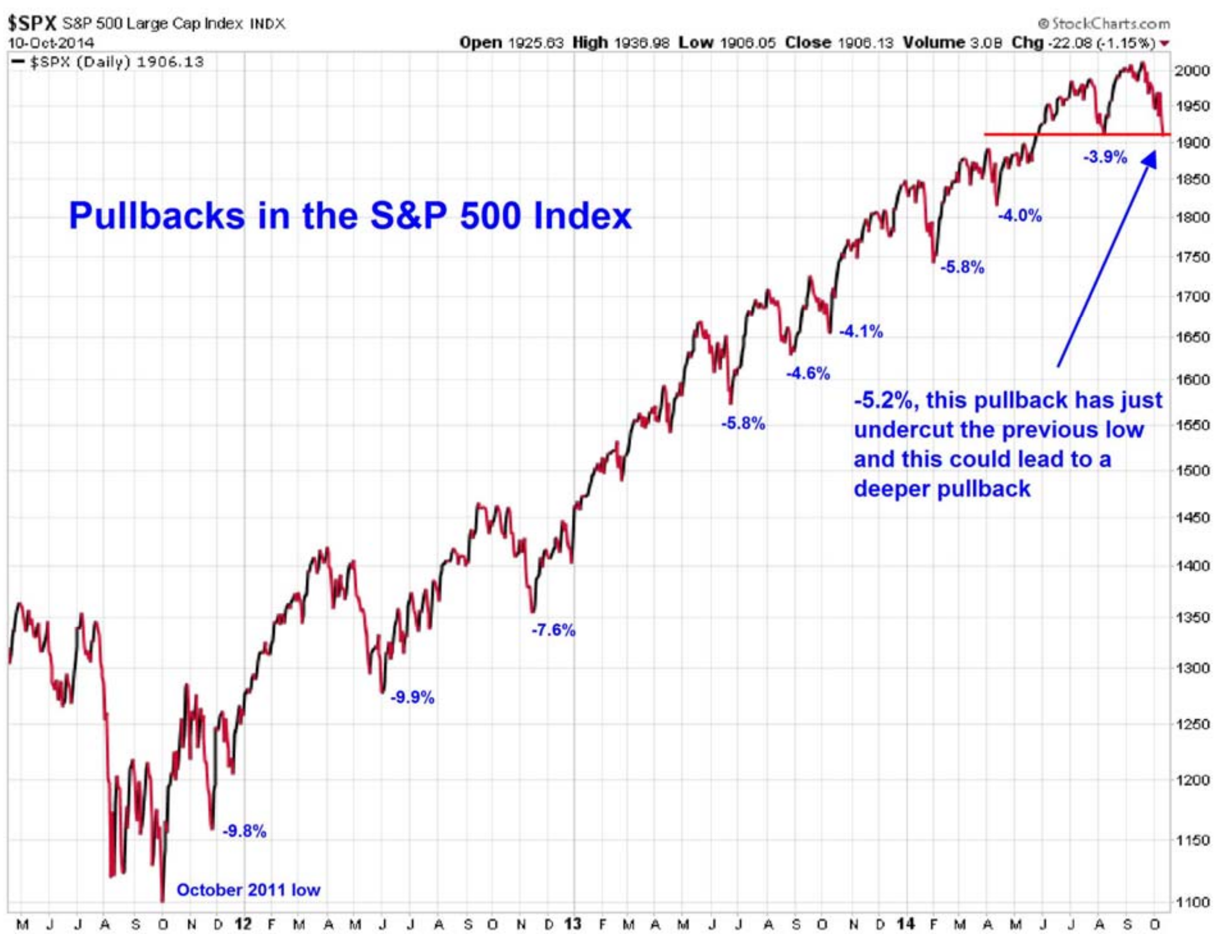
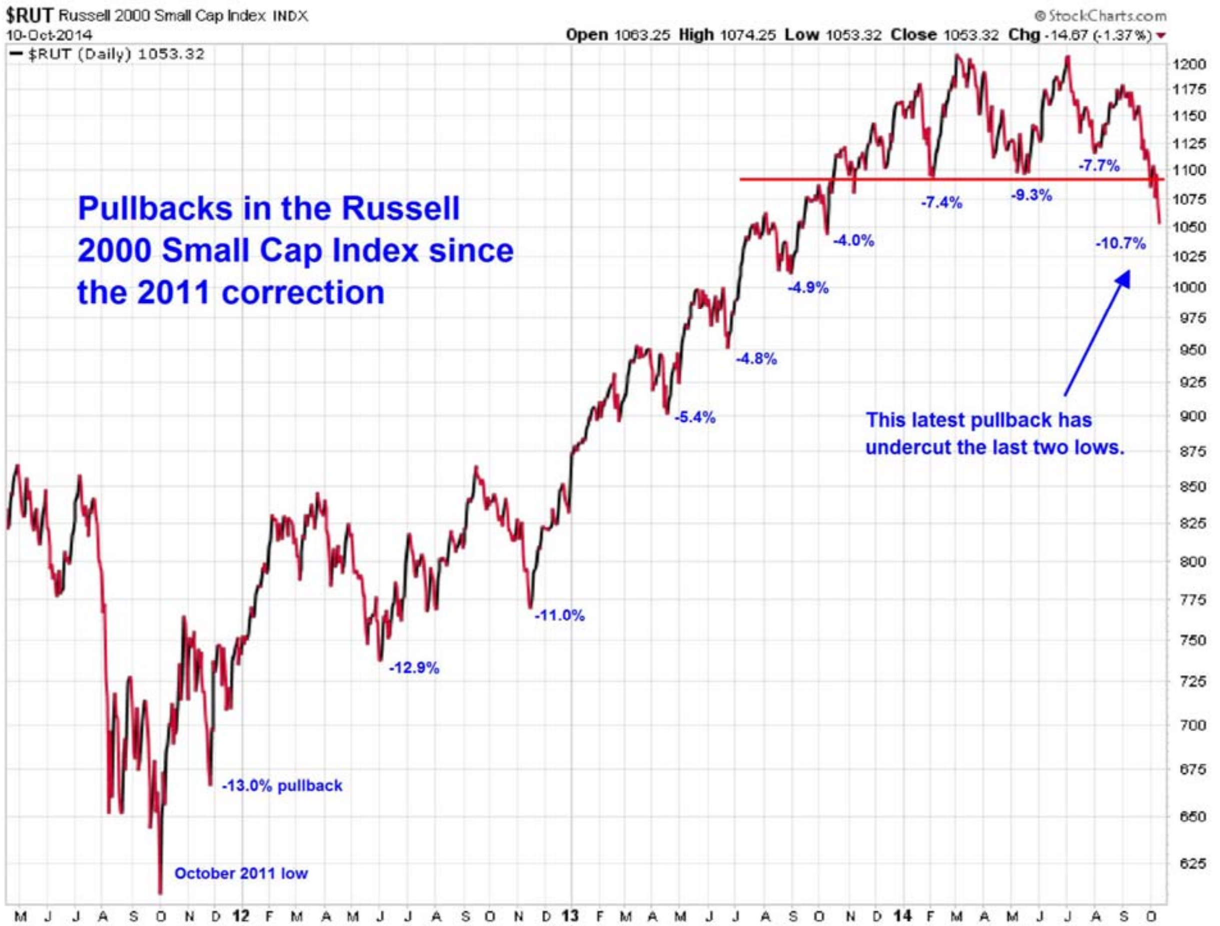
MARKET COMMENTARY

Headline: US equity markets have broken their three year pattern of buyable pullbacks and a more serious correction could be in the works if they don't rally soon.

Equity markets around the world have pulled back significantly from their 2014 highs and based on Friday's dismal close, the U.S. market is on the edge of a psychological cliff. To put things in context, we need to review market action since the 2011 correction that saw the S&P 500 large cap index down 19% and the Russell 2000 small cap index down 29%. Since that time, the S&P 500 has experienced ten pullbacks of between 4% and 13% (including the current one that is 5% as of Friday) and the R2000 has seen eleven ranging from 4% to 13% (the current one stands at 10.7%). With the benefit of 20/20 hindsight, each of the first nine pullbacks in the S&P 500 proved to be a fabulous buying opportunity as the index went on to make a new high and each new pullback formed a higher low. Same story with the first nine pullbacks in the R2000. Each time, the index went on to make a higher high with each pullback forming a lower low. This has been the picture of a textbook bull market.

The latest market action wrecked that perfect record and has investors worried. Looking at the R2000 chart (next page), you can see that the most recent high was below the two before and the current pullback has broken below the prior two lows. The higher-high, higher-low pattern of the S&P 500 was intact until Friday when the index closed just below the low of the last pullback. As with the R2000, buyers have not jumped in to reverse the trend. Up until a few months ago, small caps had outperformed large caps in the bull phase. Small caps are now leading the way down and it will be critical to see if large caps can put the brakes on and stop the bleeding.





According to the media, the culprit is an unexpected slowdown in the global economy. However, the International Monetary Fund has been warning about this for quite some time, so I'm not sure how slowing growth is a surprise to anyone. What analysts may be coming to grips with is the combination of weak global demand, a strong US dollar (making US goods more expensive overseas), the end of monetary stimulus from the Federal Reserve, and the perception that stimulus in Europe and Japan may be losing mojo. We've already seen international equity markets pulling back 10% or more from 2014 highs. US markets have been everyone's favorite and continue to be winning on a relative basis. However, it's possible that breaking the pattern of the last three years is just the beginning of a 2011 style correction.

Keep in mind that it's October – what I referred to as Shark Season in my August commentary and equity markets' least favorite time of year. Add the Ebola crisis that is perceived by many as a bigger threat than ISIS. In addition, we have just begun earnings season with a new fear that US companies will deliver some negative surprises either in their Q3 reports or their outlooks for Q4 and beyond. The next two to three weeks will set the tone and this may blow over. However, don't be shocked if we see a deeper pullback before the dust settles and we head into the seasonally stronger part of the year starting in November.

Our fastest moving strategy, Aggressive Growth, shifted two-thirds of its portfolio to bonds this month. Barring a significant reversal, Absolute Return will get more defensive for November. Tax-Managed Growth is much slower moving and is likely to maintain significant exposure to US equities.

Important Disclosures

- LongRun Strategies: Aggressive Growth ("AG"), Absolute Return ("AR") and Tax-Managed Growth ("TMG" and, collectively, the "Strategies") are disciplined, rules-based tactical allocation strategies developed by LongRun Capital based on a quantitative methodology known as relative strength. Relative strength involves ranking a selected universe of potential investments based primarily on recent rate of return and then allocating a portfolio to a subset of investments at the top of the performance ranking. AG uses a universe of 14 exchange-traded funds (ETFs), AR uses a universe of 33 ETFs and TMG uses a universe of 36 ETFs. AR and TMG incorporate rules designed to be defensive in adverse market conditions. These defensive rule may result in AR and TMG periodically holding as much as 100% in cash. AG will always be fully invested in 3 of the 14 ETFs in its universe. Rankings are reviewed monthly for AG and AR and portfolio holdings turn over frequently. TMG employs a slower moving methodology and changes are significantly less frequent.

- ETF universe: The ETFs used for the Strategies were selected as representative of the global equity and fixed income asset classes that would commonly be used to construct a prudently diversified portfolio. Each ETF universe will be held constant unless one or more cease trading, in which case we will seek to use a reasonable substitute representing the same asset class. In addition, we may occasionally substitute an equivalent ETF as part of a tax loss harvesting strategy or to reduce transaction expenses. Clients will incur direct expenses associated with the purchase and sale of ETFs as well as the indirect expenses associated with management of the ETFs by their sponsors (e.g. iShares).

- Global Diversified Benchmark: The S&P 500 is a benchmark commonly used as a proxy for the US equity market. To represent a more diversified portfolio, we developed the Global Diversified benchmark to measure the aggregate performance of the 14 ETFs used for the original Absolute Return and Aggressive Growth strategies. The Global Diversified Benchmark assigns an equal weighting to each of the 14 ETFs and rebalances those weightings each month. The resulting portfolio is approximately 70% equity and 30% fixed income with approximately 40% allocated to US equities and 30% allocated to international equities.

- Backtest: LongRun Capital constructed backtests for each of the Strategies designed to replicate historical performance based on the selection rules and security universe of the particular strategy. In the case of Aggressive Growth, this involved using a combination of the selected ETFs and mutual funds representing the same asset classes for time periods prior to the inception of the ETFs currently being used. The rule-sets used to determine the holdings of the Strategies were applied consistently for the entire backtest period. As a result, there was no manager discretion involved in portfolio management. Backtest returns reflect the deduction of a 1% per annum management fee and an expense ratio of 0.15% per annum designed to approximate the transaction expenses associated with implementation of the Strategies. Underlying data has been obtained from sources believed to be reliable and we are not responsible for errors or omissions. The results achieved in actual accounts may vary from those that would be indicated from backtest results. Details of the backtest research are available upon request. Backtest performance of the strategies provides no guarantee of future results.

- Composite Results: LongRun Capital is an independent investment advisory firm that manages assets on a discretionary basis. Clients may elect to have their assets managed on a customized basis and may utilize the Strategies for some or all of their portfolio managed by LongRun Capital. Unaudited composites for each of the Strategies are maintained by LongRun Capital and returns are presented net of actual investment management fees and transaction expenses. LongRun Capital's top management fee tier is 1% per annum. Internal fees and expenses associated with the ETFs are reflected in the price of each ETF. Dividends, income and capital gains are reinvested when allocation changes are made. Past performance is no guarantee of future results. Information regarding LongRun Capital's management fees and the value of assets included in the composite results is available upon request. In addition, LongRun Capital's disclosure document, Form ADV Part 2A, is available online at www.adviserinfo.sec.gov or upon request.