

The Advantage

Investing for a Lifetime



Advised by James Investment Research, Inc.

1ST QUARTER 2018

James Balanced:

Golden Rainbow Fund

During the first quarter of 2018, your James: Balanced Golden Rainbow Fund declined by 2.52%. A dividend of 6.3 cents per share was paid on March 29th. As of March 31st, the allocation to stocks, bonds and cash was 44%, 53% and 3% respectively.

Over the last 2 months, stocks began to show quite a bit of volatility. It is during these rollercoaster markets where the mixture of stocks and bonds often helps to smooth out the returns. During the month of March alone, the S&P 500 fell 2.54% while your Golden Rainbow Fund was only down 0.41%, preserving capital in difficult markets.

The largest weightings are currently in Consumer Cyclical, Financial and Technology stocks with a good mixture of Large, Mid and Small Cap names.

How We See It

Our last note started by asking, "What is next?" We spoke about risks in the market and excess bullishness. Indeed, the market recently went through its first correction (a decline of 10% or more) in some time. Our research suggested taking a prudent approach to higher risk. The question now is; what course of action we should take?

A good place to start looking for answers is history. At **major market tops** we have often seen an initial move downward (since 1960 this first decline averaged 11%). After this move, there is often a rebound averaging 7%, which usually lasts about a month. Finally, there is another major leg downward pushing prices an average of 28% lower. This phase lasts around 250 days. These major market tops are not typical and normal corrections are less violent and actually provides a much earlier return to buying opportunities.

This being said, where are we now: in a bear market or just a normal correction? Our indicators have provided guidance for over 40 years and we look to them once again. Here are a few times they helped us navigate the markets. At the end of the first rebound in the 2011 bear market, our leading indicators were still negatively configured. This suggested higher risk and more pain ahead, which came in July and August. However, in the rebound after the late 2015 – early 2016 correction, our indicator array was positive, suggesting lower risk and potential opportunities in equities.

Today? Our leading indicators have become favorable compared to just a few short weeks ago. From a strategic standpoint there are still risks; namely expensive valuations and excessive optimism. These will need to be dealt with eventually, perhaps later in the year. For now though, the intermediate picture has improved. While we would avoid extreme aggressiveness in stocks, our indicators no longer suggest taking excessive caution.

Sincerely,

Barry R. James, CFA, CIC
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Total Returns After Expenses as of March 31, 2018

	** Operating expenses	1Q2018	1yr	3yr	5yr	10yr	SI	Inception Date
James Balanced: Golden Rainbow (No Load)	0.97%	-2.52%	2.18%	1.40%	4.01%	5.59%	7.60%	7/1/91
James Mid Cap (No Load)	1.52%	-5.62%	4.44%	2.81%	7.34%	7.06%	5.81%	6/30/06
James Small Cap (No Load)	1.52%	-3.24%	7.24%	3.86%	6.87%	7.38%	8.02%	10/2/98
James Micro Cap (No Load)	1.52%	-3.95%	4.29%	5.36%	10.20%	-	11.10%	7/1/10
James Long/Short (No load)	1.58%	-2.61%	6.96%	1.79%	5.21%	-	6.14%	5/23/11
James Aggressive Allocation (No load)	1.01%	-2.29%	7.47%	-	-	-	3.04%	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. 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. #JAF000519 Exp. 6/30/2018.*

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James Mid Cap

During the first quarter of 2018 your Fund declined 5.62%. The S&P 400 Mid Cap Value Index declined 3.01%. The type of “bargain” stocks we buy in the Mid Cap Fund were not in favor during this time period. Our research shows that “bargain” stocks tend to outperform in the long run, so we stay true to our discipline. We continue to find a relatively high number of bargain stocks, those with good relative valuations, profitability and price momentum in the Cyclical, Finance and Technology sectors. We will continue to search for these types of stocks on your behalf.

James Small Cap

During the first quarter, your James Small Cap Fund fell 3.24%. Although it was a difficult time overall for smaller bargain securities, there were signs of encouragement late in the quarter. As the rumblings of possible Chinese tariffs made the headlines, investors sought refuge. One such area is smaller stocks, which often have a smaller international footprint. Additionally, according to a recent Bank of America-Merrill Lynch survey, fund managers have an increasing desire to see companies use their cash flow to shore up their balance sheet. On a relative basis, this shift to quality may prove beneficial for bargain investors in the near future.

James Micro Cap

Your James Micro Cap Fund lost 3.95% during the quarter. Your Fund continues to focus on smaller sized stocks, with almost every holding having a market capitalization under \$1.5 billion. Presently, the Fund is finding opportunities in the Consumer Cyclical, Technology and Finance sectors. We are lightly weighted in Utilities, Basic Material and Energy stocks. Given the recent pressure seen on large-cap technology stocks, we may see a bit of leadership rotation that could benefit smaller stocks. We continue to maintain our value discipline, and your typical stock has a market value of just over \$742 million.

James Long-Short

Your James Long-Short Fund was down 2.61% for the 1st quarter of 2018. The S&P 500 Index also fell during the quarter, declining 0.76%. Your Fund ended the quarter with a net long exposure of 78.9%. The market volatility increased during the first quarter as the S&P 500 Volatility Index (VIX) rose substantially. The VIX began the year at 11.04 and by the end of the quarter it had risen to 19.97. Our indicators are improving and the recent decline gave us an opportunity to reduce some of our shorts. With the market volatility increasing, we will monitor our risk indicators closely to find other opportunities to increase or decrease our short exposure in the Fund.

James Aggressive Allocation

Your Aggressive Allocation Fund declined 2.29% during the first quarter of 2018. Consistent with our research, your Fund is running a relatively aggressive allocation to stocks, at 75% of the portfolio. Our largest sector exposure is Technology, at 18.9%. This includes holdings in Defense Contractors (Lockheed Martin 1.2% of portfolio and Northrup Grumman 0.8%, both as of 3/31/18). We believe the Trump administration’s trade negotiations are likely to benefit technology companies, especially if the administration can secure the protections of intellectual property rights. The Fund also has a significant exposure to the Finance Sector (16.4%) with a material holding in regional banks (5.7%). We believe that reforms to Dodd-Frank will be very positive during the rest of 2018 and beyond, and a strong economy should lead to healthy loan demand. Recently, the Fund added positions in Oil Refineries as the crack spread widened out, which usually benefits oil refiners. The Fund’s mandate is to be aggressive, and we will continue to run higher equity allocations as long as our research remains positive for stocks. We are mindful that the Fund also seeks to preserve capital in down markets, so a reversal of our stock indicators could lead us to lower stock positions materially.

*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. S&P 500 Volatility Index (VIX) is a popular measure of the stock market’s expectation of volatility calculated and published by the Chicago Board Options Exchange (CBOE). 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. 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.*