

# The Advantage

## Investing for a Lifetime



Advised by James Investment Research, Inc.

4TH QUARTER 2018

### James Balanced: Golden Rainbow Fund

The 4th quarter of 2018 saw stocks decline substantially with the Russell 1000 down 13.82%, the NASDAQ down 17.28% and the Russell 2000 entering its own bear market, down 20.20%. In comparison, the James Balanced: Golden Rainbow declined 8.98%. With one of the objectives of the Fund being to create income, the Fund paid a 4th quarter dividend of 6.95 cents per share, while also paying out the year end Capital Gain of \$1.949 per share.

Looking to 2019, the big issues continue to be Tariffs, the U.S. Government Shutdown, Debt Problems in China, an Inverted Yield Curve and Quantitative Tightening (monetary policy applied by central bank to decrease the amount of liquidity in the economy). As such, James is committed to following the same approach it has for years, lowering our allocation to stocks when risks are high. Conversely, when there is panic selling and bargain prices, we will add to equities, taking advantage of stocks "on sale". In addition to our movements on the stock side, we also hold what we believe to be high quality fixed income investments (bonds) that have historically increase in value when stock prices fall.

### How We See It

What a month, what a quarter, what a year! It almost feels like the whole year was summed up in the month of December. The Russell 1000 Index was down 9.11% for the month and 13.82% for the quarter. The smaller stocks of the Russell 2000 Index were down more, 11.88% and 20.20%, respectively. These losses wiped out any gains for the year and took the market from record highs to negative returns in a short period of time.

In our last letter we said, "Momentum is currently carrying the day, but when it shifts we can expect the market to take a radical turn toward more conservative tactics." This was certainly the case last quarter as Utility stocks were the only sector to advance. The previous winner, Technology, helped lead the way lower with prices falling 17.3%. Bonds did offset this volatility to some extent.

Where are we now? Sentiment has turned morose with most investors now firmly in the bearish camp. A review of eight of our key sentiment indicators points to seven of them being favorable and only one negative. This is usually a good sign for a reversal in the market. We have recently seen a level of capitulation which contrarians consider a good opportunity to do some buying.

We may have not hit the ultimate bottom, but we believe this is a much better time to buy than a mere three months ago. We have also seen value oriented stocks start to show some better results, but they too have fallen. We believe we are in a transition period, away from the growth dynamic which dominated for over a decade, to a more conservative, value oriented approach. As we look to the future, we believe 2019 will see the internet mania fade and in its place a return to logical value oriented investing. We think this could last a long time and be very beneficial for an active approach to investing.

We wish you a Happy New Year, and believe great opportunities are coming.

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, 2018

	** Operating expenses	4Q2018	1yr	3yr	5yr	10yr	SI	Inception Date
James Balanced: Golden Rainbow (No Load)	1.00%	-8.98%	-10.52%	-0.39%	1.01%	5.10%	7.05%	7/1/91
James Mid Cap (No Load)	1.51%	-21.66%	-24.49%	-3.03%	-0.55%	8.30%	3.59%	6/30/06
James Small Cap (No Load)	1.50%	-24.04%	-24.42%	-2.34%	-1.98%	8.53%	6.40%	10/2/98
James Micro Cap (No Load)	1.51%	-18.73%	-16.56%	0.90%	2.32%	-	8.26%	7/1/10
James Long/Short (No load)	1.61%	-14.90%	-17.06%	-1.29%	-0.23%	-	3.31%	5/23/11
James Aggressive Allocation (No load)	1.01%	-13.07%	-13.31%	1.77%	-	-	-1.06%	07/01/15

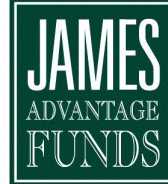
Investors should consider the investment objectives, risks, and charges and expenses of the James Advantage Funds (the Funds) carefully before investing; this and other information about the Funds is in the prospectus, which can be obtained by calling 1-800-99-JAMES. Read the prospectus carefully before 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. #JAF000548

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

Your James Mid Cap Fund lost 21.66% during the 4th quarter of 2018 while the Russell Mid Cap Index lost 15.37%. We had a positive contribution from the stocks in the Communication Services sector. The biggest negative contributions came from the stocks in Energy, Cyclical and Industrial sectors.

## James Small Cap

It was a very difficult time for small cap stocks during the fourth quarter of 2018. The Russell 2000 experienced a bear market, losing 20.20% in the quarter. On a total-return basis, your Fund also declined 24.04%. Amazingly, this does not begin to cover the carnage small stocks experienced. Looking at individual names in the Russell 2000 Index, we find 80% of the stocks are in a bear market (defined as a 20% or more drop from their recent highs). Further, the typical Russell 2000 stock is down 34% from its 52-week high. With such a collapse in smaller stocks, many might be tempted to abandon them in their portfolio altogether. Perhaps it is wise at times like this to remember the old investing adage of success: "buy low, sell high." With prices this depressed, we believe it is more likely small stocks are closer to a buying opportunity.

## James Micro Cap

During the fourth quarter of 2018, your Fund lost 18.73% and outpaced its benchmark Russell Microcap Index, which lost 22.14%. Your Fund continues to focus on smaller sized stocks, with almost every holding having a market capitalization under \$1.5 billion. Presently, the micro-cap arena has a relatively high number of bargains in the Cyclical, Technology and Industrial sectors. We will continue to search for bargain names. "Bargain" stocks are those with good relative valuations, profitability and price momentum.

## James Long-Short

Your James Long-Short Fund lost 14.90% during the 4th quarter of 2018 while the Russell 3000 Index fell 14.30%. Your Fund paid a dividend of 5.58 cents per share on December 31st. The market went through some tough times during the quarter, and we used the opportunity to increase the exposure to the short position while reducing the overall net long exposure to 80%. However, our long-term indicators remain strong and our intermediate indicators show improvement after the recent stock decline. Sentiment for stock investors has turned negative. This dramatic shift is often a good sign for contrarian investors, and we believe a rally in stocks might be around the corner.

## James Aggressive Allocation

Your James Aggressive Allocation Fund declined 13.07% during the 4th quarter of 2018 while paying a dividend of 8.86 cents per share on December 31st. As a hybrid fund, it closed the year with 73% invested in common stocks and the remaining portion in bonds and or cash. The Fund typically carries an equity level higher than our James Balanced: Golden Rainbow Fund, but yet more conservative than an all equity fund. This type of flexibility allows the Fund to search for true bargains as markets decline and opportunities present themselves.

*The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market. Russell 2000 Index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. Russell Mid Cap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$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. One cannot invest directly in an index. 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.*