

THE ADVANTAGE

2ND QUARTER 2021

How We See It

Despite a slight decline in early June, due to the more hawkish news coming out of the Federal Reserve's (Fed) June 15–16 policy meeting, the market continues to reach new highs in the face of rising inflation numbers. Overall, Fed participants revised their inflation outlook higher.

The recent meteoric rise in headline inflation and, more importantly for the Fed, the increase in its preferred inflation gauge, the personal-consumption-expenditures (PCE) price index, were the focus of the meeting. This gauge rose by 3.1% and exceeded the Fed's 2.0% inflation target. In addition, the revised inflation outlook and the forecast of two interest hikes in 2023, much earlier than expected, took the market by surprise and triggered increased volatility in financial markets.

The economic awakening continues unabated as most economists are now expecting a 13% year-over-year GDP growth. The U.S. economy is delivering solid performance with the tailwinds provided by substantial pent-up consumer demand, a supportive fiscal and monetary policy, improving business confidence, favorable credit conditions, a reopening momentum, and a potential bipartisan infrastructure deal.

The rotation from large growth to small value is also due to the recent meteoric rise in small-cap stock prices and the better than expected first-quarter results of the large growth tech companies.

We have some concerns. Chief among them is the increase in market expectations for future inflation, and the uncertainty about the Fed's policy response. The Federal Reserve may taper its bond purchases and raise rates sooner than expected. Other concerns are the stretched valuations and euphoric sentiment indicators.

Despite hurdles, the market advance appears to remain intact, and we would maintain a good weight in equities. At the same time, we would keep durations lower in bond holdings, anticipating higher rates over time.


Sincerely,
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Total Returns After Expenses as of June 30, 2021

	**Operating expenses	2Q2021	1yr	3yr	5yr	10yr	SI	Inception Date
James Balanced: Golden Rainbow (No Load)	1.13%	4.41%	15.38%	4.03%	3.57%	4.77%	7.17%	7/1/91
James Small Cap (No Load)	1.51%	5.14%	62.87%	3.62%	6.66%	6.84%	7.47%	10/2/98
James Micro Cap (No Load)	1.51%	3.88%	54.52%	6.52%	9.16%	9.50%	10.34%	7/1/10
James Aggressive Allocation (No Load)	0.99%	5.05%	25.12%	3.38%	4.79%	–	3.10%	7/1/15

Investors should consider the investment objectives, risks, and charges and expenses of the James Advantage Funds (the Funds) carefully before investing; this and other information about the Funds is in the prospectus, which can be obtained by calling 1-800-99-JAMES. Read the prospectus carefully before you invest. The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performances may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at www.jamesinvestment.com. ALPS Distributors, Inc. is not affiliated to James Investment Research, Inc. **Indicates total annual fund operating expenses. Barry James is a registered representative of ALPS Distributors, Inc. JAF000644.

James Balanced: Golden Rainbow

The James Balanced: Golden Rainbow Fund increased by 4.41% during the second quarter which included a dividend of 4.15 cents per share paid on June 29th. With the advances we have witnessed in stocks, the Fund has acted accordingly and kept its equity level slightly higher than in previous years, finishing the quarter at 58%. During this time, the Fund was slightly underinvested in Technology, positioning these funds in the Energy area as the price of oil increased from around \$60 a barrel to just over \$70 a barrel during the three month span. With inflation leading the news cycle, the duration of the fixed income investments has been kept muted. Should another 'taper tantrum' similar to that of 2013 evolve, fixed income assets with less price volatility would be favored.

James Small Cap

The James Small Cap Fund gained 5.14% during the second quarter while the Russell 2000® Index advanced 4.29%. So far, 2021 has been a great year for small cap investors with the Fund advancing 25.92%. The strong economic recovery and reopening have helped to propel small caps through the first six months of the year. Going into the second half, we believe cyclical sectors will continue to perform well, as earnings are expected to remain robust. Additionally, there is a chance more fiscal spending could come in the form of a new infrastructure bill. We believe this could be just be the thing to propel small caps higher during the second half of the year.

James Micro Cap

The James Micro Cap Fund gained 3.88% during the second quarter. Overall, there was some size rotation in the market as larger stocks took leadership away from smaller securities which ran during the first quarter. Part of the outlook for smaller stocks depends on inflation. Historically, during periods of higher inflation it is smaller stocks, like microcaps, which often perform well. Presently, the Fund has the most weight in Financial and Information Technology securities. We continue to look for stocks offering good valuation levels and dividend yields.

James Aggressive Allocation

The James Aggressive Allocation Fund increased in value by 5.05% during the second quarter of 2021. This puts the half year return at 10.74% and 25.12% during the past 12 months. As an aggressive balanced fund, the account carries 76% in equity positions with the remaining assets in cash and bonds. The sectors with the largest weight are Technology, Consumer Discretionary and Financials. The Fund is positioned for stocks to continue to advance staying diversified within sectors, industries and individual names. After such a strong rally in stocks, we believe the trick will be to hold stocks as long as markets advance, and begin to trim back as they slow. Currently, all eyes remain on the Federal Reserve as they drop hints into the future as to when they will cut back on Quantitative Easing and/or begin to raise rates.

Your Future. Our Purpose.

Fund holdings and sector weightings are subject to change without notice. The average annual total returns assume reinvestment of income, dividends and capital gains distributions and reflect changes in net asset value. The principal value and investment return will vary with market conditions so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Russell 2000® Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000® Index. Dividends are not guaranteed and the Fund's abilities to pay dividends may be limited. Indices are not actively managed and do not reflect any deduction for fees, expenses or taxes. An investor may not invest directly in an index. Quantitative easing (QE) is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Personal Consumption Expenditures (PCE) refers to a measure of imputed household expenditures defined for a period of time. Dividend Yield is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

Important Risk Disclosures: Small Cap and Micro Cap investing involves greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity and increased competitive threat. You should note that the James Advantage Funds are professionally managed mutual funds while the indices are unmanaged, do not incur expenses and are not available for direct investment. Diversification does not eliminate the risk of experiencing investment losses. The James Advantage Funds are distributed by ALPS Distributors, Inc., 1290 Broadway, Suite 1000, Denver, CO 80203.