Freedom Day™
DIVIDEND

Nate Geraci sat down with Ryan Krueger at the 2022 Inside ETFs Conference, for an interview about investor due diligence during changing market conditions, and what he sees going forward.

Nate:

“I wanted to visit with an upstart ETF issuer and hear how they view competing against larger ETFs. So, I sat down with Ryan Krueger who is Founder & CEO of Freedom Day Solutions. And, I have to mention you will not find a nicer person in the ETF space. They launched a dividend growth ETF last year. I want to know about ETF due diligence and how you will attempt to stand out. I’m really curious from somebody who has launched an ETF a year ago in a crowded space. I would love to hear from you about the importance of due diligence and in particular dividend ETFs.”

Ryan:

"I'm heavily biased for this question because I've always been a 'pop the hood and figure out what's underneath' active manager of a portfolio. The fact that now I'm seeing advisors, on behalf of the clients they serve, needing and wanting to start popping more hoods encourages me. It's not as easy anymore just buy and hold the cheapest indexes.

There is a regime change, and markets are causing a lot of those good questions…forcing due diligence. The markets are changing, and this has the very real possibility of being a long-lasting regime change. When you pop the hood on different dividend funds, there are wildly different answers. There could be two with 3% yields, and in the past investors didn't look much further than the cost question. Now they are saying - wait a minute...this fund's dividends are taking up three-quarters of the underlying companies free cash flow[1]. But in this other fund it's less than half of free cash flow. So, those 3% dividend yields are supported very differently.

Our own strategy is focused on the dividends' growth. Where a 3% starting yield could end up being a 7% or 8% dividend yield on cost over the next 5-10 years, based completely on what's under the hood from very different companies. As an active manager, I believe that will be increasingly important. The biggest advantage of all to me when you are under that hood, is you can change your mind. We have sell disciplines because companies are changing during this regime change also."

Nate:

"Perhaps the market environment will be a catalyst for how investors approach due diligence. That could bode well for smaller ETF issuers, and potentially active managers in particular. Ryan, let's talk about how you will compete with some of those larger ETFs. Do you think active management will play a more prominent role moving forward because of this shift in the market?"

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[1] Free Cash Flow: cash generated by the business available for distribution among security holders

Ryan:

“I think unquestionably - yes. Homework is going to matter again. Wildly different valuations on companies matters again. I think concentration will matter. I look at some giant dividend funds that basically own them all. Some of their holdings are businesses that are not even growing their top line revenues. So, you have to ask yourself where is that dividend going to be supported from? I have a hard time not seeing big differences among stocks.”

Nate:

“Do you have any words of wisdom for advisors and investors who want to pop the hoods on ETFs for their own due diligence?”

Ryan:

“You have to be able to get your hands on the fundamental data and do the math. For us, we line them all up and share an open playbook with nothing to hide. We like to compare ourselves to every peer and flip over to the backs of all our baseball cards, those stats don’t lie. They don’t tell you what will happen tomorrow or next quarter but over time that selection process is important.

If you can ask one question, ask how much of a portfolio manager’s own capital is in their fund. I’m astonished how often it’s not their own largest investment. If that’s a conflict of interest, then if I’m an investor I’d like to sign up for that conflict.”