

# The Advantage

Investing for a lifetime



Advised by James Investment Research, Inc.

3RD QUARTER 2014

## In The News

### Micro Cap Fund

Reminder: Starting November 1st your James Microcap Fund will generally be looking to invest in stocks similarly sized to the Russell Microcap Index.

### Daily Radio Show

Our daily radio show may provide you with guidance during uncertain times. This airs locally at 8:30am Monday through Friday on WBZI 100.3, and is also available on our website after 9am [www.jamesfunds.com](http://www.jamesfunds.com).

### E-delivery

We would like to remind you that you can sign up to receive online delivery of your statements, confirms, and regulatory documents. Please visit our website at [www.jamesfunds.com](http://www.jamesfunds.com) to enroll. If you have any questions, don't hesitate to call our shareholder services line at 1-800-99 JAMES.

## How We See It

July and September losses offset an above average August. As a result, most stocks fell during the quarter. While the large capitalization S&P 500 did eke out a gain, the typical stock in that index actually fell. In addition, smaller stocks had a terrible quarter, as the Russell 2000 index slumped 7.36%. It has been a tale of two different markets, with a narrow band of stocks managing to hang on while the rest of the market fell. Energy stocks particularly took it on the chin.

Recent volatility has some folks saying "Stock Prices are too high!!!" The implication is that yet another massive decline lies ahead for investors. Our friends know that we don't hesitate to sound the alarm when we see risks of rapid losses or lengthy economic declines. For example, our 1987 study **A Time for Caution** and the January 2008 study, **No Quick Fix** cautioned investors about the trouble we saw ahead. You may recall, from our 2008 study, "The reduction of debt in the system will take time, leading to a recession which may be prolonged. Unemployment can be expected to rise before long. Already, we see signs of downward adjustments in equity prices, an excellent leading indicator."

Meanwhile, we believe the near term risk of large and extended losses in stocks is not likely. We could, of course, experience a normal sharp setback to correct recent advances. Also, one needs to be on guard since reliable scales of valuation such as the Shiller CAPE and the Stock/Gross Domestic Product ratios are elevated. These ratios are, however, better used as implying the degree of investment success if one followed a "Buy and Hold" plan at these levels. Rather than "Buy and Hold" our success is based on careful selection of value stocks and continual monitoring to ensure they remain values.

While we may be in for a volatile period for investors, we are confident the long term outlook for American securities is bright. With the world's leading technology, an entrepreneurial mind-set, and unrivaled energy output; future tax reductions and regulatory relief should enable us to realize America's potential and adequately reward investors.

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

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

	** Operating expenses	3Q2014	1yr	Percent Change				SI	Inception Date
				3yr	5yr	10yr			
James Balanced: Golden Rainbow (No Load)	1.07%	-1.11%	10.21%	10.71%	9.08%	7.62%	8.37%	7/1/91	
James Mid Cap (No Load)	1.54%	-6.33%	14.91%	20.17%	14.23%	-	6.11%	6/30/06	
James Small Cap (No Load)	1.53%	-6.14%	6.11%	18.51%	15.50%	7.46%	8.56%	10/2/98	
James Micro Cap (No Load)	1.54%	-4.77%	11.38%	22.40%	-	-	13.10%	7/1/10	
James Long/Short Fund (No load)	2.75%	-0.72%	16.40%	16.51%	-	-	10.01%	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. #JAF 000310 Exp. 12/31/2014.

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 Balanced: Golden Rainbow

After paying a dividend of 5.96 cents per share at the end of September, your James Balanced Golden Rainbow Fund provided a return of 4.55% year to date, and more than 10% over the past 12 months as shown in the performance schedule. Many investors have become concerned about the returns and safety of their investments and it is gratifying to report good returns and income for you in this low interest rate environment.

Our projections of an improved outlook for bond investments have indeed proved to be accurate, and the limited quantity of these bonds you hold have appreciated. Year to date, long term high quality bonds have significantly outperformed equity averages.

The recent divergence between large market averages and movements of typical (smaller) stocks has gotten more extreme, not a favorable development for stock investors.

Our equity market risk indicators now appear to be gradually shifting to a less favorable direction. Accordingly, we have limited the equities in your Fund, slightly increasing the portion held in short bonds and even in the long term highest quality bonds. We doubt a correction in equities would take prices down to the degree seen in 2008. There is too much investor concern, but a modest increase in liquidity could give us more purchasing power when conditions improve.

Today we find opportunities in Energy, Finance, and Consumer Staples firms and note rising earnings 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 your fund manager to shift assets, seeking to lower risks.

### James Mid Cap

Your James Advantage Mid Cap Fund had challenging results during the third quarter, but was above average over the longer term. The Fund fell 6.33% for the quarter but rose 14.91% over the past 12 months. During those same 12 months, the Mid Cap Value Index was up 13.50%. Much has been made recently about the disparity in returns between Large and Small Capitalization stocks. Mid Cap stocks however can provide a "sweet spot" between Large Cap and Small Cap stocks during declining markets because of their greater financial stability and still considerable room for growth. This is why we recommend having a diversified portfolio, with holdings among multiple capitalizations.

Your Fund was helped by Energy holding HollyFrontier (2.17% of portfolio), which was up 16.38% for the quarter. Industrial holdings, Trinity Industries (3.37% of portfolio) and TRW Automotive (5.02% of portfolio) were also solid contributors to this quarter's results. *S&P MidCap 400 Index is a stock market index from the S&P Dow Jones Indices and serves as a barometer for the US mid-cap equities sector.*

### James Small Cap

During the third quarter, your James Small Cap Fund declined 6.14% while the Russell 2000 lost 7.36%. No dividends were paid during the quarter.

We continue to seek value stocks for your Fund. We define values as those enjoying good relative value, profitability and long-term price strength. Today the stocks in the Fund have an average Price/Earnings ratio of 15.4, enjoy above average earnings' growth and have favorable strength levels compared to its Index, Russell 2000.

As we move into the fourth quarter, we would expect value Small Cap securities to start performing better.

*Russell 2000 index is a widely recognized, unmanaged index of the 2000 smallest US domiciled common stocks of the Russell 3000 Index.*

### James Micro Cap

Your James Microcap Fund declined 4.77% for the quarter. The benchmark Russell Microcap Index fell 8.21% on a total return basis. The Fund did not pay a dividend this quarter.

With the end of the third quarter, the stock market closes the book on a time that is often difficult for smaller stocks. What of the future? From a seasonal and political calendar standpoint, we are entering a time that historically favors smaller stocks. It is also helpful that some valuation measures suggest microcap stocks are relatively cheaper than their larger brethren.

While the picture may be improving, larger stocks still possess the momentum leadership. Also, the end of quantitative easing may cause some market disruptions. We believe that "Stay diversified" remains good advice. *The Russell Microcap Index measures the performance of the microcap segment of the US equity market. Diversification does not eliminate the risk of losses. Quantitative Easing: a monetary policy in which a central bank purchases government securities from the market in order to lower interest rates and increase the money supply.*

### James Long Short

Your James Long/Short Fund fell 0.72% during the 3rd quarter, while the S&P 500 index gained 1.13%. Thus far in 2014 the Fund is up 6.28% with the S&P 500 index gaining 8.34%. The Fund paid no dividends during the quarter. Throughout most of the quarter your Long/Short Fund was positioned with a net long exposure of about 64% (Longs - Shorts). The allocation to stocks sold short was about 37%. The Fund's allocation was positioned in this manner in large part due to our research which pointed to higher risk and increased volatility in the equity markets. During the 3rd quarter alone, volatility, as measured by the S&P 500 Volatility Index (VIX), increased substantially from 11.57 to 16.31.

Presently, our research indicates continued volatility in the near term. We will monitor this closely along with our equity risk indicators and make adjustments as conditions warrant. *S&P 500 is a leading indicator of US equities and is meant to reflect the risk/return characteristics of the large cap universe. VIX: a popular measure of the implied volatility of the S&P 500 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.