MY MODEL PORTFOLIO

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This College Station, Texas-based partner firm of Sanctuary Wealth likes to keep it simple with its core ETF strategies portfolio

WHAT IS THE PHILOSOPHY BEHIND YOUR CORE ETF STRATEGY?

Our ETF portfolio is very simple and we don't aim to overcomplicate it. More securities doesn't mean a better portfolio and sometimes you don't get the diversification you think you do just by buying more funds.

HOW DO YOU CONSTRUCT THIS STRATEGY?

We run it almost like a unified management account – we'll put 70% in the equity sleeve and 30% in the muni sleeve or we'll do our core equity ETF model and then pair that with a muni bond ladder on an SMA. It gives us a lot of flexibility and scalability as well – we never want our clients to feel like we're putting them in a box.

> IF YOU DON'T UNDERSTAND HOW YOUR MANAGER PERFORMS IN A DIFFICULT MARKET CYCLE, YOU'RE GOING TO BE SETTING YOURSELF UP FOR TROUBLE

WHAT TYPE OF CLIENTS USE THE CORE ETF STRATEGY?

The typical core ETF strategy would probably have between $1m and $2m in it. Often, an SMA model is inefficient for clients who have less than $2m in investable assets. And then, sometimes clients just don't like the number of holdings or the complexity that comes with an SMA portfolio. We see that a lot of times with retirees and people who are more fee-conscious and prefer the index-type portfolios.

WHY HAVE YOU STAYED AWAY FROM NON-US EQUITIES?

We believe strongly in diversification but I have a hard time accepting any of the rationales behind an international allocation. Every single manager of a fund company I talk to, I'm asking: 'Why do you think this is great?' Almost universally, the answer is because it should be, or because there's a lag, or because it should revert to a mean. But you can't tell me, if you look through it, that you think Europe's growth prospects, for example, are actually better than ours.

Right now, we have this portfolio a bit tilted towards quality. We have high dividends and low volatility as a 25% allocation because we want to be careful about what we own late cycle. But you can't be agnostic to the fact that tech is probably just going to keep running, which is why I do have a specific QQQ to complement the Russell 1000 growth. Between the three Russell indices, we feel it's extremely well diversified but we're still able to put our economic tilt on it.

WHEN DO YOU USE ACTIVE VERSUS PASSIVE FUNDS?

On the bond side, we are a little more active because bonds are just harder right now, as yields have compressed. It's hard to find yield without going crazy on duration or credit, and if you're going to go crazy on duration or credit, you might as well just buy stocks. So we turn to well-managed funds, such as Janus Henderson Short Duration or Mainstay MacKay High Yield, and then we'll use the indices to complement them.

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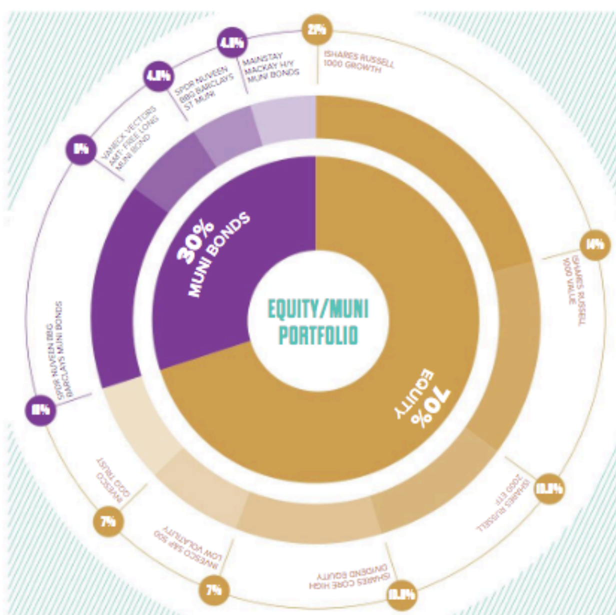

HOW DO YOU VIEW MANAGER SELECTION?

I don't look at anybody without 12-year numbers. I don't care what your backtest says – I've never met a bad backtest. It's kind of like a dating profile. There's never a bad dating profile, right? If you don't understand how your manager performs in a difficult market cycle, you're going to be setting yourself up for trouble.

HAVE YOU MADE ANY SIGNIFICANT CHANGES TO YOUR STRATEGY OVER THE LAST YEAR?

We're sitting at a point where we've made a lot of money, but we know this market is long in the tooth. We're late cycle, and what we want to do is take our profits and make them more secure, keep our core equity allocation, but continue to pull out those profits so we don't have somebody get overextended.