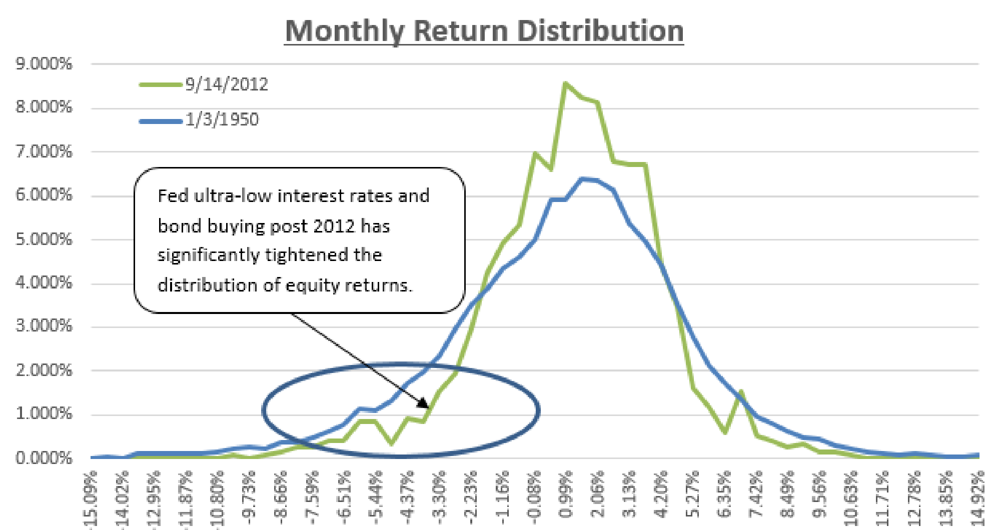
JAMES ALPHA MANAGED RISK EMERGING MARKETS EQUITY FUND
JAMES ALPHA MANAGED RISK DOMESTIC EQUITY FUND

Market Commentary Newsletter
Provided by EAB Investment Group, LLC
Second Quarter 2017

Don't be deceived — low interest rates have led to reduced levels of volatility and lower probabilities of large equity risk.

Reading this piece, one might think we are against low interest rate policy which is, in fact, not our view. We believe that the Fed serves a vital purpose standing ready to execute their managed inflation, trend growth and employment supportive monetary mandate. The difficulty in our current circumstances is that the Fed has taken nearly an 8-year and almost 500% balance sheet increase approach that has inflated financial assets significantly but has yet to fully succeed across all of their mandates (GDP is still disappointing and inflation below target). Most interesting to us, is the impact of the Fed since September of 2012 (when the third Quantitative Easing approach (QE3) was commenced) on market volatility and the dispersion of equity returns. As one can see from the below equity volatility chart, there has been a meaningful change in the signature of equity returns with far fewer highly negative month returns over the past five years. To this note we have looked at the S&P 500 but one can find similar impacts across the major US indices. Since QE3 2012 the possibility of a negative one-day 5% S&P 500 month has decreased significantly from 1.31% to .34%. The number of monthly performance occurrences close to the mean expectation has also significantly increased as one looks at the chart. It is no wonder so many investors have decided to undertake put selling and volatility selling strategies when the possibility of a very bad outcome was reduced to near zero levels. The level of the CBOE Volatility Index (VIX Index) has historically been quite sensitive to market moving events and has rarely stabilized at such low levels unless growth, inflation and earnings certainty aligned well. What is well noted of late has been the dramatic increase in short to medium term VIX selling strategies that look to take advantage of the lowered potential for extreme loss in the post QE3 Fed environment.

Extreme Fed stimulus has muted volatility but has also disrupted some traditional relationship



EAB Investment Group. Past performance is not indicative of future results. Shown performance is not meant to represent the Fund.

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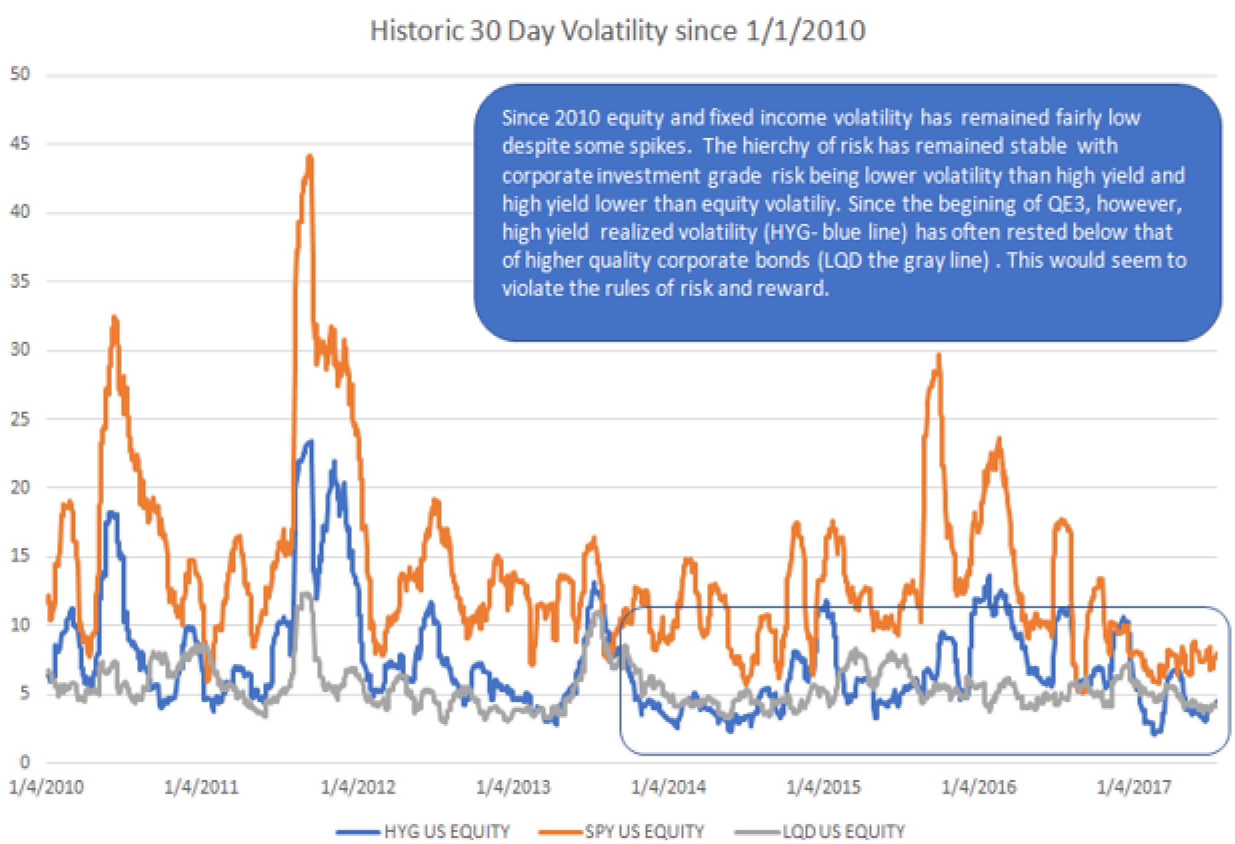

EAB Investment Group

How do low rates create excess?

Now that we have recognized that ultra-low interest rate levels have an unintended impact on volatility, it's important to understand mechanisms of transmission into the markets. Understanding this, will allow us to suggest some potential catalysts for the unwinding. Simply put, low interest rates foster investors to take greater risk because they increase confidence that economic fundamentals have support but they also increase the attractiveness of leverage, lower financing costs, and allow companies to very inexpensively reduce share count and synthetically improve earnings per share. As long as the weighted cost of capital (or WACC) is dropping for a company (a natural result of dropping interest rates), a marginally profitable company can dramatically improve earnings per share (EPS) by executing buy-backs. As more companies undertake this commonsense strategy, it gives an impression of equity attractiveness that is not based on the fundamentals of their business. Obviously, if top line growth were to struggle this would be a conflicting signal for value but over time the real trend of top-line and bottom line earnings can be analyzed to take this into account. This is why measures such as the Shiller PE or CAPE are being relied on and show some measures of overvaluation. The confusion in this long duration bull market, however, is that the normally short-term role of interest rates in the earnings cycle has been significantly increased. As traders look at this strong support to earnings they correctly see the asymmetry and begin to bet against volatility by selling short term index volatility. As this process has yielded well documented results many advisors and institutional consultants have formally recommended it as a profitable strategy. But with the enormous amounts of index contracts traded in this fashion any change in the market's support structure (i.e. the Fed rates process) could actually exacerbate a crisis.

Obviously, rates can't go down forever and companies can't continue to increase leverage to improve earnings. Eventually top line growth must start driving earnings to justify valuations which currently are at modestly high levels versus history. This is why the solid first quarter top line revenue numbers were so encouraging to investors. While it is possible that we could see global growth improve and support a continuation of the first quarter top line trend, our concern is that interest rate increases could mute sentiment, leverage, and risk taking. Historically, central bank increases don't always spell the end of bull markets as long as GDP growth supports top line revenue growth. The difficulty in this raising cycle is that above trend economic growth (2.5% plus) has been difficult to create and doesn't seem to be a near term reality. As GDP growth is still at sub-standard levels, it seems that the best rationale for the Fed normalization process is to remove excesses of leverage in financial assets and deal with the potential of inflation that a 4.4% unemployment rate could imply. The Fed is telling the markets that they know these low rates are no longer appropriate and could lead to asset bubbles. Could it be that one of the bubbles the Fed is concerned about is the tremendous overconfidence in low volatility? The Fed has worked very diligently to communicate its concerns and the process of normalization and tapering. It could be wise to listen.

Catalysts don't have to be a bell.

The old expression "they don't ring a bell at the top or bottom" is true. While there are many theories about how this bull market in risk taking could end, our thought is that a more likely catalyst could simply be an interest rate led reduction in the attractiveness of the short volatility trade. As more investors recognize that rising rates impact valuation fundamentals and the liquidity available to execute derivative trades, we think the natural move to reduce (or in this case buy-in) derivative volatility positions could significantly and urgently squeeze volatility levels up**.** EAB's natural position as a portfolio defender under stress environments could be a potential advantage in this type of environment. In the past, asset allocation has worked marginally well to provide more stable returns but we have found that the extreme low rates have diminished the value of diversification. Modern risk parity approaches claim to do the same thing but we have found that the approach tends to react too slowly and lag in terms of performance. The EAB approach looks to simply and systematically manage each of our strategies to participate reasonably but defend consistently. This is not based on market timing but on what we believe to be, efficient and consistent hedging.

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Emerging Markets Equities

The second quarter of 2017 continued the trend of the Emerging Market equities to outperform, albeit at a slower pace than in the first quarter. While there was concern that much of the first quarter's performance was due to investor sentiment rather than fundamentals as the globe was still recovering a bit from Chinese authorities' tightening efforts, the second quarter seemed to be driven as much by a US Dollar weakening and the still attractive valuation characteristics of these stocks. Because of the weaker trade numbers of late 2016, the top line revenue comparable had been easier to beat and there remains some skepticism whether China alone will be able to drive a continuation of the 22.4% we have seen in the asset class over the past year. Over the quarter the EEM provided 5.57% of return and the trailing 30-day realized volatility of the asset class continued to drop, similar to other major equity indices. The trailing 30-day volatility has moved from the low 20% level to nearly 11% where it currently resides.

A major theme for the sector this quarter was the implications of Chinese A shares in the MSCI index. While some strategists dispelled the notion that this would have significant impact, the divergence of the Chinese large cap and more diversified market stock performance would seem to contradict this view as participants most likely began buying the expected additions prior to the event. Chinese economic performance which seems to have stabilized may become even more important to the index. This could make the index even more sensitive to the risk of a Chinese disappointment which stands in opposition to significant reduction in index realized volatility. Our risk managed approach provided a 1.43% return for the quarter and 7.76% year-to-date. While we seek to position the fund to participate in market upside performance, the strategy prioritizes risk management in an attempt to protect against powerful downside volatility. Therefore, during periods of maximum confidence, the strategy will lag as expected.

Contrary to last quarter where investor confidence in solid US policy direction continued to drive the markets, the second quarter injected significant skepticism and drove a marked flattening of the US yield curve. Through the quarter the US Dollar weakened over 4% as concerns over the future of US GDP growth took hold. The weaker dollar buoyed the emerging markets currencies and external debt positions and made the lower valuation markets relatively more attractive. Our forecasts for global growth are moderately more confident for the rest of the year but we remain wary that the early trend of central banks to join the US Fed's normalization process could impact the risk and return expectations of the markets in general. The geopolitical trouble spots in the Middle East and the Korean peninsula seem to have no impact on the sector's returns and the lack of event volatility certainly seems odd to us. That notwithstanding, the Emerging Markets still have room for structural reform and productivity improvement to continue outperforming US equities.

The US Equities

The US equity markets continued to rally through the quarter despite a problematic set of policy challenges and controversies that seemed to dominate the media. As the significant EPS momentum of the first quarter distracted investors away from the political narrative, it became clear that the economic data was not capturing the whole story. So far, the second quarter looks like while the top line revenues might slow a bit the EPS figures (outside of oil) will be fairly positive keeping valuations at the mildly overvalued level. The strategy delivered a 0.78% return for the quarter and 3.8% year-to-date. We still believe that in the face of the Fed continuing to normalize and commencing tapering during the rest of the year there is a risk that a US economy without fiscal policy stimulus could disappoint. We also take notice of the late in the quarter's move by the EU to punish Google and several other major large US tech companies for non-competitive or tax evading actions. If this trend continues we believe this could leave a very important driver of US equity performance vulnerable to a pullback.

Since the third quarter of 2016 the US economy has been improving on many fronts but the data has not translated yet into the desired self-sustaining 3%+ rate of GDP growth. Labor and survey sentiment data has been uniformly positive but the poor productivity data that has been consistent since the great recession has held back GDP growth. Therefore, the passage of tax reform and infrastructure investment is critical in helping to support US corporate top line growth. US large cap equity valuations are in the 21.6 P/E range on current earnings and 18.8 on forward earnings. This is a fully valued range that will need equity analysts' second quarter 2017 forecasts of 6.6% earnings growth to materialize to justify expectations. We believe that this level of earnings expectations could prove to be a heavy weight for equities should fiscal support not materialize soon. While equities performed well despite their high valuation and the increased risks of policy delays and geopolitical risks, the levels of perceived volatility remained under control. The VIX traded with a bit of volatility during the quarter in a range of between 9.5% to 16.3% for most of the period (ending at the lower end of the range). The VIX levels have been confounding investors for the past several months and seem to be communicating outright complacency given the known risks. In contrast, the strategy retains a solid defensive stance that could come into play should any of the well-known risks set the market back with an unexpected correction. Of course, these events are difficult to time as detailed earlier in our notes and we feel strongly that our hedged approach may benefit investors by keeping them invested through difficult periods and the often-following recoveries.

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JA Managed Risk Emerging Markets Equity Fund

	As of 6/30/17			
	3-Month	6-Month	1-Year	Since Inception
I Shares	1.43%	5.74%	8.12%	0.61%
A Shares (NAV)	1.33%	5.65%	7.83%	0.25%
A Shares (5.75% max load)	-4.53%	-0.40%	1.64%	-2.80%
EM	6.27%	18.43%	23.75%	8.51%

JA Managed Risk Domestic Equity Fund

	As of 6/30/17			
	3-Month	6-Month	1-Year	Since Inception
I Shares	0.78%	3.00%	4.89%	1.87%
A Shares (NAV)	0.79%	2.91%	4.49%	1.47%
A Shares (5.75% max load)	-5.00%	-3.03%	-1.54%	-1.62%
S&P 500	3.09%	9.34%	17.90%	10.03%

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 Funds' management has contractually waived a portion of its management fees until December 31, 2017. The performance shown reflects the waivers without which the performance would have been lower. Total annual operating expenses before the expense reduction/reimbursement for the JA Managed Risk Emerging Markets Equity Fund are 2.82% for A Shares, 2.57% for I Shares, and 3.46% for C Shares; total annual operating expenses after the expense reduction/reimbursement are 2.74% for A Shares, 2.34% for I Shares, and 3.45% for C Shares. Expenses for the Portfolio do not exceed 2.45%, 1.99% and 3.20% of the Portfolio's average net assets for Class A, Class I and Class C Shares, respectively, through December 31, 2017, (each an "Expense Cap"). Total annual operating expenses before the expense reduction/reimbursement for the JA Managed Risk Domestic Equity Fund are 2.60% for A Shares, 2.38% for I Shares, and 3.33% for C Shares; total annual operating expenses after the expense reduction/reimbursement are 2.60% for A Shares, 2.10% for I Shares, and 3.29% for C Shares. Pursuant to an operating expense limitation agreement between the Manager and the Portfolio, the Manager has agreed to waive its fees and/or absorb expenses of the Portfolio to ensure that Total Annual Portfolio Operating Expenses (excluding front end and contingent deferred sales loads, interest and tax expenses, dividends and interest on short positions, brokerage commissions, expenses incurred in connection with any merger, reorganization or liquidation, extraordinary or non-routine expenses and Acquired Fund Fees and Expenses) for the Portfolio do not exceed 2.45%, 1.99% and 3.20% of the Portfolio's average net assets for Class A, Class I and Class C Shares, respectively, through December 31, 2017, (each an "Expense Cap"). The maximum sales charge on *purchases of A Shares is 5.75%. 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.*

DEFINITIONS

CBOE Volatility Index (VIX): Shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward-looking and is calculated from both calls and puts. This VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

MSCI Emerging Markets Index: Captures large and mid-cap representation across 23 emerging markets (EM) countries.

P/E: Price-earnings ratio. A valuation ratio of a company's current share price compared to its per-share earnings.

Put: An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date.

Quantitative Easing (QE): An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase money supply.

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.

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.

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.

The securities of issuers located in emerging markets tend to be more volatile and less liquid than securities of issuers located in more mature economic structures and less stable political systems than those developed countries. 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. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges. 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, LLC 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

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 or www.JamesAlphaAdvisors.com.

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