Gaia Investment Policies

Peter Bernstein, the renowned investor whose thoughts on risk and reward are legendary, noted that the most successful investors had no information edge and did not possess higher intelligence than other investors. They did, however, possess even temperament and a disciplined, well-defined investment strategy. We want to stand on their shoulders, so to speak, by sharing with you the guidelines we use to invest the money you entrust to us. Truly, the guiding strategy is the single largest determinant of your account performance because it determines risk levels.

This booklet contains the investment policies by which we manage our six strategies:

You may want to read through each of these short strategy descriptions as a check to ensure that we are investing your accounts at a risk level that is comfortable for you to achieve your desired results. Feel free to contact us with any questions you may have about your account management.

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Racing Turtle (RT)

An Investment Policy for Quality Growth

This document explains how we will invest your account(s) using the Racing Turtle investment strategy.

What You Get

Wealth accumulation from stocks, with guardrails, and modest interest income from bonds.

How might Racing Turtle (RT) benefit you?

RT is likely to have the second-highest long-term returns among the Gaia investment strategies. While providing a modest volatility/uncertainty buffer with interest-bearing bonds, RT works well for accumulating wealth and for retirees who might want to add a higher-returning sleeve to their portfolios.

How does RT work?

RT attempts to capture the greater long-term performance in the common stocks of quality businesses over bonds and most other investments while lowering the risk that an 88% stock portfolio entails. RT lowers market risk with its quality and lower volatility (uncertainty of returns) stock holdings, its focus on maintaining uniform risk levels throughout a business cycle and through its modest bond holdings.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Policies to Carry Out the RT Strategy

Benchmark: Racing Turtle aims to equal or exceed the performance of the iShares Aggressive Allocation Exchange Traded Fund (AOA) over a full market cycle while exhibiting lower volatility. AOA and RT are diversified in varying concentrations of U.S. stocks of all sizes, international stocks of all sizes, U.S. and international bonds, real estate, and commodities, both industrial and agricultural.

Investment Focus: High quality, lower volatility securities that outperform the general market over a full market cycle. Lower volatility securities improve compounded investment returns over time by limiting volatility drag, the observable reduction in return as volatility increases. We may at times, however, invest in cheaper, lower quality cyclical stock funds if conditions very clearly favor them.

Specific Policies: RT will hold six to ten closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Gaia may augment RT with carefully selected common stocks. The 12% fixed income portion provides a volatility buffer for stocks and for income investors, at least four years of retirement income during periods of market stress, avoiding the need to sell stock funds while prices are depressed. RT will be calibrated to highest risk (maximum 95% stocks) when market risk is low near the beginning of a business cycle and to lowest risk (40% stocks) when market risk is high near the end of a business cycle, offering a "countercyclical" exposure to market risk. Achieving maximum defense may involve up to a 60% investment in bonds, cash or other low risk securities which reduce stock volatility beyond the capability of low volatility funds. If we are successful in calibrating account investment risk to market risk, RT would drop less than about 15% if the benchmark drops 30% in a bear market (a lengthy downturn spanning six months to about two years).

RT portfolio funds will hold high quality (measured by profitability) and low volatility securities, be of such a defensive nature to be contrarian to the benchmark's movement or on occasion follow cyclical sectors and smaller companies as economic growth is nascent and high, usually in early business cycle stages. Each portfolio fund must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. Disciplined, well executed investment processes are an important determinant of long-term outcome.

Last update 5/21/20

Growth with Income (GI)
An Investment Policy for Moderate Growth

This document explains how we will invest your account(s) using the Growth with Income (GI) investment strategy.

What You Get

GI is a "not too hot, not too cold" investment strategy which aims for about 85% of the market's return with about 70% of the risk measured as volatility/uncertainty of returns. Volatility risk is lowered by balancing the investment portfolio between common stocks and bonds and lowered further by a volatility-sensitive stock strategy, which reduces luck as a factor in generating returns. You can expect GI's long-term returns to fall in between those of the Racing Turtle and Income with Growth investment strategies.

How might Growth with Income (GI) benefit you?

If you are neither hot nor cold about assuming risk to make gain, like the middle way in most things or if you are not certain about what you want from investments, then Growth with Income (GI) may serve you well. With GI, you will most often find your account in the upper middle of the pack.

How does GI work?

Quality stocks provide growing dividend income from company earnings, which may be variable at times, and bonds provide a steady income from interest paid by portfolio companies, secured by a covenant between the debtor entity and bondholders. Stocks and bonds together provide growing, inflation-resistant income and account growth in line with long-term growth of portfolio company earnings and bond interest.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Policies to Carry Out the GI Strategy

Benchmark: Growth with Income aims to equal or exceed the performance of the iShares Core Growth Allocation Exchange Traded Fund (AOR) over a full market cycle. AOR and GI are diversified in varying concentrations of U.S. stocks of all sizes, international stocks of all sizes, U.S. and international bonds, real estate, and commodities, both industrial and agricultural.

Investment Focus: High quality, lower volatility securities that outperform the general market over a full market cycle. Lower volatility securities improve compounded investment returns over time by limiting volatility drag, the observable reduction in return when volatility increases. We may at times, however, invest in cheaper, lower quality cyclical stock funds if conditions very clearly favor them.

Specific Policies: GI will hold eight to fourteen closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Gaia may augment GI with carefully selected common stocks. The fixed income portion provides a volatility buffer for stocks and for steady income, at least six years of retirement income during periods of market stress, avoiding the need to sell stock funds while prices are depressed. GI will be calibrated to highest risk (maximum 80% stocks) when market risk is low near the beginning of a business cycle and to lowest risk (30% stocks) when market risk is high near the end of a business cycle, offering a "countercyclical" exposure to market risk. Achieving maximum defense may involve up to a 70% investment in bonds, cash or other low risk securities which reduce stock volatility beyond the capability of low volatility funds. If we are successful in calibrating account investment risk to market risk, GI will drop about 12% if the benchmark drops 25% in a bear market (a lengthy downturn spanning six months to about two years).

GI portfolio funds will hold high quality (measured by profitability) and low volatility securities, be of such a defensive nature to be contrarian to the benchmark's movement or on occasion follow cyclical sectors and smaller companies as economic growth is nascent and high, usually in early business cycle stages. Each portfolio fund must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. Disciplined, well executed investment processes are an important determinant of long-term outcome.

Last update 5/21/20

Income with Growth (IG)

An Investment Policy for Low Risk Growth

This document explains how we will invest your account(s) using the Income with Growth (IG) investment strategy.

What You Get

IG is a low uncertainty, low volatility investment strategy which aims for about 60% of the market's return with about 40% of the risk measured as volatility of returns. Volatility risk is lowered by balancing the investment portfolio between common stocks and bonds and lowered further by a volatility-sensitive stock strategy, which reduces the role of luck in investing. IG will likely have lower longer-term returns than our other strategies which hold a higher proportion of common stocks.

How might Income with Growth (IG) benefit you?

Income with Growth is a step up from an all debt (bonds and bank accounts) investing experience. The IG strategy benefits those not comfortable with uncertainty and risk. IG strategy account holders are comfortable trading higher long-term returns for peace of mind.

How does IG work?

Quality stocks provide growing dividend income from company earnings, which may be variable at times, and bonds provide a steady income from interest paid by portfolio companies, secured by a covenant between the debtor entity and bondholders. Stocks and bonds together provide growing, inflation-resistant income and account growth in line with long-term portfolio company earnings and bond interest.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Policies to Carry Out the IG Strategy

Benchmark: Income with Growth aims to equal or exceed the performance of the iShares Core Moderate Allocation Exchange Traded Fund (AOM) over a full market cycle. AOM and IG are diversified in varying concentrations of U.S. stocks of all sizes, international stocks of all sizes, U.S. and international bonds, real estate, and commodities, both industrial and agricultural.

Investment Focus: IG holds high quality, lower volatility securities. Lower volatility securities improve compounded investment returns over time by limiting volatility drag, the observable reduction in return as volatility increases. We may at times, however, invest in cheaper, lower quality cyclical stock funds if conditions very clearly favor them.

Specific Policies: IG will hold eight to fourteen closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Gaia may augment IG with carefully selected common stocks. The 60% fixed income portion provides a volatility buffer for stocks and for steady income, at least eight years of retirement income during periods of market stress, avoiding the need to sell stock funds while prices are depressed. IG will be calibrated to highest risk (maximum 65% stocks) near the beginning of a business cycle when market risk is low and to lowest risk (minimum 30% stocks) near the end of a business cycle when market risk is high, offering a “countercyclical” exposure to market risk. Achieving maximum defense may involve up to a 70% investment in bonds, cash or other low risk securities which reduce stock volatility beyond the capability of low volatility funds. If we are successful in calibrating account investment risk to market risk, IG will drop about 8% if the benchmark drops 25% in a bear market (a lengthy downturn spanning six months to about two years).

IG portfolio funds will hold high quality (measured by profitability) and low volatility securities, be of such a defensive nature to be contrarian to the benchmark’s movement or on occasion follow cyclical sectors and smaller companies as economic growth is nascent and high, usually in early business cycle stages. Each portfolio fund must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. Disciplined, well executed investment processes are an important determinant of long-term outcome.

Last update 5/21/20

Income Harvest (IH)

An Investment Policy for Retirement Income

This document explains how we will invest your account(s) using the Income Harvest (IH) investment strategy.

What You Get

IH aims to provide a high, sustainable and growing income from investment dividends and interest and from common stock price appreciation. IH may serve as a primary or secondary source of lifelong retirement income.

How might Income Harvest (IH) benefit you?

IH offers retirees and pre-retirees a dependable source of income that can either stand alone or be used in combination with other income sources. Stocks provide growing income and inflation protection. Bonds provide dependable income and act to buffer stock volatility which primarily arises from uncertainty about future company earnings.

How does IH work?

Quality stocks provide growing dividend income from company earnings, which may be variable at times, and bonds provide a steady income from interest paid by portfolio companies, secured by a covenant between the debtor entity and bondholders. The combination of stocks and bonds provide growing, inflation-resistant income designed to last a lifetime, provided that withdrawals do not rise above sustainable limits.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Policies to Carry Out the IH Strategy

Benchmark: Income Harvest (IH) aims to equal or exceed the iShares Core Growth Allocation Exchange Traded Fund (AOR) performance over a full market cycle. AOR and IH are diversified in varying concentrations of U.S. stocks of all sizes, international stocks of all sizes, U.S. and international bonds, real estate, and commodities, both industrial and agricultural.

Investment Focus: IH holds high quality, lower volatility securities that may outperform the general market over a full market cycle. Lower volatility securities improve compounded investment returns over time by limiting volatility drag, the observable reduction in returns as volatility increases. We may at times, however, invest in cheaper, lower quality cyclical stock funds if conditions very clearly favor them.

Specific Policies: IH will hold eight to fourteen closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Gaia may augment IH with carefully selected common stocks. The 40% fixed income portion provides a volatility buffer for stocks and for steady income , at least six years of retirement income during periods of market stress, avoiding the need to sell stock funds while prices are depressed. IH will be calibrated to highest risk (maximum 80% stocks) when market risk is low near the beginning of a business cycle and to lowest risk (minimum 30% stocks) near the end of a business cycle when market risk is high, offering a “countercyclical” exposure to market risk. Achieving maximum defense may involve up to a 70% investment in bonds, cash or other low risk securities which reduce stock volatility beyond the capability of low volatility funds. If we are successful in calibrating account investment risk to market risk, IH would drop about 12% if the benchmark drops 25% in a bear market (a lengthy downturn spanning six months to about two years).

IH portfolio funds will hold high quality (measured by profitability) and low volatility securities, be of such a defensive nature to be contrarian to the benchmark’s movement or on occasion follow cyclical sectors and smaller companies as economic growth is nascent and high, usually in early business cycle stages. Each portfolio fund must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. Disciplined, well executed investment processes are an important determinant of long-term outcome.

Last update 5/21/20

Sustainability Focus (SF)

An Investment Policy for ESG Concentration

This document explains how we will invest your account(s) using the Sustainability Focus (SF) investment strategy.

What You Get

SF screens for both sustainability and investment quality. SF aims for about 85% of the market's return with about 70% of the risk measured as volatility/uncertainty of returns. Volatility risk is lowered by balancing the investment portfolio between common stocks and bonds and lowered further by a volatility-sensitive stock strategy, which reduces luck as a factor in generating returns. You can expect SF's long-term returns to fall in between those of the Racing Turtle and Income with Growth investment strategies.

How does SF work?

Quality stocks provide growing dividend income from company earnings, which may be variable at times, and bonds provide a steady income from interest paid by portfolio companies, secured by a covenant between the debtor entity and bondholders. Stocks and bonds together provide growing, inflation-resistant income and account growth in line with long-term growth of portfolio company earnings and bond interest. The sustainability (ESG) filters aim to include companies which contribute to good governance, a healthy natural environment and responsible social practices.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Policies to Carry Out the SF Strategy

Benchmark: SF aims to equal or exceed the performance of the iShares Core Growth Allocation Exchange Traded Fund (AOR) over a full market cycle. AOR and SF are diversified in varying concentrations of U.S. stocks of all sizes, international stocks of all sizes, U.S. and international bonds, real estate, and commodities, both industrial and agricultural.

Investment Focus: High quality, lower volatility securities that outperform the general market over a full market cycle. Lower volatility securities improve compounded investment returns over time by limiting volatility drag, the observable reduction in return when volatility increases. We hope to see the limited choice of lower volatility ESG securities expand as the strategy gains in popularity. We may at times, however, invest in cheaper, lower quality cyclical stock funds if conditions very clearly favor them.

Specific Policies: SF will hold eight to twelve closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Gaia may augment SF with carefully selected common stocks. The 40% fixed income portion provides a volatility buffer for stocks and for steady income, at least six years of retirement income during periods of market stress, avoiding the need to sell stock funds while prices are depressed. SF will be calibrated to highest risk (maximum 80% stocks) when market risk is low near the beginning of a business cycle and to lowest risk (30% stocks) when market risk is high near the end of a business cycle, offering a “countercyclical” exposure to market risk. Achieving maximum defense may involve up to a 70% investment in bonds, cash or other low risk securities which reduce stock volatility beyond the capability of low volatility funds. If we are successful in calibrating account investment risk to market risk, SF would drop about 12% if the benchmark drops 25% in a bear market (a lengthy downturn spanning six months to about two years).

SF portfolio funds will hold high quality (measured by profitability) and low volatility securities, be of such a defensive nature to be contrarian to the benchmark’s movement or on occasion follow cyclical sectors and smaller companies as economic growth is nascent and high, usually in early business cycle stages. Each portfolio fund must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. Disciplined, well executed investment processes are an important determinant of long-term outcome.

Last update 5/21/20

Just Bonds (007)

An Investment Policy for Growth Without Stocks

This document explains how we will invest your account(s) using the Just Bonds (007) investment strategy.

What You Get

007 taps the entire bond universe from quality governments to corporate high yield to provide slightly slower growth than common stocks but with more surety that investors will receive the expected income and occasional growth should bonds be bought at a discount to their maturity value. Bondholders are creditors, stockholders are owners. Straddling the bond universe with investments raises investor returns to approximately 70% of common stock gains with about 40% of the volatility. 007 is an excellent risk/reward choice for those who don't need the higher growth of stocks, who want less volatility than they get with stocks and who don't mind giving up the tax advantages that many stocks offer, while still realizing near stock market performance over the long term. 007 is an ideal strategy for a retirement account – IRA, 401(k) etc. – as income from tax deductible retirement accounts is taxed as ordinary income.

How might 007 benefit you?

007 may be either a conservative standalone strategy or it can be used as a tax saver when combined in a taxable/retirement account combination. 007 will likely outperform our conservative Income with Growth balanced strategy in a prolonged down (bear) stock market as it's already 100% bonds. Outperforming in a bear market is a great leg up for solid performance over a full market cycle (boom-bust-boom) which we call a default cycle.

How does 007 work?

Bonds provide a steady income from interest paid by portfolio companies, secured by a covenant between the debtor entity and bondholders. 007 will hold government bonds from the U.S. and other countries, corporate bonds from U.S. and foreign countries, mortgages, bank loans and a small amount of nontraditional debt investments such as selected student loans. Bond quality will vary from very high quality to a couple of rungs above the lowest quality, depending on our assessment of market (default) risk. Bond diversification holds risk stable across the entire market cycle. A stock's value can go to zero, but bonds hold at least some of their value, even in default.

How will we ensure that securities we select under this investment policy are suitable for you?

We match the characteristics of your securities with the responses you provided in your Investment Profile or in discussions with us. After our initial assessment, it is our mutual responsibility to ensure that we keep abreast of your needs, financial capabilities, life changes and any other factors which may impinge on your investment end game. Investing involves risk and we cannot guarantee that you will not experience losses. However, we take every prudent step we can to avoid permanent loss of any kind.

Specific Policies to Carry Out the 007 Strategy

Benchmark: 007 aims to equal or exceed the performance of the Fidelity Total Bond Fund (FBKWX), a broadly diversified, Morningstar gold rated mutual fund over a full market cycle.

Investment Focus: Bonds of all types, all grades anywhere in the world.

Specific Policies: 007 will hold six to ten closed end funds, open ended mutual funds or exchange-traded funds, each chosen for its contribution to the whole. Holdings will not include individually listed bonds. 007 will be calibrated to highest risk (maximum 60% bond funds rated B or higher) when default risk is low near the beginning of a business cycle and to lowest risk (100% investment grade) when default risk is high near the end of a business cycle, offering a "countercyclical" exposure to market risk. In other words, 007's risk profile will be stable during a business cycle. If we are successful in calibrating account investment risk to default risk, 007 would drop a fraction of the drop in stocks during a bear stock market, usually accompanied by recession. It's even possible that 007 would gain a bit as investment grade bonds have historically behaved counter to stocks in a stock bear market lasting from about six months to about two years. 007's funds must also have cogent investment processes, liquidity, clean manager/issuer reputations, low expenses and a solid track record (or a high probability of one) given the investment process. A disciplined, well executed investment process is a very important determinant of long-term outcome.

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