

Oct 2014

AR +2.34% AG +1.71% TMG +4.21% SP500 +2.36% GD +1.76%

Commentary

October was a wild rollercoaster ride across all markets as the September sell-off in equities continued through the middle of the month only to reverse and finish on a strong uptrend. From its recent high on September 19th, the S&P 500 index fell 7.4% to its low on October 15 (9.8% using intraday high and low) and then rebounded to finish the month less than 1% below its peak. The Russell 2000 small cap index was even more dramatic, peaking on September 3rd, dropping 10.5% (12.1% intraday) and then rallying 10% to finish within 1.4% of the September high. In the first few days of November, the S&P 500 has shown real strength by notching a new high and the Russell 2000 is knocking on that door. Sustaining new highs will be an important sign that investors have shaken off the October slump that broke below prior lows in both indices.

Where all 14 of our Global Diversified ETFs showed losses in September, 10 of the 14 managed gains for the month of October and the GD benchmark was up 1.76%. Our three strategies all finished higher, with Absolute Return (AR) up 2.34%, Aggressive Growth (AG) +1.71% and Tax-Managed Growth (TMG) better by 4.15%. AR was 50% US equity, 25% US dollar and 25% Japan, AG was two-thirds bonds and one-third US equity, while TMG kept its longstanding 100% US equities positioning. Halfway through October, AR and TMG were badly lagging AG's defensive positioning but caught the rally to finish ahead for the month. Year-to-date performance is still lackluster for AR (+3.2%) and AG (-3.3%) compared with +5.0% for the GD benchmark, while TMG has done better (+7.6%).

Going into November, AR is 75% US equities with positions in Healthcare (XLV), Financials (XLF) and Consumer Staples (XLP) plus a carryover position in Japan (currency hedged DXJ) that provided some end of month fireworks in response to a new round of quantitative easing by the BOJ. DXJ had a one-day move of +6.6% on October 31. AG has moved to a less defensive positioning with Treasury bonds (TLT) as a carryover plus Real Estate (IYR) and October's big winner at +8.5% and US Small Cap stocks (IWM). TMG came close to making its first change in a long time as US Small Cap Growth (IJT) almost fell out of the portfolio before the rally kept it in place. As it is, TMG remains 100% US equities.

From a technical perspective, the September/October pullback inflicted some damage. As I've mentioned before, the US market had been very resilient since to correction that started in August 2011. Every time the market pulled back, it stopped above the prior swing low and then broke out to a new high. The October low broke this pattern. Though the rebound has been strong, we have not yet confirmed broad-based participation. While the Dow and S&P 500 have breached new highs, small cap stocks are not quite there. Furthermore, strength in the indices is coming from fewer stocks. I'm publishing a separate research piece on this. In addition, I expect an increase in volatility now that the Federal Reserve has formally ended Quantitative Easing (even though they've already said they could bring it back if necessary). Bottom line is that equity markets can go higher from here, especially as we are entering a period of strong seasonality, but investors need to have their eyes wide open.

"Change is the investor's only certainty." - T. Rowe Price, early growth stock investor and founder of eponymous investment firm

Selected Asset Class Returns for Trailing Twelve Months (%)

	Nov-14	Dec-14	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	YTD	TTM	
US Equity															
SPY	S&P 500	3.0	2.6	-3.5	4.6	0.8	0.7	2.3	2.1	-1.3	4.0	-1.4	2.4	10.7	17.0
MDY	Mid Cap	1.2	3.2	-2.2	4.9	0.4	-1.5	1.6	4.2	-4.4	5.1	-4.5	3.5	6.5	11.3
IWM	Small Cap	4.0	2.0	-2.8	4.8	-0.8	-3.8	0.8	5.3	-6.1	4.8	-5.9	6.6	2.0	8.2
QQQ	NASDAQ 100	3.6	2.9	-1.9	5.2	-2.7	-0.3	4.5	3.1	1.2	5.0	-0.8	2.6	16.6	24.3
IYR	Real Estate	-4.6	0.9	3.4	4.8	0.1	3.0	2.8	1.0	-0.1	3.5	-5.9	8.5	22.5	17.9
XLB	Materials	1.3	4.9	-4.7	6.9	0.8	0.8	3.0	1.6	-2.0	3.9	-1.4	-2.4	6.1	12.7
XLE	Energy	0.1	2.9	-5.8	5.1	2.1	5.3	1.7	5.5	-3.5	2.2	-7.8	-3.5	0.2	3.1
XLF	Financials	4.5	2.3	-3.7	3.0	3.3	-1.7	1.5	2.4	-1.5	4.2	-0.4	2.9	10.3	17.9
XLI	Industrials	3.7	4.2	-4.3	4.1	1.0	1.3	1.9	0.5	-4.1	4.2	-1.2	3.9	7.1	15.7
XLK	Technology	3.1	3.5	-2.6	4.4	0.4	0.3	3.8	1.9	1.7	3.3	-0.5	1.6	14.9	22.7
XLP	Staples	1.6	0.7	-5.2	3.9	2.2	2.7	1.8	-0.3	-3.3	4.6	0.6	3.6	10.7	13.2
XLV	Healthcare	4.7	0.7	0.9	6.2	-1.3	-0.6	2.9	2.1	0.1	4.8	0.4	5.3	22.7	29.4
XYL	Discretionary	3.5	2.3	-6.0	6.4	-2.9	-1.4	2.9	1.9	-1.3	4.5	-2.8	2.1	2.9	8.9
XME	Metals & Mining	-0.7	8.1	-5.2	4.1	0.7	0.5	-6.5	8.1	-2.0	5.7	-15.6	-4.3	-15.5	-9.2
Int'l Equity															
DXJ	Japan	5.4	3.1	-8.3	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.2	4.9	2.9	7.0	16.3
EEM	Emerging Mkts	-0.3	-0.4	-8.6	3.4	3.9	0.8	3.0	2.4	1.4	2.8	-7.8	1.4	1.6	0.9
EPP	Asia Pac ex Japan	-3.3	-0.7	-6.1	7.0	2.4	2.7	1.3	-0.1	2.8	1.0	-9.9	5.5	5.6	1.4
FXI	China	6.8	-3.9	-9.9	2.3	1.1	-2.4	5.5	2.0	9.3	0.0	-5.4	4.3	5.6	8.3
ILF	Latin America	-3.9	-1.5	-10.9	2.5	8.1	3.6	-1.2	3.2	2.6	8.6	-13.5	-0.4	0.2	-5.2
VGK	Europe	1.0	2.9	-4.6	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	-4.0	-1.9	-4.5	-0.7
Fixed Income															
AGG	Aggregate Bond	-0.3	-0.6	1.5	0.4	-0.2	0.8	1.2	-0.1	-0.1	1.2	-0.6	1.1	5.4	4.5
EMB	EM Bonds	-2.0	0.3	-0.8	3.5	1.2	1.1	3.5	0.0	-0.3	1.3	-2.1	2.0	9.6	7.7
HYG	US High Yield	0.5	0.4	0.4	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	-2.0	1.1	3.9	4.8
LQD	US IG Corporate	-0.1	0.2	1.9	1.1	0.0	1.3	1.5	0.0	-0.3	2.0	-1.7	1.2	7.2	7.3
TLT	US 20+ Treasury	-2.7	-1.9	6.3	0.5	0.7	2.1	3.0	-0.3	0.7	4.7	-2.1	2.8	19.7	14.3
Dispersion		11.5	12.0	17.2	7.0	11.0	9.0	12.0	8.3	15.3	8.8	20.5	12.8	38.1	38.6

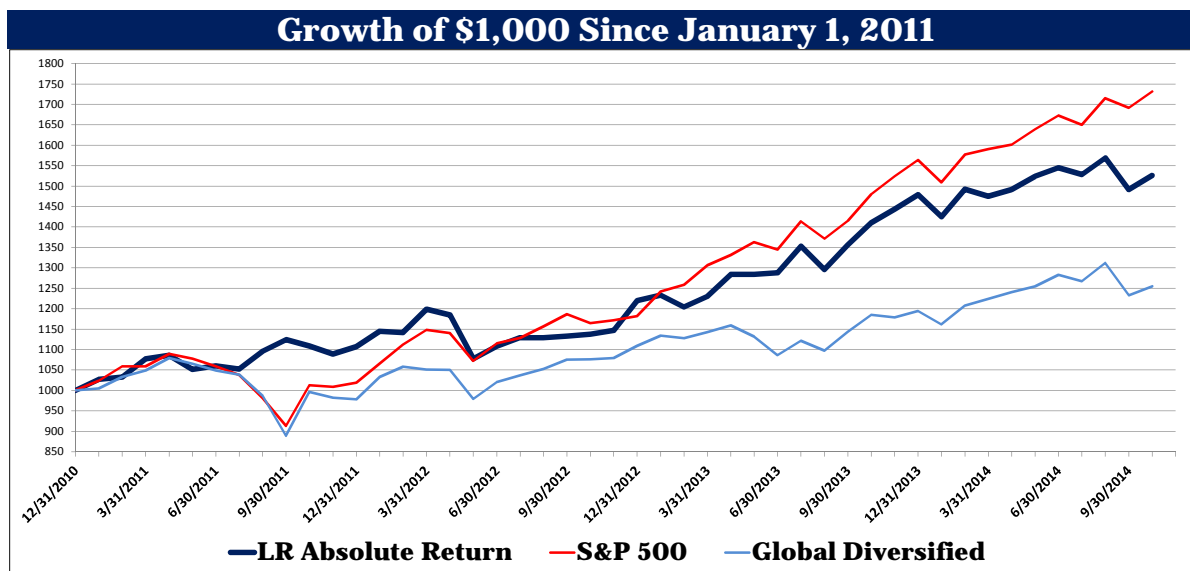
High value minus low value; large dispersion provides better opportunity for active strategies.

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LongRun Absolute Return Strategy - Oct 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>	<i>2.3</i>			3.2

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	3.2%	10.7%	5.0%
Trailing 1-Year Return	8.3%	17.0%	5.9%
Trailing 3-Year Cume Return	37.7%	71.0%	25.9%
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

October 2014		November 2014	
UUP	US Dollar	XLV	Healthcare
QQQ	NASDAQ 100	XLK	Consumer Staples
DXJ	Japan (Currency Hedged)	XLJ	Financials
XLK	Technology	DXJ	Japan (Currency Hedged)

Management and Operational Details

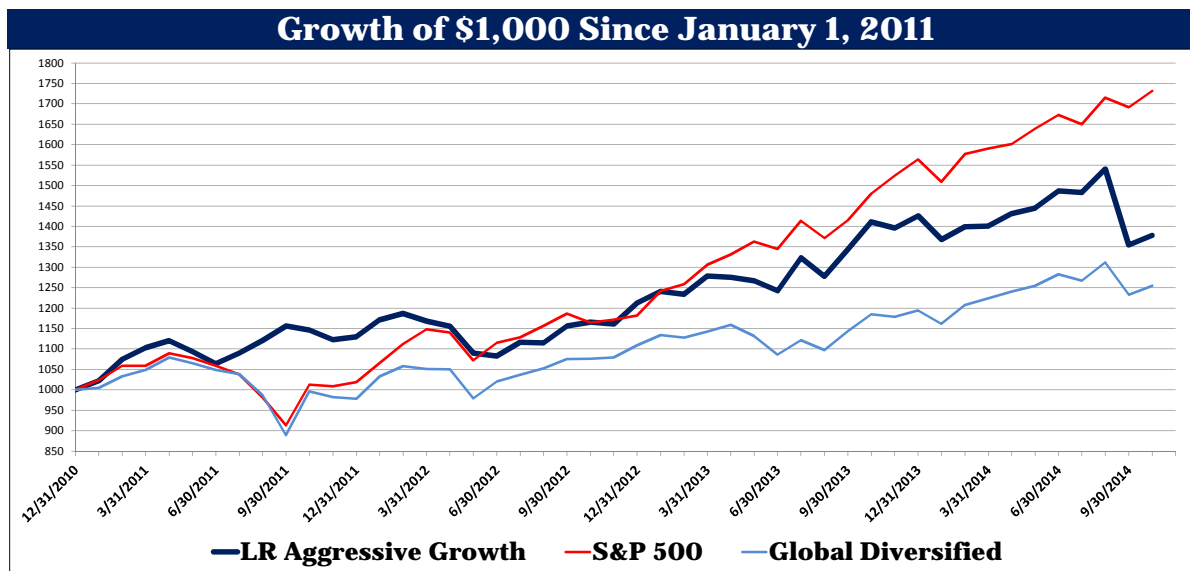
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Aggressive Growth Strategy - Oct 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	1.7			-3.3

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	-3.3%	10.7%	5.0%
Trailing 1-Year Return	-2.3%	17.0%	5.9%
Trailing 3-Year Cume Return	20.2%	71.0%	25.9%
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

October 2014		November 2014	
TLT	20+ Year Treasury Bonds	IYR	US Real Estate
IVV	S&P 500	TLT	20+ Year Treasury Bonds
LQD	Inv Grade Corp Bonds	IWM	US Small Cap

Management and Operational Details

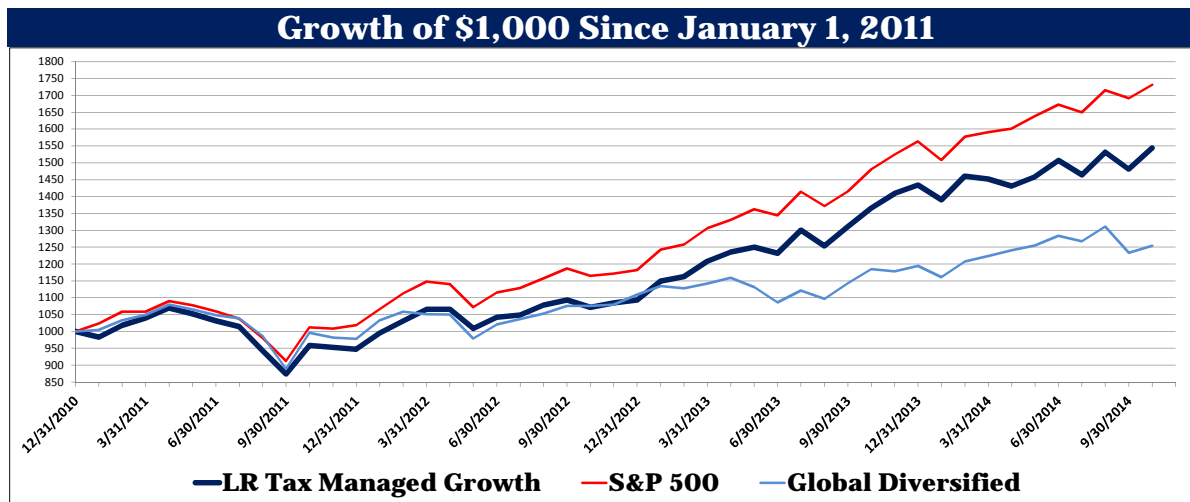
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Tax Managed Growth Strategy - Oct 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>	<i>-3.3</i>	<i>4.2</i>			7.6

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

	Tax-Managed Growth	S&P 500	Global Diversified
Year-to-Date Return	7.6%	10.7%	5.0%
Trailing 1-Year Return	13.0%	17.0%	5.9%
Trailing 3-Year Cume Return	61.1%	71.0%	25.9%
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

October 2014		November 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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