

THE INSIDE-OUTSIDE REPORT.

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BONDS CORRECTING BUT STOCKS GRIND HIGHER ON BETTER RELATIVE POTENTIAL.

Outside:

After 18 months of declines, thanks to a difficult economic backdrop in Europe and a mixed outlook for the U.S., bond yields have spiked higher (chart #1) and may be signaling the next round of Fed action. That said, the attention should remain on election rhetoric and a pick up in M&A activity.

The US stock market's rise is consistent with our call for a robust summer rally and we see nothing to derail it. As we go into the end of quarter, and the return of managers in September, we expect sideline cash will be put to work. The easiest path should be in favor of large-cap US stocks.

Currently *RAM's Stock-Market Risk Indicator* is entering cautious levels but we

continue to find evidence that it is too early to back off this rally.

Inside:

Given the above, we expect at some point higher prices will necessitate RAM profit-taking and portfolio risk reduction. We will continue

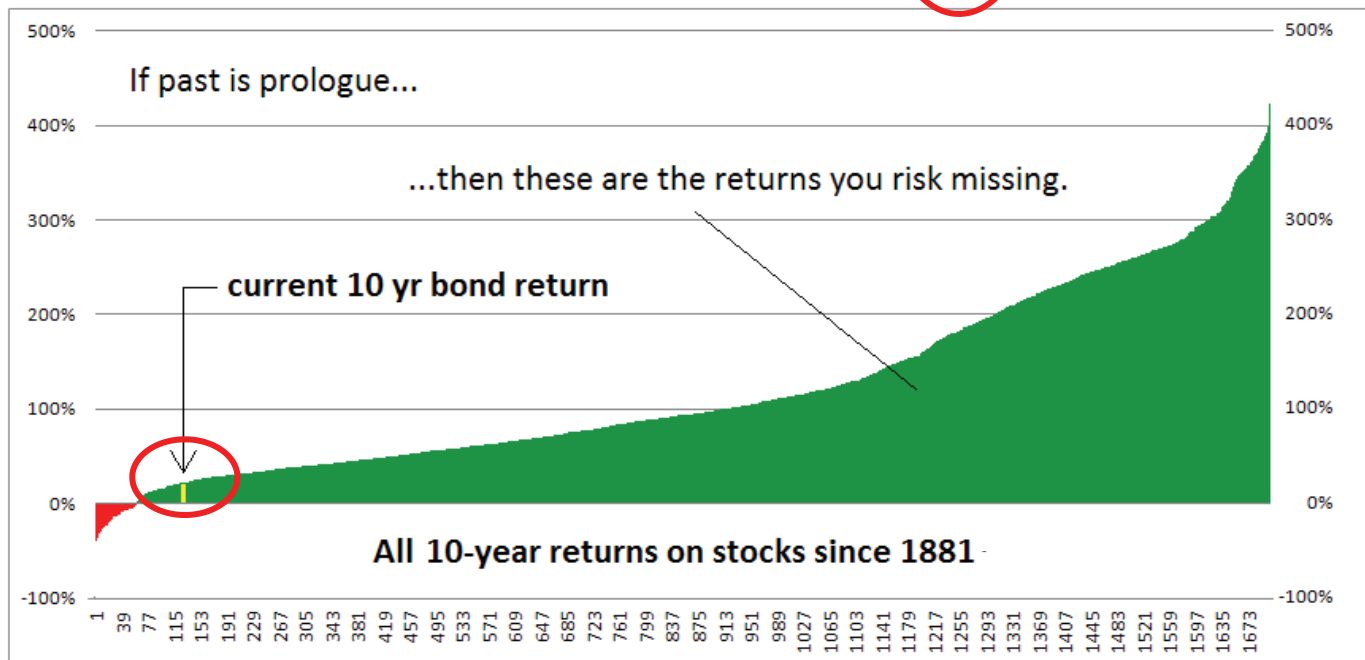
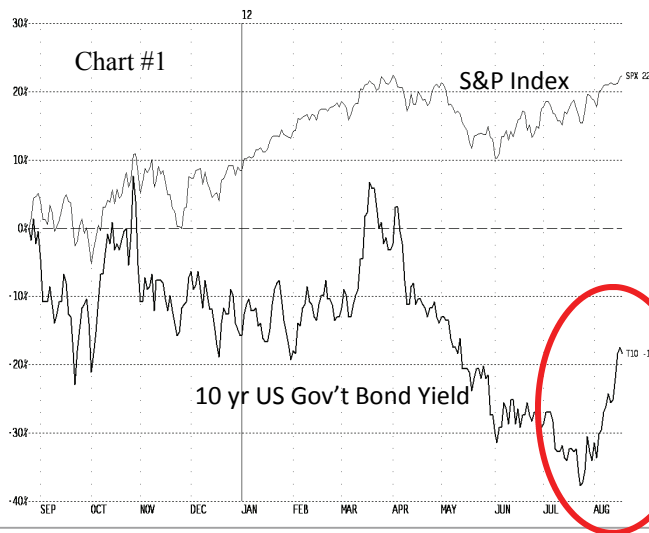
to use our *ROI Stock-Selection Model* to determine those positions in need of pruning.

That said, we continue to believe U.S. actions to reduce its deficits and address its social obligations prudently, combined with the bear mar-

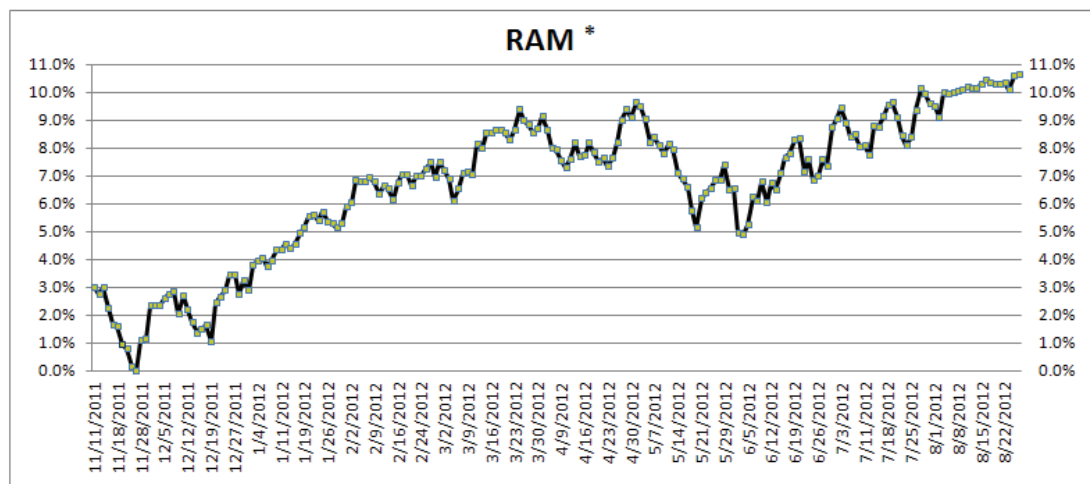
ket of the past 12 years, is setting the table for a reversion to the mean for the stock market resulting in a decade of significant compounded returns for stock investors

Chart #2 demonstrates the secular rewards generated by owning U.S. stocks since 1881. The compounded returns over any 10-year period (calculated monthly) has been spectacular and dwarf the current 1.7% offered by owning the 10-yr US government long-term bond.

It also shows that it is rare that a 10-year holding period for US stocks results in a loss. Given the US market is coming off one of those periods and given the current attractive valuation of US stocks, we believe it bodes well that we are due for a return to a decade of outsized gains from owning US stocks.



RAM taxable SMA account. *see disclosure for details.



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The past performance for January 1, 1996 to September 30, 2010 is for the RAM Capital L.P fund. The prior performance is net of management fees (1% per annum), and net of other expenses. Also prior performance does not include the effect of the LP's performance fee, which does not apply to SMA's. On October 1, 2010 the partnership was converted to, and it's performance ported to, a mutual fund adhering to the Investment Companies Act of 1940 and regulated by the SEC. Past performance since the conversion are net of management fees (1%) and expenses (0.25%). The latter does not apply to SMA's although all commission and other charges, fees and expenses are the responsibility of the SMA owner. The LP and the mutual fund were managed in the same style and by the same portfolio manager and advisor, RAM Capital Management LLC, since the fund's inception on January 1, 1996. **The past performance is not necessarily an indication of how an SMA will perform in the future.**

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