

WHY CABANA'S TACTICAL CORE PORTFOLIOS MAY BE RIGHT FOR YOUR CLIENT



SUITABILITY

The SEC's Investment Advisers Act Release No. 1406 (March 16, 1994) states that "As fiduciaries, investment advisers owe their clients a duty to provide suitable investment advice. This duty generally requires an investment adviser to determine that the investment advice it gives to a client is suitable for the client, taking into consideration the client's financial situation, investment experience and investment objectives."

Suitability is a function of risk tolerance, coupled with client-specific goals. The ability to withstand loss, in addition to understanding each individual clients' situation, ultimately drives the investment decision. If a client incurs a loss in excess of his or her threshold, the investor is likely to sell at the worst time or give up entirely. Alternatively, if the investor's portfolio stays within such threshold the investor is likely to stay invested, which is the key to success. Our portfolios attempt to address this fundamental reality.

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TARGETED DRAWDOWN AT THE FOREFRONT

We build portfolios with targeted drawdown at the forefront. Targeted drawdown is what drives the allocation of assets, rather than the allocation of assets driving the targeted drawdown. In this way, our portfolios are able to respond to changes within the business cycle, which necessarily effect the attractiveness of assets and resulting price. To allocate assets, first allows for only a static portfolio and precludes the ability to proactively protect investment capital when the market environment changes. As an example, The Vanguard Balanced 60/40 index was down 30% in 2008 and has been down 15% more than once since then. The PIMCO Total Return Bond Fund has lost 7% in value within a year and it is perhaps the most "Conservative" allocation possible. The reason these investments have significant drawdowns periodically is that they are made up of static asset allocations, which will inevitably fall out of favor as markets move through the economic cycle.

We believe that risk is correlated with the economic cycle and that assets become more or less risky as a result. To put this in terms of our present circumstance, is there more risk today in purchasing a ten year bond yielding 2.9% or purchasing Proctor and Gamble stock with a dividend yield of 3.4%? It may be argued that the ten year bond is currently more risky, given concern over rising interest rates. Our portfolios attempt to address this weakness. There will be times within the economic cycle when our Conservative Portfolio is overweight a "risky" asset like stocks and likewise, there will be times when our Aggressive Portfolio holds little, if any, stocks.

Cabana Portfolios are Core All Asset Tactical and provide a legitimate option for the vast majority of long-term investors. However, it is the responsibility of the adviser to determine what is suitable for the client based on that individual's situation and needs. While loss tolerance, the proven crucial variable in the client investment experience, is clearly identified on the front end, Cabana's algorithm does not take any one clients' specific situation into account. An adviser should not simply rely on the name of any portfolio to determine what is suitable for his or her client. There is no substitute for knowing your client and understanding the reasons for a recommended solution.

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GIPS (GLOBAL INVESTMENT PERFORMANCE STANDARDS)



Cabana Asset Management is proudly a GIPS compliant firm.

GIPS standards are a globally accepted methodology for calculating and presenting investment firms' performance history that are widely relied upon by investment firms, their clients, and prospective clients for ensuring consistency of investment firm results. Claiming compliance with the GIPS standards demonstrates a firm-wide commitment to ethical best practices and that the firm employs strong internal control processes. Although the adoption of GIPS is not mandated by regulation, it is considered best practice and the "Gold Standard" for investment advisors.

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- *Asset allocation, diversification, and target drawdown parameters will not necessarily improve an investor's returns and cannot eliminate the risk of investment losses.*
- *Cabana Asset Management claims compliance with the Global Investment Performance Standards (GIPS).*
- *To receive a GIPS compliance presentation and/or the firm's list of composite descriptions please email your request to info@cabanaportfolio.com.*
- *Additional information about Cabana's portfolios can be obtained upon request,, on our website (www.cabanaportfolio.com) or Cabana's portfolio fact sheets.*

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