

# The Advantage

## Investing for a Lifetime



Advised by James Investment Research, Inc.

4TH QUARTER 2017

### James Balanced: Golden Rainbow Fund

Your Golden Rainbow Fund advanced 2.47% during the 4th quarter after paying out \$1.607 per share in long-term gains and 4.1 cents per share in income.

Both stocks and bonds added to the bottom line of performance. Stocks benefited from momentum.

While momentum is a good thing, it is often backward looking and unable to capture market changes until after they occur. Some concerns are more forward looking. These include expensive valuations and too much optimism.

For example, the typical stock's price-to-sales (how much we have to pay to get \$1 of a company's sales) is at record highs. Also at record levels is Margin Debt, where market participants borrow money just to make additional stock purchases.

Given the state of the market and our risk indicators, we are maintaining a conservative posture in your Fund.

### How We See It

Has the recent market action made you wonder, "What is next?" If so, you are in good company. Fortunately, we believe there are suitable investment solutions.

For most of 2017 aggressive investments including e-commerce stocks led the charge and helped many popular indexes reach new highs. Bargain stocks, with their good relative valuations, profitability and price momentum, took a back seat to the high-flyers. However, in the last few months this leadership has begun to change. Why is this important? Historically, when the tide shifts it tends to be for an extended period of time. Put simply, we believe now is the time to emphasize bargain investing.

Regarding "What is next?" for the general market, it is certainly true momentum has been impressive. Recently, over 75% of S&P 500 companies were trading above their 200-Day Moving Average.

Another reason some are optimistic is the recent tax cut law. There are estimates suggesting the tax changes could produce a 10% hike in earnings. Others believe repatriated funds (non-taxed overseas profits) will be used to buy back shares, much as it was last time taxes were cut for repatriated profits.

We have never shied away from our conservative roots and we will continue to work diligently to try to both grow and protect your Funds. While we may experience some bumps in 2018, we have tried to position your Funds in the best possible way to take advantage of opportunities we see. While overall market risks are high, a prudent approach is likely the best course of action. *Happy New Year and best wishes for a wonderful 2018!*

Sincerely,

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

David W. James, CFA  
Senior Vice President/Director of Research,  
James Investment Research, Inc.

### Total Returns After Expenses as of December 31, 2017

	** Operating expenses	4Q2017	1yr	3yr	5yr	10yr	SI	Inception Date
James Balanced: Golden Rainbow (No Load)	0.97%	2.47%	6.04%	3.14%	5.83%	5.67%	7.78%	7/1/91
James Mid Cap (No Load)	1.52%	4.26%	14.66%	6.80%	11.24%	6.71%	6.47%	6/30/06
James Small Cap (No Load)	1.52%	4.11%	6.57%	5.64%	10.62%	6.79%	8.31%	10/2/98
James Micro Cap (No Load)	1.52%	2.69%	2.92%	8.10%	14.63%	-	12.09%	7/1/10
James Long/Short (No load)	1.58%	5.03%	13.48%	3.32%	8.22%	-	6.80%	5/23/11
James Aggressive Allocation (No load)	1.01%	5.55%	11.45%	-	-	-	4.31%	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 and David James are registered representatives of ALPS Distributors, Inc. #JAF000505 Exp. 3/31/2018.

James Investment Research, Inc.

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### James Mid Cap

During the final quarter of 2017 your Fund gained 4.26%. During the calendar year of 2017, the Fund gained 14.66% and beat its benchmark the S&P 400 Mid Cap Value Index which advanced 12.32%. In December a dividend of 3.88 cents per share was paid as well as capital gains. Some of the gains in the Mid Cap Fund were due to “bargain” securities which have come back into favor. This is good news as our research shows this outperformance can last for years. Presently, in the Mid Cap space we are finding a relatively high number of bargains in the Cyclical, Finance and Technology sectors. We will continue to search for bargain stocks on your behalf.

### James Small Cap

Your James Small Cap Fund ended the 2017 year on a positive note and gained 4.11% during the 4th quarter. In December your Fund paid a dividend of 18.96 cents per share as well as capital gains. Gains were captured as we identified better opportunities. Your Fund continues to emphasize bargain securities. Namely, we are looking for your portfolio to showcase good relative value, profitability and price momentum. Our research suggests this approach is once again finding favor with investors after a lengthy period where more speculative securities have been in the leadership role. Presently, your Fund is overweighting the Cyclical and Finance sectors, as the number of bargain stocks in these areas are in abundance. We also note the new tax law with lower corporate tax rates may be quite helpful for small stocks.

### James Micro Cap

During the fourth quarter of 2017, your Fund gained 2.69% and outpaced its benchmark Russell Microcap Index, which advanced 1.8%. In December a dividend of 5.61 cents per share was paid as well as a long-term capital gain. Part of the resurgence in the Microcap comes from the leadership return of bargain securities. These are securities which display good relative value, profitability and price momentum. The markets shunned these types of investments for 2016 and much of 2017. However, in the later part of the year bargain investing returned to the forefront. This is good news as our research shows this cycle can be long-lived. Presently, in the micro-cap arena we are finding a relatively high number of bargains in the Cyclical, Finance and Industrial sectors. We will continue to search for bargain names.

### James Long-Short

Your James Long-Short Fund gained 5.03% during the 4th quarter of 2017. In December, your Fund also paid a dividend of 4.56 cents per share. Your Fund is currently positioned net long 75.2%. Our research and indicators suggest equity risk is on the rise. We will use the recent rise in the markets to begin to lower the exposure to the long side of the market, while at the same time increasing the percentage of shorts in your Fund.

### James Aggressive Allocation

Your Aggressive Allocation Fund rose 5.55% during the last quarter of 2017. In December, a dividend of 7.79 cents per share was paid. Your Fund's additions to the Consumer Cyclical sector worked well over the quarter. About 10.7% of the Fund's assets are in Cyclical and holdings include Macy's (about 0.9% of the portfolio), Big Lots (1%), Walmart (1.2%), Best Buy (1.6%), The Children's Place (1.1%) and Michael Kors Holdings (0.7%). We reduced exposure to Defense Company stocks to about 2.4% of the portfolio and increased holdings in the Industrial Sector to 14%. We believe this sector will benefit from the recent tax cuts and from infrastructure spending in 2018. We continue to run an underweight position in Utilities as we believe they will likely lag as the Federal Reserve Bank raises rates in 2018. About 3.7% of the portfolio is in that sector. Your Fund is running about 75.2% in common stocks, 23.1% in Fixed Income and 1.7% in cash. In the fixed income portfolio, we hold inflation-protected Treasury Notes equal to about 8.5% of the portfolio.

*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. S&P 400 Mid Cap Value Index tracks a diverse basket of medium-sized U.S. firms. Mid-cap stock broadly range from \$2 billion to \$10 billion. Russell Microcap Index is an index of 2,000 small cap and micro cap stocks that captures the smallest 1,000 companies in the Russell 2000. 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.*