

July 2014

AR -1.09% AG -0.25% TMG -2.79% SP500 -1.34% GD -1.23%

Commentary

July finished with a thud in the US equity markets with pundits pointing to the list of bad things going on in the world – airliner downed over Ukraine, Russian sanctions, Israel invading Gaza, an Ebola breakout. All good reasons for investors to fret about their portfolios, so this could be the start of something more than the pullbacks we've experienced as the markets have continued to make new highs. Looking a little deeper, the sell-off was not applied evenly. In the US, small cap stocks were whacked 6% while the S&P 500 gave back only 1.3% and the Nasdaq 100 (large cap tech stocks including Apple, Microsoft, Google, Intel) was actually up 1.2%. Outside the US, returns were higher in all the major slices except Europe, with China up more than 9% for the month and 20% year-to-date. Bonds were more or less flat except for a 2.4% loss in high yield where investors seem to be recognizing that junk bonds behave more like stocks than a typical bond.

Our portfolios did relatively well, with Aggressive Growth (AG) off 0.25%, Absolute Return slipping 1.09% and Tax-Managed Growth (TMG) getting hit 2.79% by virtue of its heavy exposure to US mid and small caps. Looking at positioning for August, our faster moving portfolios picked up on the trend to international equities. AG (fastest moving) dumped energy (XLE) and real estate (IYR) in favor of Latin America (ILF) and Asia-Pacific ex-Japan (EPP) to go 100% international with emerging markets (EEM) carried over. AR, the next fastest, held on to Nasdaq 100 (QQQ) and technology (XLK) but swapped energy and real estate for China (FXI) and emerging markets (EEM). TMG, the slow-poke, saw no changes in the portfolio as it sticks with 100% US equities. This was a great thing last year when the US was rocking but clearly exposes the strategy to any significant pullback in the domestic markets (witness July).

The blast-off in China is interesting because a lot of smart people are convinced that their economy and financial system are set up for a calamity. Judging by their stock market, a lot of other smart people are betting that the government will be able to manage any challenges. Our Absolute Return model is siding with investors and Aggressive Growth would be as well except that China is not on the menu for that strategy. Looking at our backtest research, China has been in the portfolio several times since FXI launched in 2004. Overall, it has been a positive contributor – portfolio performance is better with it than without – but has also been volatile and streaky. It will be interesting to see who's right this time.

Yes, another month, another comment about the relationship between stocks and bonds. Theory tells us that putting stocks and bonds together reduces overall risk because they tend to behave differently – one goes up when the other goes down, making for a low correlation. The thing is, comparing the S&P 500 (SPY) with long-term Treasury bonds (TLT), the 100-day correlation is above .70 right now (in a range from +1 to -1) for the last 100 days. From the start of TLT in July 2002, the average 100-day correlation is *minus*.18 (what we would expect) and has been above plus .70 only three other times. Historically these high correlations have turned around and eventually gone negative. On average, that has meant TLT going down (higher interest rates) and SPY going higher. We'll have to see if history repeats itself in the current situation.

Selected Asset Class Returns for Trailing Twelve Months (%)

	8/13	9/13	10/13	11/13	12/13	1/14	2/14	3/14	4/14	5/14	6/14	7/31	YTD	TTM	
US Equity															
SPY	S&P 500	-3.0	3.2	4.6	3.0	2.6	-3.5	4.6	0.8	0.7	2.3	2.1	-1.3	5.5	16.7
MDY	Mid Cap	-3.9	5.4	3.6	1.2	3.2	-2.2	4.9	0.4	-1.5	1.6	4.2	-4.4	2.6	12.5
IWM	Small Cap	-3.2	6.5	2.4	4.0	2.0	-2.8	4.8	-0.8	-3.8	0.8	5.3	-6.1	-3.0	8.7
QQQ	NASDAQ 100	-0.4	4.8	5.0	3.6	2.9	-1.9	5.2	-2.7	-0.3	4.5	3.1	1.2	9.0	27.3
IYR	Real Estate	-6.5	3.5	3.7	-4.6	0.9	3.4	4.8	0.1	3.0	2.8	1.0	-0.1	16.0	11.9
XLB	Materials	-0.1	4.4	4.2	1.3	4.9	-4.7	6.9	0.8	0.8	3.0	1.6	-2.0	6.2	22.6
XLE	Energy	-1.0	2.1	4.2	0.1	2.9	-5.8	5.1	2.1	5.3	1.7	5.5	-3.5	10.2	19.5
XLF	Financials	-5.1	2.8	3.3	4.5	2.3	-3.7	3.0	3.3	-1.7	1.5	2.4	-1.5	3.3	11.2
XLI	Industrials	-2.5	5.9	4.8	3.7	4.2	-4.3	4.1	1.0	1.3	1.9	0.5	-4.1	0.1	16.9
XLK	Technology	-1.0	2.5	5.0	3.1	3.5	-2.6	4.4	0.4	0.3	3.8	1.9	1.7	10.1	25.2
XLP	Staples	-4.5	1.4	6.4	1.6	0.7	-5.2	3.9	2.2	2.7	1.8	-0.3	-3.3	1.6	6.9
XLV	Healthcare	-3.5	3.2	4.3	4.7	0.7	0.9	6.2	-1.3	-0.6	2.9	2.1	0.1	10.7	21.3
XLV	Discretionary	-2.9	5.4	4.6	3.5	2.3	-6.0	6.4	-2.9	-1.4	2.9	1.9	-1.3	-0.8	12.5
XME	Metals & Mining	0.8	2.3	7.3	-0.7	8.1	-5.2	4.1	0.7	0.5	-6.5	8.1	-2.0	-1.0	17.6
Int'l Equity															
DXJ	Japan	-2.9	9.4	-0.4	5.4	3.1	-8.3	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.6	14.2
EEM	Emerging Mkts	-2.5	7.2	4.2	-0.3	-0.4	-8.6	3.4	3.9	0.8	3.0	2.4	1.4	5.7	14.2
EPP	Asia Pac ex Japan	-0.8	7.6	4.3	-3.3	-0.7	-6.1	7.0	2.4	2.7	1.3	-0.1	2.8	10.1	17.7
FXI	China	2.5	5.6	1.3	6.8	-3.9	-9.9	2.3	1.1	-2.4	5.5	2.0	9.3	7.0	20.4
ILF	Latin America	-3.3	9.4	3.9	-3.9	-1.5	-10.9	2.5	8.1	3.6	-1.2	3.2	2.6	7.0	11.4
VGK	Europe	-1.5	7.2	4.2	1.0	2.9	-4.6	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	15.2
Fixed Income															
AGG	Aggregate Bond	-0.8	1.1	0.8	-0.3	-0.6	1.5	0.4	-0.2	0.8	1.2	-0.1	-0.1	3.7	4.0
EMB	EM Bonds	-2.4	3.2	2.5	-2.0	0.3	-0.8	3.5	1.2	1.1	3.5	0.0	-0.3	8.3	9.9
HYG	US High Yield	-1.3	0.8	2.5	0.5	0.4	0.4	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	5.4
LQD	US IG Corporate	-1.0	0.7	1.8	-0.1	0.2	1.9	1.1	0.0	1.3	1.5	0.0	-0.3	5.6	7.3
TLT	US 20+ Treasury	-1.3	0.7	1.4	-2.7	-1.9	6.3	0.5	0.7	2.1	3.0	-0.3	0.7	13.6	9.3
Dispersion		9.1	8.7	7.7	11.5	12.0	17.2	7.0	11.0	9.0	12.0	8.3	15.3	18.9	23.3

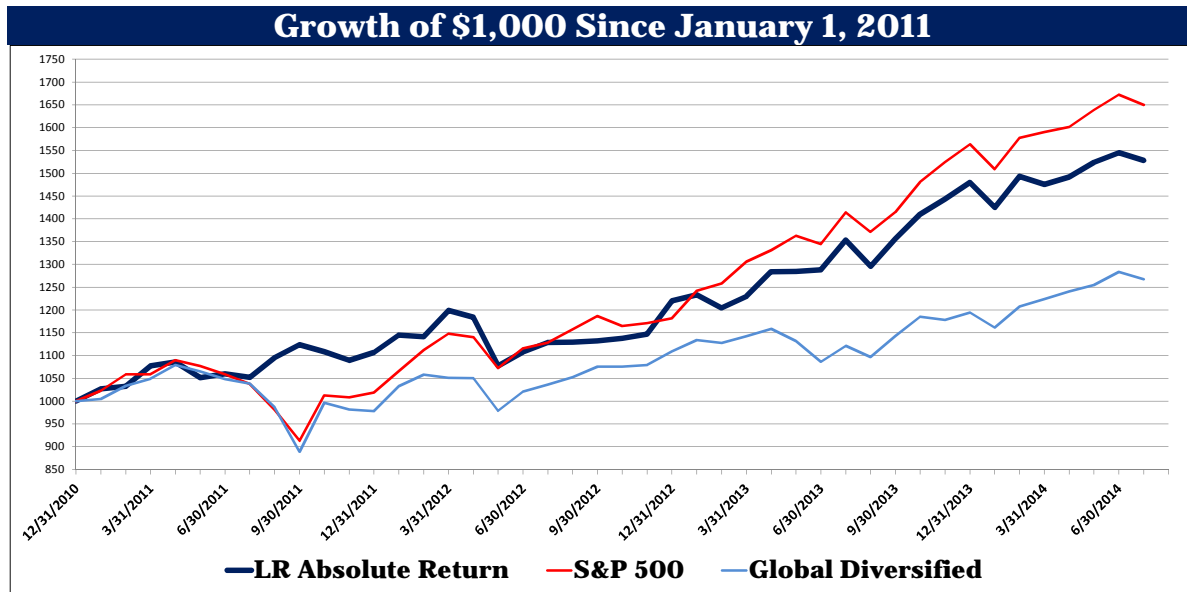
High value minus low value; large dispersion provides better opportunity for active strategies.

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LongRun Absolute Return Strategy - Jul 2014



The LongRun Absolute Return Strategy is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a wide range of equity and fixed income investments. Absolute Return is designed to outperform benchmark returns over a full market cycle with significantly less risk. ETFs are ranked using a combination of factors favoring positive momentum and low volatility. The Absolute Return portfolio is generally invested in the four ETFs at the top of a monthly ranking but may allocate as much as 100% to cash in severe bear market conditions. This version of Absolute Return was introduced in August 2013 and has completely replaced the initial version.



Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	<i>2.7</i>	<i>0.5</i>	<i>4.4</i>	<i>0.8</i>	<i>-3.1</i>	<i>0.8</i>	<i>-0.7</i>	<i>4.2</i>	<i>2.6</i>	<i>-1.4</i>	<i>-1.7</i>	<i>1.6</i>	10.7
2012	<i>3.4</i>	<i>-0.3</i>	<i>5.0</i>	<i>-1.2</i>	<i>-9.1</i>	<i>2.8</i>	<i>1.9</i>	<i>0.0</i>	<i>0.3</i>	<i>0.5</i>	<i>0.8</i>	<i>6.3</i>	10.2
2013	<i>1.1</i>	<i>-2.4</i>	<i>2.1</i>	<i>4.4</i>	<i>0.0</i>	<i>0.3</i>	<i>5.1</i>	<i>-4.2</i>	<i>4.7</i>	<i>4.0</i>	<i>2.4</i>	<i>2.5</i>	21.3
2014	<i>-3.7</i>	<i>4.8</i>	<i>-1.2</i>	<i>1.1</i>	<i>2.2</i>	<i>1.4</i>	<i>-1.1</i>						3.3

Returns in italics are from a systematic backtest of the strategy; non-italized periods represent client composite results.

	Absolute Return	S&P 500	Global Diversified
Year-to-Date Return	3.3%	5.5%	6.1%
Trailing 1-Year Return	12.9%	16.7%	13.0%
Trailing 3-Year Return	45.2%	59.0%	22.1%
Annualized Return from 1/1/11	12.6%	15.0%	6.8%

Portfolio Holdings for Latest Month and Current Month

July 2014		August 2014	
XLE	Energy	XLK	Technology
IYR	Real Estate	FXI	China
QQQ	NASDAQ 100	QQQ	NASDAQ 100
XLK	Technology	EEM	Emerging Markets

Management and Operational Details

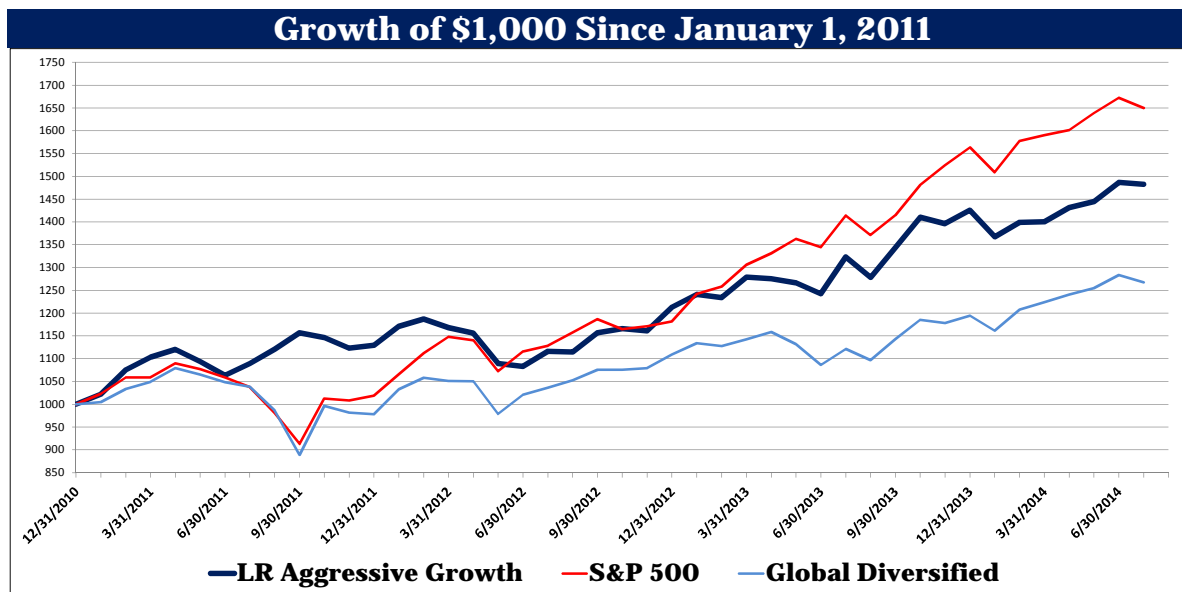
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above \$5 million
Contact Information:	Jim Carroll, jim@longruncapital.com, 914-202-2755

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LongRun Aggressive Growth Strategy - Jul 2014



The LongRun Aggressive Growth Strategy is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a diverse selection of equity and fixed income investments. Aggressive Growth is designed to significantly outperform benchmark returns over a full market cycle with less risk. ETFs are ranked based on total return for a relatively short lookback period as the single quantitative factor. The Aggressive Growth portfolio is always invested in the top three ETFs from the monthly ranking. In our research, this methodology demonstrated a higher return/higher risk profile than the Absolute Return strategy.



Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	2.2	5.2	2.6	1.6	-2.4	-2.8	2.4	2.9	3.2	-0.9	-2.0	0.6	13.0
2012	3.7	1.3	-1.6	-1.0	-5.7	-0.6	3.1	-0.1	3.7	0.8	-0.4	4.4	7.3
2013	2.4	-0.6	3.6	-0.2	-0.7	-1.9	6.5	-3.4	5.1	5.0	-1.0	2.1	17.5
2014	-4.1	2.3	0.1	2.2	0.9	2.9	-0.3						4.0

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	4.0%	5.5%	6.1%
Trailing 1-Year Return	12.1%	16.7%	13.0%
Trailing 3-Year Return	36.1%	59.0%	22.1%
Annualized Return from 1/1/11	11.6%	15.0%	6.8%

Portfolio Holdings for Latest Month and Current Month

July 2014		August 2014	
XLE	Energy	EEM	Emerging Markets
IYR	Real Estate	ILF	Latin America
EEM	Emerging Markets	EPP	Asia-Pacific ex-Japan

Management and Operational Details

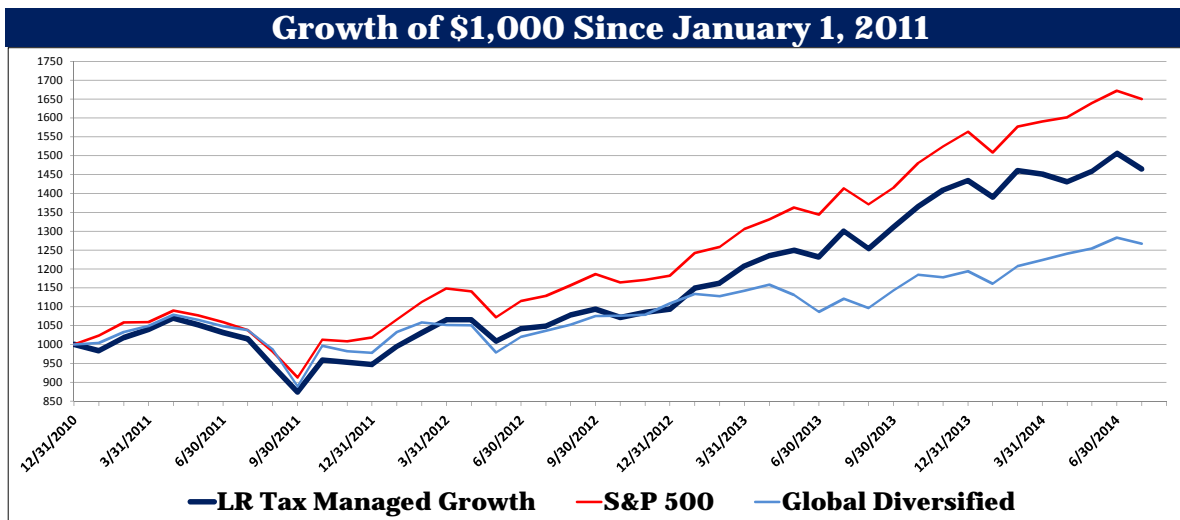
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above \$5 million
Contact Information:	Jim Carroll, jim@longruncapital.com, 914-202-2755

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LongRun Tax Managed Growth Strategy - Jul 2014



The LongRun Tax-Managed Growth Strategy ("TMG") is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a diverse selection of primarily equity and fixed income investments. TMG is designed to outperform benchmark returns over a full market cycle with less risk while also being highly tax efficient. ETFs are ranked based on an assessment of relative strength versus each of the 36 ETFs in the model. The strategy generally owns the top 8 ETFs subject to a buffer and may also allocate as much as 100% to cash in adverse market conditions. Rankings are reviewed daily and holdings adjusted as ranking changes dictate.



Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	<i>-1.7</i>	<i>3.5</i>	<i>2.2</i>	<i>2.9</i>	<i>-1.7</i>	<i>-1.9</i>	<i>-1.7</i>	<i>-7.1</i>	<i>-7.3</i>	<i>9.7</i>	<i>-0.6</i>	<i>-0.6</i>	-5.3
2012	<i>5.1</i>	<i>3.6</i>	<i>3.4</i>	<i>0.0</i>	<i>-5.3</i>	<i>3.3</i>	<i>0.6</i>	<i>2.8</i>	<i>1.5</i>	<i>-2.1</i>	<i>1.3</i>	<i>0.8</i>	15.5
2013	<i>5.1</i>	<i>1.2</i>	<i>3.9</i>	<i>2.2</i>	<i>1.2</i>	<i>-1.4</i>	<i>5.6</i>	<i>-3.6</i>	<i>4.5</i>	<i>4.2</i>	<i>3.2</i>	<i>1.8</i>	31.2
2014	<i>-3.1</i>	<i>5.1</i>	<i>-0.6</i>	<i>-1.4</i>	<i>1.9</i>	<i>3.3</i>	<i>-2.8</i>						2.1

Returns in italics are from a systematic backtest of the strategy; non-italicized periods represent client composite results.

	Tax-Managed Growth	S&P 500	Global Diversified
Year-to-Date Return	2.1%	5.5%	6.1%
Trailing 1-Year Return	12.6%	16.7%	13.0%
Trailing 3-Year Return	44.4%	59.0%	22.1%
Annualized Return from 1/1/11	11.2%	15.0%	6.8%

Portfolio Holdings for Latest Month and Current Month

July 2014		August 2014	
XLY	US Consumer Discretionary	XLY	US Consumer Discretionary
QQQ	NASDAQ 100	QQQ	NASDAQ 100
IJK	US Mid Cap Growth	IJK	US Mid Cap Growth
XLV	US Healthcare	XLV	US Healthcare
RSP	Equal-Weight S&P 500	RSP	Equal-Weight S&P 500
IJT	US Small Cap Growth	IJT	US Small Cap Growth
IJS	US Small Cap Value	IJS	US Small Cap Value
IJJ	US Mid Cap Value	IJJ	US Mid Cap Value

Holdings shown reflect the portfolio at the start of the given month; changes are infrequent but may occur intra-month

Management and Operational Details

Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
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