

# The Advantage

Investing for a Lifetime



Advised by James Investment Research, Inc.

3RD QUARTER 2016

## James Balanced:

### Golden Rainbow Fund

Your James Advantage Golden Rainbow Fund advanced 0.84% on a total-return basis during the third quarter. A dividend of 11.29 cents per share was paid out. With the fourth quarter upon us, many wonder about the Fund's tax situation. Presently, we do not expect a capital gain to be paid out.

We have slowly been adding to micro cap and small cap positions. Our research finds in general, smaller sized securities are enjoying better relative values, profitability, and short-term momentum compared to their larger brethren.

One area we remain lightly weighted in is Energy securities. While oil prices have been volatile, they have not yet given us a signal of which long-term direction they will head. Until they do, it is likely we will remain cautious regarding this sector.

We continue to maintain a good weighting in high quality bonds, which has been a help this year. We do not expect a rapid rise in rates and we may see rates dip once again. If so, this would be beneficial for the James Balanced: Golden Rainbow Fund.

## How We See It

Stocks enjoyed a rally after the British "Brexit" vote to leave the European Union. For the S&P 500 much of this gain was limited to July. Smaller stocks, like those of the Russell 2000 Index, are now in a leadership role. Given the extended period larger stocks had previously led, we would not be surprised if small stocks maintained leadership for the foreseeable future. Where appropriate, diversifying into smaller securities may prove helpful.

The upcoming election remains a focus on the minds of many citizens and investors. The leading candidates have different agendas and each will provide unique opportunities and risks. Our research team is analyzing the data carefully to help with investment decisions. Regardless of which candidate wins, there will likely be considerable gridlock in Washington. It would not be surprising to see a sluggish economy ahead; especially in the post-election year.

Our stock indicators are pretty much neutral while our bond indicators are favorable. The market often has a dip between September and the November election. However, our research indicates it usually rebounds once the election is over. We would not be aggressive toward stocks, but would maintain a bullish stance toward bonds. We will keep an eye on risk levels and make adjustments when warranted.

We believe most investors will benefit from diversification favoring bargain priced equities and higher quality bonds.

Sincerely,

Frank E. James, Ph.D.  
Chairman, James Investment Research, Inc.

Barry R. James, CFA, CIC  
President/CEO, James Investment Research, Inc.  
President, James Advantage Funds



### James Advantage Funds Board of Trustees

Robert Chelle, Anthony D'Angelo, Barry James,  
Ronald Brown, Richard Russell, Leslie Brandon

## Total Returns After Expenses as of September 30, 2016

	** Operating expenses	3Q2016	1yr	3yr	5yr	10yr	SI	Inception Date
James Balanced: Golden Rainbow (No Load)	0.97%	0.84%	2.75%	4.74%	7.19%	6.10%	7.86%	7/1/91
James Mid Cap (No Load)	1.50%	2.58%	1.97%	6.76%	12.94%	5.76%	5.47%	6/30/06
James Small Cap (No Load)	1.50%	6.43%	8.79%	4.27%	12.20%	4.85%	7.97%	10/2/98
James Micro Cap (No Load)	1.51%	8.18%	13.41%	10.79%	17.50%	-	12.26%	7/1/10
James Long/Short (No load)	2.71%	0.39%	1.96%	3.45%	8.51%	-	5.17%	5/23/11
James Aggressive Allocation (No load)	0.99%	1.48%	5.96%	-	-	-	-2.87%	07/01/15

*Investors should consider the investment objectives, risks, and charges and expenses of the James Advantage Funds (the Funds) carefully before investing; this and other information about the Funds is in the prospectus, which can be obtained by calling 1-800-99-JAMES. Read the prospectus carefully before you invest. The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performances may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.jamesfunds.com](http://www.jamesfunds.com). ALPS Distributors, Inc. is not affiliated to James Investment Research, Inc. \*\*Indicates total annual fund operating expenses. Barry James is a registered representative of ALPS Distributors, Inc. #JAF000436 Exp. 12/31/2016.*

James Investment Research, Inc.

[www.jamesfunds.com](http://www.jamesfunds.com) | [info@jamesfunds.com](mailto:info@jamesfunds.com) | 1-800-99-JAMES

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## James Mid Cap

It was a solid quarter for your Mid Cap Fund as it rose 2.58%. No dividends were paid during the quarter. Bargain securities, the type we seek to invest in, were rewarded. The Fund was aided by its holdings in Basic Material and Consumer Cyclical stocks. Airline stocks, a volatile industry due to the impact of oil prices, did well this past quarter as crude oil fell in price. As we mentioned last quarter, it is important to maintain a consistent process for security selection. Our Portfolio Managers have a holding in the Fund and some have even invested new money into the Fund recently. Our Director of Research, David James likes to say, we “eat our own cooking.”

## James Small Cap

During the third quarter your James Small Cap Fund advanced 6.43%. No dividends were paid during the quarter. We continue to seek bargain stocks for your Fund. We define bargains as those enjoying good relative value, profitability and long-term price strength. Today the stocks in the Fund have an average Price/Earnings of 18.06, enjoy strong earnings' growth and favorable strength levels compared to the Russell 2000 Index. As we move into the fourth quarter, we believe bargain Small Cap securities should continue to outperform larger capitalization issues.

## James Micro Cap

Your James Advantage Micro Cap Fund enjoyed a third quarter return of 8.18%. No dividends were paid during the quarter. For those thinking ahead on taxes, we presently do not expect the Fund to pay a capital gain this year. Our research points to some favorables for smaller stocks. Recent data suggests smaller stocks enjoy better valuations, earnings and better short-term momentum than larger stocks. This may potentially lead to a change in leadership to smaller stocks.

## James Long Short

Your James Long Short Fund gained 0.39% during the third quarter of 2016. No dividends were paid during the quarter. The start of the third quarter began with our indicators improving and therefore a reduction in the exposure to shorts in the Fund. Our indicators remained favorable for the first few months, allowing the Fund to continue to stay long with very little exposure to shorts. However, as the quarter was nearing the end our indicators began to weaken. In September, we began to once again increase our exposure to short positions. We will continue to monitor our risk indicators for equities and make adjustments to the Fund when warranted.

## James Aggressive Allocation

Your Aggressive Allocation Fund rose 1.48% during the quarter. Your Fund added securities in the Energy Sector following encouraging news from OPEC (Organization of the Petroleum Exporting Countries) members. This brought the sector allocation up to about 8% of the portfolio. The Fund's greatest weighting is in Technology stocks at about 16%. As of the end of September, the Aggressive Allocation portfolio was 74.4% in stocks with the remainder in high quality bonds and cash. Investors should expect the Fund to run between 60% and 85% in stocks. When appropriate, we will look to add to Energy positions and increase our International exposure, especially in emerging markets.

*S&P 500 is a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Russell 2000 is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. Price/Earnings ratio is a valuation of a company's current share price compared to its per-share earnings. Fund holdings and sector weightings are subject to change without notice. The average annual total returns assume reinvestment of income, dividends and capital gains distributions and reflect changes in net asset value. The principal value and investment return will vary with market conditions so that an investor's shares, when redeemed, may be worth more or less than their original cost. **Important Risk Disclosures:** Mid Cap, Small Cap, and Micro Cap investing involves greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity and increased competitive threat. Investment in shares of a Long/Short fund is more volatile and risky than some other forms of investments. Since the Long/Short equity fund has both a long and a short portfolio, an investment in the Fund will involve risks associated with twice the number of investment decisions made for a typical stock fund. These types of funds typically have a high portfolio turnover that could increase transaction costs and cause short-term capital gains to be realized. You should note that the James Advantage Funds are professionally managed mutual funds while the indices are unmanaged, do not incur expenses and are not available for direct investment. Diversification does not eliminate the risk of experiencing investment losses. The James Advantage Funds are distributed by ALPS Distributors, Inc., 1290 Broadway, Ste 1100, Denver, CO 80203.*