

SEVENS REPORT *alpha*

Webinar #7: International Investing
Monday, November 20th 2017

Presenter: Tom Essaye

**Guest: Meb Faber, Chief Investment Office & Portfolio
Manager, Cambria Investment Management**

Disclaimer

The information contained in the Sevens Report or this Presentation is not necessarily complete and its accuracy is not guaranteed. Neither the information contained in this presentation or any opinion expressed in it constitutes a solicitation for the purchase of any future or security referred to in the presentation.

This presentation is strictly an informational publication and does not provide individual, customized investment or trading advice to its subscribers or listeners.

LISTENERS SHOULD VERIFY ALL CLAIMS AND COMPLETE THEIR OWN RESEARCH AND CONSULT A REGISTERED FINANCIAL PROFESSIONAL BEFORE INVESTING IN ANY INVESTMENTS MENTIONED IN THE PUBLICATION. INVESTING IN SECURITIES, OPTIONS AND FUTURES IS SPECULATIVE AND CARRIES A HIGH DEGREE OF RISK, AND SUBSCRIBERS MAY LOSE MONEY TRADING AND INVESTING IN SUCH INVESTMENTS.

- Goals for Today's Webinar
 - “What Do You Think About Markets?”
 - Meb Faber – CIO & PM of Cambria Investment Management
 - Introduction
 - CAPE Ratios
 - US is expensive; Ex-US not so much
 - Diversify globally for cheaper assets
- Q&A

“What Do You Think About the Market?”

- New Market Dynamic
 - For first time in well over a year, headwinds are building
 - Bond market:
 - 10's-2's yield spread to new decade-plus lows
 - Junk bond market exhibiting stress
 - Tax Cuts
 - Will anything actually get done? Or, will anything positive actually get done?
 - China
 - Is growth there starting to slow?
 - Matters because China has caused last two big pullbacks
 - More on this week in Sevens Report
- But, Earnings & Economic Data still strong – supporting this market
 - But, can only support market, can't drive it materially higher
- New Market Dynamic: **Earnings & Econ (Positive)** vs. **Bonds/Taxes/China (Negative)**.

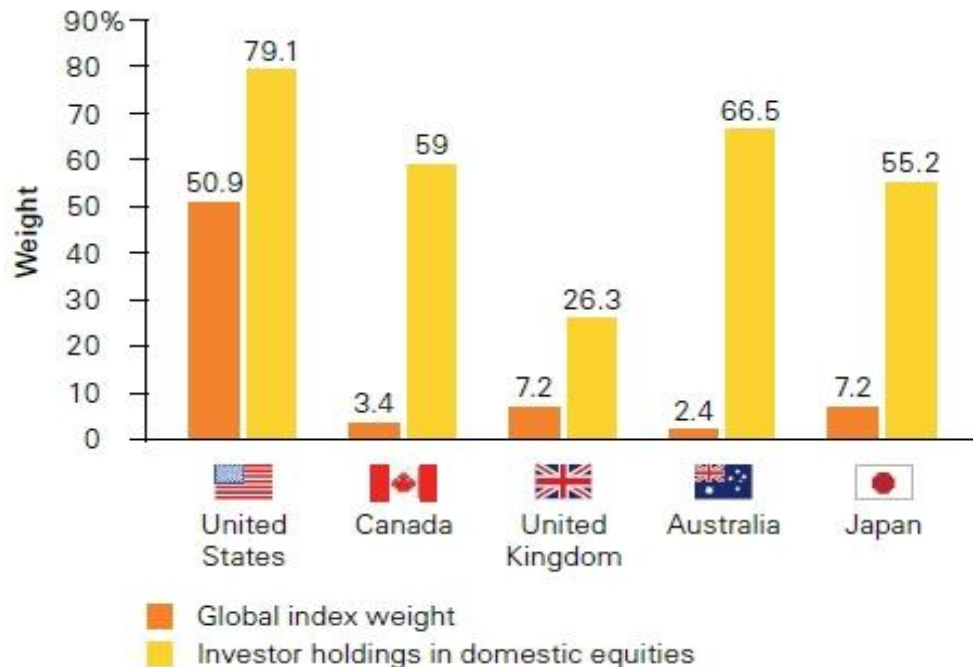
Meb Faber – CIO & PM Cambria Investment Management

- Co-Founder of Cambria Investment Management
- Manager of Cambria's ETFs, separate accounts and private investment funds
- Authored six books on investing
- Sought-after speaker
- Featured in Barron's, New York Times, CNBC, Bloomberg

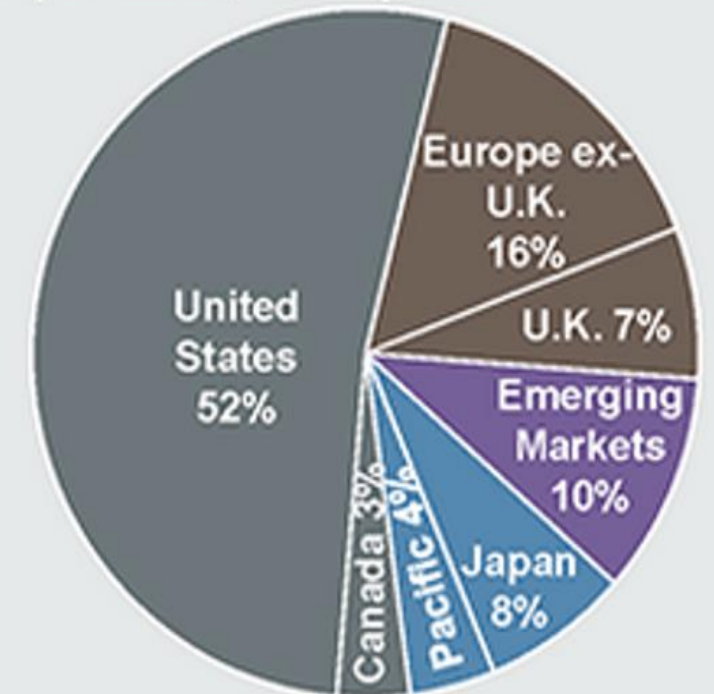
Meib Faber – CIO & PM Cambria Investment Management

- Where Are The Opportunities: International ETFs.
- Problem: Too many U.S. investors are overweight the U.S.

Figure 5. Equity market home bias by country



Weights in MSCI All Country World Index
% global market capitalization, float adjusted

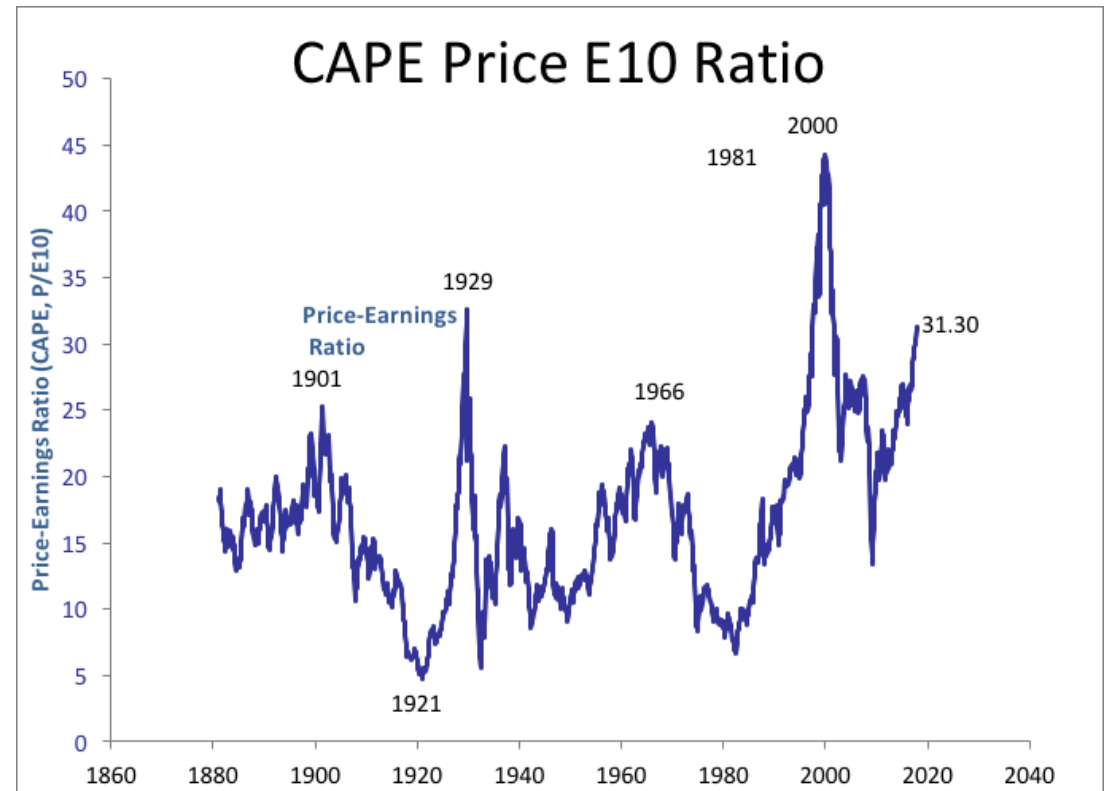


Meb Faber – CIO & PM Cambria Investment Management

- But, that's a potential problem because according to many valuation metrics, the U.S. is of the most expensive markets in the world.
- Meb's preferred valuation metric: CAPE (Robert Shiller's "Cyclically Adjusted Price to Earnings" ratio).
 - Why is it so good? (A previous guest, Ali Motamed also liked using CAPE as a valuation tool).

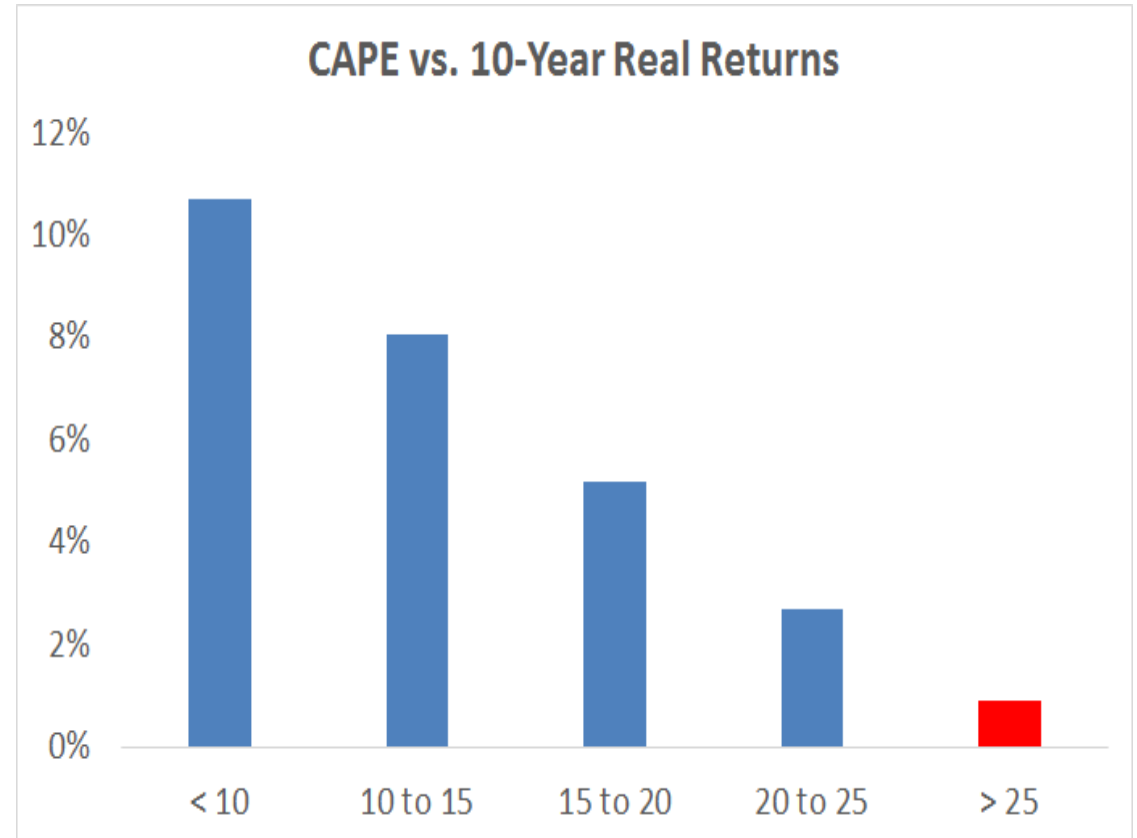
Meb Faber – CIO & PM Cambria Investment Management

- According to the CAPE P/E, the S&P 500 is trading at the 3rd highest valuation ever, surpassed only by:
 - 1929
 - 2000
- High valuations don't directly mean an imminent pullback (they can go higher), but from a capital allocation standpoint it does mean we need to look for better risk/reward alternatives.



Meb Faber – CIO & PM Cambria Investment Management

- And, here's why:
 - Markets with CAPEs over 25X have, on average, produced real returns of less than 2% per year over the next 10 years!



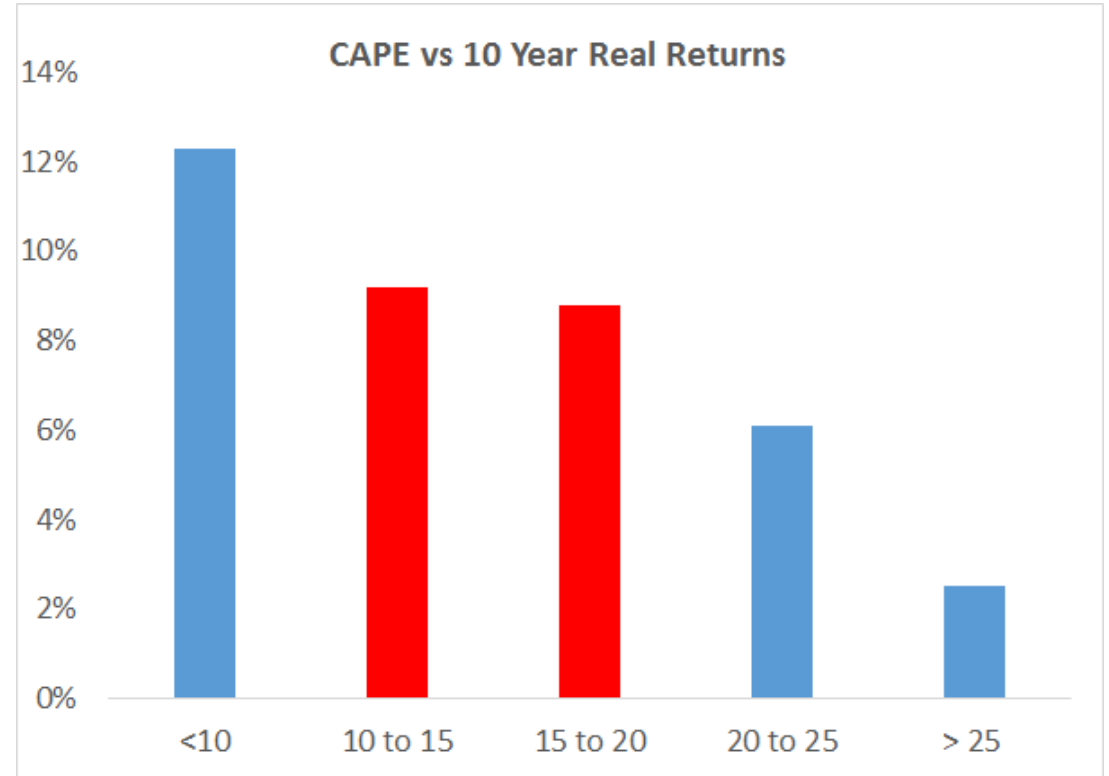
Meb Faber – CIO & PM Cambria Investment Management

- Current CAPE Ratios:

Country/Region	CAPE Ratio
Russia	5
Turkey	11
Brazil	12
Spain	14
U.K.	16
China	16
Germany	21
Mexico	23
USA	31
Average Foreign Emerging	16
Average Foreign Developed	20

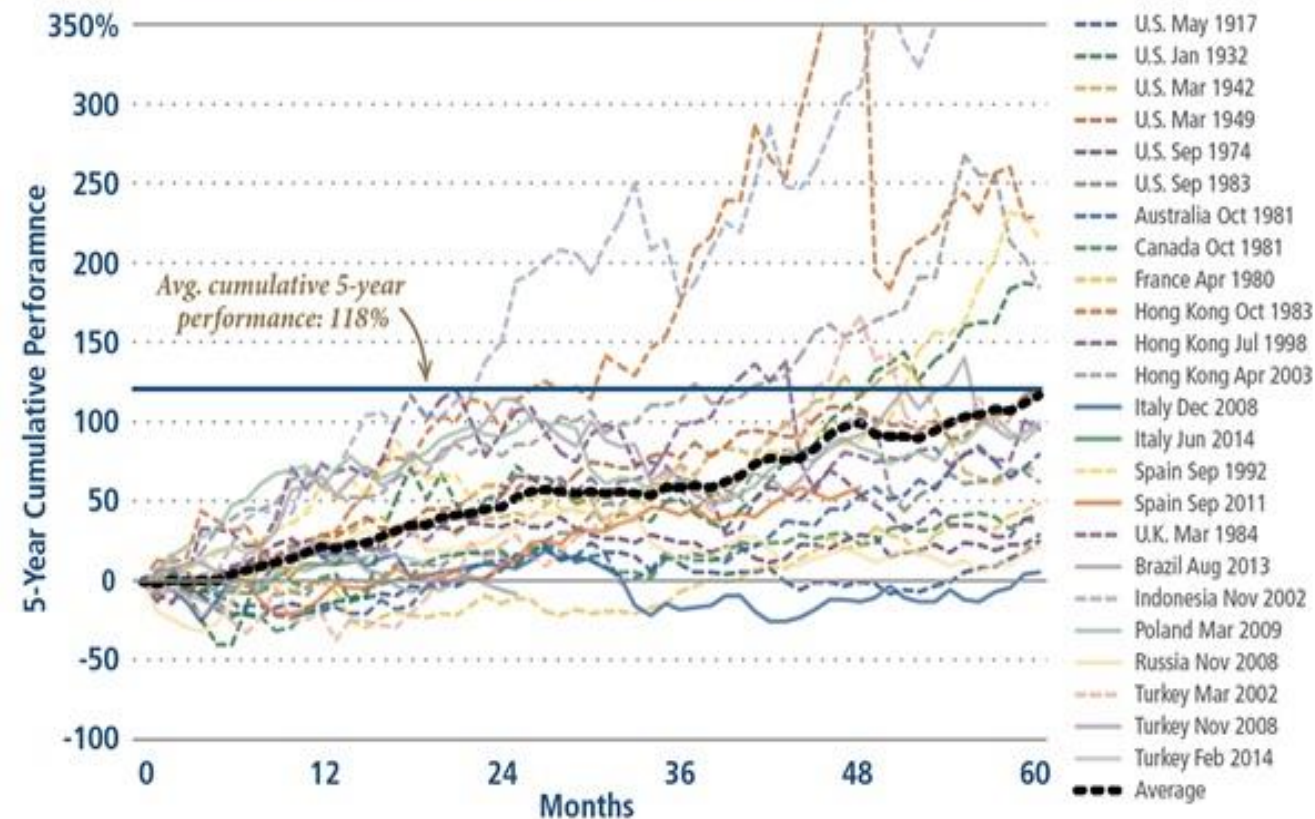
Meb Faber – CIO & PM Cambria Investment Management

- Buying Value Outperforms Over Time
- Buying markets with CAPES in the 10X-20X range (and below 10X) offers superior 10 year real returns compared to buying expensive markets.
 - That's why it's important to consider destinations outside of the U.S., given the historically high valuations.



Meib Faber – CIO & PM Cambria Investment Management

Figure 3: Five-Year Performance since Shiller P/E Dipped Below 10x



Source: Research Affiliates, LLC, based on data from Bloomberg, MSCI, and Shiller.

Meb Faber – CIO & PM Cambria Investment Management

- Meb's Network:
 - Unbelievable rolodex
 - Speaks at conferences all over the world
 - Access to consistent flow of great ideas
 - What other ideas have you heard lately that you like?

Global Asset Allocation – A Survey of the World's Top Investment Strategies

freebook.mebfaber.com

