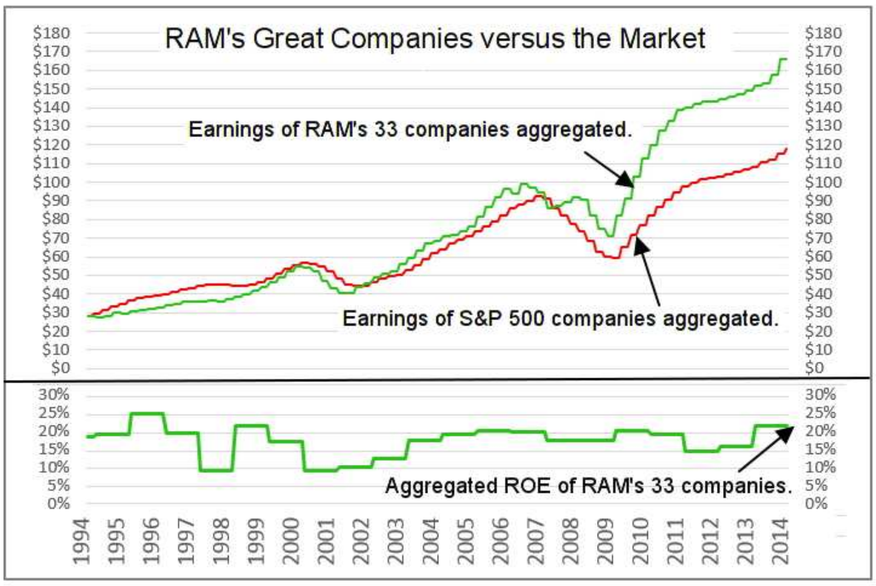
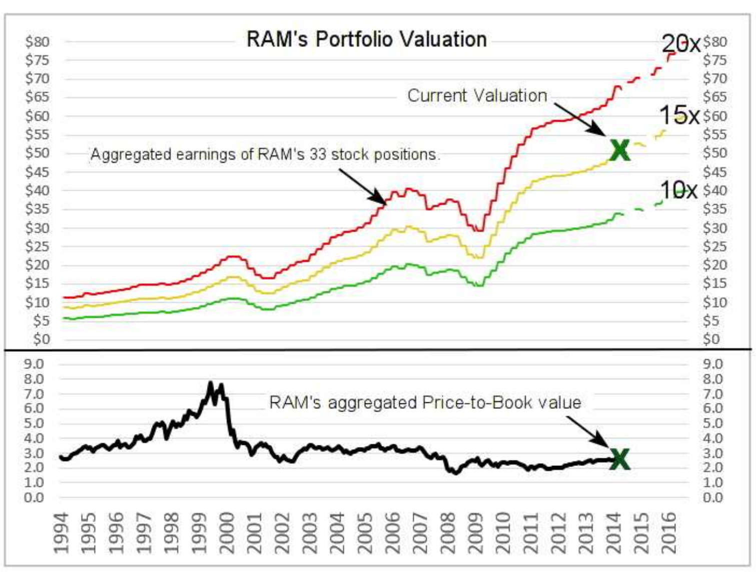
RAM Prudent-Growth since 1995 RAM Capital Management llc

Commentary for November 2014* From: Robert Munsie

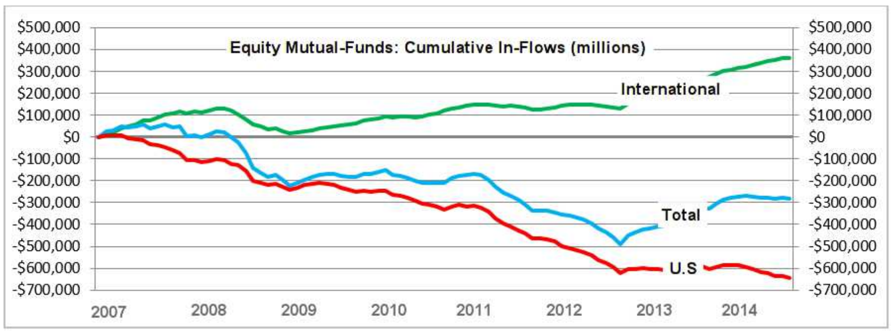
Our great companies continue to execute: Our portfolio of very liquid stocks consist of great companies listed in the US with operations around the globe. They have, or possess, the potential to have a long-term average ROE in excess of 15% (see chart below). We believe this superior ROE allows our companies to compound earnings at a higher rate than the market long term. Given a stock's price tends to track this earnings trend over the long-term we believe if will allow the portfolio to outperform the market in general. Note how the aggregated earnings of RAM's current 33 positions has and continues to exceed that of the S&P 500 index. We also believe this trait allows RAM's clients the opportunity to realize significant capital appreciation over the long term due to this high compounding of the companies' earnings.



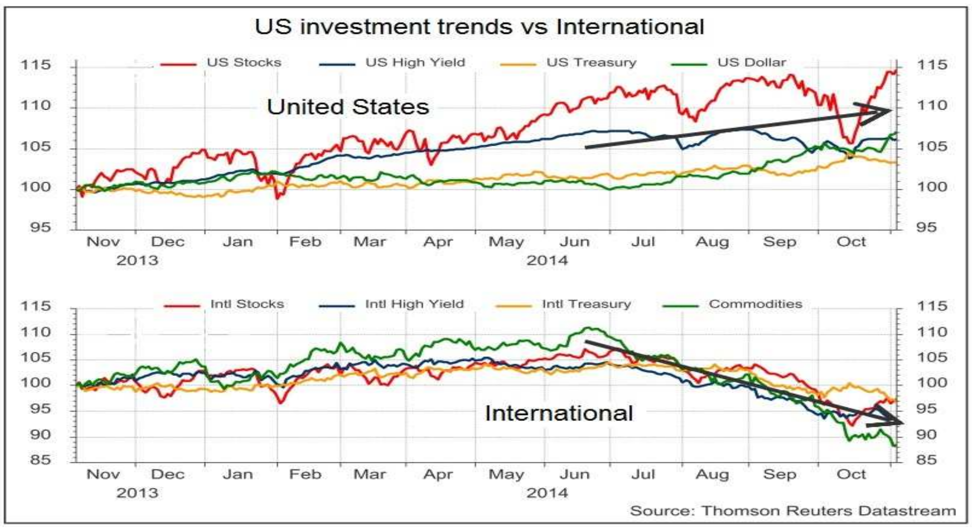
Our great companies remain reasonably valued: While the market has had a spectacular run the compounding of the portfolio's earnings have allowed the valuation to remain relatively attractive. As a result, the valuation, calculated using the simple price-to-earnings methodology, has the portfolio trading at about 15 times annual earnings (see chart below). In addition, when using a price-to-book value methodology, our portfolio trades at the low end of its historical range, though we believe the levels seen in the late 1990's tech/telecom bubble were unrealistic. All else remaining equal, and given the current unprecedented low interest rates, the simple math suggests that the portfolio could become priced at the higher end of the p/e range thus valuing it at $80 by 2016/2017 for a gain of 60%. Of course a lot has to go right with both micro and macro factors to realize this potential.



Our stock allocation continues to favor U.S. stocks over International:
Investor Sentiment: US stocks versus Non-US stocks: Typically the herd, led by their brokers and advisers, are 'wrong-way' investors and one should look to avoid where they are investing. One source to determine where the herd is investing is to look at mutual-fund cash flows. Since the financial crisis investors have continued to abandon US stocks in favor of Non-US stocks.(see chart below).



Consistent with this contrarian thesis, RAM has pursued only US stocks over International stocks. The performance has followed accordingly as US stocks have been strong while International stocks have declined (see chart below). We believe, as long as the mutual-fund "herd" favors International stocks trend, the US equity market will continue to be where RAM allocates its investments.

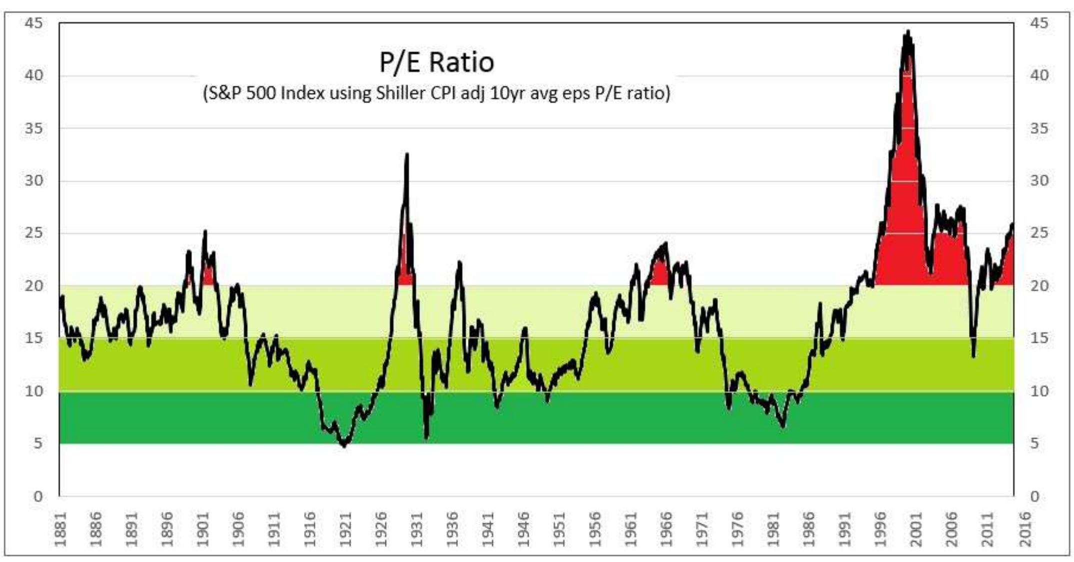


Our stock allocation (risk) remains conservative:

<u>'Investor' Sentiment: Too bullish (too greedy?)</u>: While our stock portfolio of "best-of-breed" companies remains attractively priced, and offers what we believe are attractive long-term capital gain potential, we also know that other factors can impact the success for client portfolios over time. As is our style we prefer to anticipate the impact of these factors and adjust the portfolio's risk by adjusting asset allocation within the portfolio. ETF's have been taking share from mutual-funds as the investment of choice for brokers and advisers and we believe the ratio of the amount of bullish ETF investment versus the amount of bearish ETF investment offers evidence that there is now too much exuberance for stocks (see chart below). The red box in particular shows how investors have moved from bullish to extremely bullish on each successively higher move in the S&P 500 index of late. In the past this has been a sign of a market top and a need to allocate conservatively.

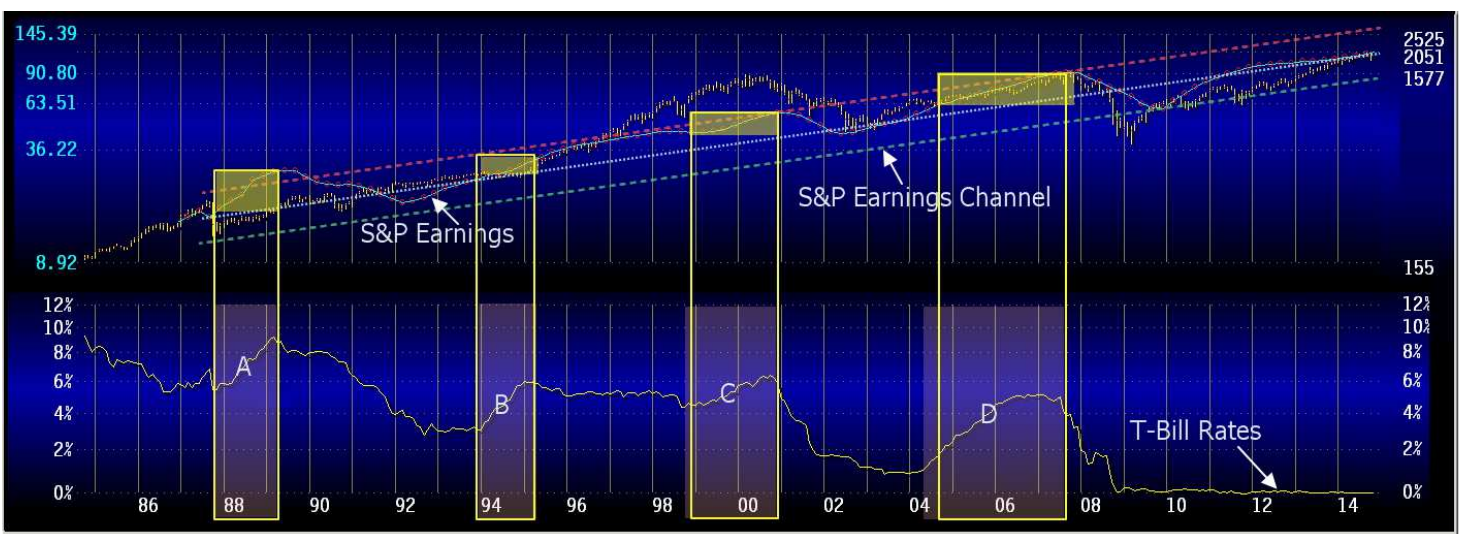
<u>Adviser' Sentiment: Too bullish (too greedy?)</u>: While fund-flows can be useful measure of whether investors are too bullish or too bearish (i.e. too greedy or too fearful respectively) financial advisers are also sometimes prone to the same wrong-way extremes. The chart below plots their sentiment on the market on a weekly basis. Note that the % of advisers that claim to be bullish (the green bars) is high while those bearish (the red bars) are at historical lows. Also note that the ratio of these two groups (the purple bars) show there are almost 4 times as many bullish advisers as bearish advisers. This also leads us to allocate conservatively in anticipation of better stock opportunities at some future date when these advisers become more fearful and stocks become more attractive.

Stock-market valuation. Too high? We look at valuation because the price you enter an investment typically determines your average annual return over the long term. Currently one could argue that due to its high valuation the stock market's annual return over the next decade will prove disappointing to current investors as it may approach less than 2% per year...and that includes its 2% dividend! Intuitively that should not come as a surprise as the 10-year government bond is yielding just over 2%. Why should equity investors expect higher returns in the long term than bond investors when both are continuously measured against each other in the market place and the bond holders are locked into 2+% average annual returns over the next 10 years? We have felt that this condition has been prevalent over the past 20 years as evidenced by two 50% collapses of stock market prices that brought long-term returns back to very low levels. The chart below dates back to 1880 and shows that using the Shiller P/E ratio as a yardstick one can see that the backdrop for investing has been severely disadvantageous to the norm. It is for this reason that RAM has continued to focus as much on stock-versus-cash allocating as it has stock-picking. Note that the rally over the past five years has returned overvaluation to the level seen in 2007 though not during the 2000 and 1929 tops.

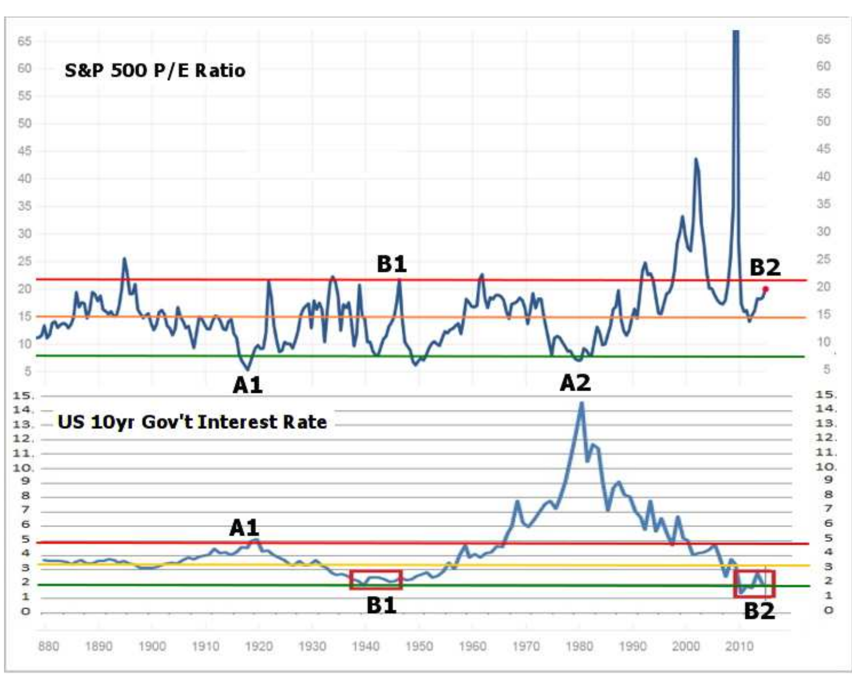


Since a P/E analysis may offer be too simplified an approach when valuing the stock market another more telling approach could be to compare the market value of all US stocks to the value of the entire US economy as measured by its GDP. It is intuitive that these companies' aggregated values should bear some proportion to the size of economy in which they operate. The chart below plots the value of the entire US stock market as a percentage of US GDP. As one can see this ratio is not only at extreme highs it is only exceeded by the 2000 top which it is fast approaching. Note also that the 2003 and 2009 market lows only declined to the highs experienced in the late 1960's which coincided with a major stock-market top. That's not very comforting. While we do believe this indicator has its flaws (US companies have increased their exposure to the growth economies of China, India etc not included in the US GDP denominator), we must respect that the ratio is up significantly in the past five years as the US economy's growth has not kept pace with the US stock-market's increased value.

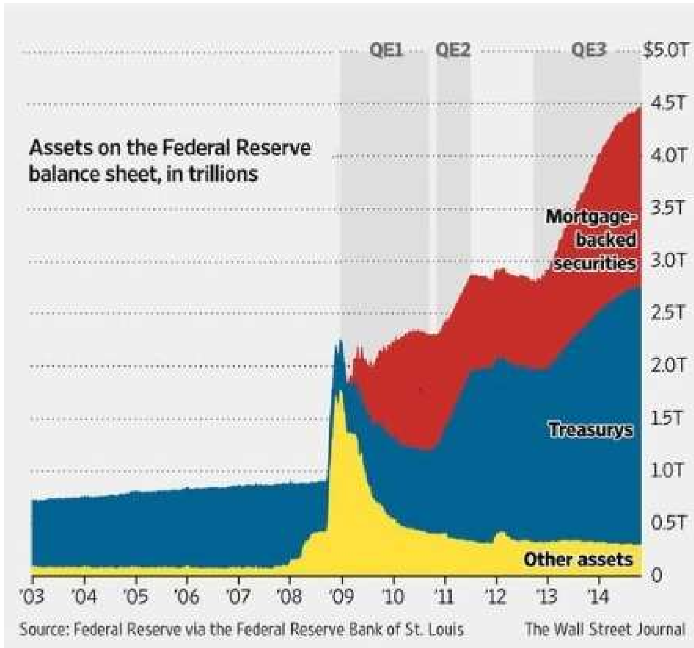
Why we think the Fed will not be raising rates soon: We believe interest-rate increases are a function of overheating in the economy and our best indicator of overheating is the rate of change of corporate earnings. If corporate earnings 'growth' is modest we believe it follows that the economy is not overheating which should keep the Fed on the sidelines as it pertains to interest rate increases. The chart below shows the S&P 500 index and earnings plotted since 1984. We have noted those periods the Fed allowed interest rates to rise (A, B, C and D). Note also that during those periods the earnings where in the upper half of their long term earnings channel and that these earnings were growing at the fastest rates. Note that these four periods were followed by declining earnings probably as the Fed intended by increasing interest rates. Yet note that over the past several years' earnings have neither been in the upper half of the channel nor have they been accelerating. We believe those calling for interest rate increases by the Fed are premature especially with the economic weakness of Europe and the slowing of China and Japan.



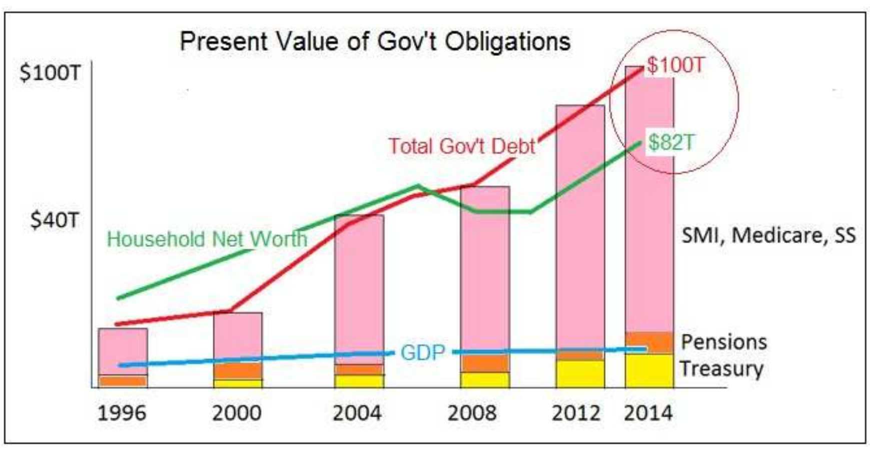
US structural issues and interest-rate policy long term: While it is well understood that interest rates have plunged to unprecedented levels, we believe it has, as the Federal Reserve intended, forced investors of all types (individuals, investors, homebuyers, corporations) to reach for yield. The chart below shows we are at 200-year lows for long-term rates and that in the 1970s' (A2), when interest rates were extremely high, investors avoided reaching for yield and let stock-valuations decline to extremely low levels. Today, on the other hand, with rates at lows investors are reaching for yield and creating extremely high stock-valuations (B2).



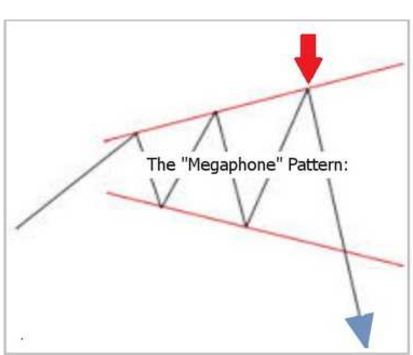
The question becomes will these low interest rates remain low and support this lofty valuation in the long-term? The chart below shows how the Fed's balance sheet exploded to $4.5 trillion. While the Fed is now on the sidelines and it is difficult to see the Fed coming back in if markets and/or the economy become weak in the short term, the long term remains precarious as foreign and domestic investors in US government debt may opt for higher rates on US bonds to compensate for the risks.



The chart below shows that when the Treasury's balance sheet above is added to the already exiting government obligations (pensions, SMI, Medicare and social security) they total over $100 trillion when discounted back to today. When plotted against the net worth of all US households ($82 trillion) we see that the US is basically insolvent ($18 trillion shortfall). While we do not believe (hope) this shortfall will become an issue, it should indicate the Fed may be not in a position to demand or negotiate low interest rates in the future especially if that future includes periods of economic weakness or external negative events. Higher rates long-term will stunt the returns for US stocks and possibly generate severe bear markets for stocks.



The stock market's technicals may be pointing to a correction: Technical analysis is something in which RAM puts little stock. That said, sometimes if does provide chart patterns prove prescient. Given market has had a spectacular run one could look for evidence that the supply and demand for stocks may be ready to at least wane if not experience a full blown bear market. We witnessed a 5% correction in August followed by a second correction, of 10%, in October both of which reversed abruptly and went to successively higher highs. While this should be encouraging and speak to the resiliency of the stock market it may be tracing out a bearish chart pattern that, when buying on dips get exhausted, can be evolve into a spectacular bear market. The chart on the left shows what technical-analysis experts label a "megaphone" top formation. Note how the current outperforming S&P 500 index is tracing out a similar pattern. When combined with the investor and advisor bullishness sighted above, and taken with the huge success and popularity of stocks such as Tesla and Alibaba, one might begin to respect the formation of this pattern and act cautiously to see how it is ultimately rectified.



* 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.**

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.

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.