

Think Income and Growth Don't Exist In This Market?

Think Again

Are you having the following argument with yourself?

"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?"

As we're about to show you, yes, we believe there is an answer – and one we feel is a good one. We believe income and growth are still possible, even in this market, though admittedly, harder to find.

How We Got Into This Predicament

We all know how we got here: The Fed's zero interest rate policy (ZIRP), and now the various negative interest rate policies (NIRP) around the globe, the ostensible end of a 30+ year bull market in bonds, one of the lengthiest bull markets in stocks in U.S. history... All of this has funneled billions of dollars into any investment even resembling an income play. Desperate, yield-hungry investors have picked over the markets, stretching valuations and depressing yields.

The result is that if you're looking for income and growth at reasonable values, you're finding yourself in a challenging market. So, what can you do?

We humbly request you consider the **Cambria Shareholder Yield ETF, (ticker: SYLD)**.

For those unfamiliar, we've engineered SYLD to help investors get exposure to quality value stocks that have returned the most cash to shareholders via dividends and buybacks relative to the rest of the U.S. stock universe. But given that we're referencing a Cambria fund, 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.

The Search for Income

Below we show the SEC 30-day dividend yields as of 6/30/2023 for SYLD and the category in which SYLD is placed (Morningstar Mid Cap Value).

Name	30-Day SEC Yield
Cambria Shareholder Yield (SYLD)	1.19%
Morningstar Mid Cap Value Category	1.61%

SOURCE: Morningstar. Past performance does not guarantee future results. Please see standardized performance data.

SYLD offered a 30-day SEC yield of 1.19%, lower than that of the Morningstar Mid Cap Value category. But remember, we've engineered SYLD 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. Therefore, we shouldn't necessarily expect SYLD to be leading this category.

With this perspective, we suddenly have a far more complete way of evaluating our investments.

Why Buybacks Should Be Considered

A pure income investor might look at the above and say, "Explain it away however 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 want better dividend yields than what SYLD is offering, so I'm choosing a higher yielding fund."

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 surely as repurchases.”

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 Everywhere, August 23, 2016.) Then there was the Société Générale 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. (Société Générale, 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 SYLD vs. its Morningstar category, this time on a total return basis instead of just dividend yield.

A Comparison of Total Returns

Below we compare the cumulative returns of SYLD versus the Morningstar Mid Cap Value category. The beginning date is 5/31/2013, which is the month end after we introduced SYLD to the market (5/13/2013). Returns stop at 6/30/2023 and are based on net asset value.

Name	Total Return
Cambria Shareholder Yield (SYLD)	225.46%
Morningstar Mid Cap Value	123.59%

SOURCE: Morningstar. Total return is cumulative.

Standardized Performance as of 6/30/23	1 Year	5 Year	10 Year	Since Inception
Cambria Shareholder Yield ETF NAV	15.76%	12.80%	12.56%	12.40%
Cambria Shareholder Yield ETF Price	15.72%	12.80%	12.56%	12.40%
Morningstar Mid Cap Value Category	11.89%	6.90%	8.48%	8.32%

SOURCE: Cambria, 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 from May 31, 2013 to June 30, 2023, SYLD's total return of 225.46% was higher than the category returns.

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 SYLD vs. the Morningstar 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.

	SYLD	Category*	S&P 500 Index
Price/Earnings	6.86	12.88	22.84
Price/Book	1.66	1.91	4.02
Price/Sales	0.57	1.05	2.55
Price/Cash Flow	4.76	9.22	16.12
Price/Free Cash Flow**	7.34	23.34	28.77
30-Day SEC Yield	1.19	1.61	-

SOURCE: Morningstar as of 6/30/2023. Style and Market Cap Breakdown and Value and Growth Measures are calculated only using the long position holdings of the portfolio.

SYLD traded at a lower valuation vs. the category average and the S&P 500 Index in nearly 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.)

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. We believe income, growth, and good values are still out there. If you haven't looked at SYLD in a while, maybe it's time.

Appendix

This paper was compiled to provide a framework to analyze the characteristics of Cambria's ETF, Shareholder Yield (BATS:SYLD) relative to funds that seek to offer investors exposure to U.S. based companies in the Morningstar Mid Cap Value 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 ETF and category 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 the Morningstar Mid Cap Value category.

Mid-Cap Value: Some mid-cap value portfolios focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Category Index: Russell Midcap Value TR USD. The Russell Midcap® Value Index measures the performance of the midcap value segment of the US equity universe.

Morningstar Index: Morningstar US Mid Val TR USD. This index measures the performance of the mid capitalization stocks that are considered undervalued.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

*When evaluating the Morningstar category average valuation metrics (Price/Earnings, Price/Book, Price/Sales, Price/Cash Flow, Price/Free Cash Flow), because these metrics are redundant for each fund share class, we use Morningstar's option of "User Defined Primary Class Only" to prevent multishare funds from having a disproportionate impact on the category average. The category average 30-day SEC Yield is the exception in this table and is calculated based on all funds in the category.

**Category median is used for P/FCF Ratio

Definitions

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.

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.

Dividend Yield: Generally, the total interest and dividend payments over a specific time period divided by the most recent period's ending share price.

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

Intrinsic Value: The theoretical underlying value of a company that may or may not be different from the prevailing market price.

Long Position: Refers to owning (or long) a security or option position.

Price/Earnings: The ratio of a company's stock price to the company's per share earnings.

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.

EBITDA: Earnings before interest, taxes, depreciation and amortization. This metric shows company earnings without the impacts of interest, taxes, depreciation and amortization.

SYLD

Gross and Net Expense Ratio	0.59%
------------------------------------	-------

Risks

There are risks associated with investing in SYLD, including possible loss of principal. There is no guarantee that the Fund will achieve its investment goal. 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. Narrowly focused funds typically exhibit highervolatility.

There is no guarantee dividends will be paid. Diversification may not protect against market loss.

This material contains a manager's opinion. It should not be regarded as investment advice or a recommendation. Performance discussed represents past performance and is not indicative of future results.

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.

The Cambria ETFs are distributed by ALPS Distributors Inc., 1290 Broadway Suite 1000 Denver CO 80203, which is not affiliated with Cambria Investment Management, LP, the Investment Adviser for the Fund.

© 2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

© 2023 Cambria Investment Management, LP is a Registered Investment Adviser.