

# JAMES ALPHA MANAGED RISK DOMESTIC EQUITY FUND

Market Commentary Newsletter  
Provided by EAB Investment Group, LLC  
January 2016

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The S&P 500 started the year on a negative note due to continued weakness in commodities, China and several negative U.S. economic reports. The index had an 11.2% range which was larger than the range during the sell-off in August. Volatility as measured by the Chicago Board Options Exchange (CBOE) Index reached a high of 32.09 on January 20<sup>th</sup> before finishing the month at 20.20.

The James Alpha Managed Risk Domestic Equity Fund was down -3.58% versus -4.96% for the S&P 500. Selling covered calls in the midst of a large down move can be challenging due to the risk of a severe market bounce. Due to the high level of realized market volatility, the Fund ran a passive call selling strategy during the month. Selling minimal amounts of calls put the Fund in the position to have a strong upside capture ratio. On the last trading day of the month, the market rallied 2.48%. As a result, the Fund was able to capture 69% of the move on the last trading day.

Six Month Chart of the SPY



Source: EAB Investment Group, 2016.

The Fund continues to use calls as a tool to manage carry. When pricing dictates, we will amend the degree of call selling and may look to enhance return. Since the Fund's inception in August, we experienced three sharp rallies off lows. It is extremely important to manage net call exposure so we can maximize upside capture. The Fund has been able to cut monthly volatility by 36.5% and max drawdown by 35.4% since inception.

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## Monthly Returns

|         | 2015   |        |       |       |        | 2016   |
|---------|--------|--------|-------|-------|--------|--------|
|         | AUG    | SEP    | OCT   | NOV   | DEC    | JAN    |
| JDIEX   | -4.10% | -1.36% | 5.07% | 0.00% | -1.12% | -3.58% |
| S&P 500 | -6.03% | -2.47% | 8.44% | 0.30% | 1.58%  | -4.96% |

## Return Metrics Since Inception

8/3/2015

|              | As of 12/31/15 |         | As of 1/31/16 |         |
|--------------|----------------|---------|---------------|---------|
|              | JDIEX          | S&P 500 | JDIEX         | S&P 500 |
| Returns      | -1.71%         | -1.90%  | -5.23%        | -6.77%  |
| Volatility   | 7.52%          | 12.04%  | 8.06%         | 12.69%  |
| Max Drawdown | -5.40%         | -8.36%  | -5.40%        | -8.36%  |

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Performance data quoted above is historical. Past performance does not guarantee future results and current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate, so that shares when redeemed may be worth more or less than their original cost. The Fund's management has contractually waived a portion of its management fees until December 31, 2016. The performance shown reflects the waivers without which the performance would have been lower. Total annual operating expenses after the expense reduction/reimbursement are 2.42% for A Shares, 2.17% for I Shares and 3.17% for C Shares; 5.75% is the maximum sales charge on purchases of A Shares. A redemption fee of 2% will be levied on shares held 30 days or less. For performance information current to the most recent month-end, please call 888.814.8180.

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## DEFINITIONS

**Calls:** An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying security at a specified price within a specified time.

**Carry Trades:** The borrowing of a currency in a low interest rate country, converting it to a currency in a higher interest rate country and investing it in the highest rated bonds of that country.

**Chicago Board Options Exchange (CBOE):** The CBOE is an exchange that focuses on options contracts for individual equities, indexes and interest rates. The CBOE is the world's largest options market. It captures a majority of the options traded. It is also a market leader in developing new financial products and technological innovation, particularly with electronic trading.

**Max Drawdown:** The maximum loss from a peak to a trough of a portfolio, before a new peak is obtained. Maximum drawdown is an indicator of downside risk over a specified time period. It can be used both as a standalone measure and as an input into other metrics such as "return over maximum drawdown" and Calmar Ratio.

**S&P 500 Index:** An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

**Upside Capture Ratio:** A statistical measure of an investment manager's overall performance in up-markets. The up-market capture ratio is used to evaluate how well an investment manager performed relative to an index during periods when that index has risen.

**Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index.

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## ABOUT EAB INVESTMENT GROUP, LLC

EAB Investment Group, LLC specializes in risk mitigation strategies and works with hedge funds, family offices, high net worth individuals, investment companies and other advisors. EAB Investment Group uses equity and index option strategies based on a proprietary process with the goal to reduce portfolio risk and increase the probability of success. A deep understanding of options pricing enables EAB Investment Group to manage carry and attempt to mitigate costs over time, and potentially optimize monetization.

## RISKS AND DISCLOSURES

*The portfolio will borrow money for investment purposes. Leveraging investments, by purchasing securities with borrowed money, is a speculative technique that increases investment risk while increasing investment opportunity. Derivatives may be volatile and some derivatives have the potential for loss that is greater than the Portfolio's initial investment. If the Portfolio sells a put option, there is risk that the Portfolio may be required to buy the underlying investment at a disadvantageous price. If the Portfolio purchases a put option or call option, there is risk that the price of the underlying investment will move in a direction that causes the option to expire worthless. The Portfolio's ability to achieve its investment objective may be affected by the risks attendant to any investment in equity securities.*

*Shares of ETFs have many of the same risks as direct investments in common stocks or bonds. In addition, their market value is expected to rise and fall as the value of the underlying index or bond rises and falls. It is possible that the hedging strategy could result in losses and/or expenses that are greater than if the Portfolio did not include the hedging strategy. The use of leverage by the Fund or an Underlying Fund, such as borrowing money to purchase securities or the use of derivatives, will indirectly cause the Fund to incur additional expenses and magnify the Fund's gains or losses. Because a large percentage of the Portfolio's assets may be invested in a limited number of issuers, a change in the value of one or a few issuers' securities will affect the value of the Portfolio more than would occur in a diversified fund.*

**Past performance is not a guarantee or a reliable indicator of future results.** As with any investment, there are risks. There is no assurance that the portfolio will achieve its investment objective. Mutual funds involve risk, including possible loss of principal. Certain members of James Alpha Advisors are also registered representatives of FDX Capital, LLC, member FINRA/SIPC. Saratoga Capital Management, LLC, FDX Capital, LLC and EAB Investment Group, LLC are not affiliated with Northern Lights Distributors. The Saratoga Advantage Trust's Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. 11/11 © Saratoga Capital Management, LLC; All Rights Reserved.

***Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund. This and other information is contained in the Fund's prospectus, which can be obtained by calling 888.814.8180 and should be read carefully before investing. Additional Fund literature may be obtained by visiting [www.SaratogaCap.com](http://www.SaratogaCap.com) or [www.JamesAlphaAdvisors.com](http://www.JamesAlphaAdvisors.com).***

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