ETF Prime Interview with MBOX Portfolio Manager Ryan Krueger

Nate Geraci: I'm joined by Ryan Krueger, co-founder and CEO of Freedom Day Solutions. They launched the Freedom Day Dividend ETF (ticker: MBOX). We'll get to the ETF in a minute, but I want to start by having you describe Freedom Day. I absolutely love this concept you developed. Can you explain what Freedom Day means?

Ryan Krueger: I can't take credit for the concept. I do take good notes and am fortunate to work for good people. So, I've just seen it happen. It's real math, and real lives which is why I get excited about this work.

Freedom Day is the day when multiple streams of income - and I'm talking free cash flow, not withdrawals of hoped for appreciation and principle - exceed the cost of living for an investor, and a family who's depending on that investor. And, living *well*, so that must include annual pay raises to exceed inflation. To accomplish that goal, rising dividends have a track record unlike any we found in over two centuries.

Nate Geraci: As I understand it, you believe that some of the traditional concepts of retirement planning focus on the wrong things at times. Such as age or a certain withdrawal percentage. Can you talk a little bit about that?

Ryan Krueger: I think investors' biggest challenge is going to be finding sustainable income streams that are rising. There are some retirement planning assumptions that are severely flawed, that simple math will challenge.

Nate Geraci: MBOX, the ticker on your ETF, stands for these dividend checks showing up in the mailbox. I'm curious, is there a backstory here or was this just a natural next step in the evolution of marketing Freedom Day, checks showing up in your mailbox?

Ryan Krueger: It goes back to what people could always count on receiving in their hands, to know what is real and repeatable. The further we get away from some of those vintage truths, the worse off and more confused investors are. Mailbox money is shareholders getting paid dividends every quarter. It is a reflection of what is happening with clear evidence, while everybody else is busy predicting what might happen. Dividends are free cash flow rather than projections.

We do not have a marketing department at all, so that logo drawing of the unique mailbox was scribbled for us by an individual who trusts us, and who we are grateful to work for. He just said it feels like we're all in neighborhoods where mailbox red flags are all sticking up, with more bills going out. But what if one day we could reverse that and make it green, with more dividend checks arriving than bills going out. His drawing of that mailbox might look goofy to some people, but I've seen it happen. It's inspiring work for us to do it again.

Nate Geraci: I love that. Such a fantastic story. The Freedom Day Dividend ETF (MBOX) is actively managed, with approximately 50 concentrated holdings. Walk us through your investment process.

Ryan Krueger: We have a repeatable, five-step process of rules-based math.

1) We start out simply looking for businesses with operating advantages that are sustainable.
2) We look carefully at the quality of the dividend they are paying, and the increases of those dividends. That tells us a lot about how the business views share owners.
3) Then we really roll up our sleeves to dig in, and this is where the concentration comes from. We want to look not just at that advantage & growth rates, but also their *direction*.
4) We measure price and valuation.
5) Then we are going to balance our roster. With 50 stocks we'll be across all sectors at all times, unlike a lot of dividend products that are overly concentrated on where they can get the biggest yields.

The Stock Market is a tournament to me, not something to buy and believe in forever. We make stocks compete against each other, and we re-score every stock in our universe every month. The beauty of selection is really the ability to eliminate underperforming businesses. We'll get it down to about 1%, with our mathematical profound respect for what is happening, not what we think should happen. Math doesn't care about any opinions, mine included.

Nate Geraci: For the companies that you target, are you more interested in dividend yield? Or is it dividend growth?

Ryan Krueger: Dividend growth. Current yield is actually the very last thing we look at after those five steps are complete, believe it or not. That's very different, I suppose, than a lot of dividend products that are looking for current yield first.

That's a key distinction everybody should consider. Throughout my career, the highest yields have been the clues for more red flags than more long-term sustainable success.

So, we're looking for dividend growth over yield. I always share specific examples in our playbook that's open for advisors and investors. One page shows a high yielder compared to a low yielder. We show a popular stock that averaged 6% current dividend yield over the last 10 years. If you had hypothetically invested a million dollars in that stock, you would now be paid $70,000 in annual dividends. This current high-yielder is owned by many more dividend funds and institutions than a lot of our MBOX holdings.

Then we look at what happened for a low 2% yielder, from the start of the same decade. It ended every year with close to a 2% current yield. But, after ten years, on the same original investment, that stock pays $120,000 in annual dividends, and growing. That better math is hiding in plain sight from dividend increases. And that example is assuming zero appreciation, no reinvestments, just the simple math of dividend growth adding up more than yield.

Nate Geraci: There are other dividend ETFs on the market. What do you feel like is the differentiator here? Does it come down to the active management?

Ryan Krueger: I made this very difficult on myself before even considering launching MBOX. I have to be able to show a stakeholder superior fundamentals of our underlying holdings compared to alternatives, or I don't think we should be hired.

So, I embrace that competition, I know it's out there, and we'll compare the data. We openly share our selection process for much different operating advantage, dividend growth, and the direction of each. You'd be surprised how many holdings inside big dividend funds aren't even growing operating revenue. So, you have to ask to ask yourself where's the dividend coming from? It may be a lot of things that you don't want as a shareholder, like increased debt.

I don't expect a nickel of inflows, they need to be earned. Since MBOX is the biggest position in my personal account, it is very easy for me to stay focused on the long game. We enjoy communicating openly and directly with advisors and investors who often don't have access to portfolio managers with other funds. That is not a burden to me, that is an absolute privilege.

Nate Geraci: Would you agree it's very tough for active managers to consistently generate out performance? How do you buck that trend?

Ryan Krueger: I have a decidedly different way of framing that question. Not to avoid it, but to go right through it, to a more important one. And, I don't think it has to be one or the other. I am not here to say that active is better than passive. I think too many of us in this industry in particular, but most of us as humans, have this severe bias of wanting to *be* right more than just get it right.

For me, active management is a simple repeatable process where the upside is actually the exact opposite of wanting to be right. It's the ability to eliminate poor businesses, to *not* own. Then have sell disciplines already in place when we are wrong. Math makes that clear. When the inputs change, so should the outputs. To me, active is not even a choice, it’s a necessary result of the fact that markets are extremely dynamic, they are changing all the time. What I love most about math is it leaves no room for any opinion.

I think a more important question going forward - because let's face it, we have plenty of choices for active and passive - that would help investors more is that our industry needs to do a better job talking about how to separate sacred money from speculative money. Because I think that's getting more people fouled up than making a wrong choice with active or passive. Getting paid dividends while you sleep, when everybody else worries about the market, is definitely my version of sacred money, and other folks will have their own versions.

What I've seen, and the most exciting upside of what some may view as a beautifully boring portfolio of dividend raises, is that sacred money can actually unlock peace of mind for more aggressive speculative investments around it.

Nate Geraci: How hard is it for you to maintain sell disciplines? Because you are in the weeds with these companies every day. It seems like it would be difficult not to fall in love with some of these companies.

Ryan Krueger: If you throw all the good ideas you hear out the window, until you first designed one strict set of sell disciplines, you can have a tremendous opportunity to outperform in anything. What excites me about sell disciplines is that curiosity will always beat conviction. I am constantly forcing myself to look at new opportunities rather than dig my heels in and say the same company that 13 years ago was a great opportunity is the same math now and offers the exact same risk-reward setup today. It isn't. So, we just need to be honest about that.

Nate Geraci: Can you say a few words about why you launched this ETF and why you partnered with Wes Gray and the team at Alpha Architect?

Ryan Krueger: Simple, I want to share a solution for what I believe will be the biggest problem going forward for advisors and investors, the growth of income.

I'm a slow mover, it took me two years of digging deep with Alpha Architect. When you find giant hearts inside huge nerds, that's a pretty good place to do business in my opinion. And then to be surrounded by a bunch of people that you actually enjoy investing so much time with, I have tremendous gratitude for what they do and for everybody who trusts all of us to do this work.

Disclosures:

Investments involve risk. Principal loss is possible. ETFs may trade at a premium or discount to their net asset value. Redemptions are limited and often brokerage commissions are charged on each trade which may reduce returns.

The Fund invests in dividend paying companies and may hold securities of companies that have historically paid a high dividend yield. Those companies may reduce or discontinue their dividends, thus reducing the yield of the Fund. Low priced securities in the Fund may be more susceptible to these risks. Past dividend payments are not a guarantee of future dividend payments.

Some sectors of the economy and individual issuers have experienced particularly large losses due to economic trends, adverse market movements and global health crises. This may adversely affect the value and liquidity of the Fund's investments especially if the fund concentrates its investments in the securities of a particular issuer, industry or sector.

Investing in mid-capitalization companies may be more vulnerable to adverse market or economic developments and have greater volatility or trade in lower volume than large-capitalization companies.

New Fund Risk. The Fund is a recently organized management investment company with limited operating history and track record for prospective investors to base their investment decision.

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. Click here for the MBOX Prospectus, and MBOX SAI. All fund documents can be found at https://freedomdaydividend.com/documents/. A free hardcopy of any prospectus may be obtained by calling +1.215.882.9983. Read carefully before investing.

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