybacks here is “intrinsic value.” If you are an overconfident CEO buying back overvalued shares, then you’re destroying value. In such a case, the earlier objection to including buybacks is valid. Buybacks would indeed be a detriment to total return.

But when a wise CEO buys back shares at great valuations that are below intrinsic value, to paraphrase Buffett’s quote, “no alternative action benefits shareholders as much.”

Combining Dividend Yield with Buyback Yield

Now, just so you’re not misunderstanding, this isn’t an issue of choosing buybacks instead of dividends. It’s not a competition.

We like dividends too; we just think an investor can potentially do better by combining good dividend yields with good buyback yields, rather than by focusing on dividend yield alone. Think of these two returns as a broader, complementary “shareholder yield.”

We believe shareholder yield is a good indicator of an investment’s long-term potential. But we’re not the only ones. For instance, J.P Morgan writes, “Across the range of definitions, we find the single best measure of Value is arguably Shareholder Yield, which combines the effects of Dividends, Buy-Backs & Net Issuance...” (J.P Morgan, Value Every

where, August 23, 2016.) Then there was the Societe Generale study reporting that, historically, a shareholder yield strategy had beaten the market in 17 of the previous 20 years, whereas a dividend yield strategy had beaten the market in only 9 of those years. (Societe Generale, Global Quantitative Research, October 9, 2014.) You'll find similar takeaways in various reports from other large financial institutions.

With all this in mind, let's look again at this same group of ETFs, this time on a total return basis instead of just dividend yield.

A Comparison of Total Returns

Below we compare the cumulative returns of FYLD versus the Morningstar Foreign Mid/Small Cap category. The beginning date is 12/31/2013, which is the month end after we introduced FYLD to the market (12/03/2013). Returns stop at 3/31/2021 and are based on net asset value.

Fund Name	Total Returns
Cambria Foreign Shareholder Yield (FYLD)	38.75%
Morningstar Foreign Small/Mid Value Category	41.93%

Source: Morningstar. Total Return is Cumulative.

Standardized Performance as of March 31, 2021

	1 Year	5 Year	Since Inception
Cambria Foreign Shareholder Yield ETF NAV	70.17%	9.84%	4.98%
Cambria Foreign Shareholder Yield ETF Price	72.26%	10.10%	5.05%
Morningstar Foreign Small/Mid Value Category	67.33%	8.38%	5.38%

Source: Morningstar. Performance for periods over one year is annualized.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please visit our website at www.cambriafunds.com. Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market price returns are based upon the midpoint of the bid/ask spread at the close of the exchange and does not represent the returns an investor would receive if shares were traded at other times. Brokerage commissions will reduce returns. NAVs are calculated using prices as of 4:00 PM Eastern Time.

Note that FYLD's total return of 38.75% lags the category returns over the period. The meager returns also showcase just how difficult investing in foreign equities has been over the past several years.

Let's now evaluate our emerging market ETF. Here, the beginning date is 7/31/2016, which is the month end on which we introduced EYLD to the market (7/14/2016). Returns stop at 3/31/2021 and are based on net asset value.

Fund Name	Total Returns
Cambria Emerging Shareholder Yield (EYLD)	78.30%
Morningstar Diversified Emerging Markets Category	58.25%

Source: Morningstar. Total Return is Cumulative.

Standardized Performance as of March 31, 2021

	1 Year	Since Inception
Cambria Emerging Shareholder Yield ETF NAV	75.55%	13.66%
Cambria Emerging Shareholder Yield ETF Price	76.33%	13.89%
Morningstar Diversified Emerging Markets Category	61.80%	10.68%

Source: Morningstar. Performance for periods over one year is annualized.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please visit our website at www.cambriafunds.com. Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market price returns are based upon the midpoint of the bid/ask spread at the close of the exchange and does not represent the returns an investor would receive if shares were traded at other times. Brokerage commissions will reduce returns. NAVs are calculated using prices as of 4:00 PM Eastern Time.

In this case, EYLD's total return of 78.30% is higher than the category. Therefore, had you focused exclusively on dividend yield, you potentially may have focused on too narrow of a universe.

But back to the counter-argument: "I can see that FYLD and EYLD have historically performed in line or very well in your study up to now, but where are their valuations at this point? Are they bid up too much now?"

Looking at These Investments Through a “Value” Prism

One of the basic tenets of investing is that, all else being equal, the less you pay for an investment, the better your future returns should be. By that logic, the better the value at which we can purchase quality assets, the better positioned we should be for the potential of increased returns going forward.

Recall for a moment our earlier discussion of Warren Buffett and buybacks. Buffet believes buybacks are wonderful when they're effected at discounted valuations. He didn't say "all buybacks are great, all the time," because they're not. If a CEO overpays for his shares, it's an unwise use of money, same as if you or I overpay for, say, a new car or a dishwasher.

The point is, valuation matters. With investing, the price which you pay for an asset has a significant influence on the return (or lack thereof) that you could potentially get.

With that in mind, let's return to our two groups of ETFs. We'll start with FYLD and its category.

The chart below includes numerous common valuation metrics: the ratios of price-to-earnings, price-to-book, price-to-sales, and price-to-cash flow. We've re-included the dividend yield for perspective.

	FYLD	Category	MSCI EAFE Index
Price/ Earnings	13.46	14.31	22.44
Price/Book	1.19	1.23	1.82
Price/Sales	0.97	0.75	1.51
Price/Cash Flow	6.78	6.43	10.66
Price/Free Cash Flow*	12.91	14.09	21.61
Dividend Yield %**	3.32%	1.51%	2.26%

Source: Morningstar as of 3/31/2021. Style and Market Cap Breakdown and Value and Growth Measures are calculated only using the long position holdings of the portfolio. *P/FCF uses Morningstar category median. **Dividend Yields are SEC 30-day yield as of 3/31/2021. 30-day SEC Yield is not available for the MSCI EAFE Index. Reported dividend yield is used.

FYLD trades at a lower valuation vs. the category average in nearly every single category.

And what about EYLD and its emerging market category?

	EYLD	Category	MSCI Emerging Markets Index
Price/ Earnings	9.67	22.43	18.38
Price/Book	1.40	2.93	2.03
Price/Sales	0.64	2.62	1.82
Price/Cash Flow	6.30	13.46	10.56
Price/Free Cash Flow	11.89	36.92	24.73
Dividend Yield %*	3.84%	0.66%	1.85%

Source: Morningstar as of 3/31/2021. Style and Market Cap Breakdown and Value and Growth Measures are calculated only using the long position holdings of the portfolio. *Dividend Yields are SEC 30-day yield as of 3/31/2021. 30-day SEC Yield is not available for the MSCI Emerging Markets Index. Reported dividend yield is used.

EYLD trades at a lower valuation vs. the category average in every single category.

And for any skeptics remaining, wondering about the extent to which valuation really matters, we'll point you to a report from O'Shaughnessy Asset Management. The group conducted research on the subject and concluded the following:

“While (dividend) yield is attractive in general, one of the most important lessons we’ve learned in the large cap market is that it becomes unattractive when expensive. . . . if a company has a high yield but is also cheap, then it has outperformed the market by 3.29%, on average. But when a stock has a high yield and is trading at expensive multiples of earnings, sales, EBITDA, and free cash flow, it’s lost to the market by an average of 2.06% a year.” (O’Shaughnessy Asset Management, The Myth of the Most Efficient Market, 2013.)

As we stand here today looking forward, FYLD’s and EYLD’s low valuations stand out versus their category. We’ll let you draw your own conclusion as to what this might mean for future returns.

Yes, this is a challenging market for income investors, but it doesn’t have to be an impossible market. In our opinion, income, growth, and good values are still out there. If you aren’t familiar with FYLD and EYLD, perhaps it’s time you take a look.

This paper was compiled to provide a framework to analyze the characteristics of Cambria's ETFs, Foreign Shareholder Yield (BATS: FYLD) and Emerging Shareholder Yield (BATS: EYLD) relative to their category. The valuation data—at the time this report was written—reflects the fundamental data of Price/Earnings ratios, Price/Book ratios, Price/Sales ratios, Price/Cash Flow ratios, and dividend yield so that investors can compare the ETFs across the same metrics. All information is provided strictly for educational and illustrative purposes only.

No representation is being made that any investment will achieve performance that is similar to the returns shown above. The information provided should not be considered investment advice.

This material must be preceded or accompanied by a current prospectus. Investors should read it carefully before investing or sending money.

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On July 1, 2020 the Cambria Emerging Shareholder Yield ETF changed its investment objective and investment strategy. The fund also changed from being passively managed to actively managed on that date.

On June 1, 2020 the Cambria Foreign Shareholder Yield ETF, changed its investment objective and investment strategy. The fund also changed from being passively managed to actively managed on that date.

There is no guarantee that the Funds will achieve their investment goal. Investing involves risk, including the possible loss of principal. High yielding stocks are often speculative, high risk investments. The underlying holdings of the fund may be leveraged, which will expose the holdings to higher volatility and may accelerate the impact of any losses. These companies can be paying out more than they can support and may reduce their dividends or stop paying dividends at any time, which could have a material adverse effect on the stock price of these companies and the Fund's performance. International investing may involve risk of capital loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Investments in smaller companies typically exhibit higher volatility. Narrowly focused funds typically exhibit higher volatility.

There is no guarantee dividends will be paid. There are special risks associated with margin investing. As with stocks, you may be called upon to deposit additional cash or securities if your account equity declines.

Appendix A – Definitions

Intrinsic Value

Investopedia defines “intrinsic value” as the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.

S&P 500

The Standard & Poor’s 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

MSCI EAFE Index

The MSCI EAFE Index is an equity index which captures large and mid cap representation across developed markets around the world excluding the US and Canada.

MSCI Emerging Markets Index

The MSCI Emerging Markets is an equity index which captures large and mid cap representation across Emerging Market countries.

EBITDA

Earnings before interest, tax, depreciation and amortization (EBITDA) is a measure of a company’s operating performance. Essentially, it’s a way to evaluate a company’s performance without having to factor in financing decisions, accounting decisions or tax environments.

12-Month Yield

The sum of a fund’s total trailing 12-month interest and dividend payments divided by the last month’s ending share price (NAV) plus any capital gains distributed over the same period.

Dividend Yield

Generalized and in historical context, it is the sum of an investment’s trailing interest and dividend payments divided by a past period’s security price.

Buybacks

The process of a corporation buying back shares of its stock.

Buyback Yield

Generally, the dollar value of net buybacks over a specific time period divided by the company's total market capitalization.

SEC 30-Day Yield

A standard yield calculation developed by the U.S. SEC that is based on the most recent 30-day period.

Price/Earnings

The process of a company buying back its own shares.

Price/Book

The ratio of a company's stock price to the company's book value.

Price/Sales

The ratio of a company's stock price to the company's revenue.

Price/Cash Flow

The ratio of a company's stock price to the company's per share cash flow.

Price/Free Cash Flow

The ratio of a company's stock price to the company's per share free cash flow.

Appendix B – ETF Data

This paper was compiled to provide a framework to analyze the characteristics of Cambria’s ETFs, Foreign Shareholder Yield (BATS: FYLD) and Emerging Shareholder Yield (BATS: EYLD) relative to their category. The valuation data—at the time this report was written—reflects the fundamental data of Price/Earnings ratios, Price/Book ratios, Price/Sales ratios, Price/Cash Flow ratios, and dividend yield so that investors can compare the ETFs across the same metrics. All information is provided strictly for educational and illustrative purposes only.

No representation is being made that any investment will achieve performance that is similar to the returns shown above. The information provided should not be considered investment advice.

Below is more information on each of the referenced funds in this paper.

FYLD (all info below from Bloomberg and Morningstar as of 3/31/2021)

Objective	The Cambria Foreign Shareholder Yield ETF seeks investment results that closely correspond to the price and yield performance, before fees and expenses, of the Cambria Foreign Shareholder Yield Index.
Gross and Net Expense Ratio	0.59%
Risk	There are risks associated with investing in FYLD, including possible loss of principal.
Guarantees or Insurance	There are no guarantees or insurance when investing in FYLD.
Fluctuation of Principal or Return	Because of its narrow focus, FYLD may be more volatile than broadly diversified funds, and generally result in greater price fluctuations than the overall market.
Tax Features	Before investing in FYLD, investors should consult their own CPA or tax attorney to determine whether the investment is right for them.

EYLD

(all info below from Bloomberg and Morningstar as of 3/31/2021)

Objective	The Cambria Emerging Shareholder Yield ETF seeks investment results that closely correspond to the price and yield performance, before fees and expenses, of the Cambria Emerging Shareholder Yield Index.
Gross and Net Expense Ratio	0.69%
Risk	There are risks associated with investing in EYLD, including possible loss of principal.
Guarantees or Insurance	There are no guarantees or insurance when investing in EYLD.
Fluctuation of Principal or Return	Because of its narrow focus, EYLD may be more volatile than broadly diversified funds, and generally result in greater price fluctuations than the overall market.
Tax Features	Before investing in EYLD, investors should consult their own CPA or tax attorney to determine whether the investment is right for them.
