Prudent-Growth since 1995 RAM Capital Management llc

Commentary for the Prudent Investor* August 24, 2015 From: Robert Munsie

“It’s a correction!” “No, it’s a bear market!” “No, it’s still a bull market!”

Given the market’s sharp decline and the media’s obligatory noise, I thought I would weigh in with RAM’s view which is simply the byproduct of its Prudent-Growth discipline as it stands today.

Now back to today’s “crash” headlines. The empirical evidence suggests that, while investor sentiment, the market’s technicals, the Federal Reserve, etc. can move markets either way in the short term, “*valuation”,* as in the price you pay for stocks, dictates long-term investment returns for investors. There was no better example of this than in 2008 when prices were low and offering significant long-term returns for those who bought. Recall that, having retreated from stocks in late 2007, RAM in late 2008 became its most invested in its 20-year history moving to 98% long stocks.

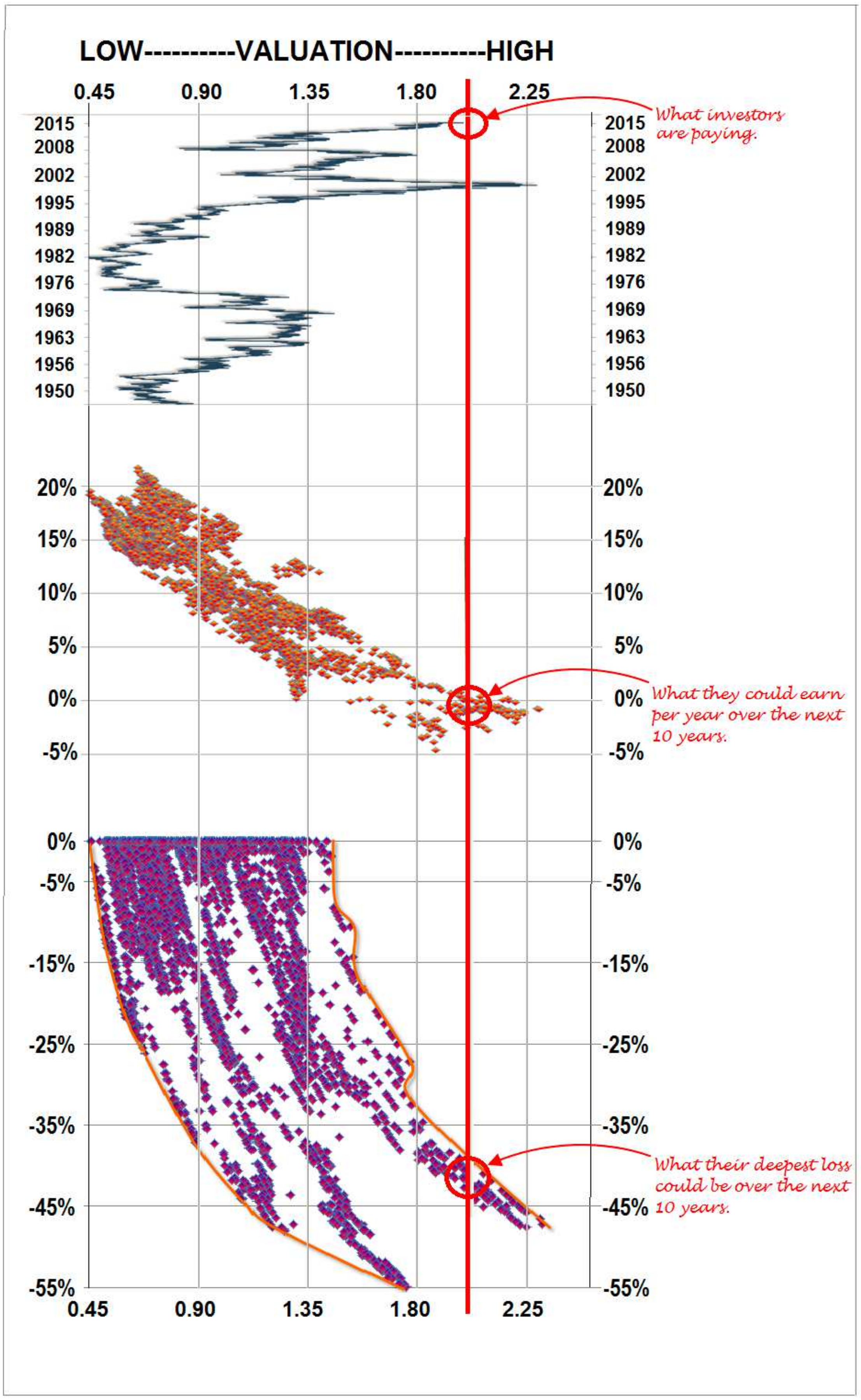
As you may have noticed in your portfolios, that is not the case today. While those short-term influences of sentiment, technicals, the Fed etc. will continue to push and pull the market around, we believe they can no longer override current high valuations. As a result our disciplined *Prudent-Growth* investment-process has moved portfolio exposure to about 20% net exposure to the stock market.

Given all the chatter about corrections, bear markets, and bull markets, I believe the below exhibit we have pulled together from economist John Hussman may depict best why we see a poor risk/reward trade-off in today’s stock market.

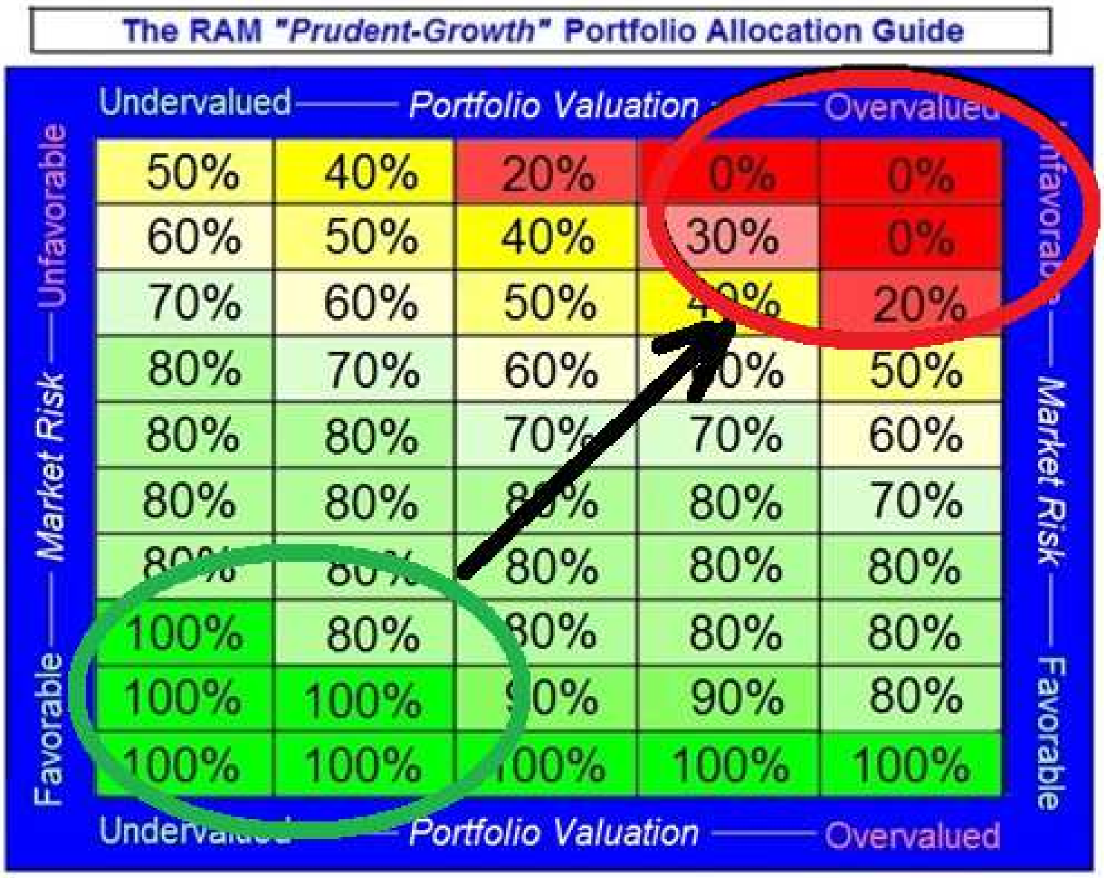
I have taken three charts that all have “*valuation*”, the cornerstone of return determination, on their x-axis and stacked them one on top of the other. Viewed vertically the exhibit allows one to see what investor’s 10-year annual return-rates were at various “valuation” starting points for the past 65 years and what they should expect for the next 10 years by owning today. Furthermore it shows the maximum amount of loss they experienced during that 10-year holding period and what they may experience over the next 10 years by owning at today’s prices.

For example, whenever the market was priced at 1.35 (found on the x-axis), the second chart shows that the 10-year annual returns were about 5%, with a range of 3% to 12%. Continuing to use this 1.35 valuation level, the third chart shows that the maximum decline experienced from the starting point and over the ensuing 10 years was around 15% to 35%.

Looking at today’s valuation on the exhibit we see it is 2.0, which is the second highest level, exceeded only by the year-2000 market peak, and above the 1.8 valuation at the 2007 market peak. Extending this into the second chart reveals, if history is to be repeated, a forecast of 0% annual-return per year for the next 10 years for US stock investors owning or buying at today's prices. Continuing to extend the 2.0 level into the third chart also reveals these investors should expect to be down 40% on these holding at some point during the next 10 years.



We all know the cause of this extremely high valuation which may prove these charts poor predictors of future returns this time around. The Fed has taken interest rates to zero, unique in US history. This has pressured investors out of cash and into securities as they chase yield. As a result stocks have been bid up to unpresented valuation levels. While I do not possess a crystal ball as to where the market is going short term or long term, I still believe the evidence for caution should be respected and is consistent with our *Prudent-Growth* investment process. At RAM we abide by the evidence, as laid out in our portfolio-allocation table below, with an eye to buying attractively priced stocks in a stock market that offers favorable risk. Over the past six years your portfolios have been moving gradually out of its late-2008 allocation off 98%, the lower left corner of the table below which is the intersection of undervalued stocks and favorable market-risk. It now resides at an under 30% allocation, the upper right corner of the table which is the intersection of overvalued and unfavorable.



The RAM "*Prudent-Growth*" Portfolio Allocation Guide

50%	40%	20%	0%	0%
60%	50%	40%	30%	0%
70%	60%	50%	40%	20%
80%	70%	60%	[illegible]0%	50%
80%	80%	70%	70%	60%
80%	80%	80%	80%	70%
80%	80%	80%	80%	80%
100%	80%	80%	80%	80%
100%	100%	90%	90%	80%
100%	100%	100%	100%	100%

* DISCLOSURE

Past performance is not indicative of future results.

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 brokerage transactional costs.

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.

The performance shown in all charts and tables 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.

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. Also prior performance does not include the effect of the LP's performance fee, which does not apply to SMA accounts. On October 1, 2010 the partnership was converted to, and its performance was ported to, the RAM Risk-Managed Growth Fund, a mutual fund adhering to the Investment Companies Act of 1940 and regulated by the SEC. Performance as a mutual fund was net of management fees (1%) and expenses (0.25%), terms incorporated in the fund's Class I prospectus. Since the fund's inception on January 1, 1996 the LP and the mutual-fund investment vehicles were managed in the same style, the Prudent-Growth style, by the same portfolio manager, Mr. Robert Munsie, and by the same advisor, RAM Capital Management LLC. Effective September 30, 2011 all past net performance for the Prudent-Growth portfolio was adjusted for the SMA management-fee rate of 1.00%. Since October 1, 2011 performance is based on a representative taxable SMA account net of the 1.00% management fee. Typically charts and tables depicting performance for less than one year are gross of management fees. **The past performance is not necessarily an indication of how an SMA will perform in the future.**

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