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

Market Commentary Newsletter
Provided by EAB Investment Group, LLC
Third Quarter 2018

At the beginning of the third quarter, most US domestic equity index investors were feeling a bit concerned about the rising trade war tensions and the greater hawkish tendencies of the Fed. Certainly, rising interest rates and the potential for diminished global trade revenues is not a recipe for continued earnings growth or equity multiple expansion. Interestingly, despite concerns about US trade policy dampening equity sentiment, US equity earnings continued to outpace both international and Emerging Markets returns by significant margins during the third quarter. The strong absolute and relative US economic performance due to deregulation and the US tax cut stimulus has put the FED in the unenviable position of having to raise interest rates in the face of manageable inflation expectations coupled with the potential of a trade war related global growth roll-over. This occurrence stands in stark contrast to other central banks (ECB, BOJ, and the BOE) which may not be able to fully normalize interest rates. US economic growth for the quarter, however, is likely to approach the second quarter 4.2% level again, fully justifying the normalization of interest rates. With a scant unemployment rate of 3.8%, visions of the tech boom of 2000 are giving pause to investors who are naturally apprehensive about the bust phase of market cycles. Such US economic outperformance versus the developed world economies continued to attract foreign capital, strengthen the US Dollar, and mute equity volatility. Volatility which had risen in the spike of the first quarter, has reverted to the more modest pre-February 2018 levels. While levels of volatility did normalize in the third quarter, the number of headwinds potentially impacting equities increased markedly as the levels of rhetoric around trade have become more entrenched and likely to last into 2019. Even the penning of the United States-Mexico-Canada Agreement (“USMCA”) (the NAFTA replacement) as the quarter was ending could be taken as a sign of how important the US economic momentum has become in weakening countries’ globalization resolve. China’s resolve, however, may turn out to be tougher to break and the impact on the Association of Southeast Asian Nations (ASEAN) region could have global transmission impacts reducing US multinational earnings as well. While index levels held up well through the quarter, we did begin to see a vulnerability in the concentrated Facebook, Amazon, Apple, Netflix, Alphabet’s Google (FAANG) and communications sector names that have been driving performance for the past several years. If this trend continues to manifest, the rotation could signal increases to volatility. Additionally, US and international correlations that have historically run between 65% and 80%, are currently running between 15-25% below those levels. ***Should this relative performance equalize over time, there are risks that US equity volatility could increase. As a result, we continue to stress the benefits of the disciplined systematic defensive equity approach we take.*** We think the third quarter and year-to-date figures are a solid proof statement for the benefits of a volatility minded diversification enhancing approach going forward.

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US economic growth has supported a significant US equity outperformance over international alternatives.

Source: Bloomberg Data and EAB Investment Group. Past performance is not indicative of future results. All funds and strategies may not be appropriate for all investors.

US Equities

While the US equity market rose nicely for the quarter there was a growing sense that many headwinds were being dismissed due to the strength of the US economy. We have repeatedly highlighted Dollar strength concerns and note the risks that encumbering foreign Dollar denominated debtors can have on the global economy. Earlier in the year, the Emerging Markets (EM) fell prey to the strong Dollar and despite recovering EM currency levels, many EM Central Banks have had to take currency supporting policies, such as interest rate hikes, which serve to tighten global monetary policy. With a strong Dollar and trade war fears, the FED has continued to maintain a measured but noticeable pace of interest rate hikes to contain inflationary pressures that could develop from a sub 4% unemployment rate. With approximately 44% of S&P 500 revenues coming from abroad, however, one should not ignore the possibility that international economic softness could dampen earnings. The slight slowdown in some of the Chinese and European economic data we recognized early in the year has moderated. Most notably, the Chinese authorities that were trying to rationalize some of their credit risks entering the year, began to reduce reserve requirements as the trade war heated up. They are now in a full on stimulative stance trying to defend the 6.5% GDP level for 2018-19. Chinese growth is currently at the reported 6.7% GDP level but Chinese data can be uneven and surprising at times. With the global-US growth divergence one would expect earnings expectations to have dropped through the year, however, this has not been the case. Earnings could approach 20% for the third quarter and according to FACTSET, the percentage of companies reporting positive earnings and sales surprises us at 86% and 68%, respectively. Because earnings have grown so solidly, the S&P 500’s forward P/E is trading at a more reasonable 15.7 versus a 16.3 5-year average. This is a noticeable change from earlier in the year where higher P/E tech stocks led the performance charge. Unfortunately, earnings growth rates may be peaking with trade concerns and foreign exchange impacts beginning to weigh on companies’ expectations. With the very strong equity performance of the quarter, the Fund provided 2.05% versus the Index 7.71%. On a year-to-date basis the Fund trails the long only S&P 500 5% to 10.56%. However, it is important to note that the Fund continues to outperform the Index on risk adjusted measures, such as the Sharpe ratio and Sortino ratio with risk levels approximately a third of the Index. Looking forward, we still see a supportive US economic outlook accompanied by a more problematic international environment that could make further equity gains harder earned until the trade war reaches a solution. As a result, we see many forces warranting higher levels of volatility. This should help increase the value of the defensive approach we use.

Emerging Markets Equities

The third quarter of 2018 continued the theme of disconnection from US equities as the powerful impact of US interest rate hikes and a stronger Dollar drove investors away from emerging market assets. While some of the most visible flashpoints of Turkey, Argentina, and Mexico began to calm down, the concerns around the trade war continued to hurt Asian tech suppliers, and the ASEAN region in general also faced difficulties in a stronger Dollar and trade war environment. Third quarter performance mostly represented a treading around neutral depending on the trade war rhetoric and the level of the Dollar which took a bit of a respite from its earlier in the year rapid appreciation. Despite the less negative performance, fund flows into Emerging Markets funds became negative as investor sentiment drove activity. Interestingly, through the third quarter many asset allocators began to see attractive valuation and the hopes for a more pragmatic US-Chinese trade war resolution. But later in the quarter, Chinese efforts to hold their ground on trade were faced with increasing rumors of Chinese intervention in their public companies’ affairs and spying, significantly dampening Chinese tech stock performance. Obviously, it is difficult to know where some of these trade tensions will resolve but our concerns about the stronger Dollar impact on the foreign US Dollar denominated debtors cannot be underestimated, even if an unexpected trade resolution is in the cards. ***As a result, we maintain a significant EM currency hedge in an effort to protect against further currency crises. We think the approach is a solid risk management factor in keeping the Fund a lower volatility offering in Emerging Markets equities.*** Over the third quarter the Emerging Markets Defensive Equity strategy provided a -1.35% return versus the long only EEM’s -0.95% return. For the year the Defensive Emerging Markets Equity Fund is down -2.77% versus the Index -8.31% by significantly muting volatility during the February, June, and August periods. Despite the quarter’s negative performance, EM equity volatility gave few opportunities to significantly profit as volatility levels for most equity classes remained fairly well contained despite the potential headwinds and poor headlines. We do expect the stress around geopolitical and trade war fears to return volatility back to the forefront and think the consistent and systematic approach we use will be rewarded should this occur. At quarter end the Fund's 10-day volatility stood at 5.63% (Bloomberg Data) versus the EEM's 13.1%. Fundamentally, Emerging Market Equities demonstrate more attractive valuations than the S&P 500 (on CY 11.9 vs. 20.2 P/E), a switch from 2017, and a better yield at 2.86% vs. 1.88%. Earnings growth, however, will be somewhat prey to the trade war and currency environment.

As we have stated previously, Fed policy has clarified around a more hawkish normalization of US short term interest rates which has flattened the US yield curve. We question whether this truly signals a forward looking US economic slowdown. So far US data remains supportive of economic growth but the struggles to generate solid liftoff abroad continue to be a drag on Emerging Market equities. As we discussed earlier, in order to offset some of the risks of a stronger US Dollar, the Fund maintains a small Emerging Markets hedged exposure managed on a systematic basis. We believe this is prudent as the US Dollar volatility may remain in effect for longer than expected. While the long-term return perspective for the class remains positive with demographic and reform progress, we continue to think the path for volatility will be higher in the short term. This could favor the Fund's managed volatility approach.

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Performance

JA Managed Risk Emerging Markets Equity Fund

	As of 9/30/18			
	3-Month	6-Month	1-Year	Since Inception *8/3/2015*
I Shares	-1.35%	-2.97%	-0.04%	1.17%
EM	-1.09%	-8.97%	-0.81%	7.34%

JA Managed Risk Domestic Equity Fund

	As of 9/30/18			
	3-Month	6-Month	1-Year	Since Inception *8/3/2015*
I Shares	2.05%	4.39%	7.29%	3.84%
S&P 500	7.71%	11.41%	17.91%	13.16%

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, 2018. The performance shown reflects the waivers without which the performance would have been lower. 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.

Expense Ratios

	Managed Risk Emerging Markets Equity Fund			*Managed Risk Domestic Equity Fund*		
	I Shares	*A Shares*	*C Shares*	*I Shares*	*A Shares*	*C Shares*
Before Reimbursement	*3.18%*	*3.44%*	*4.18%*	*3.06%*	*3.30%*	*4.04%*
After Reimbursement	*2.92%*	*3.39%*	*4.13%*	*2.84%*	*3.07%*	*3.82%*

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 Portfolios 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 JA Managed Risk Emerging Markets Equity Fund 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; and for the JA Managed Risk Domestic Equity Fund 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, 2018, (each an "Expense Cap").

Definitions

Bank of England (BoE): The Bank of England is the central bank for the United Kingdom. It has a wide range of responsibilities, similar to those of most central banks around the world. It acts as the government's bank and the lender of last resort. It issues currency and, most importantly, it oversees monetary policy.

Bank of Japan (BoJ): The Bank of Japan is the Japanese central bank. The bank is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

European Central Bank (ECB): The central bank of the euro and administers monetary policy of the Eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world.

FAANG: An acronym for the market's top five most popular and best-performing tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google.

Gross Domestic Product (GDP): The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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

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.

Sharpe Ratio: A measure for calculating risk-adjusted return, it is the average return earned in *excess* of the risk-free rate per unit of volatility or total risk. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return.

Sortino Ratio: Measures the risk-adjusted return of an investment asset, portfolio, or strategy.

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.

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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.

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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