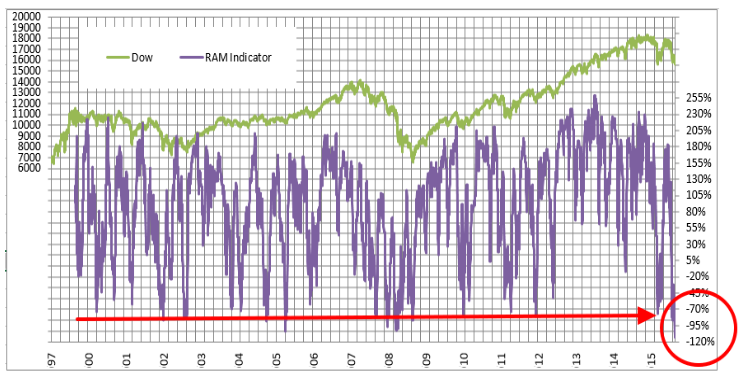
RAM Prudent-Growth since 1995 RAM Capital Management llc

<u>Commentary for the Prudent Investor</u>* February 12, 2016 From: Robert Munsie

"<u>RAM's short-term 'Market-Risk' Indicator implies reasonable risk/reward.</u>"

Recall that RAM's investment process is a two-pronged approach measuring stock valuation and market risk, the latter measured by the four 'external factors' of sentiment, macroeconomics, technical, and corporate, as described on our website at www.ramlp.com,

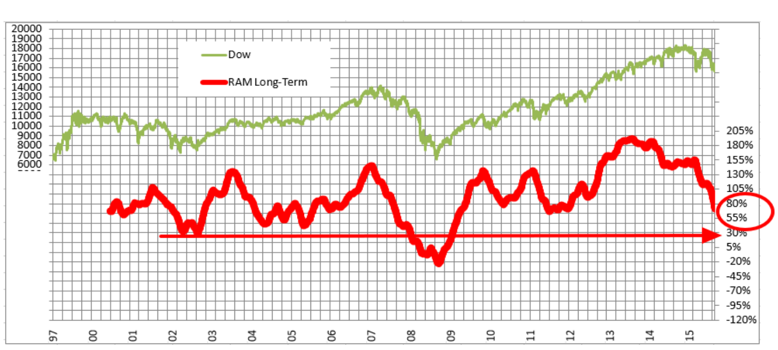
Today the sentiment factor, as measured by RAM's Sentiment Indicator as shown below, has moved to a very bullish reading. This level implies that buying stocks now <u>could</u> offer reasonable returns. As such we are modestly increasing our stock allocation within the *<u>Prudent-Growth* Portfolio</u>*.



Where returns will be realized on these new positions is anyone's guess but our evidence suggests that not taking buy-action at this reading leaves one to second guess oneself if and when the market rallies and pushes the indicator higher to a reading of high risk. It may be that over the short term the market goes lower and opportunities become more attractive, or the indicator could rise to a level indicating higher market-risk without generating any gains in the positions taken today. Regardless we will respond as the situation evolves and the evidence presents itself.

<u>Why not go all in?</u>

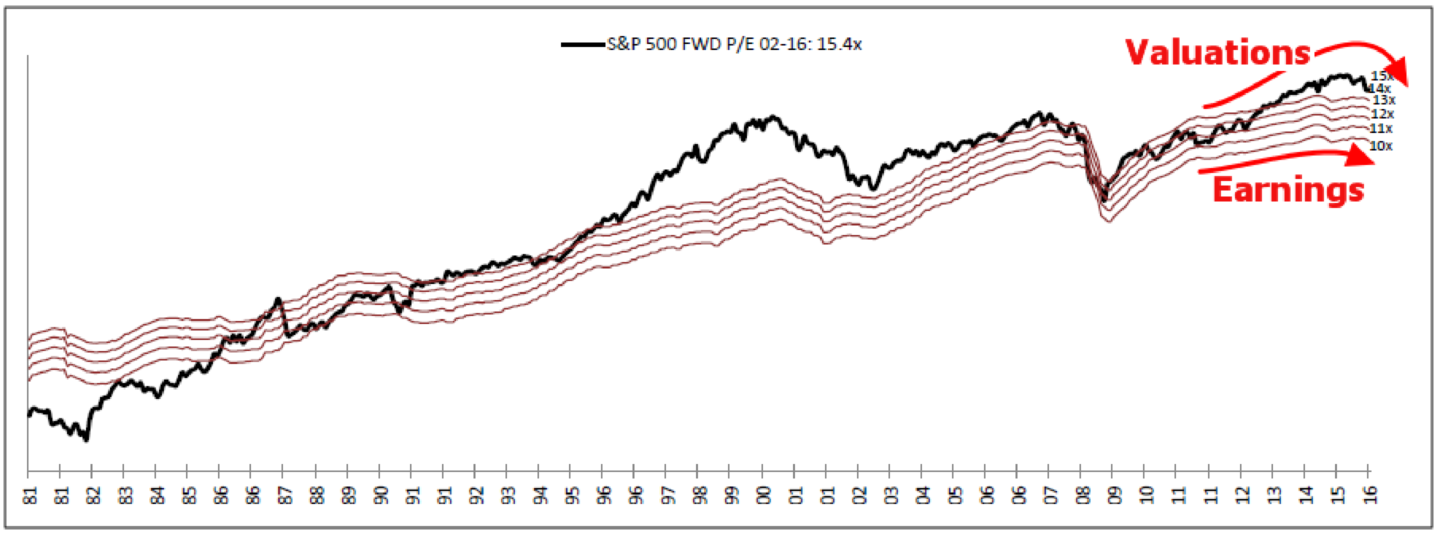
In spite of the 'short-term' low-risk investment opportunity triggered by our indicator, the 'long-term' level has yet to reach similar levels that would give more confidence to be an 'aggressive' allocator to stocks as shown in the 'long-term' sentiment chart below. While it has declined as the market has moved sideways over the past few years it is not yet at extremes. Furthermore, sentiment is a weak indicator of a bottom as shown in the chart during the 2007-2008 market decline.



As mentioned in the opening our investment process is two-pronged. Beyond the favorable sentiment factor the other three *external-factors* plus *stock-valuations* are not yet favorable. Let's go through them individually and, for the sake of time, on an 'executive-summary' basis using charts.

Prong #1: Stock Valuations:

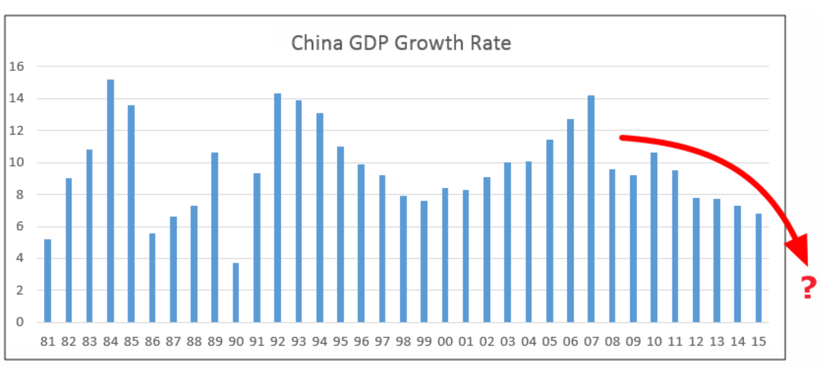
This chart shows that, while stock valuations have declined and are thus lower on a P/E basis, they are a long way from fair-valued on an historical basis especially as the earnings for the market may be rolling over as shown by the red bands.



Prong #2: Stock-Market Risk:

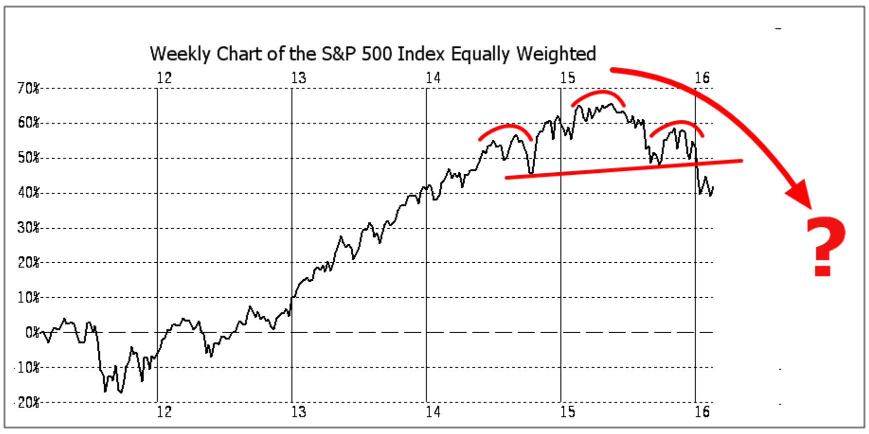
1. Macroeconomic Factor:

Both charts below indicate a deteriorating economic backdrop that has yet to be factored into the forecasted earnings and US stock prices in the above chart.



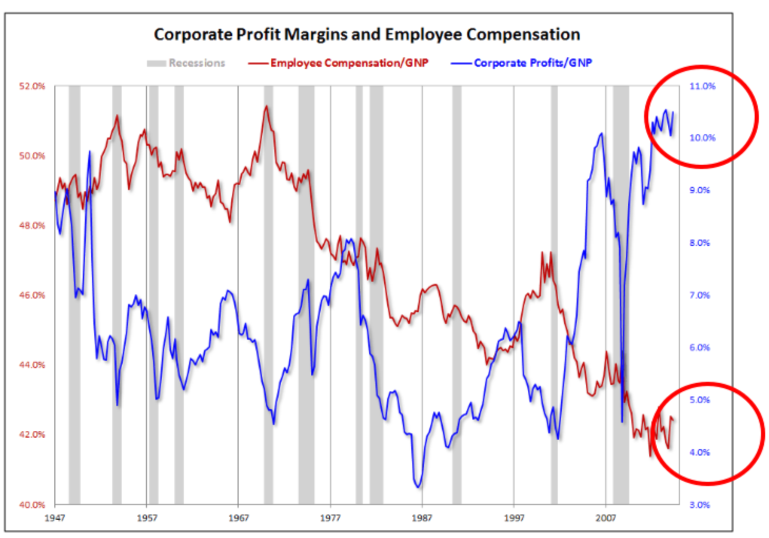
2. Technical Factor:

The charts have broken many trendlines. While technical are not a factor in which we put much weight, it cannot be denied that the market's trading action, as a leading indicator, has deteriorated relative to the past 6 years. The S&P 500 Index is made up of 500 stocks and is weighted by market cap i.e. Apple is the largest company among the 500 companies and thus has a proportionally greater impact on the index. Few investors allocate their portfolio based on the size of the company. To better replicate individual portfolios, the chart below plots the index assuming all 500 stocks are equally weighted. As one can see these 500 stocks have been forming a top over the past two years that ‘technicians’ call a head-and-shoulder formation as noted on the chart. This is typically a bearish formation once the index breaks below the ‘neckline’ on high volume which it has done. Again we do not put great stock in these formations as predictors but it is worth being aware what traders are reacting to so we can assess this in our overall determination.



3. Corporate Profitability:

The corporate profitability may be nearing a cyclical peak as their profit margins come under attack by increased wages both as the pool of the employable unemployed is depleted and the minimum-wage campaign gains momentum. As shown below corporations have cut all items of the expense line and driven their margins to an historical high leaving them little room to satisfy these trends without negatively impacting these high margins.



In conclusion, as it regards our allocation to stocks, our investment process leads us to add incrementally to the <u>*Prudent-Growth** Portfolio</u> at current levels created by the market’s recent decline and its impact on investor sentiment. That said, our other three external-factors and stock-valuations suggests it may be premature to become overly aggressive.

*** 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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