

Jan 2016

AR -2.31% AG -5.37% TMG -6.74% SP500 -4.98% R2000 -8.58% GDP -3.65%

Commentary

January had the bears out in force with one of the worst opening weeks in history. The second week only took markets lower. The end of the month brought some recovery before a relapse to start February on a sour note. It's easy to understand how people might be nervous about what could be in store. For January, long-term Treasury bonds were a good place to be (+5.6%) and China was among the worst (-11.6%) with just about every pocket of the equity markets in the red.

Richard Peterson is a psychologist and author of *Inside the Investor's Brain*, where he talks about five principles of fear (h/t Ben Carlson).

1. Fear leads to physiological changes (forced breathing, sweating, head pressure) that are hard to ignore.
2. Fear changes the way we react to information and often leads to bad decisions.
3. Fearful people see many risks and may find it difficult to take action.
4. Once fearful, it takes tremendous effort to keep one's cool.
5. Fear tends to spread in markets and can become self-reinforcing.

Letting fear drive decision-making is clearly a bad idea but it can be hard to avoid, especially when large sums of money are involved. Better to keep in mind that bad markets can happen and have a plan to reduce or endure the consequences. Anyone who's been investing for more than ten years has seen this before. Get comfortable with your strategy and stick to it.

LongRun's Absolute Return strategy started the year 50% in cash, dodging much of the carnage but still finished down 2.3%. Aggressive Growth and Tax-Managed Growth were equity-heavy and took market-like hits, down 5.4% and 6.8% respectively. All three strategies have moved to more defensive positioning with even the slow-moving TMG seeing Treasury bonds jump into the portfolio while other signals triggered moves to cash. Both AR and AG own bonds and cash for the month of February.

Last month I mentioned four things I was watching. Two of them warrant updates. First was the Fed's plan to raise interest rates this year. Mixed messages so far with the market telling them "hell no" but several Fed members arguing to stay on track. The big surprise, however, was Japan's move to introduce negative interest rates as we've already seen in many European countries. This puts more pressure on the Fed to be careful and one market signal suggests they will be. After almost hitting \$100 the end of January, the US dollar dropped 3% last week. A freeze by the Fed could reverse the climb of the dollar but would also force Japan and Europe to take even more drastic action to keep the Yen and Euro weak. Currency wars will certainly heat up and lookout below if China is forced to really devalue.

The other barometer that continues making headlines is the price of oil. After dropping 30% during 2015, oil crashed more than 20% in January before bouncing more than 10%. If the dollar goes down, oil and equities could rally from here. At the same time, supply and demand are expected to keep oil in the \$30's for a while. If so, any move higher in stocks could be short-lived. Yes, it's complicated and volatility will be high.

As I lay out in a companion piece (Are We Bear Yet?), equity markets are flashing signs that portend additional pain before a durable bottom is put in. These things are never 100% right but the current weight of evidence is bearish and it will take a big change in investor attitudes to turn the ship around. The good news is that there will be some fantastic opportunities for people who are patient and pay attention.

"It wasn't raining when Noah built the ark." –Warren Buffett

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Selected Asset Class Returns for Trailing Twelve Months (%)

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	YTD	TTM
US Equity														
SPY <i>S&P 500</i>	5.6	-1.6	1.0	1.3	-2.0	2.3	-6.1	-2.5	8.5	0.4	-1.7	-5.0	-5.0	-0.8
MDY <i>Mid Cap</i>	5.0	1.3	-1.5	1.7	-1.3	0.1	-5.7	-3.2	5.6	1.3	-4.2	-5.5	-5.5	-6.9
IWM <i>Small Cap</i>	6.0	1.8	-2.6	2.2	0.8	-1.1	-6.3	-4.9	5.6	3.3	-5.0	-8.6	-8.6	-9.7
QQQ <i>NASDAQ 100</i>	7.2	-2.6	1.9	2.3	-2.5	4.6	-6.8	-2.2	11.4	0.6	-1.6	-6.9	-6.9	3.8
IYR <i>Real Estate</i>	-2.6	1.1	-4.8	-0.3	-4.4	5.0	-5.8	1.6	6.2	-0.2	1.1	-4.1	-4.1	-7.8
XLB <i>Materials</i>	8.0	-4.9	3.4	0.4	-4.0	-5.0	-5.6	-7.4	13.4	1.0	-4.3	-10.7	-10.7	-16.9
XLE <i>Energy</i>	4.6	-1.2	6.6	-5.2	-3.5	-7.7	-4.3	-7.2	11.2	0.0	-10.5	-3.5	-3.5	-20.6
XLF <i>Financials</i>	5.8	-0.6	0.1	2.0	-0.5	3.4	-7.1	-2.8	6.3	2.0	-2.4	-8.9	-8.9	-3.7
XLI <i>Industrials</i>	5.4	-2.6	-0.3	0.3	-2.7	0.3	-5.4	-2.2	8.8	0.9	-2.6	-5.7	-5.7	-6.4
XLK <i>Technology</i>	8.0	-3.4	2.8	1.9	-4.1	2.9	-5.5	-1.4	10.5	0.7	-2.1	-3.7	-3.7	5.3
XLP <i>Staples</i>	4.14	-1.95	-0.76	0.87	-1.83	5.69	-5.96	0.40	5.70	-0.92	2.93	0.53	0.5	8.5
XLU <i>Utilities</i>	-6.4	-1.0	-0.5	0.6	-6.0	6.1	-3.5	2.9	1.1	-2.1	2.1	4.9	4.9	-2.5
XLV <i>Healthcare</i>	4.3	0.6	-1.1	4.5	-0.4	3.0	-8.0	-5.7	7.7	-0.3	1.7	-7.7	-7.7	-2.7
XLY <i>Discretionary</i>	8.5	-0.5	-0.1	1.3	0.6	4.9	-6.5	-0.6	9.0	-0.2	-2.8	-5.2	-5.2	7.4
XME <i>Metals & Mining</i>	7.8	-6.8	4.0	-4.0	-10.1	-16.8	1.2	-18.0	3.0	-6.6	-6.1	-7.0	-7.0	-47.6
Int'l Equity														
DXJ <i>Japan</i>	9.5	2.3	2.4	6.0	-3.8	0.4	-9.0	-6.8	9.5	3.2	-4.2	-5.0	-5.0	2.3
EEM <i>Emerging Mkts</i>	4.4	-1.5	6.9	-4.1	-2.9	-6.3	-8.8	-3.1	6.4	-2.5	-3.8	-5.0	-5.0	-19.8
EFA <i>Developed Int'l</i>	6.3	-1.4	3.7	0.2	-3.1	2.0	-7.4	-4.4	6.6	-0.8	-0.8	-5.5	-5.5	-5.5
EPP <i>Asia Pac ex Japan</i>	5.0	-2.2	4.3	-2.7	-3.7	-1.3	-11.7	-3.1	6.6	-0.5	1.2	-7.8	-7.8	-16.1
FXI <i>China</i>	6.1	1.5	15.6	-5.0	-5.0	-12.2	-11.3	-1.2	7.9	-2.1	-3.7	-11.6	-11.6	-22.3
ILF <i>Latin America</i>	5.6	-7.7	9.7	-7.3	0.9	-9.0	-10.0	-7.7	4.8	-3.5	-5.7	-3.2	-3.2	-30.1
VGK <i>Europe</i>	6.1	-2.4	4.2	0.3	-3.3	2.7	-7.0	-4.1	5.9	-1.3	-2.6	-5.6	-5.6	-7.9
Fixed Income														
AGG <i>Aggregate Bond</i>	-0.9	0.4	-0.3	-0.4	-1.1	0.9	-0.3	0.8	0.1	-0.4	-0.2	1.2	1.2	-0.3
EMB <i>EM Bonds</i>	1.0	0.0	1.2	-0.3	-1.8	0.2	-1.1	-1.1	2.4	0.3	-1.5	0.0	0.0	-0.8
HYG <i>US High Yield</i>	2.2	-1.0	0.9	0.4	-1.9	-0.5	-1.5	-3.0	3.2	-2.5	-2.0	-1.6	-1.6	-7.2
LQD <i>US IG Corporate</i>	-1.4	0.2	-1.2	-1.1	-1.9	0.8	-0.8	1.2	0.6	-0.2	-1.1	0.1	0.1	-4.7
TLT <i>US 20+ Treasury</i>	-6.1	1.1	-3.4	-2.4	-4.1	4.6	-0.7	2.0	-0.4	-0.9	-0.3	5.6	5.6	-5.6
Currencies														
UUP <i>US Dollar</i>	0.3	2.8	-3.8	2.2	-1.7	1.6	-1.5	0.2	0.6	3.3	-1.7	0.8	0.8	2.9
FXE <i>Euro</i>	-1.0	-4.0	4.4	-2.2	1.4	-1.5	2.1	-0.4	-1.7	-4.0	2.8	-0.4	-0.4	-4.7
FXJ <i>Yen</i>	-1.9	-0.3	0.4	-3.9	1.4	-1.3	2.2	1.0	-0.6	-2.0	2.4	-0.8	-0.8	-3.4
Dispersion	15.8	10.5	20.4	13.2	11.6	22.9	13.9	20.9	15.1	9.9	13.4	17.2	17.2	56.1
<i>High value minus low value for each month; large dispersion provides better opportunity for active strategies.</i>														
Global Diversified Benchmark														
	3.1	-1.3	1.8	-1.5	-2.8	-1.9	-4.9	-3.8	5.0	-0.9	-3.0	-3.7	-3.6	-13.6

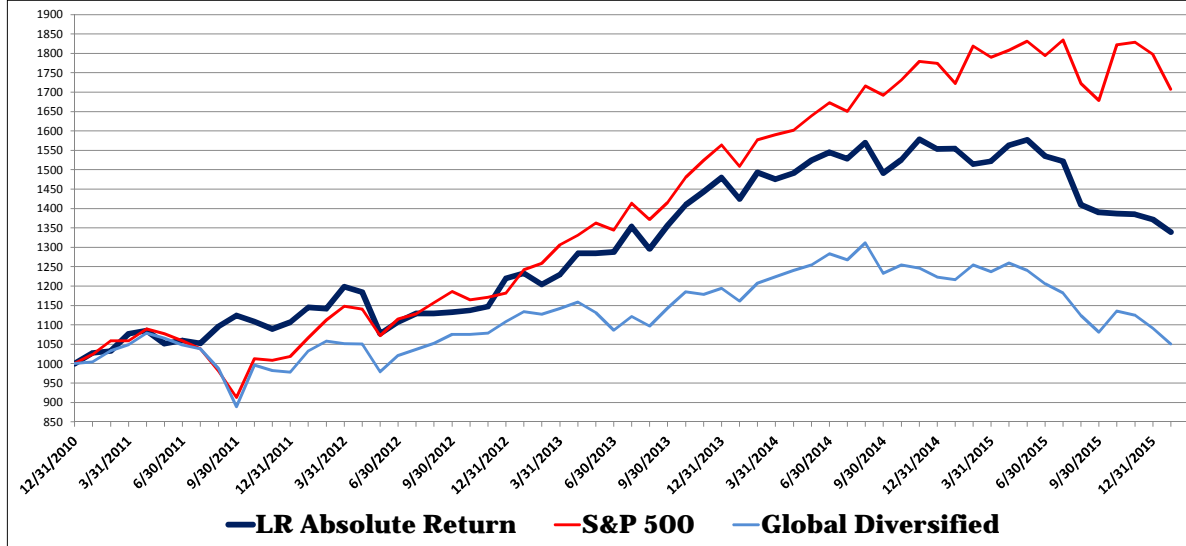
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LongRun Absolute Return Strategy - Jan 2016



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	<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>	<i>3.4</i>	<i>-1.6</i>	5.0
2015	<i>0.1</i>	<i>-2.5</i>	<i>0.5</i>	<i>2.7</i>	<i>0.9</i>	<i>-2.7</i>	<i>-0.9</i>	<i>-7.4</i>	<i>-1.4</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-1.0</i>	-11.7
2016	<i>-2.3</i>												-2.3

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	-2.3%	-5.0%	-3.7%
Trailing 1-Year Return	-13.8%	-0.8%	-13.6%
Trailing 3-Year Cume Return	8.6%	37.4%	-7.3%
Annualized Return from 2/1/03*	14.4%	8.5%	9.1%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Prior Month and Current Month

January 2016

IVV US Large Cap Equity
 IYR Real Estate
 CASH
 CASH

February 2016

TLT 20+ Year Treasury Bonds
 CASH
 CASH
 CASH

Management and Operational Details

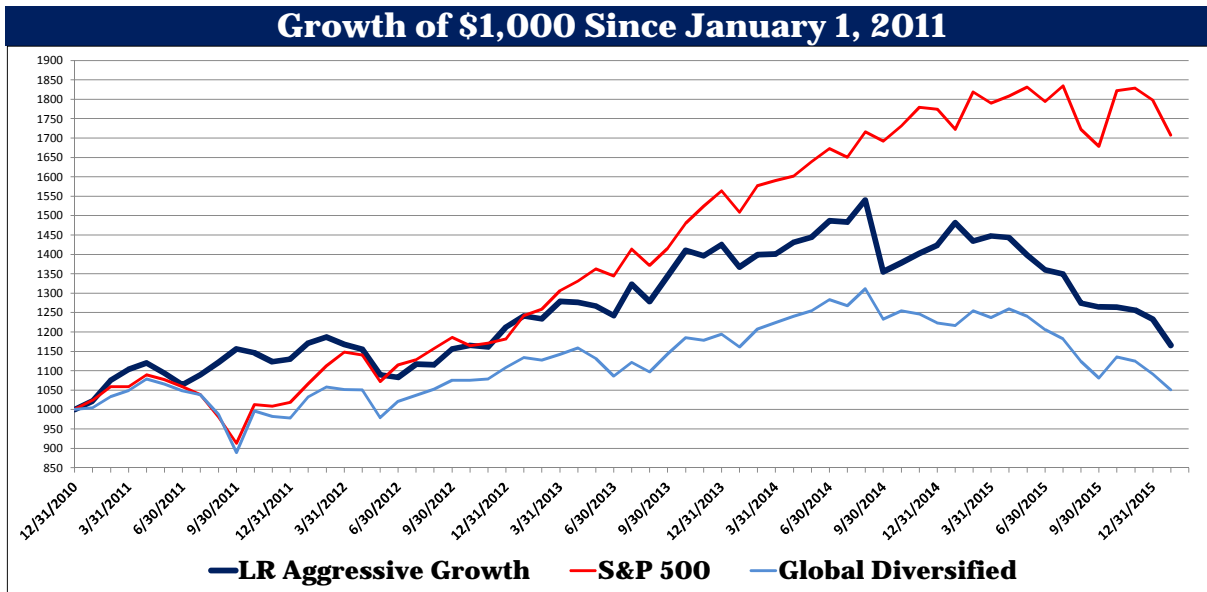
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Aggressive Growth Strategy - Jan 2016



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	-3.2	1.0	-0.3	-3.2	-2.7	-0.8	-5.6	-0.7	-0.1	-0.6	-1.9	-13.5
2016	-5.4												-5.4

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	-5.4%	-5.0%	-3.7%
Trailing 1-Year Return	-21.3%	-0.8%	-13.6%
Trailing 3-Year Cume Return	-6.1%	37.4%	-7.3%
Annualized Return from 2/1/03*	16.4%	8.5%	9.1%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Prior Month and Current Month

January 2016		February 2016	
EPP	Asia-Pacific ex Japan	EMB	Emerging Market Bonds
IVV	US Large Cap Equity	TLT	20+ Year Treasury Bonds
IYR	Real Estate	SHY	1-3 Year Treasury Bonds

Management and Operational Details

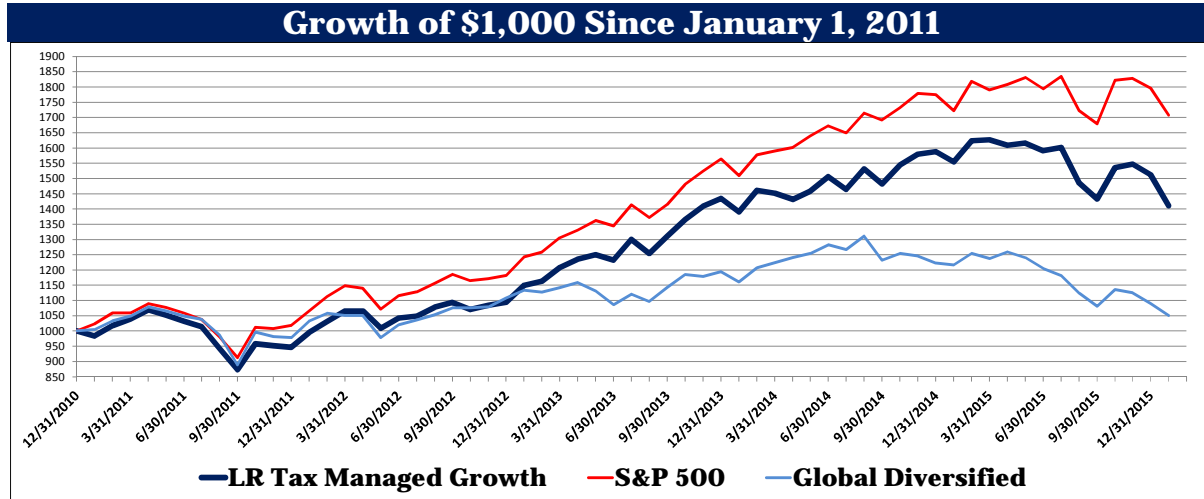
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above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

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LongRun Tax Managed Growth Strategy - Jan 2016



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	-1.7	3.5	2.2	2.9	-1.7	-1.9	-1.7	-7.1	-7.3	9.7	-0.6	-0.6	-5.3
2012	5.1	3.6	3.4	0.0	-5.3	3.3	0.6	2.8	1.5	-2.1	1.3	0.8	15.5
2013	5.1	1.2	3.9	2.2	1.2	-1.4	5.6	-3.6	4.5	4.2	3.2	1.8	31.2
2014	-3.1	5.1	-0.6	-1.4	1.9	3.3	-2.8	4.6	-3.3	4.2	2.3	0.5	10.7
2015	-2.1	4.4	0.2	-1.1	0.4	-1.6	0.7	-7.3	-3.5	7.1	0.8	-2.3	-4.7
2016	-6.7												-6.7

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	-6.7%	-5.0%	-3.7%
Trailing 1-Year Return	-9.3%	-0.8%	-13.6%
Trailing 3-Year Cume Return	22.7%	37.4%	-7.3%
Annualized Return from 2/1/03*	13.5%	8.5%	9.1%

* Common start date for backtests of three LongRun strategies

Portfolio Holdings for Latest Prior and Current Month

January 2016		February 2016	
DXJ	Japan (Hedged)	IJK	US Mid Cap Growth
LJK	US Mid Cap Growth	QQQ	NASDAQ 100
LJT	US Small Cap Growth	TLT	20+ Year Treasury Bonds
IVW	US Large Cap Growth	XLV	US Healthcare
QQQ	NASDAQ 100	XLY	US Consumer Discretionary
RSP	Equal-Weight S&P 500	CASH	
XLV	US Healthcare	CASH	
XLY	US Consumer Discretionary	CASH	

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
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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