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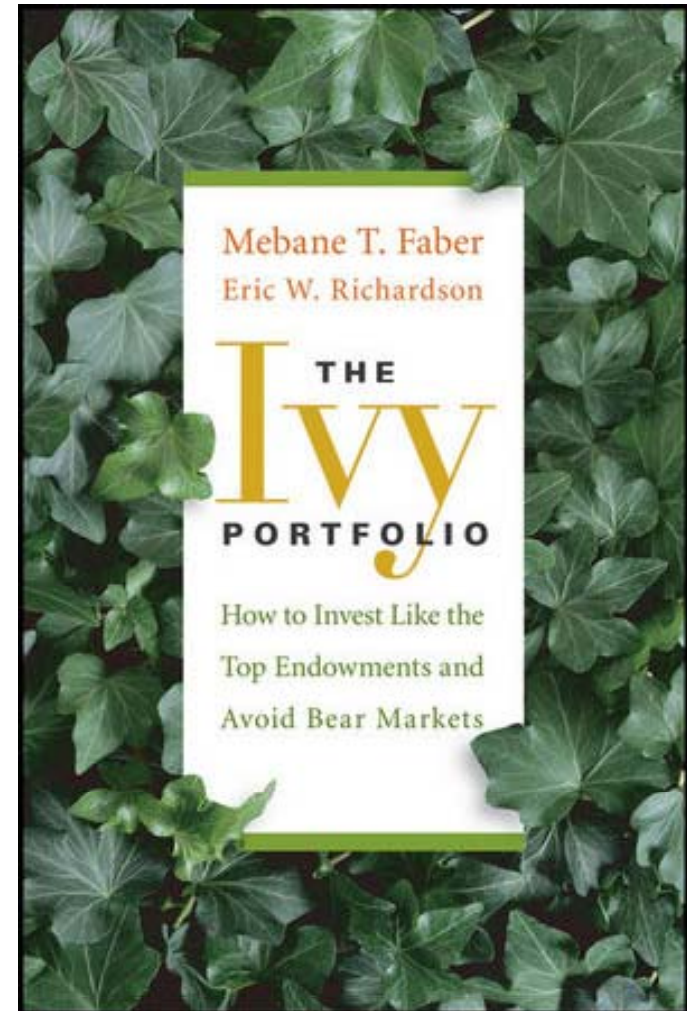
August 2009

Disclaimer

This presentation is for informational purposes and is not an offer to sell. Any investment involves significant risks, and past market conditions may not resemble future market conditions. The views of this article represent those of Mebane Faber and do not necessarily represent the views of Cambria Investments or its affiliates.

Registered Rep., 8/13/2009

- Asset Allocation
- Market Timing
- Security Selection



Allocation Percentages

	Harvard + Yale	IVY	El-Erian	Swensen
Domestic Stocks	20%	20%	20%	30%
Foreign Stocks	30%	20%	30%	20%
Bonds	15%	20%	20%	30%
Real Estate	15%	20%	15%	20%
Commodities	20%	20%	15%	0%
Total	100%	100%	100%	100%

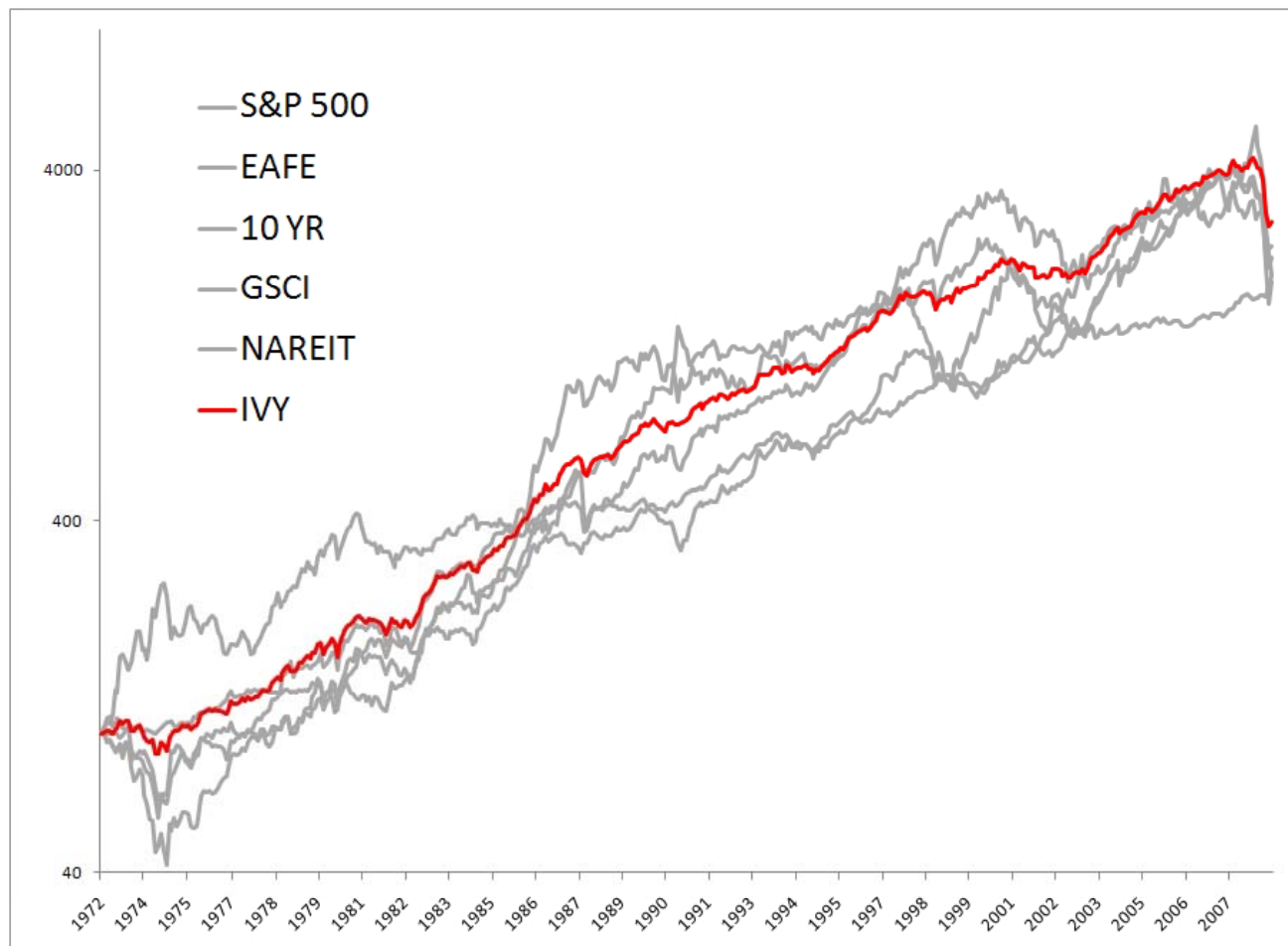
Source: Harvard and Yale Annual Reports, NACUBO, Swensen and El-Erian books.

Performance 1985-2008

	HARV + YALE (AVG)	IVY
Return	15.95%	11.97%
Volatility	9.75%	8.85%
Sharpe (5%)	1.12	0.79
BestYear	36.60%	34.25%
WorstYear	0.10%	-1.71%
Correl H+Y	-	0.80

Source: Harvard and Yale Annual Reports

Diversification Works, Until it Doesn't



Source: Global Financial Data

2008 – Buy and Hope?

2008 Returns, Max Drawdown

➤ US Stocks:	-36.77%, -50.77%
➤ Foreign Stocks:	-43.06%, -56.40%
➤ Real Estate:	-37.33%, -67.88%
➤ Commodities:	-46.49%, -67.64%
➤ Govt. Bonds:	19.23%, -7.98%
➤ Buy and Hold:	-30.09%, -46.02%

Buy & Sell Rules

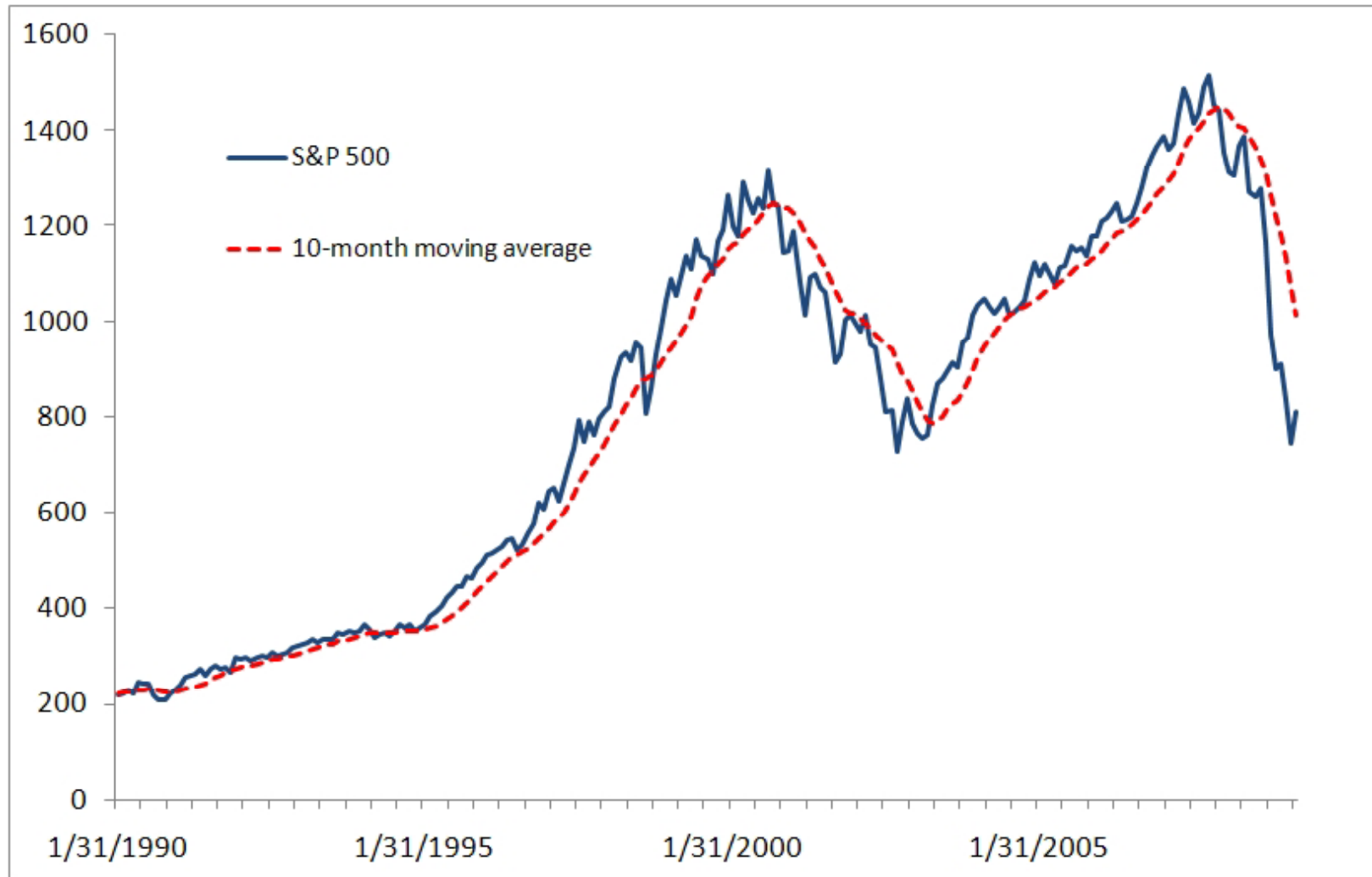
➤ **BUY RULE**

Buy when monthly price $>$ 10-month SMA.

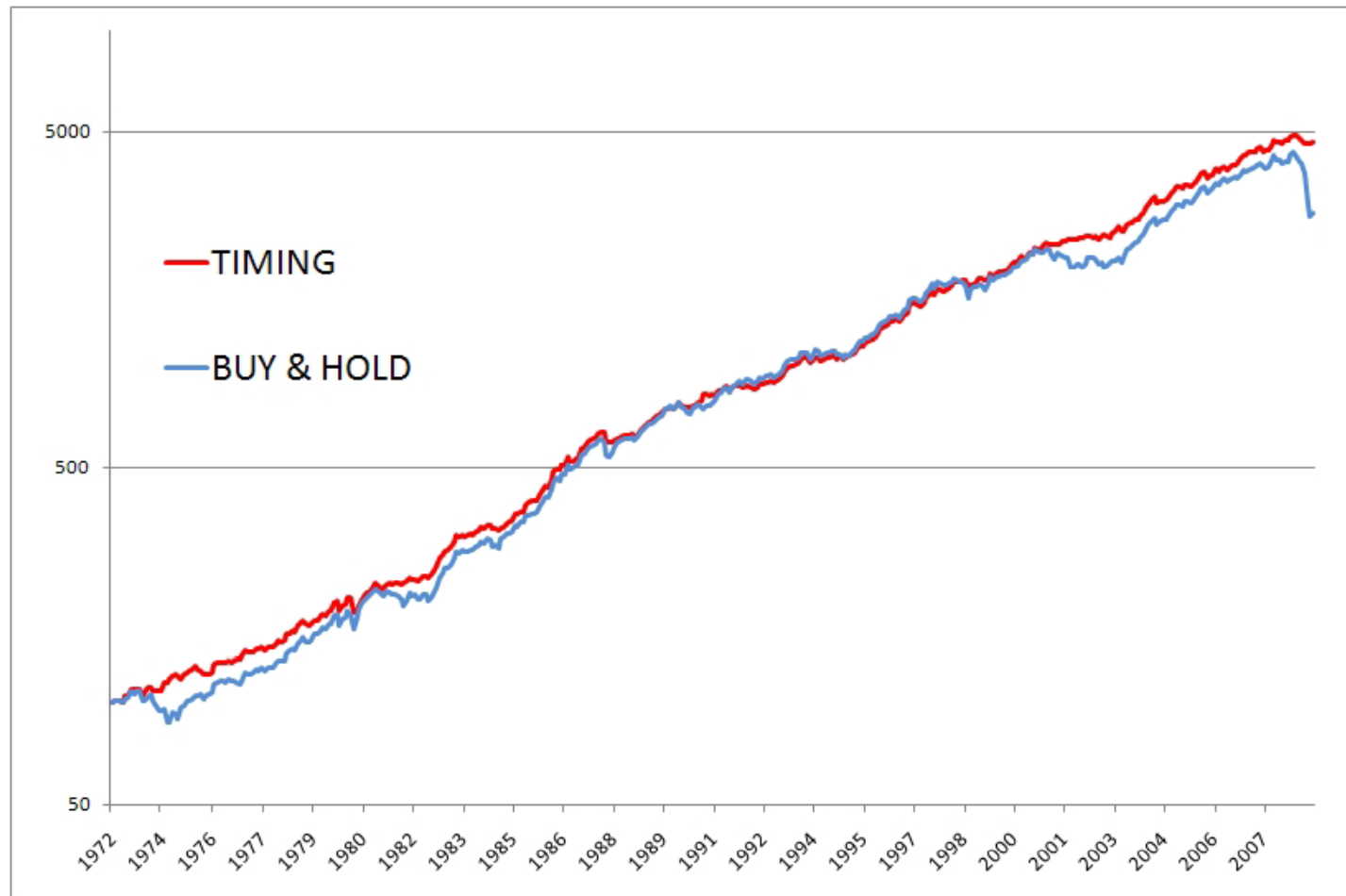
➤ **SELL RULE**

Sell and move to cash when monthly price $<$ 10-month SMA.

Simple Trendfollowing



Buy and Hold vs. Timing, 1973-2008



Source: Faber

Buy and Hold vs. Timing, 1973-2008

	B&H	TIMING
Returns	9.77%	11.27%
Volatility	9.73%	6.87%
Sharpe - 6%	0.39	0.77
MaxDD	(35.98%)	(9.53%)
Best Year	26.58%	26.20%
Worst Year	(30.09%)	(0.59%)

Volatility Clustering

Asset Class	Market > 10 month	Market < 10 month	Difference
US Stocks 1901-2008			
% of time	69.88%	30.12%	
Annualized Return	14.42%	3.03%	-78.98%
Annualized Volatility	14.30%	24.18%	69.06%

Source: Faber

Part 3 - Security Selection

- Most people stink at stock picking.
- Why not let Warren Buffett manage your portfolio?



13F Analysis

- Institutions & hedge funds must report their holdings.
- Quarterly, with a 45 day delay.
- Invest in the top 10 holdings, equal-weighted, and rebalanced quarterly.

Buffett, Top 10, 2000-2009

Top 10 Holdings, Equal Weighted, Long only

Clone Performance

Growth of \$10,000

1d

1w

1m

3m

6m

YTD

1y

3y

5y

Max

01/3/00 - 8/11/09

Rank Clone against

S&P 500 Total Return (SPXTR)



Clone



Index



Source: AlphaClone

Summary

- Investors get paid to take on risk (in the long run, but it matters what you pay)
- Diversification helps, but you can't count on it
- A simple tactical approach can help reduce volatility and drawdown
- Look to top hedge funds for stock ideas