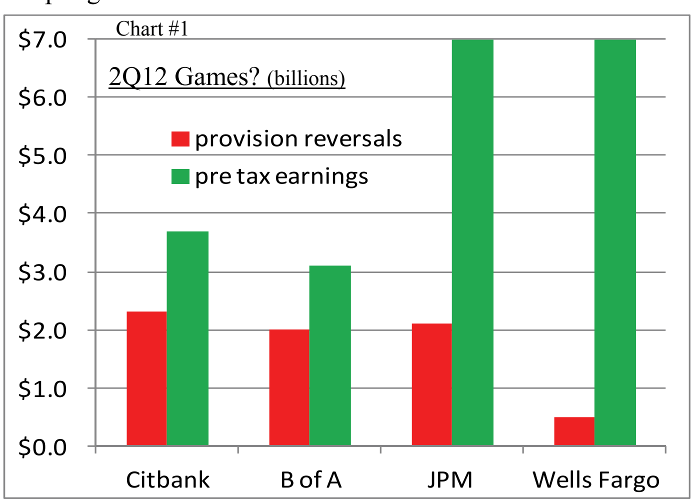
The *Prudent-Growth* Portfolio

October 2012 - Week 2

APPLE BREAKS SUPPORT...OMINOUS? WE CONTINUE TO PRUNE INTO RALLY.

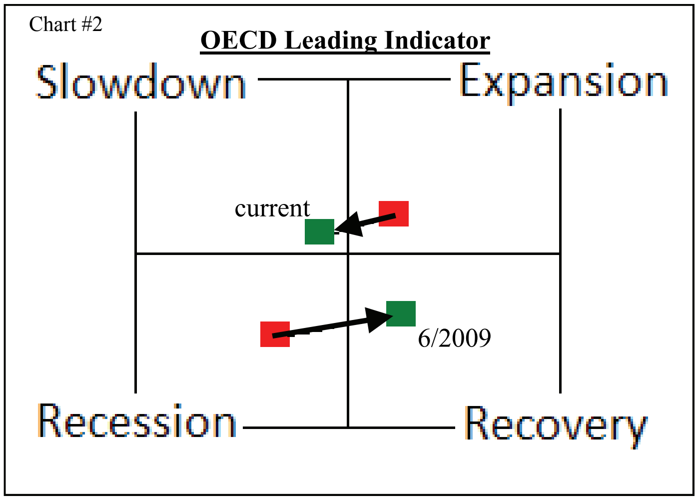
The Investment Climate:
Romney's showing in last week's debate has reversed the slide in the prospects for a Republican victory. That said the issue for the market remains the overwhelming level of sovereign and consumer debt here and abroad. Neither party has a magic wand to make it disappear. The demographic ingredients that went into the creation of this problem were long in the making and will take years to reverse.

In the meantime, financial engineering, temporary in nature, has lulled investors into hoping the solution can be accomplished with a "quick fix". We have been seeing this in the earnings reports of major US banks. The green bars in chart #1 represent the billions of pretax earnings reported by a sampling of four banks. Three



appear to show a stellar operating recovery three years after the bottom of the financial crisis.

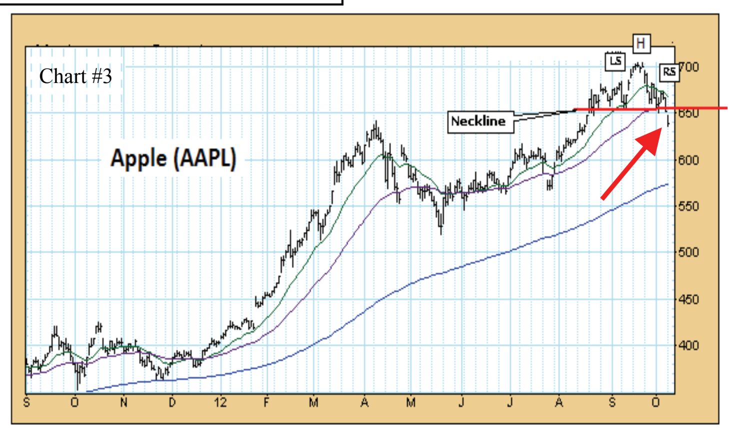
But a closer look at these reported earnings exposes questionable quality. Recall that at the depths of the 2008 crisis and the recession, especially for the housing market and associated mortgages, these banks had to recognize that loans made at the previous peak would not be repaid. Thus, coincident with the lows, these banks took significant provisions in anticipation of these loans going bad. Now, three years later, the banks are reporting stellar earnings. But these are not earnings from improved operations but from a decision to declare that the improved economic climate is sufficient to impact loan repayment. Now, fully 50% of the earnings reported for these banks is just a reversal of provisions (red bars in chart #1). Yet, contrary to this assumption, chart #2 depicts the recovery as tentative at best. The OECD's leading indicators (green boxes), which lead the prevailing GDP trend



(red boxes) and which pointed to expansion in mid-2009 when the GDP was still in recession mode, has now entered the "slowdown" quadrant and on the edge of entering the "recession" quadrant in spite of current GDP being in the "expansion" quadrant. The bank's earnings recovery should prompt "sell-on-good-news" given the poorness of its quality.

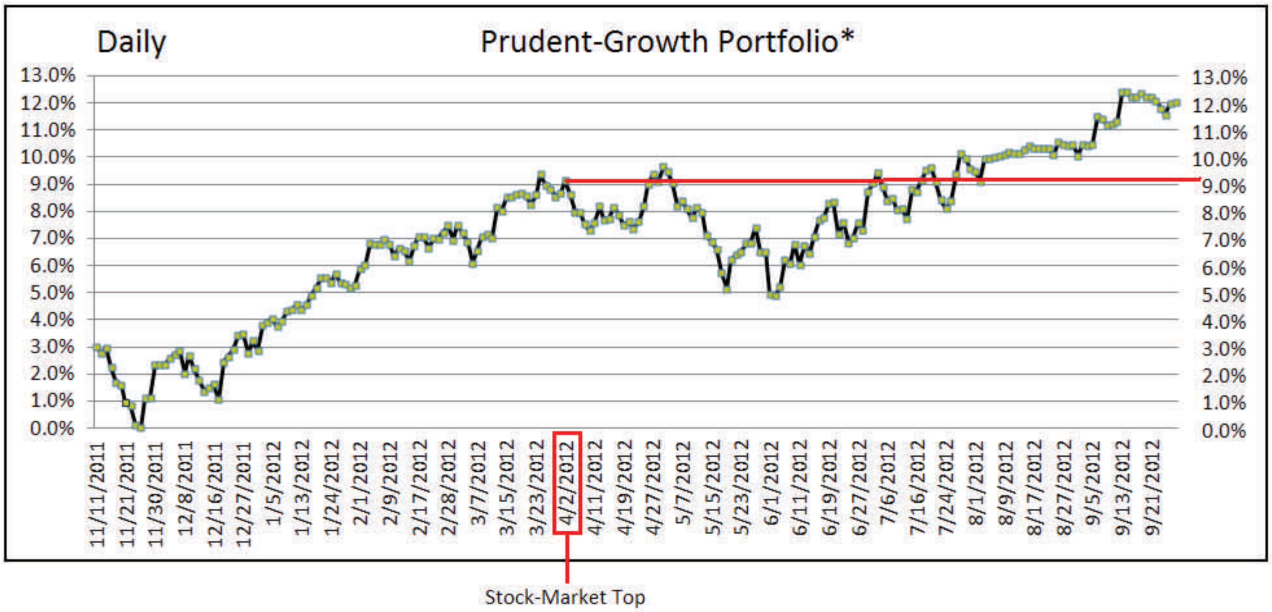
Coincident with these bogus bank "earnings" we now see weakness in the world's favorite stock...Apple. While we are not fans of technical analysis per se we must admit that the ominous head-and-shoulders top pattern shown in chart #3 and the break of the "neckline" on large volume may mean the momentum for this bull market has ended and a top is being put in place.

The Portfolio Strategy:
Over the past two weeks we have reduced our holdings by another 6 stocks to 22. As always our guide to choosing the candidates for sale remains the <u>*ROI Stock-Selection Model.*</u> Given the issues discussed in the "climate" section of this report regarding quality of earnings and



technical topping, we expect to continue to sell into any rally from these levels. Recall that at the Nov'08 market-lows we raised the number of equity positions in the P-G Portfolio to 88 from the only 7 held at the market-peak in 2007. Now at 22 positions we believe the "prudent" aspect of our discipline will put us in a position to be opportunistic if investors react negatively to the discounting of a slowing economy and the negative implication for the outlook for earnings.

*RAM taxable SMA account. *see disclosure for details.*



* DISCLOSURE

Past performance is not indicative of future results.

The performance shown for RAM in any chart is for a single-managed account (SMA) managed on a fully-discretionary basis by RAM Capital Management LLC (RCM) and that adheres fully to RCM's investment process and portfolio execution. In some cases, due to the modest size of the account or client restrictions placed on the account, an SMA account's performance may vary.

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A Single Managed Account (SMA) is an actively managed portfolio. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The SMA may purchase ETFs. The risks and volatility of these investments may be magnified as they may include leverage, which magnifies the changes in the value of the ETF or Underlying Fund. The SMA will incur a loss as a result of a short position if the price of the short position instrument increases in value between the date of the short position sale and the date on which the SMA purchases an offsetting position. The SMA's losses are potentially unlimited in a short position transaction. A higher portfolio turnover will result in higher transactional and brokerage costs.

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.**

The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. You cannot invest directly in an index.