

# The Advantage

Investing for a lifetime



Advised by James Investment Research, Inc.

2ND QUARTER 2015

## In The News

### James Aggressive Allocation Fund (JAVAX)

We are proud to introduce our newest Fund, the *James Aggressive Allocation Fund (JAVAX)*. This fund seeks to provide total return through a combination of growth and income. Preservation of capital in declining markets is a secondary objective.

We invite you to view additional information on this investment opportunity on our website at [www.jamesfunds.com](http://www.jamesfunds.com).

## How We See It

The \*Dow Jones Industrial Average hit a new all-time high in May, but it faded in June and actually fell for the quarter. This is typical of the volatility we have been seeing this year, with many days of 1% or greater swings. Bonds also took a hit in the quarter.

Investors have experienced significant changes in the investment landscape. Bonds were the biggest winners last year, now they are losers. Utility and Energy stocks continue to lag the market significantly and commodity indexes have been all over the place, with grains a big loser. The price of gasoline is higher, as is silver, but the dollar has been firm relative to the Euro, with gains of about 20% in the last 12 months.

Worldwide, many stimulus packages have been unveiled. The European Central Bank began \*\*Quantitative Easing, their target is said to be about \$1.5 trillion, and the flood of new money had the effect of boosting their stock markets. While many of their bonds recently sported negative yields (at one point investors were paying to lend money to the government), that has now reversed and yields have been rising which means bond investors in Europe have been losing money.

All of this leads investors to ask where are the opportunities? Our risk indicators point to fewer opportunities in longer term U.S. bonds; however, they aren't suggesting a rout either. Inflation had been muted but is now showing some signs of rising, especially in the area of food and wages.

When it comes to stocks: prices had been gradually trending higher but the pullback in June has turned sentiment negative. This is a positive, especially when well-known investors begin to give warnings about stocks. Our leading intermediate indicators are becoming more robust. We believe Greek concerns and pessimism are overdone. While we still may see some short-term hiccups in the market, the general outlook is an improving one. We are looking to add equities where appropriate.

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

\* *The Dow Jones Industrial Average* is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. \*\* *Quantitative easing* is a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective.

## Total Returns After Expenses as of June 30, 2015

	** Operating expenses	2Q2015	1yr	Percent Change				SI	Inception Date
				3yr	5yr	10yr			
James Balanced: Golden Rainbow (No Load)	1.01%	-0.99%	2.90%	8.97%	9.12%	6.92%	8.28%	7/1/91	
James Mid Cap (No Load)	1.51%	-3.38%	-0.86%	16.29%	14.65%	-	6.25%	6/30/06	
James Small Cap (No Load)	1.51%	-2.48%	-1.21%	13.70%	15.00%	6.00%	8.49%	10/2/98	
James Micro Cap (No Load)	1.51%	-1.05%	7.95%	17.56%	-	-	13.86%	7/1/10	
James Long/Short Fund (No load)	2.59%	-6.69%	-4.06%	9.99%	-	-	7.22%	5/23/11	

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. #JAF00358 Exp. 09/30/2015.

James Investment Research, Inc.

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

# The Advantage

## Investing for a lifetime



Advised by James Investment Research, Inc.

2ND QUARTER 2015

### James Balanced: Golden Rainbow

Your Fund paid a dividend of 2.97 cents per share on June 30th. Portfolios with bonds have often shown less volatility and therefore less risk for large capital losses, however, they historically have not outperformed during periods of stress in the bond market. That is a part of the story of your Fund. This quarter, bonds were struggling under investor fears of sharp interest rate hikes by the Federal Reserve (FED).

There are several arguments against an early push by the FED to punish bond investors; personal income growth has been sluggish, and the FED appears to wish to accommodate the administration's desire to propel the economy forward by the end of the Obama Presidency. Premature tightening comes with the risk of bringing on a recession with the blame falling on the FED. We therefore doubt the present concern over excessive rate hikes is appropriate. Minor upward adjustments may capture headlines, but are apt to be of little consequence. In spite of this reasoning, bonds have not been doing well, and last quarter we have reduced both the duration and allocation to bonds.

Our research, and that of other careful studies by academicians such as Professors Fama and French, show that smaller value securities tend to outperform. Last quarter saw one of the exceptions to this tendency as the reverse occurred. In spite of this, we show positive returns year to date. We anticipate the value advantage will reassert itself in the future.

### James Micro Cap

Your James Microcap Fund declined 1.05% for the quarter. No dividends were paid this quarter.

Uncertainty with our economy, and continued problems overseas has plagued the markets recently. Our indicators have improved and look for a good buying opportunity once things stabilize. As we write this, we believe such opportunities may be at hand for the small, neglected stocks we prefer to buy.

Microcap stocks are often considered to be more at risk in volatile markets. To help preserve your assets, we seek stocks with reasonable valuations for good downside mitigation. These include securities with low price-to-earnings or price-to-book levels. In each of these cases, we find the typical stock in your portfolio to be cheaper than the index.

### James Mid Cap

After a strong first quarter, the Mid Cap Fund took a breather in the second quarter, declining 3.38%. The markets faced problems with Greece and the poor Gross Domestic Product (GDP) report of the first quarter. Utility stocks had the toughest go in the quarter, but Technology and Non Cyclical stocks also headed lower. We see the market in a transitional phase, and such volatility is fairly normal in times like these. We are looking for this to eventually revert to more normal valuations and we anticipate Mid Cap stocks to offer solid returns when this happens.

### James Small Cap

During the quarter, your James Small Cap Fund declined 2.48%, as many small cap stocks underperformed the general market. No dividends were paid.

Overall the Fund continues to focus on small cap stocks and the largest stock (by market capitalization) is \$3.5 billion (compared to over \$4 billion for the benchmark Russell 2000). Likewise, your Fund continues to focus on bargain securities and the typical stock features favorable comparative numbers in areas such as Price/Earnings, Price/Cash, Earning's Growth and Relative Strength.

Bargain investing often offers strong returns, but this is not always true in every month or every quarter. The last three months have been challenging for bargain hunters. After such a period, it is reasonable to look for more typical returns. Despite this, we remain committed to the strategy, and we believe the markets will eventually return to normal patterns, which favor small value bargain securities. *Russell 2000 index is a widely recognized, unmanaged index of the 2000 smallest US domiciled common stocks of the Russell 3000 index. One cannot invest directly into an index.*

### James Long Short

The James Long/Short Fund lost 6.69% during the second quarter of 2015. No dividends or capital gains were distributed for the Fund during the quarter.

Our research has indicated that small cap stocks should be favored investments, and we continue to look for opportunities within the small cap area. The longs through the end of the quarter have about 28% in small cap stocks (market cap < \$4 billion); an increase from 22% at the end of 2014.

In addition, the Fund continues to look for "bargain" securities that offer good relative value, profitability and relative strength. Thus far, 2015 has been a rough year for bargain securities as they have underperformed their more expensive brethren. However, we intend to maintain the focus on our discipline, to research markets with our indicators and adjust the long and short allocation accordingly.

**Price/Book:** current closing price of the stock divided by the latest quarter's book value per share. **Price Earnings:** A valuation ratio of a company's current share price compared to its per-share earnings. **Price/Cash:** The ratio of a stock's price to its cash flow per share.

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.