

Aug 2014

AR 2.69% AG 3.87% TMG 4.56% SP500 3.95% GD 3.48%

Commentary

August was a good month across most asset classes and geographies as concerns about the Ukraine and Ebola abated and US airstrikes against ISIS had some positive impact. US equity market indices reached fresh new highs during the month, recovering from a pullback that ran from the last week of July through the first week of August. Our portfolios were in the green as well with Tax-Managed Growth (TMG) up 4.56%, Aggressive Growth (AG) higher by 3.87% and Absolute Return (AR) ahead by 2.69%. TMG remains fully invested in US equities and benefitted from a strong rebound in mid and small cap stocks. No changes to the TMG portfolio as we head into September. AG caught the 8.6% gain in Latin America (ILF) which was offset by weaker gains in Emerging Markets (EEM) and Asia-Pacific ex-Japan (EPP). For the new month, EPP was replaced by Metals & Mining (XME) which has been volatile year-to-date but showed strength in August. AR picked up good gains from the Nasdaq 100 (QQQ), Technology (XLK) and EEM but was held back by China (FXI) taking a breather with no change for the month. AR dropped EEM in favor of ILF as we head into September.

With US equities making new highs and every pullback being a buying opportunity, I have been offering a short quiz as I make my rounds: What has done better year-to-date – US equities or US Treasury bonds? Most people have seen the headlines and answer that equities have done better. However, long-term Treasuries (TLT) have run 19% YTD versus 10% for the S&P 500 and a measly 2% for US small caps. Betting **against** rising interest rates has been a profitable trade so far this year, including August when TLT returned 4.7% versus 4.0% for the S&P 500 and 4.3% for the broader Russell 3000 (IWM). I'm repeating myself, but new highs in both stocks and bonds will stop at some point.

September and October are the stock market equivalent of shark season and several Wall Street strategists have warned investors to "stay out of the water." Even Jim Paulsen, the perpetually bullish strategist at \$345 billion Wells Capital Management is warning that stocks could drop 15% sometime soon. It's a variation on the good news is bad news syndrome. Russ Koesterich of \$4 trillion (with a t) BlackRock says, "If you get another strong employment number, that will focus investor attention on the impending monetary tightening and could cause volatility in the fall." A garden variety 10% correction would take the US market back to scratch for the year and might lead disappointed investors to unload more of their holdings. May or may not happen but it's worth noting that our faster moving models (AG and AR) have made significant shifts away from the US equity markets. Not to suggest that international equities will be immune if the US market rolls over, but even as domestic equities have been making new highs they have been losing ground relative to overseas stocks. OK now, summer's over! Back to work and keep your head down.

"Risk control is the best route to loss avoidance. Risk avoidance, on the other hand, is likely to lead to return avoidance as well." - Howard Marks, Chairman of Oaktree Capital Management

Selected Asset Class Returns for Trailing Twelve Months (%)

	9/13	10/13	11/13	12/13	1/14	2/14	3/14	4/14	5/14	6/14	7/31	8/31	YTD	TTM	
US Equity															
SPY	S&P 500	3.2	4.6	3.0	2.6	-3.5	4.6	0.8	0.7	2.3	2.1	-1.3	4.0	9.7	25.1
MDY	Mid Cap	5.4	3.6	1.2	3.2	-2.2	4.9	0.4	-1.5	1.6	4.2	-4.4	5.1	7.8	22.9
IWM	Small Cap	6.5	2.4	4.0	2.0	-2.8	4.8	-0.8	-3.8	0.8	5.3	-6.1	4.8	1.7	17.6
QQQ	NASDAQ 100	4.8	5.0	3.6	2.9	-1.9	5.2	-2.7	-0.3	4.5	3.1	1.2	5.0	14.5	34.2
IYR	Real Estate	3.5	3.7	-4.6	0.9	3.4	4.8	0.1	3.0	2.8	1.0	-0.1	3.5	20.0	23.9
XLB	Materials	4.4	4.2	1.3	4.9	-4.7	6.9	0.8	0.8	3.0	1.6	-2.0	3.9	10.3	27.5
XLE	Energy	2.1	4.2	0.1	2.9	-5.8	5.1	2.1	5.3	1.7	5.5	-3.5	2.2	12.6	23.3
XLF	Financials	2.8	3.3	4.5	2.3	-3.7	3.0	3.3	-1.7	1.5	2.4	-1.5	4.2	7.7	22.1
XLI	Industrials	5.9	4.8	3.7	4.2	-4.3	4.1	1.0	1.3	1.9	0.5	-4.1	4.2	4.3	24.9
XLK	Technology	2.5	5.0	3.1	3.5	-2.6	4.4	0.4	0.3	3.8	1.9	1.7	3.3	13.7	30.7
XLP	Staples	1.4	6.4	1.6	0.7	-5.2	3.9	2.2	2.7	1.8	-0.3	-3.3	4.6	6.2	17.2
XLV	Healthcare	3.2	4.3	4.7	0.7	0.9	6.2	-1.3	-0.6	2.9	2.1	0.1	4.8	16.0	31.8
XLY	Discretionary	5.4	4.6	3.5	2.3	-6.0	6.4	-2.9	-1.4	2.9	1.9	-1.3	4.5	3.6	20.9
XME	Metals & Mining	2.3	7.3	-0.7	8.1	-5.2	4.1	0.7	0.5	-6.5	8.1	-2.0	5.7	4.6	23.3
Int'l Equity															
DXJ	Japan	9.4	-0.4	5.4	3.1	-8.3	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.2	-0.8	17.4
EEM	Emerging Mkts	7.2	4.2	-0.3	-0.4	-8.6	3.4	3.9	0.8	3.0	2.4	1.4	2.8	8.7	20.5
EPP	Asia Pac ex Japan	7.6	4.3	-3.3	-0.7	-6.1	7.0	2.4	2.7	1.3	-0.1	2.8	1.0	11.1	19.7
FXI	China	5.6	1.3	6.8	-3.9	-9.9	2.3	1.1	-2.4	5.5	2.0	9.3	0.0	7.0	17.4
ILF	Latin America	9.4	3.9	-3.9	-1.5	-10.9	2.5	8.1	3.6	-1.2	3.2	2.6	8.6	16.2	25.1
VGK	Europe	7.2	4.2	1.0	2.9	-4.6	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	1.4	17.7
Fixed Income															
AGG	Aggregate Bond	1.1	0.8	-0.3	-0.6	1.5	0.4	-0.2	0.8	1.2	-0.1	-0.1	1.2	4.9	6.1
EMB	EM Bonds	3.2	2.5	-2.0	0.3	-0.8	3.5	1.2	1.1	3.5	0.0	-0.3	1.3	9.7	14.0
HYG	US High Yield	0.8	2.5	0.5	0.4	0.4	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	4.8	9.3
LQD	US IG Corporate	0.7	1.8	-0.1	0.2	1.9	1.1	0.0	1.3	1.5	0.0	-0.3	2.0	7.7	10.6
TLT	US 20+ Treasury	0.7	1.4	-2.7	-1.9	6.3	0.5	0.7	2.1	3.0	-0.3	0.7	4.7	19.0	16.0
Dispersion		8.7	7.7	11.5	12.0	17.2	7.0	11.0	9.0	12.0	8.3	15.3	8.8	20.8	28.2

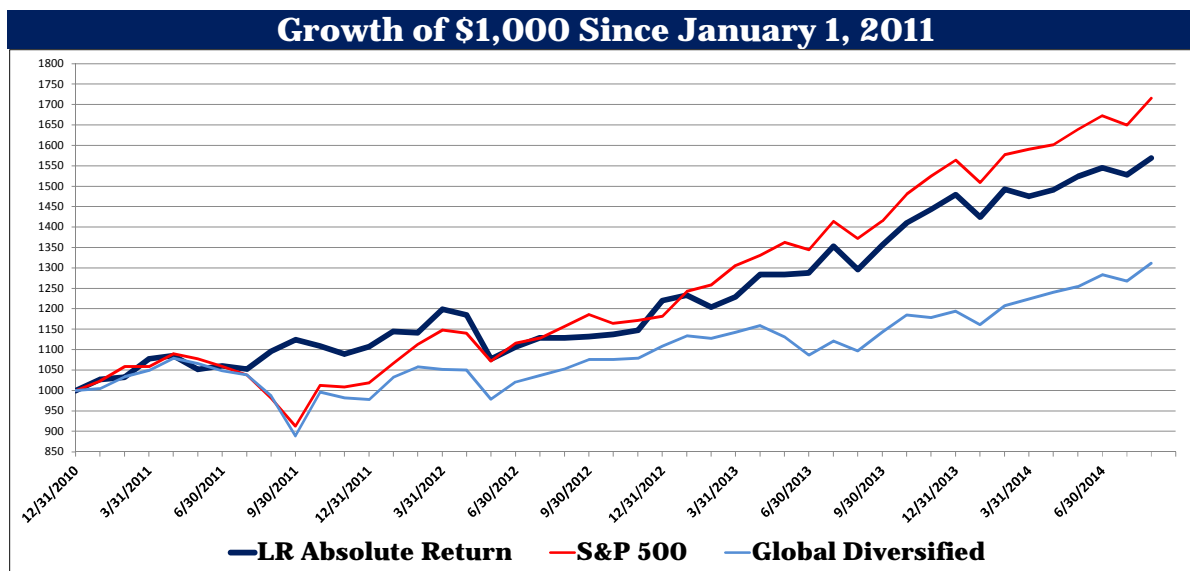
High value minus low value; large dispersion provides better opportunity for active strategies.

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LongRun Absolute Return Strategy - Aug 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>	<i>2.7</i>					6.1

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	6.1%	9.7%	9.8%
Trailing 1-Year Return	21.1%	25.1%	19.6%
Trailing 3-Year Return	43.2%	74.9%	32.9%
Annualized Return from 1/1/11	13.1%	15.9%	7.7%

Portfolio Holdings for Latest Month and Current Month

August 2014		September 2014	
XLK	Technology	ILF	Latin America
FXI	China	XLK	Technology
QQQ	NASDAQ 100	QQQ	NASDAQ 100
EEM	Emerging Markets	FXI	China

Management and Operational Details

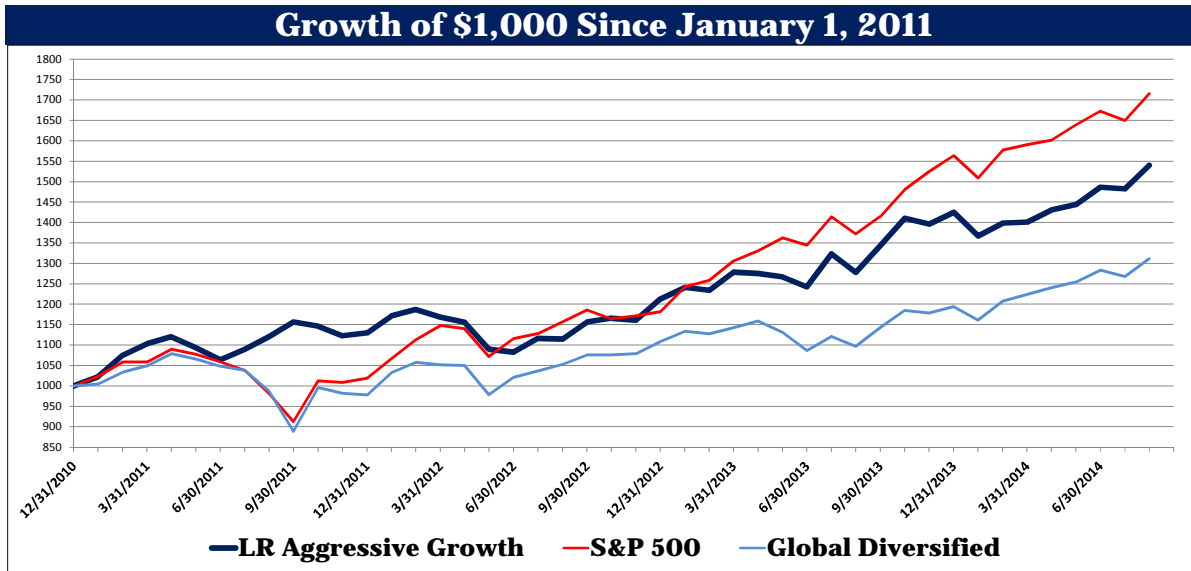
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Aggressive Growth Strategy - Aug 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	3.9					8.0

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	8.0%	9.7%	9.8%
Trailing 1-Year Return	20.5%	25.1%	19.6%
Trailing 3-Year Return	37.3%	74.9%	32.9%
Annualized Return from 1/1/11	12.5%	15.9%	7.7%

Portfolio Holdings for Latest Month and Current Month

August 2014		September 2014	
EEM	Emerging Markets	ILF	Latin America
ILF	Latin America	XME	Metals & Mining
EPP	Asia-Pacific ex-Japan	EEM	Emerging Markets

Management and Operational Details

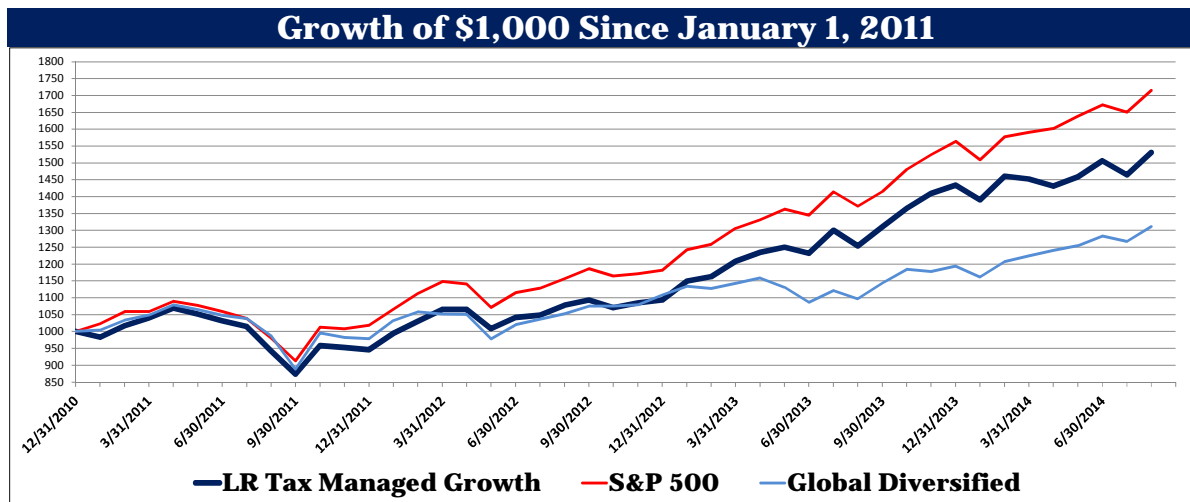
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Tax Managed Growth Strategy - Aug 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>	<i>4.6</i>					6.8

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	6.8%	9.7%	9.8%
Trailing 1-Year Return	22.1%	25.1%	19.6%
Trailing 3-Year Return	62.5%	74.9%	32.9%
Annualized Return from 1/1/11	12.3%	15.9%	7.7%

Portfolio Holdings for Latest Month and Current Month

August 2014		September 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
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