

# The Advantage

Investing for a lifetime



Advised by James Investment Research, Inc.

2ND QUARTER 2014

## In The News

### Fund Recognition

The James Advantage Funds continue to receive national press attention with the *James Long Short Fund* and the *James Balanced Golden Rainbow Fund* both receiving a **5 star overall** Morningstar ranking as of May 31st.

James Investment Research will continue to use our proprietary research to try to maximize opportunities and minimize risks in your James Advantage Funds.

## How We See It

If you have been tracking market progress through the media, it may surprise you to learn the median stock rose less than one-half of one percent over the past three months, almost unchanged. It was a market of two minds. Large capitalization stocks, such as those found in the Dow and S&P 500 advanced. However, small cap stocks, many found in the Russell 2000, struggled, the median small stock was nearly flat for that period.

Our stock indicators are running pretty close to neutral and they do not signal a major downturn at this point. But a correction of even 10 to 20 percent would represent a setback. We are especially concerned because sentiment is so bullish and smaller stocks, which typically lead the market, have turned down in the past three months. In the face of these concerns we have lowered equities where appropriate. While our intermediate term stock indicators are not giving a clear signal, our long term indicators are very strong, perhaps reflecting America's basic long term strengths - cheap and abundant energy, leadership in technology, and an entrepreneurial spirit. We believe equities show signs of good rewards in the long term and we look forward to adding stocks when conditions warrant.

Sincerely,

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

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

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Morningstar calculates a Morningstar Rating™ based on Morningstar's risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in a category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately which may cause slight variations in the distribution percentages.) The Morningstar Ratings™ are for the specified share class; other classes may have different performance characteristics.

## Total Returns After Expenses as of June 30, 2014

	** Operating expenses	Percent Change					SI	Inception Date
		2Q2014	1yr	3yr	5yr	10yr		
James Balanced: Golden Rainbow (No Load)	1.07%	3.33%	14.32%	9.34%	10.91%	8.07%	8.51%	7/1/91
James Mid Cap (No Load)	1.54%	6.07%	30.34%	14.54%	19.53%	-	7.18%	6/30/06
James Small Cap (No Load)	1.53%	2.11%	21.46%	14.23%	20.27%	7.66%	9.14%	10/2/98
James Micro Cap (No Load)	1.54%	1.81%	24.75%	14.16%	-	-	15.38%	7/1/10
James Long/Short Fund (No load)	2.75%	3.14%	17.85%	11.17%	-	-	11.13%	5/23/11

The Dow Jones Industrial Average is a price-weighted average of 30 stocks traded on the New York Stock Exchange and the Nasdaq. S&P 500 is a leading indicator of US equities. You cannot invest directly in an index. 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. #AF 000281 Exp. 9/30/2014.

James Investment Research, Inc.

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## James Balanced: Golden Rainbow

After paying a dividend of more than 6 cents on the 27th of June, your James Balanced Golden Rainbow Fund provided a return of 5.73% year to date, and 14.32% over the past 12 months as shown in the performance schedule. At a time when so many are concerned about the earnings and safety of their investments, it is gratifying to acknowledge the Fund has earned nearly 1% a month for you, in this low interest rate environment.

We are glad to report that our projections of an improved outlook for bond investments proved to be accurate, and the addition of a limited quantity of these bonds have appreciated. In fact, long term US Treasury bonds have returned four times the Dow Industrial average year-to-date. Today we find opportunities in Energy, Finance, and Consumer Staples firms and note rising earnings and prices in certain companies such as Kroger Co. (0.9% of Fund) and Protective Life (0.7% of Fund).

It has been a pleasure serving you. In these difficult, volatile markets we are glad our charter permits our managers to shift assets, and thereby lower risks.

## James Long Short

Your James Long/Short Fund gained 3.14% for the 2nd quarter of 2014 and has gained 7.06% so far in 2014. The Fund paid no dividends during the quarter.

Our recent research has suggested a net long exposure of approximately 50% (longs - shorts). Thus far in 2014, the average net long exposure has been about 75%. The long portion of the Fund continues to favor stocks that meet our criteria of offering good relative value, profitability, and relative strength. The shorts on the other hand focus on companies that exhibit just the opposite, and are relatively expensive. They also often trade with higher multiples. As of quarter end, the Fund has a median price to earnings (P/E) for the longs of 15.9; while the median P/E for the shorts is 93.8.

Our research points to the possibility of higher volatility in the stock market. In order to help reduce risk, we will continue to monitor this and will make changes in the Fund accordingly.

## James Micro Cap

During the quarter, your James Micro-Cap Fund advanced 1.81% while the benchmark Russell Microcap Index declined 1.41%. No dividends were paid during the time period.

One factor helping your Fund has been the resurgence of value investing. Value factors like Price-to-Earnings (PE) and Price-to-Book (P/Bk) are offering good differentiation lately. The typical stock in your Fund has a PE of 15.9 versus over 19 for the Russell Microcap Index. Additionally, over 40% of the index's stocks do not show a PE primarily because they have negative earnings.

Recently we have found a number of value securities in the Industrial sector. We will continue to look for values for the Fund and look to remain diversified.

*The Russell Microcap Index measures the performance of the microcap segment of the US equity market. Diversification does not eliminate the risk of losses. Price/Earnings = a valuation ratio of a company's current share price compared to its per-share earnings. Price/Book = a ratio used to compare a stock's market value to its book value.*

## James Mid Cap

Your James Advantage Mid Cap Fund had above average results during the second quarter. The Fund rose 6.07% for the quarter and 30.34% for the fiscal year. Mid Cap stocks have been aided by takeovers and solid earnings momentum. Stocks in the \$1 billion to \$8 billion range have been doing well lately, outperforming both larger and smaller cap stocks this last quarter. This is a good reason to have a diversified portfolio, with holdings among multiple capitalizations.

Your Fund was helped by Cyclical holding Dillards (3.13% of Fund), which was up 26.27% for the quarter. Insurance holdings Aspen Insurance (0.97% of Fund) and Protective Life (2.97% of Fund) were also solid contributors to this quarter's results. Lastly, the largest single stock holding, Amerco (UHAL, 4.68% of Fund), had double digit gains during the quarter.

## James Small Cap

For the second quarter of 2014 your James Small Cap Fund advanced 2.11%. The Russell 2000 Index gained 2.05%. No dividends were paid out during this quarter.

Our present research suggests we may find growing opportunities in the Finance and Energy sectors, while recommending a more conservative approach with Utility stocks.

So far, 2014 has been a good year for your James Small Cap Fund. We continue to invest in value securities. In general your Fund holds stocks enjoying good relative value, profitability, and long-term strength.

*Russell 2000 index is a widely recognized, unmanaged index of the 2000 smallest US domiciled common stocks of the Russell 3000 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. The James Advantage Funds are distributed by ALPS Distributors, Inc., 1290 Broadway, Ste 1100, Denver, CO 80203.