The *Prudent-Growth* Portfolio

October 2012 - Week 4

ALLIGATOR IN THE SWAMP?! KROGER'S MANAGEMENT RAISES GROWTH TGT.

The Investment Climate:

It may be called the “earnings” season but its really about the “revenues”. On a quarterly basis management can “play” with reported-earning but revenues are basically a given. And these revenues are coming in weaker than expected. As a result managements are fessing up to the roll-over of the already weak economy. The result is investors are taking stocks out to the woodshed one stock at a time and now the market is getting hit.

This is in line with what we expected and is the reason we aggressively sold into the market's strength over the past month. Chart #1 depicts our reservations about being overly aggressive during the past year. The recovering ECRI Index (the red line) peaked six quarters ago and has been making lower lows ever since. On the other hand, thanks to the Fed's quantitative-easing and its significant impact on interest rates and liquidity, the market has been making higher highs.

We have come to believe any of the election, the fiscal cliff and/or the PIIGS could cause this divergence to be eliminated and this “alligator configuration” to snap shut to the downside.

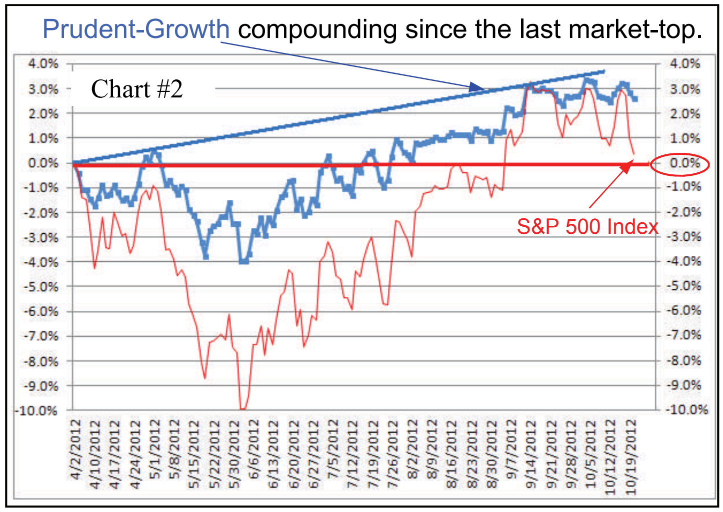
Interestingly, in spite of the 4% decline in the market over the past month, our Prudent-Growth Market-Risk Indicator (not shown) has not reached a buy-signal level This has given us pause about rushing back in during this market decline.

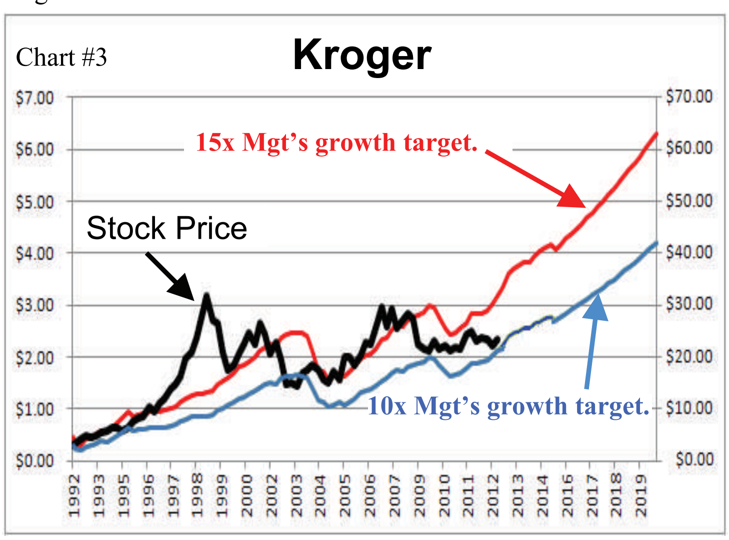
Another note of caution, and we must emphasis we profess no edge here, Apple reports Thursday and it better be a good number and outlook or the swamp will certainly experience turbulence.

The Portfolio Strategy:

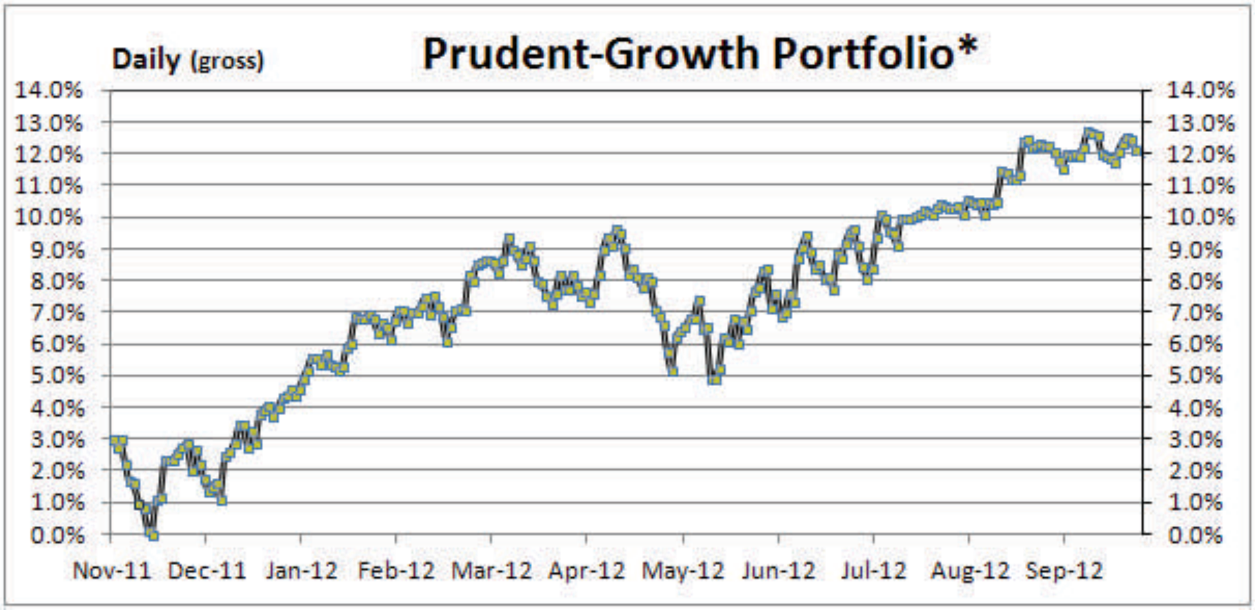
While our investment-process has generated gains for the Prudent-Growth Portfolio this year, the prudence part of it has allowed it to capture an additional 3% since the previous market peak of April 2nd (chart #2) while the market has, for the most part, given its gains since the top back. We believe this pursuit allows the potential for compounding returns.

On the stock front, we have followed Kroger (KR) since the late 1990's and have been tempted of late to step up and buy, in part, because the stock price now resides in the low end of its long-term valuation range (chart #3). Last week management became more optimistic about the company's long-term growth prospects and this got us off the sidelines. Management has approved an increase in capex spending of \$200 ml per year and will leverage their skills into other business opportunities such as discount retailing and restaurants. These opportunities, the better current operations, and the plan of significant stock buybacks have allowed management to increase their long-term growth targets from 6% to 8% to 8% to 11%. If we are early and food inflation or economic weakness occur next year, we will take the opportunity to add to our new position, all else equal. Chart #3 also depicts the stock's potential if Kroger's long-term growth rate is realized in its earnings per share. In addition, the downside is modest given its current low valuation.





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



* DISCLOSURE

Past performance is not indicative of future results.

The performance shown in all charts for RAM's Prudent Growth Portfolio 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 Prudent-Growth investment process and portfolio execution. In some cases, due to the modest size of an account or if client restrictions are placed on the account, the SMA account's performance may vary.

Investors should carefully consider the investment objectives, risks, charges and expenses of an SMA account offered by RAM Capital Management LLC. Any performance data quoted here represents past performance. Current and future performance may be lower or higher than that experienced in the past. Investment return and principal value will fluctuate, so that SMA accounts, when closed, may be worth more or less than their original cost. Past performance is no guarantee of future results.

RAM Capital Management LLC does not guarantee the accuracy or completeness of information posted on its website or within its reports, nor does it assume any liability for any loss that may result from reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice and are for general information only.
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 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 transaction expenses and net of management fees (0.50% per annum). 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 its performance ported to, the RAM Risk-Managed Growth Fund, a mutual fund adhering to the Investment Companies Act of 1940 and regulated by the SEC. Past performance since the conversion is net of management fees (1%) and expenses (0.25%), terms incorporated in the fund's prospectus. The latter expense does not apply to SMA's although all commissions and other charges, fees and expenses associated with an SMA 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. Effective September 30, 2011 all performance for the Prudent-Growth portfolio is based on a representative SMA and are net of expenses and net of management fees (0.50% per annum) except in daily-performance presentations. **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.