



## Orcam Moderate Countercyclical

### ***What is the Moderate Countercyclical strategy?***

The Moderate Countercyclical strategy is a low fee global indexing strategy designed to generate moderate and stable returns. This strategy is designed to balance the risks of purchasing power risk and permanent loss risk by investing in a balanced portfolio of global financial assets.

This strategy is ideal for the investor who is looking for a low fee, tax efficient and balanced allocation that will not expose the investor to stock market like swings, but will also provide superior returns to the traditional balanced 60/40 stock/bond portfolio which is likely to generate low returns due to the low interest rate environment.

### ***How is the portfolio managed?***

The Orcam Moderate Countercyclical strategy is designed within our countercyclical approach which seeks to balance a moderate risk profile with that of the underlying riskiness of financial assets over the course of the market cycle. Although this portfolio is similar to a balanced 60/40 portfolio it is designed in a countercyclical nature to take advantage of the misallocations of capital at points in the market cycle. This involves two shifts from the traditional 60/40:

1. Due to the low interest rate environment and the near certainty of low real returns we feel that fixed income investors must be more strategic than a simple bond aggregate fund. The Moderate Countercyclical strategy makes countercyclical shifts which changes the composition of the fixed income slice of the portfolio in order to help generate greater odds of a higher real return in this low interest rate environment.
2. The portfolio implements a countercyclical shift in the total portfolio at times during the business cycle to reduce exposure to high risk assets late in the business cycle when they have become

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excessively risky on a relative basis.

The goal of this portfolio is to largely reflect the traditional 60/40 stock/bond portfolio, however, because we implement a countercyclical approach we can improve the odds that the fixed income returns will be greater than a bond aggregate while reducing the risk of exposure to equity market risk during periods of recession when stock market risk tends to be highest.

Importantly, this portfolio is implemented as a relatively passive portfolio. This means that it is largely inactive and highly tax and fee efficient. The primary concern with a traditional portfolio like a 60/40 is that it rebalances back to the same risk weighting regardless of the market cycle. That is, when your 60/40 grows into a 70/30 the traditional portfolio approach says to rebalance back to a 60/40, however, what you're really rebalancing back into is a stock market position that has become more risky on a relative basis, particularly late in the market cycle. This leaves investors overweight risk late in the cycle and underweight risk early in the cycle. Our countercyclical approach helps to reduce this risk by accounting for the relative risk of asset classes in the portfolio at times. In this sense, it is no different than a traditional passive rebalancing approach, however, this strategy seeks to enhance risk adjusted returns by reducing exposure to stocks late in the cycle when they have become most risky.

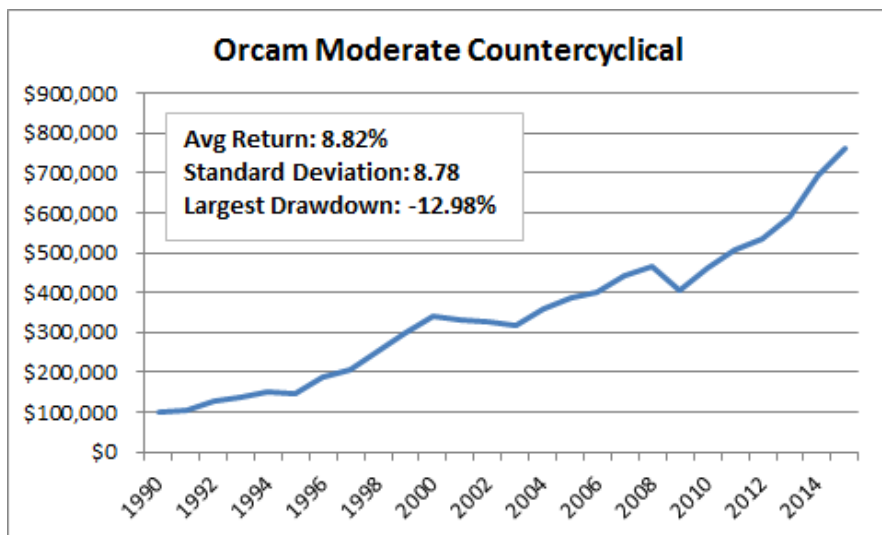
### What Kind of Performance can I Expect?

Because this is a systematic asset allocation we are able to provide a fairly reliable hypothetical back test of the portfolio. Since 1990 the Moderate Countercyclical portfolio would have generated a 8.82% average annual return with a max drawdown of -12.98% in 2008. Since it is designed in a countercyclical manner the portfolio foregoes some of the return on the upside during big bull markets (such as the late 90's and 2013), but also better protects an investor when the risk of permanent loss is highest (such as in years like 2000, 2001, 2002 and 2008). This creates an overall rate of return that is smoother, more predictable and more in-line with most moderate risk profiles.

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Importantly, because this portfolio is likely to be fixed income heavy at times it likely can't be relied upon to generate the same returns in the future as it has in the past, however, we would be confident that this portfolio will continue to generate returns that are very competitive with most balanced portfolios while better aligning the risk of permanent loss with that of the moderate investor's risk profile over the course of the market cycle.



### How can I invest in this strategy?

This portfolio can be implemented in a simple low fee indexing approach through Orcam Financial Group with a management fee of 0.35%. This fee does not include the cost of the underlying funds, however, due to the very low cost and minimal number of funds used the all-in cost of the portfolio will remain low fee. In addition, the portfolio is managed in a cyclical manner so as to maintain a highly tax efficient approach.

If you're interested in opening an account with Orcam Financial Group please contact us at [info@orcamgroup.com](mailto:info@orcamgroup.com) or call us at 858-220-5383.

#### Orcam Financial Group, LLC

Orcam Financial Group, LLC is a fee only financial services firm offering macro research, personal advisory, institutional consulting and educational services.

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