

Sep 2014

AR -4.96% AG -12.03% TMG -3.25% SP500 -1.38% GD -6.00%

Commentary

In last month's commentary, I noted that "September and October are the stock market equivalent of shark season." True to form, there was a lot of blood in the water last month as all 14 of the ETFs in our Global Diversified benchmark registered losses and Japan was the only major market on our expanded list to register a positive return. All three LongRun strategies were in the red. Absolute Return (AR, -4.96%) and Tax-Managed Growth (TMG, -3.25%) were not as bad as the Global Diversified benchmark (-6.00%) but Aggressive Growth (AG) was absolutely trashed (-12.03%) as it owned two of the month's worst performers, Metals & Mining (XME, -15.6%) and Latin America (ILF, -13.5%). Absolute Return also had ILF along with China (FXI, -5.4%), offsetting decent performance from Nasdaq 100 (QQQ, -0.8%) and Technology (XLK, -0.5%). TMG remains 100% invested in US equities, dodging the worst bullets.

I am 100% responsible for the performance of our strategies so I own September – quite literally. After a thrashing like this, I always question whether the performance indicates a problem with the ETFs being used or the disciplined rules that govern what the strategies own from month to month. For Aggressive Growth, I have performance data backtesting to 1996 that applies exactly the same set of rules every month. Looking at the troublesome ETFs, the data shows that double-digit monthly losses show up an average of about once a year for both XME and ILF (24 out of 225 months for each). Why would we have these ETFs in our models?? Because XME produced 31 double-digit **positive** months over the same period while ILF had 27 and the model has grabbed more of the positive months than the negative months – 12 vs. 6 for XME and 10 vs. 4 for ILF. September was the second time that XME and ILF were both in the portfolio in a month where each lost more than 10%. There have also been two occasions where both contributed more than 10% in the same month. Looking at September's performance, it sucks but is not inconsistent with the strategy's history. Including September, monthly losses worse than 10% happened on three occasions and gains of more than 10% nine times. These high octane ups and downs are a by-product of an aggressive strategy that only holds three ETFs at any one time. Over an almost 19 year period, Aggressive Growth has shown almost double the annual return of the S&P 500 (16.2% vs. 8.2%) turning \$1.00 into \$16.67 vs. \$4.40. The strategy has worked over time. Changing it in response to a bad month that has been seen before would be a mistake. It's time to stay disciplined and maintain perspective. Aggressive Growth is appropriate only for investors with a long time horizon and high risk tolerance.

For October, Aggressive Growth turned over all three positions, taking on long-term Treasury bonds (TLT), the S&P 500 (IVV) and investment grade corporate bonds (LQD) – a much more defensive portfolio that reflects recent outperformance of bonds versus stocks. Absolute Return changed half its portfolio, dropping ILF and FXI in favor of Japan (DXJ) and the US dollar (UUP) while holding onto QQQ and XLK.

October is off to a volatile start and will be a critical month in determining direction for the rest of the year. The US stock market is showing cracks in what has been solid performance with small caps dramatically underperforming large caps and the best performance concentrated in a smaller and smaller group of stocks. The S&P 500 is up more than 8% year-to-date, but the Russell 2000 small caps are down more than 4%. Within the S&P 500, the biggest 100 stocks account for all the performance. This divergence and concentration are warning signs. October will also kick off 3rd quarter earnings reports. If the economy is really recovering, both large and small companies should be participating. If things don't improve in October, I expect both AG and AR to be more defensive going into November.

"Discipline is the bridge between goals and accomplishments." - Jim Rohn, Entrepreneur and author

Selected Asset Class Returns for Trailing Twelve Months (%)

	10/13	11/13	12/13	1/14	2/14	3/14	4/14	5/14	6/14	7/31	8/31	9/30	YTD	TTM
US Equity														
SPY	4.6	3.0	2.6	-3.5	4.6	0.8	0.7	2.3	2.1	-1.3	4.0	-1.4	8.2	19.6
MDY	3.6	1.2	3.2	-2.2	4.9	0.4	-1.5	1.6	4.2	-4.4	5.1	-4.5	2.9	11.4
IWM	2.4	4.0	2.0	-2.8	4.8	-0.8	-3.8	0.8	5.3	-6.1	4.8	-5.9	-4.3	3.9
QQQ	5.0	3.6	2.9	-1.9	5.2	-2.7	-0.3	4.5	3.1	1.2	5.0	-0.8	13.6	27.1
IYR	3.7	-4.6	0.9	3.4	4.8	0.1	3.0	2.8	1.0	-0.1	3.5	-5.9	12.9	12.7
XLB	4.2	1.3	4.9	-4.7	6.9	0.8	0.8	3.0	1.6	-2.0	3.9	-1.4	8.7	20.3
XLE	4.2	0.1	2.9	-5.8	5.1	2.1	5.3	1.7	5.5	-3.5	2.2	-7.8	3.9	11.4
XLF	3.3	4.5	2.3	-3.7	3.0	3.3	-1.7	1.5	2.4	-1.5	4.2	-0.4	7.2	18.3
XLI	4.8	3.7	4.2	-4.3	4.1	1.0	1.3	1.9	0.5	-4.1	4.2	-1.2	3.1	16.7
XLK	5.0	3.1	3.5	-2.6	4.4	0.4	0.3	3.8	1.9	1.7	3.3	-0.5	13.1	26.8
XLP	6.4	1.6	0.7	-5.2	3.9	2.2	2.7	1.8	-0.3	-3.3	4.6	0.6	6.9	16.3
XLV	4.3	4.7	0.7	0.9	6.2	-1.3	-0.6	2.9	2.1	0.1	4.8	0.4	16.5	28.2
XLY	4.6	3.5	2.3	-6.0	6.4	-2.9	-1.4	2.9	1.9	-1.3	4.5	-2.8	0.8	11.5
XME	7.3	-0.7	8.1	-5.2	4.1	0.7	0.5	-6.5	8.1	-2.0	5.7	-15.6	-11.7	1.8
Int'l Equity														
DXJ	-0.4	5.4	3.1	-8.3	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.2	4.9	4.0	12.6
EEM	4.2	-0.3	-0.4	-8.6	3.4	3.9	0.8	3.0	2.4	1.4	2.8	-7.8	0.2	3.7
EPP	4.3	-3.3	-0.7	-6.1	7.0	2.4	2.7	1.3	-0.1	2.8	1.0	-9.9	0.1	0.3
FXI	1.3	6.8	-3.9	-9.9	2.3	1.1	-2.4	5.5	2.0	9.3	0.0	-5.4	1.2	5.2
ILF	3.9	-3.9	-1.5	-10.9	2.5	8.1	3.6	-1.2	3.2	2.6	8.6	-13.5	0.6	-1.0
VGK	4.2	1.0	2.9	-4.6	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	-4.0	-2.6	5.5
Fixed Income														
AGG	0.8	-0.3	-0.6	1.5	0.4	-0.2	0.8	1.2	-0.1	-0.1	1.2	-0.6	4.2	4.3
EMB	2.5	-2.0	0.3	-0.8	3.5	1.2	1.1	3.5	0.0	-0.3	1.3	-2.1	7.5	8.3
HYG	2.5	0.5	0.4	0.4	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	-2.0	2.8	6.3
LQD	1.8	-0.1	0.2	1.9	1.1	0.0	1.3	1.5	0.0	-0.3	2.0	-1.7	5.9	7.9
TLT	1.4	-2.7	-1.9	6.3	0.5	0.7	2.1	3.0	-0.3	0.7	4.7	-2.1	16.5	12.8
Dispersion	7.7	11.5	12.0	17.2	7.0	11.0	9.0	12.0	8.3	15.3	8.8	20.5	28.2	29.3

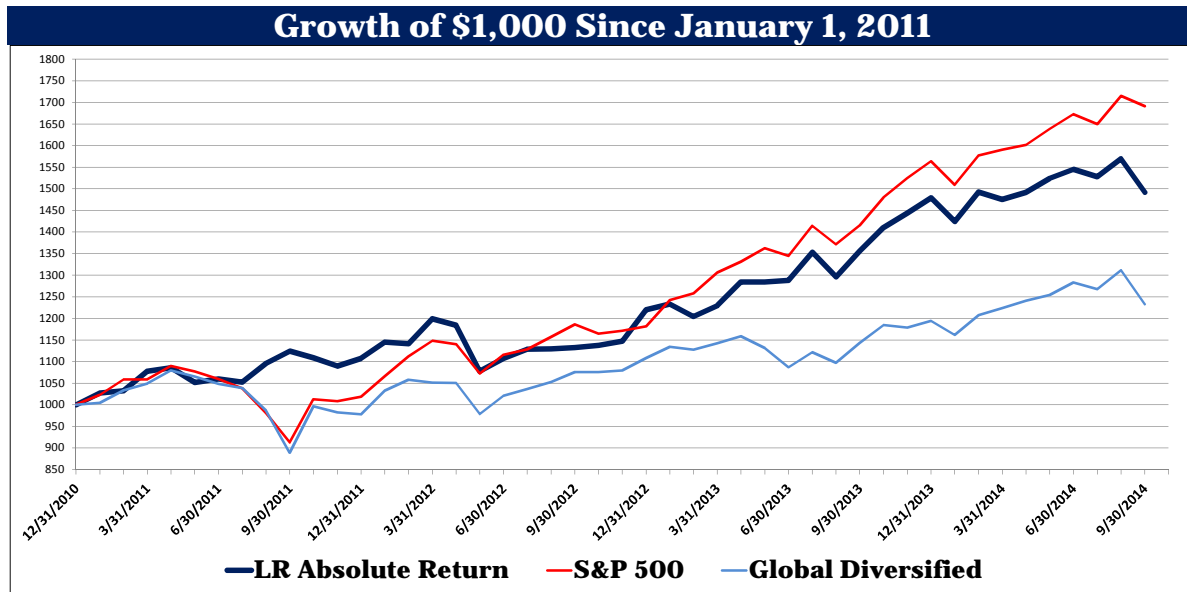
High value minus low value; large dispersion provides better opportunity for active strategies.

IMPORTANT DISCLOSURES: This document is not an offering to sell or the solicitation of an offering to purchase an interest in any of the separate account strategies offered by LongRun Capital Management LLC. S&P 500 benchmark represents the total return (including dividends) of the SPDR S&P 500 ETF (SPY). Global Diversified benchmark is the total return of an equal-weight portfolio consisting of 14 ETFs allocated approximately 70% equity (40% US and 30% international) and 30% fixed income. Investment returns shown for LongRun strategies represent actual client composite performance net of fees and expenses for certain periods and estimated net returns derived from a statistical backtest for other periods. The rule-sets used to determine month-to-month holdings of the LongRun strategy were applied consistently for the backtest period. Results of the complete backtest are available upon request. Underlying data has been obtained from sources believed to be reliable and LongRun is not responsible for errors or omissions in that data. Performance of individual separately managed accounts may vary from composite performance. Past performance (estimated or actual) is not necessarily indicative and is not a guarantee of future performance. Information regarding LongRun's management fees and the value of assets included in the composite results is available upon request. In addition, LongRun's disclosure document, Form ADV Part 2A, is available online at www.adviserinfo.sec.gov or upon request.

LongRun Absolute Return Strategy - Sep 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>	<i>-5.0</i>				0.8

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

	Absolute Return	S&P 500	Global Diversified
Year-to-Date Return	0.8%	8.2%	3.2%
Trailing 1-Year Return	10.0%	19.6%	7.8%
Trailing 3-Year Return	32.7%	85.3%	38.7%
Annualized Return from 2/1/03*	17.2%	9.4%	11.7%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Latest Month and Current Month

September 2014		October 2014	
ILF	Latin America	UUP	US Dollar
XLK	Technology	QQQ	NASDAQ 100
QQQ	NASDAQ 100	DXJ	Japan (Currency Hedged)
FXI	China	XLK	Technology

Management and Operational Details

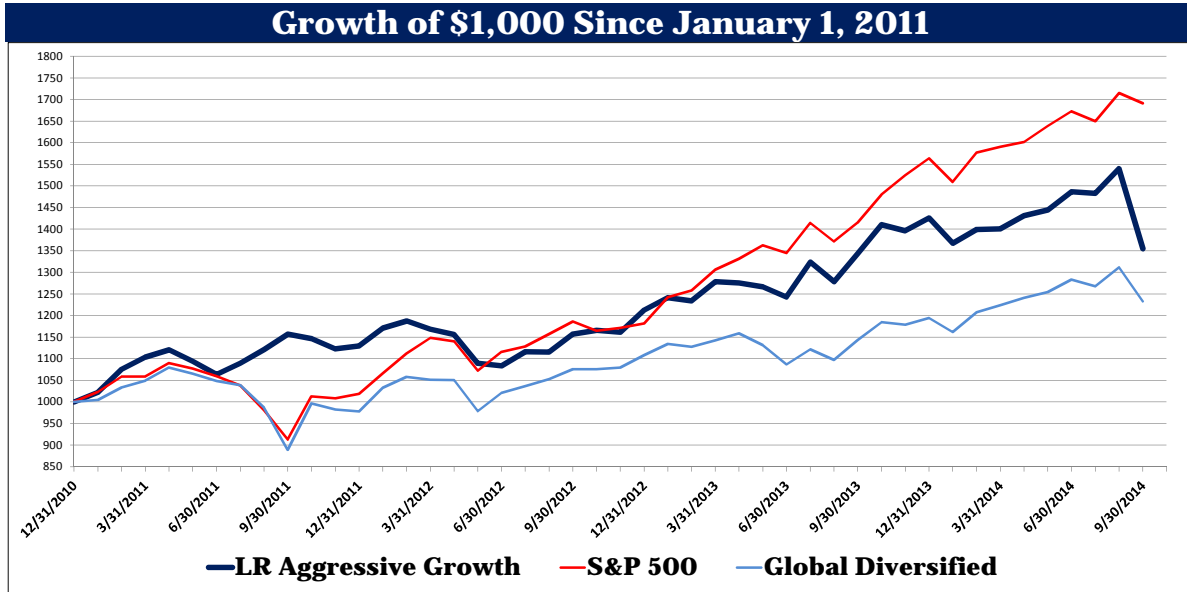
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Aggressive Growth Strategy - Sep 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	-12.0				-5.0

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	-5.0%	8.2%	3.2%
Trailing 1-Year Return	0.8%	19.6%	7.8%
Trailing 3-Year Return	17.1%	85.3%	38.7%
Annualized Return from 2/1/03*	20.0%	9.4%	11.7%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Latest Month and Current Month

September 2014		October 2014	
ILF	Latin America	TLT	20+ Year Treasury Bonds
XME	Metals & Mining	IVV	S&P 500
EEM	Emerging Markets	LQD	Inv Grade Corp Bonds

Management and Operational Details

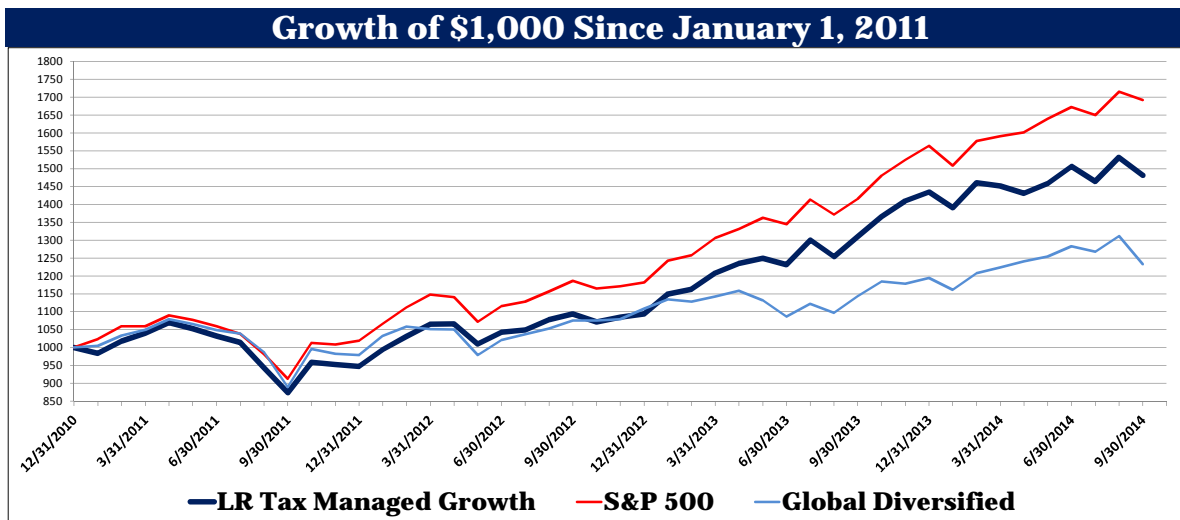
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Tax Managed Growth Strategy - Sep 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	3.3%	8.2%	3.2%
Trailing 1-Year Return	13.0%	19.6%	7.8%
Trailing 3-Year Return	69.6%	85.3%	38.7%
Annualized Return from 2/1/03*	16.4%	9.4%	11.7%

* Common start date for backtests of three LongRun strategies

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
Liquidity/Redemption:	Upon client request
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