

Jan 2015

AR+0.06% AG +4.09% TMG -2.08% SP500 -2.96% GD -0.52%

Commentary

We're one month into the new year and equity investors can only hope that "As goes January, so goes the year" will turn out to be wrong this time. Equity markets around the world were generally flat to down as weakness in energy, strength of the dollar and further declines in interest rates continued as the dominant themes. As Fed watchers tried to fine tune their forecasts for the first rate hike, Treasury yields made new lows and the 20+ year Treasury ETF (TLT) returned almost 10% for the month versus a 3% loss for the S&P 500. The dollar continued to strengthen against virtually every currency in the world and its ETF (UUP) was up almost 5%. The European Central Bank announced a new quantitative easing program during the month that put some new wind behind European equities hedged against the weak Euro (HEDJ +8.4% with the Euro -6.7%). However, Euro stocks (VGK) were up only 0.52% without the hedge.

Against this backdrop, our strategies showed a bit of divergence with two on the plus side and ahead of their benchmarks. Aggressive Growth (AG) finished 4.1% higher, as the strength of falling rates (TLT) and real estate (IYR +5.7%) offset US small caps IWM -3.3%. Absolute Return (AR) was essentially flat (+0.1%) as real estate was dragged down by consumer sectors (XLP -0.97% and XLY -3.0%) and China (FXI -0.91%). On the other side, Tax Managed Growth (TMG) was lower by 2.1% based on its 100% allocation to US equities.

By the end of the month, all three models were giving defensive signals. AG jettisoned US Small Cap in favor of Investment Grade Corporate Bonds (LQD) and is positioned two-thirds in bonds and one-third real estate. AR dumped its equity exposure in favor of Treasuries (both TLT and IEF – the 10-year Treasury ETF) and the dollar (UUP). These are very defensive allocations. Meanwhile, TMG made its first change in months, dropping US Small Cap Value (IJS) in favor of TLT as it climbed to #3 in the TMG rankings at the end of the month.

Hard to know if this increased defensiveness is justified but it might be. Even as US equity markets have continued to outperform other world markets, the S&P 500 has been very choppy and is trading about even with its best levels of the summer. In other words, no real progress in almost seven months despite reaching a new high in late December. Small cap stocks have been marking time for the better part of a year. This kind of consolidation is not unusual after several years of strong performance. Direction will become clearer as we work through the current corporate earnings season to assess global demand and the impact of the strong dollar. Good economic and earnings news could lead to a resumption of the longer-term trends. However, it's been a while since both of our "faster" models were this defensive at the same time. Let the tug-of-war begin!

"Nothing is more dangerous than an idea when it is the only one we have." Alain, French philosopher

Selected Asset Class Returns for Trailing Twelve Months (%)

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	YTD	TTM
US Equity														
SPY S&P 500	4.6	0.8	0.7	2.3	2.1	-1.3	4.0	-1.4	2.4	2.8	-0.3	-3.0	-3.0	14.1
MDY Mid Cap	4.9	0.4	-1.5	1.6	4.2	-4.4	5.1	-4.5	3.5	1.8	0.8	-1.1	-1.1	10.6
IWM Small Cap	4.8	-0.8	-3.8	0.8	5.3	-6.1	4.8	-5.9	6.6	0.1	2.9	-3.3	-3.3	4.5
QQQ NASDAQ 100	5.2	-2.7	-0.3	4.5	3.1	1.2	5.0	-0.8	2.6	4.6	-2.3	-2.1	-2.1	19.0
IYR Real Estate	4.8	0.1	3.0	2.8	1.0	-0.1	3.5	-5.9	8.5	2.7	0.8	5.7	5.7	29.6
XLB Materials	6.9	0.8	0.8	3.0	1.6	-2.0	3.9	-1.4	-2.4	1.6	-0.6	-1.8	-1.8	10.4
XLE Energy	5.1	2.1	5.3	1.7	5.5	-3.5	2.2	-7.8	-3.5	8.7	-0.2	-4.6	-4.6	-7.5
XLF Financials	3.0	3.3	-1.7	1.5	2.4	-1.5	4.2	-0.4	2.9	2.4	1.9	-7.0	-7.0	11.1
XLI Industrials	4.1	1.0	1.3	1.9	0.5	-4.1	4.2	-1.2	3.9	3.1	0.0	-3.6	-3.6	11.2
XLK Technology	4.4	0.4	0.3	3.8	1.9	1.7	3.3	-0.5	1.6	4.8	-2.2	-3.5	-3.5	16.7
XLP Staples	3.9	2.2	2.7	1.8	-0.3	-3.3	4.6	0.6	3.6	5.5	-0.9	-1.0	-1.0	20.8
XLV Healthcare	6.2	-1.3	-0.6	2.9	2.1	0.1	4.8	0.4	5.3	3.5	-1.4	1.3	1.3	25.6
XLY Discretionary	6.4	-2.9	-1.4	2.9	1.9	-1.3	4.5	-2.8	2.1	5.5	0.9	-3.0	-3.0	13.0
XME Metals & Mining	4.1	0.7	0.5	-6.5	8.1	-2.0	5.7	-15.6	-4.3	-3.8	-8.2	-12.1	-12.1	-30.7
Int'l Equity														
DXJ Japan	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.2	4.9	2.9	2.9	-2.0	0.0	0.0	17.8
EEM Emerging Mkts	3.4	3.9	0.8	3.0	2.4	1.4	2.8	-7.8	1.4	-1.5	-4.0	-0.7	-0.7	4.4
EPP Asia Pac ex Japan	7.0	2.4	2.7	1.3	-0.1	2.8	1.0	-9.9	5.5	-4.2	-3.1	0.5	0.5	4.9
FXI China	2.3	1.1	-2.4	5.5	2.0	9.3	0.0	-5.4	4.3	1.7	3.8	-0.9	-0.9	22.5
ILF Latin America	2.5	8.1	3.6	-1.2	3.2	2.6	8.6	-13.5	-0.4	-2.9	-9.8	-5.4	-5.4	-6.8
VGK Europe	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	-4.0	-1.9	2.1	-4.7	0.5	0.5	-2.1
Fixed Income														
AGG Aggregate Bond	0.4	-0.2	0.8	1.2	-0.1	-0.1	1.2	-0.6	1.1	0.7	0.2	2.1	2.1	6.7
EMB EM Bonds	3.5	1.2	1.1	3.5	0.0	-0.3	1.3	-2.1	2.0	-0.4	-2.9	1.9	1.9	8.9
HYG US High Yield	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	-2.0	1.1	-1.1	-0.8	0.7	0.7	2.2
LQD US IG Corporate	1.1	0.0	1.3	1.5	0.0	-0.3	2.0	-1.7	1.2	0.9	0.0	3.8	3.8	10.2
TLT US 20+ Treasury	0.5	0.7	2.1	3.0	-0.3	0.7	4.7	-2.1	2.8	3.0	3.3	9.8	9.8	31.5
Dispersion	7.0	11.0	9.0	12.0	8.3	15.3	8.8	20.5	12.8	14.2	13.6	21.9	21.9	62.2

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

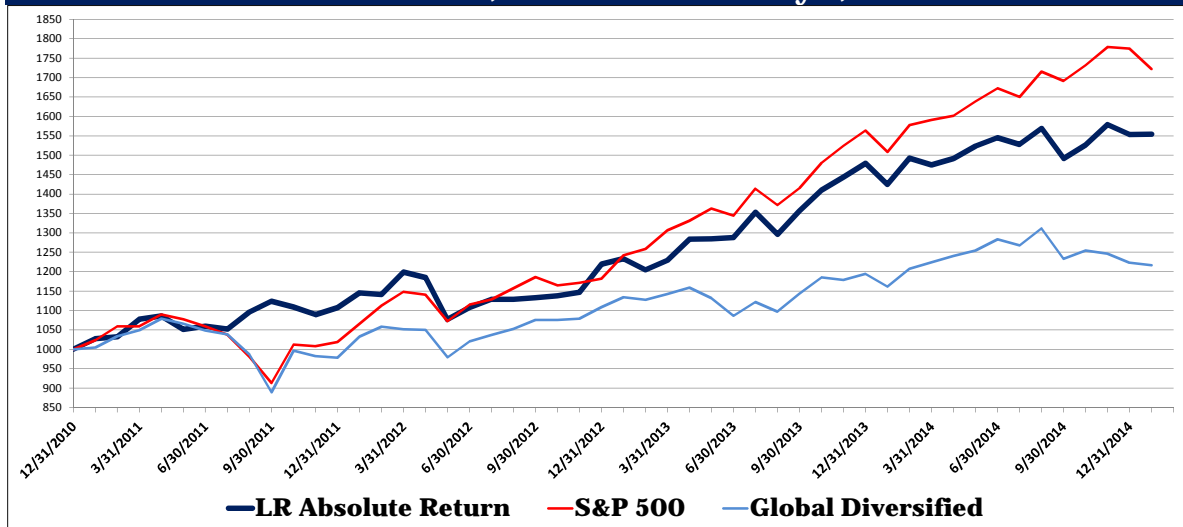
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LongRun Absolute Return Strategy - Jan 2015



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.

Growth of \$1,000 Since January 1, 2011



Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	2.7	0.5	4.4	0.8	-3.1	0.8	-0.7	4.2	2.6	-1.4	-1.7	1.6	10.7
2012	3.4	-0.3	5.0	-1.2	-9.1	2.8	1.9	0.0	0.3	0.5	0.8	6.3	10.2
2013	1.1	-2.4	2.1	4.4	0.0	0.3	5.1	-4.2	4.7	4.0	2.4	2.5	21.3
2014	-3.7	4.8	-1.2	1.1	2.2	1.4	-1.1	2.7	-5.0	2.3	3.4	-1.6	5.0
2015	0.1												0.1

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	0.1%	-3.0%	-0.5%
Trailing 1-Year Return	9.1%	14.1%	4.8%
Trailing 3-Year Cume Return	35.7%	61.5%	17.8%
Annualized Return from 2/1/03*	17.2%	9.6%	11.4%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Prior Month and Current Month

January 2015		February 2015	
XLP	Consumer Staples	UUP	US Dollar
IYR	Real Estate	TLT	20+ Year Treasury Bonds
FXI	China	IYR	Real Estate
XLY	Consumer Discretionary	IEF	10 Yr Treasury Bonds

Management and Operational Details

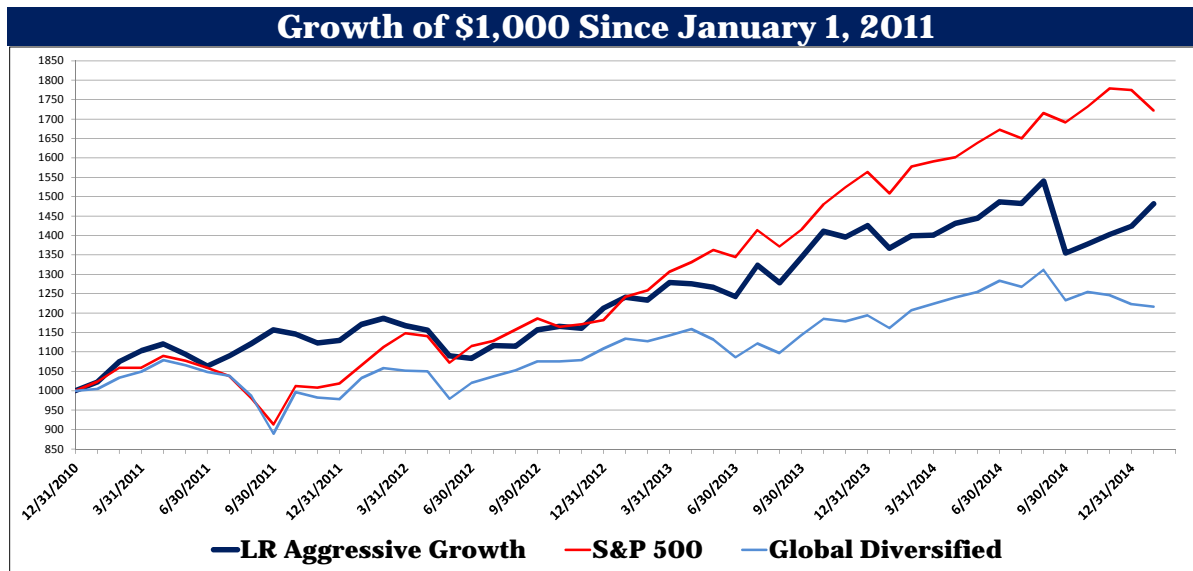
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Aggressive Growth Strategy - Jan 2015



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	1.8	1.5	-0.1
2015	4.1												4.1

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	4.1%	-3.0%	-0.5%
Trailing 1-Year Return	8.4%	14.1%	4.8%
Trailing 3-Year Cume Return	26.5%	61.5%	17.8%
Annualized Return from 2/1/03*	20.1%	9.6%	11.4%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Prior Month and Current Month

January 2015		February 2015	
IYR	US Real Estate	IYR	US Real Estate
TLT	20+ Year Treasury Bonds	TLT	20+ Year Treasury Bonds
IWM	US Small Cap	LQD	Inv Grade Corporate Bonds

Management and Operational Details

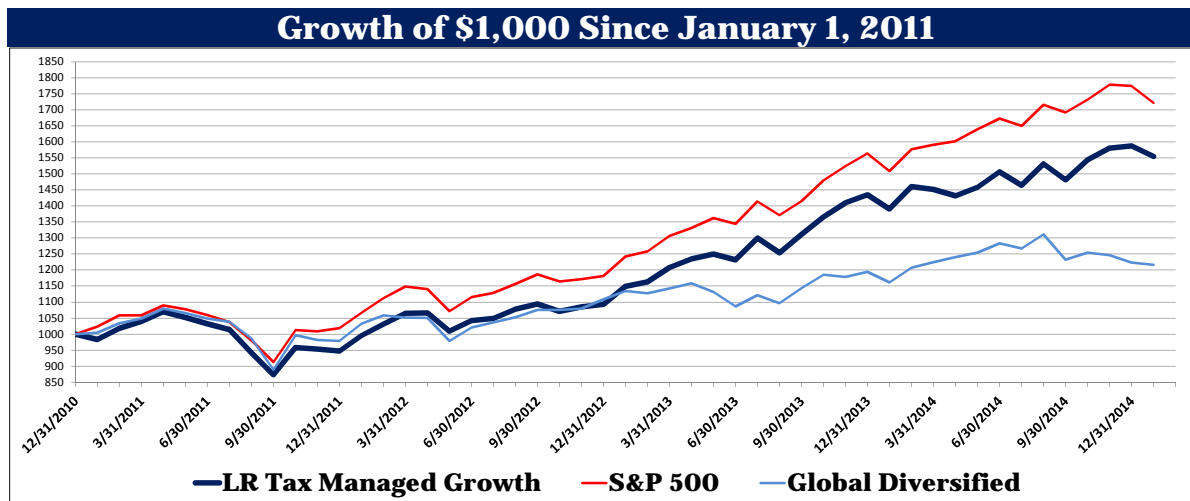
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Tax Managed Growth Strategy - Jan 2015



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>	<i>2.3</i>	<i>0.5</i>	10.7
2015	<i>-2.1</i>												-2.1

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	-2.1%	-3.0%	-0.5%
Trailing 1-Year Return	11.8%	14.1%	4.8%
Trailing 3-Year Cume Return	56.3%	61.5%	17.8%
Annualized Return from 2/1/03*	15.9%	9.6%	11.4%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Latest Prior and Current Month

January 2015		February 2015	
XLY	US Consumer Discretionary	XLV	US Healthcare
QQQ	NASDAQ 100	XLY	US Consumer Discretionary
IJK	US Mid Cap Growth	TLT	20+ Year Treasury Bonds
XLV	US Healthcare	QQQ	NASDAQ 100
RSP	Equal-Weight S&P 500	IJK	US Mid Cap Growth
IJT	US Small Cap Growth	RSP	Equal-Weight S&P 500
IJS	US Small Cap Value	IJJ	US Mid Cap Value
IJJ	US Mid Cap Value	IJT	US Small Cap Growth

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
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Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
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