**Meb Faber**

**The Worst Year… Ever**

Meb’s Cambria fund has $1.6 billion in assets. CambriaFunds.com… TheIdeaFarm.com

Meb did a poll of how many investors are up on the year…. 87% of people who took the poll on twitter are down.

Everything is performing terribly... 60/40 stock-bond portfolio is down 20%. That’s in one of the five worst years ever on a nominal basis.

In an inflation-adjusted basis, it is on pace for the single worst year of the past 100 years. But… Meb notes it can always get worse.

Based on the Shiller P/E, stocks are at a valuation of 27.7. This is high relative to history since the average is 20 and the low is 5.

Again, inflation is painful. If you have high inflation, that valuation typically drops to the low teens. So valuations would drop more than half from here.

Once inflation is above 5% in advanced economies, it takes on average 10 years to get back to 2%.

To get to 2%, we are looking at 2% to 4% annual gains for the next 10 years in the S&P 500.

What to do despite the poor return outlook…

Find old school value and then find the trend. When these two line up, that leads to better returns. Macro is also greater than Micro.

The broad trend is the most important… and today it’s down. If you put them into four buckets… Cheap uptrend, Expensive uptrend, cheap downtrend, and expensive downtrend.

Back to the 1990s…

**Cheap uptrend: 17% a year**

**Expensive downtrend: 1%**

The S&P 500 is not the only game in town, though. Only buying the S&P 500 exposes you to bubbles and busts.

Berkshire Hathaway could fall 99.3% and STILL have outperformed the S&P 500 since 1965.

Valuation stocks are starting to outperform. Value stocks do very well during the big fat bear markets because they lose less and folks pour money into them.

Big inflation decades lead to outperformance in value stocks. Low P/E stocks were up 214% in the 1970s.

Meb uses shareholder yield to find great companies. These companies pay out the majority of cash flow to investors and trade at a cheap valuation with little debt.

You don’t have to just invest in the S&P 500. You can buy high shareholder yield stocks, or energy companies, or foreign stocks.

Focus on companies that have good cheap valuations. Value can be found anywhere.

Meb recommends half in trend following while half in just owning a buy-n-hold global index fund.

Because if we had all buy-n-hold investments, times like this would feel brutal. But the trend half balances things out.