
THE DEVIL'S ADVOCATE REPORT

COMPENDIUM

March 2015

Note: The below selections represent sample research reports as of the listed publication dates. There have been no edits made to these research reports since they were published.

Featured Investments

iShares Core S&P 500 ETF (IVV)
iShares Micro-Cap ETF (IWC)
Royce Micro-Cap Trust Inc. (RMT)
Permian Basin Royalty Trust (PBT) & iPath S&P GSCI Crude Oil Total Return Index ETN (OIL)
Market Vectors Junior Gold Miners ETF (GDXJ) & Market Vectors Gold Miners ETF (GDX)
Fairholme Fund (FAIRX) & iShares Core S&P 500 ETF (IVV)

Updates on Past Ideas

MoneyGram international Inc. (MGI)



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THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Murray's Musings

Indexation and Fundamental Analysis 3

Industry Thoughts

The Risk/Reward of a Short Sale in Bonds 6

Facts & Figures

Bonds and Rising Rates 8

Bonds During the Great Depression 9

Fees and Flows 10

Featured Investments

iShares Core S&P 500 ETF (IVV) 12

iShares Micro-Cap ETF (IWC) 12

Royce Micro-Cap Trust Inc. (RMT) 12

Permian Basin Royalty Trust (PBT) 13

& iPath S&P GSCI Crude Oil Total Return Index ETN (OIL) 14

Market Vectors Junior Gold Miners ETF (GDXJ) &

Market Vectors Gold Miners ETF (GDX) 16

Fairholme Fund (FAIRX) 16

& iShares Core S&P 500 ETF (IVV)

Post-Musings

Indexation: The Human Need to Conform 18

Updates on Past Ideas

MoneyGram international Inc. (MGI) 20

Appendices

Wealth Index 21

Money Manager Index 22

International Money Manager Index 23

Murray's Musings

INDEXATION AND FUNDAMENTAL ANALYSIS

The animating idea behind indexation is that fundamental analysis can add no value, since more or less all the relevant facts and figures are already priced into the securities markets. It should be emphasized that this presumes that those facts and figures are knowable by the investment public.

It is interesting to observe that indexation is founded logically on the Efficient Markets Hypothesis conclusion that past returns are not indicative of future returns and, therefore, any rule of investing based on past returns will not produce excess returns after transaction costs. This theory can be statistically tested with so-called autocorrelation tests, and the tests invariably prove that stock price movements are independent over time.

One of the ironies of all this is that the launch of a new ETF would be incomplete without the required backtest. In other words, having established the dominance of the indexation strategy upon the belief that stock price movements are independent over time, the practitioners of indexation then study how the potential index has performed over time. If the potential index has good historical results, it may then become publicly available in the form of an ETF. If the potential index has exhibited poor backtest results, it is unlikely ever to be marketed as an index.

If this is true—and everyone, including practitioners, will readily admit that it is true—then it must follow that security selection of a sort is being practiced, even if it is only security selection en masse, so to speak. Moreover, as everyone should readily admit, indexes require liquid securities, and this requirement is yet another selection filter. Since trillions of dollars are invested in indexation, one cannot help but wonder whether the requirements of indexation, viewed as a business, exert any impact upon securities valuations.

Oddly, this is a testable proposition. A useful tool is the price-to-book ratio of an index, since it is, in essence, a return on equity forecast. In this respect, equities might be broadly divided into three liquidity classes represented by three iShares ETFs: the iShares Core S&P 500 (IVV), iShares Russell 2000 ETF (IWM), and iShares Micro-Cap ETF (IWC).

The price-to-book value ratios, according to iShares, as of February 5, 2015, are shown in Table 1.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Table 1: Price-to-Book Value Ratios

IVV	iShares Core S&P 500	2.83x
IWM	iShares Russell 2000	2.16x
IWC	iShares Micro-Cap	1.82x

Source: iShares

So why would a rational investor differentiate the price paid for \$1 of book value among indexes? Obviously, if \$1 of S&P book value produces a higher return on equity than \$1 of Micro-Cap book value, it should be more expensive. Viewed upon a price-to-book value basis, the S&P 500 is 31% more expensive than the Russell 2000. Let us assume, for illustrative purposes only, that \$1 of S&P 500 book value produces a 10% ROE—that \$1 of book value produces \$0.10 of profit. The price paid for this \$0.10 of profit on \$1 of book value is \$2.83 (2.83x \$1). The return on the \$2.83 invested is, by definition, the \$0.10 return on equity, or 10% return on equity, which is \$0.10 divided by \$2.83, or 3.53%.

Now, this may or may not be an acceptable return on capital. If it were an acceptable return on capital, one could, in principle, multiply 3.53% by the price-to-book value ratio of the Russell 2000 in order to obtain the return on \$1 of Russell 2000 book value, and then calculate what a fair value would be. In other words, 3.53% multiplied by 2.16x (the price-to-book value ratio of the Russell 2000) equals \$0.0762. Looking at it that way, you're getting \$0.0762 on a book value of \$1. Thus, viewed from the perspective of book value, a return on equity of 7.62%, given the lower Russell 2000 price-to-book value ratio, is equivalent to a 10% ROE on the S&P 500.

Similarly, one can multiply the price-to-book value ratio of the iShares Micro-Cap by 3.53% in order to obtain the equilibrium return on equity (ROE) for the Micro-Cap index vis-à-vis the S&P 500. The figure of 3.53% multiplied by the 1.82x book value—or \$1.82 if one prefers—is equal to \$0.064, or a 6.4% ROE, viewed from the perspective of the Micro-Cap index with a standardized book value of \$1. In other words, in principle, one should be indifferent to an investment in the S&P 500 versus the Micro-Cap index if the latter index were only 64% as profitable as the S&P 500 on an ROE basis. In the case of the Russell 2000, one should be indifferent between an investment in this index and the S&P 500 if the Russell 2000 could produce only 76.2% the ROE of the S&P 500.

It must also be noted that the S&P 500 pays out more of its earnings than either the Russell 2000 or the Micro-Cap index, so that even if they were to earn a lower ROE, the latter two indexes' book values will grow at a higher rate simply because those firms reinvest more earnings. Consequently, even at a lower return on equity, the latter two indexes could, in principle, produce higher earnings growth. For example, using a simplified DuPont model, an index with a 10% return on equity and a 50% reinvestment rate will grow profits at 5% annually.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

In contrast, an index with a 7.62% ROE and an 80% reinvestment rate will grow earnings at a 6.1% annual rate.

One may accept or reject this sort of analysis. Nevertheless, the only financially-based explanation for the premium price-to-book value ratio of the S&P 500, relative to the price-to-book value ratios of the other indexes, is that investors expect a higher return on equity.

This is important since the indexes also differ in terms of observed standard deviation, as Table 2 shows:

Table 2: Standard Deviation, as of 2/5/2015

IVV	iShares Core S&P 500	9.31%
IWM	iShares Russell 2000	13.15%
IWC	iShares Micro-Cap	14.41%

Source: iShares

Thus, we are confronted with the following anomalous circumstance with regard to the capital asset pricing model: The index with the highest expected return on equity, the S&P 500, has the lowest standard deviation, or risk, if one uses that as a measure of risk. Furthermore, the index with the highest standard deviation, Micro-Cap, has the lowest expected return. In modern portfolio theory terms, this is rather difficult to explain.

It is all the more anomalous as the five-year returns (for the period ending December 31, 2014) of the various indexes, at NAV, are strikingly similar, as shown in Table 3:

Table 3: 5-Year Returns, as of 12/31/2014

IVV	iShares Core S&P 500	15.37%
IWM	iShares Russell 2000	15.55%
IWC	iShares Micro-Cap	15.94%

Source: iShares

How can these diverse facts be reconciled? One could, of course, reject the price-to-book value statistics as an accounting anachronism without meaning in terms of forecasted return. However, the price-to-book value ratio has been found to have much predictive value, as in the Fama-French Three-Factor Model and the Carhart Four-Factor Model.

Alternatively, one could accept the price-to-book value ratios as having predictive values, but then one has the problem of how the efficient market permitted such disparities to exist for indexes in the first place. Moreover, one must reconcile somehow the fact that indexes with different volatility characteristics produce essentially the same return. In fact, even if

this particular statistic could be explained, one is still left with the problem of why the Russell 2000 small-cap index, since its 1977 inception, does not outperform the Russell 1000 large-cap index.

Finally, one can simply suppose, as some people do, that the index business has become the biggest factor in the realm of asset management. The various securities are merely raw material to be used in index construction. As in the case of any commodity, the prices are determined by the laws of supply and demand. The demand for large liquid equities to be used in indexes is enormous. Since the market is presumed to trade always at fair value, the price paid for these securities is not a consideration. Hence, like any period in financial history when there is near-universal agreement about a financial system, logical inconsistencies begin to appear. These are the warning signs. History records that these warning signs are never heeded.

Industry Thoughts

THE RISK/REWARD OF A SHORT SALE IN BONDS

The great new fact about the corporate bond market—and this is important—is as follows: Due to new regulations regarding the risk permissible by the large banks on their balance sheets, big banks such as the Bank of America and JPMorgan Chase have been forced to reduce the inventory of corporate bonds they carry as primary dealers. For example, according to the March 2015 issue of *Bloomberg Markets Magazine* (p. 28), the inventory that all of these banks hold collectively has declined from \$250 billion in 2007, before the crisis, to a current figure of \$55 billion. That is a big decline.

To illustrate the consequences of that policy, consider that the iShares Core Long-Term USD Bond ETF (ILTB), with \$209 million in assets under management, has a standard deviation of 8.64%, almost as high as the S&P 500. It has a weighted average life of 23.34 years, and a weighted average yield to maturity of 3.76%. Table 4 shows the breakdown of its holdings.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Table 4: ILTB Holdings

32.32%	Industrial
31.07%	Treasury
10.55%	Financial Inst.
7.69%	Sovereign
6.38%	Utility
5.84%	Agency
5.39%	Local Govt.

Source: iShares

The ratings of its holdings can be seen in Table 5:

Table 5: Ratings of ILTB Holdings

29.92%	BBB
2.57%	BB
0.93%	B
65.15%	A or better

Source: iShares

There is not really a lot of appetite for this kind of security. That's why this ETF only has \$209 million in assets under management.

There is a little more appetite for the Vanguard Long-Term Corporate Bond ETF (VCLT), which has an average effective maturity of 23.8 years, and \$1.4 billion in under assets under management. As you can see in Table 6, more than 50% is rated A or better.

Table 6: Ratings of VCLT

1.20%	AAA rated
7.00%	AA
45.20%	A
46.60%	Baa

Source: Vanguard

There are no government bonds in VCLT. Its SEC yield is 4.03%, and its yield to maturity is 4.4%. What would happen if interest rates were to increase? There would be mechanical selling of all these long-term corporate bonds. The fund would have to sell all the holdings proportionately because position sizes are based on issue sizes. For the sake of argument, if half the money were to leave the fund, the fund would have to sell half of every position.

How can that be accommodated if the traditional market infrastructure to facilitate bond trading, such as dealer inventory or dealer willingness to position a bond, is now rapidly becoming nonexistent? True, there is still \$55 billion of inventory that the big banks hold, but that is in the process of liquidation, which does not represent the willingness to maintain \$55 billion of inventory. It has just taken seven years to liquidate \$200 billion of inventory. It is a big problem. Consequently, bonds should be thought of in the following way: They offer risk with no possibility of reward, especially if you are a taxable investor.

Facts & Figures

BONDS AND RISING RATES

The biggest conventional 20-plus year Treasury bond fund is the iShares 20+ Treasury Bond ETF (TLT), which has \$7.85 billion in assets under management. Now consider the ProShares Ultra Short 20+ Year Treasury (TBT), especially in light of the fact that everyone assumes rates are going up. This fund has \$2.94 billion in net asset value, but since it is 2x leveraged, that means it is really short almost \$6 billion of securities. That is a lot, so you can see what would happen if rates were really going up, as opposed to the slight increases we might see in a given week.

It does not take a leap of faith to believe that more money would come into this fund, and there would be a lot of mechanical selling, as there would have to be, of long-dated Treasuries—and that would apply not only through the traditional mode of holders selling Treasuries that they own, but also through the mechanism of buying long an ETF that sells Treasuries short. Short selling of that type was historically the province of professional investors with that specialty. ETFs, though, have democratized—or equitized—all sorts of more esoteric investments, including commodities and futures, and enable the short-selling of Treasuries merely by buying a share of the appropriate ETF—no futures account, documentation, or daily posting of margin. That facility was never before available in a rising rate environment.

The iShares iBoxx \$ High Yield Corporate Bond ETF (HYG), is also interesting. Its holdings are in some of the more dangerous areas of the bond market because of their low-grade credit. It has \$16.3 billion in assets under management, and is invested in 998 issues, although that is a delusion in a certain way. There are 998 individual security positions, but far fewer than 998 issuers because, in the world of high yield bonds with adequate liquidity, there are only a limited number of issuers. In other words, if one looks at the names of the issuers, rather than the individual positions, it is clear that the same borrowers keep floating different bond issues.

However, taking the idea of positions, which some people would call names, \$16 million is the average position size. It is hard to sell these positions in a world devoid of dealers

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

willing to maintain inventory. The market, however, adjusts to this risk. This fund has only a 4.68-year average life, a 5.5% yield to maturity, and a 415 basis point option-adjusted spread. In the last six months, it has already experienced gradual spread widening. Clearly, the market is aware of a higher degree of risk.

Yielding, as it does, 5.5%, does that yield reflect credit risk, or does it reflect liquidity risk? That's an important consideration for returns. If it reflects liquidity risk, investors who can hold the bonds actually might earn 5.5%, and it might end up being a good rate of return.

Another interesting ETF is the PowerShares Senior Loan Portfolio (BKLN), which is based on a leveraged loan index. In principle, that is problematic due to the possible illiquidity of those names in a stress event. BKLN has \$5.7 billion in assets under management, but its yield to maturity is 5.18%. Its weighted average price is 97.53 and its time to maturity is 4.88 years. Its days to reset—and this is very important in bank loans because if rates go up the loans reset to the higher rate—is 50.37 days.

In this case, the question is even more stark. Does the 5.18% yield to maturity represent the credit risk assessment? Does it represent the interest rate risk assessment? Or does it represent the liquidity risk assessment? This ETF does not appear to have a lot of interest rate risk. So, in an environment of very gradual and mild interest rate increases, the interest paid on these issues would rise due to the reset provisions of the loans. Given those conditions, maybe there will not be any panic in these bonds. Maybe the market really is re-pricing the various debt securities.

BONDS DURING THE GREAT DEPRESSION

It is instructive to see how the market priced bonds during the Great Depression, when there was massive deflation. We know what the rates are on Treasuries today and some people worry that when the market prices bond yields as they are today there is a danger of deflation, even though it has not actually occurred. In the 1930s, however, there was deflation. Prices declined by 30% from 1930-1932. In 1930, when prices were falling sharply, the long-term U.S. government bond had an average annual yield of 3.29%. In 1931, it yielded 3.34%, and in 1932, 3.68%. In other words, as Table 7 shows, the average annual yield was going up, not down.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Table 7: Bond Yields During the Great Depression

	Average Annual Yield of LT Govt. Bonds	Monthly Low	Monthly High
1929	3.60%	3.35%	3.74%
1930	3.29%	3.19%	3.43%
1931	3.34%	3.13%	3.93%
1932	3.68%	3.35%	4.26%
1933	3.31%	3.19%	3.53%
1934	3.12%	2.92%	3.50%
1935	2.79%	2.69%	2.88%
1936	2.65%	2.51%	2.80%
1937	2.68%	2.46%	2.76%
1938	2.56%	2.48%	2.65%
1939	2.36%	2.13%	2.65%

Source: Sidney Homer and Richard Sylla, *History of Interest Rates, Third Edition* (New Brunswick, NJ: Rutgers University Press, 1991), 352.

Looking at these numbers, one has to ask if the bond market—the biggest market—is trading based on fundamental data, or is it trading on liquidity, the liquidity being viewed as the raw material for fund management purposes?

FEES AND ASSET FLOWS

It is important to note that a couple of weeks ago State Street cut the fees on its various ETFs by an average of 23 basis points. Since those fees started at an average of 51 basis points, that is an enormous reduction.

Moving on to one of the standards for equity ETFs, the iShares Core S&P 500 (IVV) charges a fee of seven basis points. Even after the fee cuts, State Street's SPDR S&P 500 ETF (SPY) now has a fee of 9.45 basis points, and assets are leaving that fund at a prodigious rate. For example, year to date through February 5, the outflow from SPY was \$27.694 billion. That's in a fund with \$138 billion of assets under management. That outflow has nothing to do with market movement. It is a big number, especially for a five-week period. With that outflow, the fund obviously lost fees. Of course, it also lost fees because of the cut in fees.

The much smaller iShares Core S&P 500 ETF (IVV) had outflow in the same five-week period of \$548.9 million. Just to put this in perspective, the SPDR S&P 500 ETF lost a little bit more than 20% of its assets under management in five weeks. The lower-fee iShares product lost about 1% in that same period.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

It is interesting to compare the ETFs in Table 8 that each have fees of 15 basis points except for the iShares High Yield Corporate Bond Index (HYG), which has a fee of 50 basis points. When funds experienced large outflows, where did the money go? According to ETF.com, for the period January 1, 2015, to February 5, 2015, it went to the ETFs listed below

Table 8: YTD Inflow for Selected ETFs (1/1/2015-2/5/2015)

		<u>Inflows</u> (\$ in billions)	<u>Fees</u> (in basis points)
HYG	iShares iBOXX \$ High Yield Corp. Bond ETF	\$1.73	50
LQD	iShares iBOXX \$ Investment Grade Corp. Bond ETF	\$1.46	15
IEF	iShares 7-10 Year Treasury Bond ETF	\$1.46	15
IEI	iShares 3-7 Year Treasury Bond ETF	\$1.49	15
SHV	iShares Short Treasury Bond ETF	\$2.50	15
TLT	iShares 20+ Year Treasury Bond ETF	\$1.13	15

Source: ETF.com

Now we ask: Is it not coincidental that, as the outflow occurs from the S&P 500 index products, the inflow occurs in bonds with a higher fee? As will be seen later, in the mechanistic asset allocation sense, this can actually be justified, because bonds, in relation to their standard deviation, actually measure as a better deal in terms of their Sharpe ratio than stocks, even over long periods of time.

In theory, if an advisory or asset management firm is going to employ a robot advisor, as many now advocate, and is clever enough to have a completely justifiable and defensible algorithm, money can be moved into a more lucrative product mix, at least from a fee perspective. Of course, I'm sure that doesn't happen. It's merely a cynical speculation.

Featured Investments

ISHARES CORE S&P 500 ETF (IVV)
ISHARES MICRO-CAP ETF (IWC)
ROYCE MICRO-CAP TRUST INC. (RMT)

In view of the *Musings*, one logical trade to undertake, in dollar-neutral fashion, is to sell short the iShares S&P 500 EFT (IVV) (or SPY, or whichever index has the highest fee) and buy the iShares Micro-Cap ETF(IWC), because the differential in price-to-book-value is so huge that even if all the companies in the Micro-Cap ETF collectively earn only about 60% of the return on equity of the S&P 500, they can still be in return equilibrium with that index.

Now, a better way of accomplishing the same trade objective is to replace the iShares Micro-Cap ETF with the Royce Micro-Cap Trust (RMT), which trades at a 10.82% discount to NAV. It has 9.33% structural leverage, so you can actually get the leverage for free. The five-year return at NAV of this fund, ironically, is 15.23%, completely consistent with all the other indexes. This is a very broadly diversified fund.

Unlike the Micro-Cap ETF, RMT is a closed-end fund. RMT has positions in unique securities, like the Permian Basin Royalty Trust (reviewed later); MVC Capital, which is a business development company (and business development companies are completely excluded from indexes, as are royalty trusts); the Bank of NT Butterfield, which is the biggest bank in Bermuda. Virtually everything that trades in Bermuda—and not very many companies trade in Bermuda—trades at a discount to book value. That's a different exposure.

The fund also happens to own JZ Capital, which is a UK closed-end private equity fund with an outstanding record. RMT also owns, among other intriguing companies, Queen City Investments, a pink sheet stock that owns a cattle ranch in California and commercial real estate in California. At least 50% of the stock price is represented by cash and marketable securities.

It is possible to gain exposures not otherwise attainable, and defeat the liquidity preference of the ETF. Being a closed-end fund, money can't leave the fund, so it can own illiquid stocks. In other words, it is possible to own illiquid shares and get the real discount, as opposed to the liquid Micro-cap discount, which is what you get when you buy IWC.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

PERMIAN BASIN ROYALTY TRUST (PBT) iPATH S&P GSCI CRUDE OIL TOTAL RETURN INDEX ETN (OIL)

Another recommendation is to go long, in dollar-neutral fashion, the Permian Basin Royalty Trust (PBT), with a \$489 million market capitalization, and sell short the iPath S&P GSCI Crude Oil Total Return Index ETN (OIL), an exchange-traded note maturing on August 7, 2036 that rolls front month oil contracts on West Texas Intermediate, generally with large contango. Historically, the ETN has dramatically underperformed the other choice of simply storing oil in the ground, as would be the case if you had a company with oil reserves in the ground that were unexploited. The value of the ETN would not even appreciate over time, as oil would, if oil were to appreciate. But then the problem becomes: How do you store oil? There is a way to do it.

The Permian Basin Royalty Trust is a very unusual royalty trust, since there is no end date. It works in a completely different way. The trust is located in 33 counties in Texas and the properties are operated by ConocoPhillips. Another very unusual aspect of this arrangement is that the trust pays for its share of capital expenditures out of its cash flow, on a proportional basis. However, it also benefits proportionately when any reserves are located.

The only restriction is that the trust cannot assume debt. The capital expenditures, to the degree there are any, must come from the royalty income. So, the dividend fluctuates not just with oil prices, as in the case of a typical royalty trust, but also with capital expenditures, because capital expenditures will affect the dividend.

The current dividend yield, which is paid monthly, is equivalent to a 9.97% yield, almost a 10% yield. In theory, with all the variables in stasis, which never happens, if the price of oil were to rise to \$100 per barrel, the dividend more or less would double. If this takes time, which in principle it should, the massive negative roll yield of the iPath S&P GSCI Crude Oil Total Return Index ETN (OIL) will take its toll on the ETN's net asset value. But the Permian Basin would produce nearly a 10% carry, in addition to the price appreciation of its units due to the higher value of its reserves. More important, unlike a lot of royalty trusts, the company could find more oil and the amount of reserves could increase, as has happened in the past. This is a very interesting trade.

Q: Wouldn't it also be a function of, if they found more oil, there'd be more capital expenditures?

A: No, because first the capital expenditures have to be made, and then you may or may not find oil. With the capital expenditures paid for, the dividend in theory could have been higher, but it is not going to be—those expenditures are a sunk cost. Either the company will be producing more oil, which will lead to a higher dividend and more reserve value, or

it will not—but that expenditure is not priced into the security since it trades on a dividend yield basis. Capital expenditures have already been made. So, the interesting question is: Given the capital expenditures that have been made in the last several years, will the company expand its reserves?

MARKET VECTORS JUNIOR GOLD MINERS ETF (GDXJ) MARKET VECTORS GOLD MINERS ETF (GDX)

Another pairing strategy is, in dollar-neutral fashion, to go long the Market Vectors Junior Gold Miners ETF (GDXJ), which has a \$1.9 billion market cap, and short the Market Vectors Gold Miners ETF (GDX), which has a \$7 billion market cap.

During the past five years, GDXJ—the Juniors—have underperformed GDX by roughly 700 basis points, per annum. The reason for this is very simple: The poorly capitalized Junior Gold Miners have development mines rather than operating mines like the companies in GDX, and they have been unable to commence production during the past three years, due to the certainty of operating losses with gold priced at \$1,200 an ounce.

Moreover, there is no access to fresh capital. For example, a Junior Gold Miner component, Allied Nevada (ANV), suffers not only from a low gold price and a weak balance sheet, but also from a self-inflicted wound due to a poorly created currency swap. Allied Nevada is now liable for payments under a currency swap and could, in principle, become insolvent. Note this is now only a 39-basis-point position in GDXJ.

Another example is Tanzanian Exploration (TRX), which has \$1.8 million of cash on the balance sheet, no debt, \$51 million in shareholders' equity, and a 24-basis-point position in the Junior Gold Miners ETF. It has a \$56 million market cap and trades more or less at book value. It has no revenues and costs \$2 million per year to operate. Either gold prices are going to go up, or they are not going to go up, in which case the company will be sold and disappear from the index.

In other words, the problematic companies within the Junior Gold Index have been so depressed that they represent a tiny portion of the index. If their circumstances do not improve, they will represent an even smaller portion.

What will be left? The larger positions, like Harmony Gold, which is a South African company. Right now, Harmony Gold is a 4.43% position in the Junior Gold Miners ETF. Of its 14 mines, only two lose money at the current gold price, and two are at break-even. Its balance sheet is secure: It has 31 billion South African rand on the balance sheet in equity (USD 2.7 billion); 2.2 billion rand in cash (USD 190 million), and 3 billion rand in

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

debt (USD 260 million). In other words, the cash is more or less equal to the debt. This is a company that is going to survive.

The Junior Gold Miners ETF was subject to significant pressures, given the position of its companies. By the genius and wonder of the market, however, it effectively has excised the risk from the portfolio. Even a speculative company like NovaGold, which is 3.35% of the Junior Gold Miners ETF, trades more or less at book value. NovaGold has a liquid balance sheet, with \$170 million of cash, \$90 million of debt, and \$430 million of equity. It also has two big projects—actually some of the richest gold projects in the world—although they have not been put into operation because they cannot make money at the current gold price. One project is 50% ownership of the Donlin Project; Barrick owns the other half. It is one of the highest ore-grade development projects in the world that is not being developed.

NovaGold also owns 50% of Galore Creek; the other 50% is owned by Teck Resources of Canada. These deposits are in the top 5% of known gold deposits in the world; they are some of the best. Barrick has an 8% weight in the Gold Miners ETF (GDX, not the Juniors). If Barrick were to become profitable, which it would have to do in order for investors to make money from GDX, it would almost certainly use its cash flow to move ahead with Donlin. There is much more operating leverage in Donlin for NovaGold than for Barrick.

On the other hand, if gold goes nowhere, NovaGold could sell Donlin, or even sell the whole company. If it needed a little money to stay in business, NovaGold is backed by Thomas Kaplan, a billionaire, and he could write a check because he does not spend a lot of money every year.

Tech Corporation of Canada, which owns 50% of Galore Creek, is not even in GDX; it is a diversified mining company and does not qualify for inclusion. So the operating leverage, but not necessarily the risk, is with the companies in the Junior Gold Miners ETF, not those in the Gold Miners ETF (GDX).

Another insight into the business exigencies of the ETF managers is that because so many gold miners came under pressure, GDX, the large-cap index, began running out of names—in other words, running out of raw material for the index. Oddly, many of the companies that are in the Junior Gold Miners Index are also in GDX, so the distinction between the Junior Gold Miners ETF and GDX should really be that they are mutually exclusive, but that is not the case. Companies in the Junior Gold Miners ETF are also present in GDX, though their weights are larger in the Junior Gold Miners ETF.

For example, Centamin plc is an Egyptian gold mining company that has a 5.25% weight in the Junior Gold Miners ETF and has a 1.1% weight in GDX. The weight of Harmony Gold in Junior Gold Miners ETF is 4.22% and in GDX it is 1.19%. Hecla Mining is 5.14%

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

of the Junior Gold Miners ETF and 1.14% of GDX. IAM Gold is 4.61% in the Junior Gold Miners ETF and 91 basis points in GDX.

GDX has no alternative but to turn to the Junior Gold Miners ETF, so portions of the latter are included in GDX. Barrick, Newmont and companies of that ilk dominate GDX, and they cannot make any money now anyway. The components of the Junior Gold Miners ETF—the ones that survive—are the ones that were able to put their projects into dormancy.

Either the price of gold will go up, in which case the dormant projects will become operating projects and the operating leverage will be with the companies in the Junior Gold Miners ETF, or the price of gold will not go up or even will go down, a scenario that the Junior Gold Miners ETF could live with, since they have put their projects in a state of dormancy. The companies in GDX, however, cannot reduce their operating expenditures beyond certain levels, because they are such large companies, and they are producing gold, after all. Oddly enough, GDX might underperform the Junior Gold Miners ETF, no matter what happens.

FAIRHOLME FUND (FAIRX) ISHARES CORE S&P 500 ETF (IVV)

For this pairs trade one would buy the Fairholme Fund (FAIRX) and sell short the S&P 500, in dollar-neutral fashion, via whichever S&P 500 ETF is the most expensive on a fee basis.

In the past 12 months, Fairholme has underperformed the S&P 500 by 29%—that's 2,900 basis points, which is unprecedented for this manager. Why? Because among all the active managers, this manager has made the most aggressive move away from indexation toward stock selection. Fairholme's stock selection, or active share, as some people would call it, is more significant than for any other active manager of note. The recent Top 10 holdings in Fairholme's portfolio are shown in Table 9.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Table 9: Fairholme Fund Recent Top 10 Portfolio Positions

<u>Top 10 Firms</u>	<u>% of Fund</u>
AIG	40.61%
Bank of America	15.40%
Fannie Mae Pfd.	6.51%
AIG Warrants	6.51%
St. Joe	5.88%
Sears	5.80%
FHLMC Pfd.	4.64%
Leucadia Natl.	3.20%
Other Fannie Mae Pfd.	1.15%
Other FHLMC Pfd.	0.68%

Source: Fund reports

You see that 40.61% is AIG and another 6.5% is in AIG Warrants, so the position is closer to 47%. Then there is a 5%-plus position in Sears and a 5%-plus position in St. Joe. There is well over 10% each in Fannie Mae preferreds and Freddie Mac preferreds. Clearly, this is about as far away from indexation as one can get.

Since AIG trades at 66% of book value, unless AIG has some serious undetected problems, it will ultimately trade above book value—and book value is growing. AIG is subject to truly intense scrutiny at the moment, due to the Maurice Greenberg litigation against the U.S. government on the government restructuring of AIG.

The fund also holds a 15.4% position in Bank of America, which trades at 72% of book value, and also is subject to intense scrutiny and controversy due to mortgage-related lawsuits. You might say the recent flattening of the yield curve threatens a not-insignificant portion of the profitability of that bank. Unless there is some undetected problem, the bank eventually is going to trade at a premium to book value, and the book value happens to be growing.

Leucadia National, another holding, trades at 80% of book value. The retirement of co-founder Ian Cumming is an issue, and the eventual gradual departure of the other co-founder, Joe Steinberg, is an issue. However, the current management from Jeffries has demonstrated great ability over many years, at least in the context of Jeffries, and Leucadia should also eventually trade above book value.

The Fannie Mae and Freddie Mac preferreds might not be worth par value but, at the moment, they trade at 15% of par value. They are worth something. To get a big win would not really require a lot of value realization. It is a very interesting fund. It has no

correlation, given its current structure, with anything else one is apt to own, and that makes it an interesting trade.

Post-Musings

INDEXATION: THE HUMAN NEED TO CONFORM

In the 1950s, a psychologist known as Solomon Asch conducted experiments that demonstrated scientifically the individual need to conform. Groups of participants were asked to compare the length of lines. One was a real participant who was asked for an opinion on which line in a group of lines was longest. The others were actors, and their goal was to convince the real participant that the longest line was not the longest line.

The real participant was asked which line is longest and which is shortest. The so-called phony participants would disagree, and that was the experiment. The object was to measure how much people conform. As a control, the experiments were also conducted in no-pressure situations. In those cases, the real participant error was less than 1%. In a pressure group situation in which the phony participants were trying to convince the real participant that his or her initial selection was the wrong one, the error rate was 75%, which represents conformity, because the real participant changed his or her answer. In other words, it is very hard to go against the majority.

In the current environment, REITs trade at a preposterous valuation as do utilities. Bonds, even compared to the Great Depression, have lower yields, and one might say they have a preposterous value as well. Indexation, however, is the ultimate pressure group, because it is quasi-scientific since it is based on a Sharpe ratio.

For instance, the S&P 500 10-year rate of return for the period ending December 31, 2014 was 7.64% annually, with a standard deviation of 9.1%.

The iShares 7-10 Year Treasury Bond ETF (IEF) had a 10-year rate of return of 5.55%, with a standard deviation of 5.01%. If you buy IEF, you get 72% of the return, but only 55% of the volatility. The preference for the Treasury index is actually defensible, if looked at that way.

The iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD) had almost identical returns as IEF. The LQD 10-year rate of return was 5.51% as opposed to 5.55%. The standard deviation is almost identical at 5.01%, which in itself is amazing.

If you were to select the iShares iBoxx \$ High Yield Corporate Bond ETF (HYG), the 10-year rate of return is 7.85%, actually higher than the S&P, and the standard deviation is 6.49%. In other words, one got 102.75% of the return with only 71.3% of the volatility.

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Asch, in his experiments, found that if you create an opposing phony group that is larger than three-to-one, there is no incremental effect on error rate. In other words, three people are as likely to convince someone to change their opinion as six; three are more effective than two, and two are more effective than one. Of course, if there's no pressure, the person picks the correct line every time.

Indexation has probably attained the maximum conformity ratio. As a strategy, indexation is going to be dominated by its own survival needs, which is to say that something will have to be done about declining fees. The only action that can be taken, however, is to move to more exotic securities, which means that indexation, in effect, will try to mimic the remaining active managers. Furthermore, the recent permission granted by the SEC to Eaton Vance to create actively managed ETFs is but one example of such, and there should soon be many more.

Updates on Past Ideas

MONEYGRAM INTERNATIONAL INC. (MGI)

Original Recommendation: 5/23/14 at \$12.99

Current Price: \$8.57

Market Cap: \$617 million

In our original report on MoneyGram, we speculated that additional pricing pressure, particularly from the new Walmart money transfer service, would severely reduce its profitability and lead to a substantial share price decline. This theory has largely materialized as MoneyGram's most recently reported revenues, for the fourth quarter of 2014, declined by over 9% year-over-year while its adjusted earnings per share (EPS) fell almost 50% compared to the same quarter last year. In fact, MoneyGram's transactions originating in the U.S. decreased 40% year over year, mainly as a result of the new Walmart service.

Furthermore, the company's consensus EPS for the current year, as forecasted by Wall Street, has declined from \$1.07 three months ago to just \$0.77 at the current time while its share price has declined 35% in the nine months since our original report to \$8.57, as of February 26, 2015. Even though this is still above the \$7.00 valuation discussed in our original report, the fact that the decline occurred as rapidly as it did indicates that the bulk of the potential returns have been realized and the risk/reward profile for the short-seller has become considerably less attractive—particularly if the company can successfully meet its forecast of a return to double-digit revenue growth by the fourth quarter of this year. Consequently, short-sellers are advised to cover their positions in MoneyGram International.

WEALTH INDEX (Ticker: RCH Index)

As of December 31, 2014

<u>Annualized Total Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
Wealth Index	7.06%	19.69%	18.84%	12.68%	11.51%	7.85%	13.02%	13.48%
S&P 500	13.69%	20.41%	15.45%	7.27%	7.67%	4.24%	9.85%	10.18%
S&P 500 Eq. Wgt.	14.49%	22.41%	17.44%	10.17%	9.61%	9.09%	11.85%	12.56%
Russell 3000	12.56%	20.51%	15.63%	7.54%	7.94%	4.82%	9.96%	10.45%
Russell 2000	4.89%	19.21%	15.55%	8.18%	7.77%	7.38%	9.63%	11.17%

Excess Return vs. S&P 500	-6.63%	-0.72%	3.38%	5.41%	3.84%	3.61%	3.17%	3.29%
Excess Return vs. S&P 500 Eq. Wgt.	-7.43%	-2.72%	1.40%	2.52%	1.90%	-1.24%	1.16%	0.91%
Excess Return vs. Russell 3000	-5.50%	-0.82%	3.21%	5.14%	3.57%	3.03%	3.06%	3.03%
Excess Return vs. Russell 2000	2.17%	0.48%	3.29%	4.50%	3.74%	0.47%	3.38%	2.30%

*Note: Calculated Using Total Returns

<u>Risk Adjusted Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
Wealth Index	0.58	1.64	1.18	0.56	0.57	0.34	0.60	0.65
S&P 500	1.66	2.24	1.19	0.43	0.52	0.28	0.65	0.70
S&P 500 Eq. Wgt.	1.54	2.24	1.20	0.51	0.55	0.51	0.70	0.78
Russell 3000	1.43	2.18	1.15	0.43	0.52	0.31	0.64	0.71
Russell 2000	0.32	1.44	0.86	0.37	0.39	0.36	0.49	0.59

*Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)

<u>Information Ratio</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
Wealth Index vs. S&P 500	(1.21)	(0.14)	0.61	0.57	0.44	0.33	0.30	0.32
Wealth Index vs. S&P 500 Eq. Wgt.	(2.04)	(0.74)	0.33	0.44	0.34	(0.12)	0.12	0.10
Wealth Index vs. Russell 3000	(1.27)	(0.18)	0.66	0.60	0.45	0.29	0.32	0.32
Wealth Index vs. Russell 2000	0.27	0.08	0.52	0.55	0.51	0.04	0.31	0.22

*Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)

<u>Wealth Index Batting Average</u>	<u>Roll 1 Year</u>	<u>Roll 3 Year</u>	<u>Roll 5 Year</u>
vs. S&P 500	60.65%	67.98%	71.62%
vs. S&P 500 Eq. Wgt.	57.76%	62.45%	60.70%
vs. Russell 3000	63.18%	68.38%	77.29%
vs. Russell 2000	61.73%	67.59%	74.67%

*Note: Calculated Using Total Returns

<u>Annualized Volatility</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
Wealth Index	12.23%	11.98%	15.97%	22.75%	20.16%	22.84%	21.82%	20.72%
S&P 500	8.26%	9.10%	13.00%	16.82%	14.67%	15.26%	15.15%	14.48%
S&P 500 Eq. Wgt.	9.42%	9.99%	14.56%	20.13%	17.53%	17.69%	16.88%	16.13%
Russell 3000	8.78%	9.42%	13.55%	17.46%	15.25%	15.66%	15.44%	14.75%
Russell 2000	15.52%	13.31%	17.98%	22.00%	19.75%	20.42%	19.81%	18.96%

*Note: Calculated Using Total Returns

<u>Annualized Tracking Error</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
vs. S&P 500	5.46%	5.32%	5.57%	9.44%	8.78%	11.09%	10.56%	10.18%
vs. S&P 500 Eq. Wgt.	3.64%	3.68%	4.22%	5.70%	5.60%	10.19%	9.79%	9.31%
vs. Russell 3000	4.33%	4.43%	4.83%	8.53%	7.92%	10.32%	9.70%	9.36%
vs. Russell 2000	7.95%	5.63%	6.35%	8.16%	7.41%	11.89%	11.08%	10.54%

*Note: Calculated Using Total Returns

<u>Wealth Index Beta</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Dec '14</u>
vs. S&P 500	1.38	1.20	1.16	1.26	1.27	1.36	1.29	1.28
vs. S&P 500 Eq. Wgt.	1.27	1.15	1.06	1.10	1.11	1.17	1.17	1.16
vs. Russell 3000	1.35	1.20	1.13	1.23	1.24	1.35	1.30	1.29
vs. Russell 2000	0.68	0.82	0.83	0.97	0.95	0.96	0.95	0.94

*Note: Calculated Using Total Returns

<u>Calendar Year Total Returns</u>	<u>Wealth Index</u>	<u>S&P 500</u>	<u>S&P 500 Eq. Wgt.</u>	<u>Russell 3000</u>	<u>Russell 2000</u>	<u>ER v. SP500</u>	<u>ER v. SP500 EW</u>	<u>ER v. R3000</u>	<u>ER v. R2000</u>
1991	44.25%	30.47%	35.51%	33.68%	46.04%	13.78%	8.73%	10.57%	-1.80%
1992	20.20%	7.62%	15.63%	9.59%	18.41%	12.58%	4.56%	10.61%	1.79%
1993	3.38%	10.08%	15.12%	10.88%	18.88%	-6.70%	-11.75%	-7.50%	-15.50%
1994	0.33%	1.32%	0.95%	0.19%	-1.82%	-0.99%	-0.62%	0.14%	2.15%
1995	31.31%	37.58%	32.03%	36.80%	28.45%	-6.27%	-0.72%	-5.49%	2.86%
1996	23.09%	22.96%	19.02%	21.82%	16.49%	0.13%	4.06%	1.27%	6.59%
1997	27.31%	33.36%	29.05%	31.78%	22.36%	-6.06%	-1.74%	-4.48%	4.94%
1998	24.95%	28.58%	12.19%	24.14%	-2.55%	-3.63%	12.76%	0.81%	27.49%
1999	44.68%	21.04%	12.03%	20.90%	21.26%	23.64%	32.66%	23.78%	23.43%
2000	-19.16%	-9.10%	9.64%	-7.46%	-3.02%	-10.06%	-28.80%	-11.70%	-16.14%
2001	-10.80%	-11.89%	-0.39%	-11.46%	2.49%	1.08%	-10.41%	0.65%	-13.29%
2002	-15.49%	-22.10%	-18.18%	-21.54%	-20.48%	6.61%	2.69%	6.05%	4.99%
2003	45.41%	28.68%	40.97%	31.06%	47.25%	16.72%	4.44%	14.35%	-1.85%
2004	17.97%	10.88%	16.95%	11.95%	18.33%	7.09%	1.02%	6.02%	-0.36%
2005	3.30%	4.91%	8.06%	6.12%	4.55%	-1.61%	-4.76%	-2.82%	-1.25%
2006	22.61%	15.79%	15.80%	15.71%	18.37%	6.81%	6.81%	6.89%	4.24%
2007	1.73%	5.49%	1.53%	5.14%	-1.57%	-3.76%	0.20%	-3.41%	3.30%
2008	-43.67%	-37.00%	-39.72%	-37.31%	-33.79%	-6.68%	-3.95%	-6.37%	-9.89%
2009	72.80%	26.46%	46.31%	28.34%	27.17%	46.33%	26.49%	44.46%	45.62%
2010	31.51%	15.06%	21.91%	16.93%	26.85%	16.45%	9.60%	14.58%	4.65%
2011	5.11%	2.11%	-0.11%	1.03%	-4.18%	3.00%	5.22%	4.09%	9.29%
2012	13.53%	16.00%	17.65%	16.42%	16.35%	-2.48%	-4.13%	-2.89%	-2.82%
2013	41.08%	32.39%	36.16%	33.55%	38.82%	8.69%	4.92%	7.53%	2.25%
2014	7.06%	13.69%	14.49%	12.56%	4.89%	-6.63%	-7.43%	-5.50%	2.17%

*Note: Calculated Using Total Returns

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

See important disclosures for additional information.

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Index Constituent Changes: 1. Nuveen Investments Inc (JNC US) was delisted from the US Security Exchange effective 11/14/2007 and has been removed from the index. 2. Alliance Financial Corp (ALNC US) was delisted from US Security Exchange effective 03/11/2013 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

Money Manager Index

From Aug 1983 to Jan 2015

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return
																(since inception)
1983								1.00	0.81	0.76	0.87	0.75	1983	0.75	(60.5)%	(50.2)%
1984	0.75	0.71	0.70	0.66	0.67	0.67	0.61	0.83	0.79	0.76	0.67	0.65	1984	0.65	(13.5)%	(26.5)%
1985	0.92	0.93	0.99	0.95	1.20	1.30	1.32	1.38	1.28	1.50	1.86	2.02	1985	2.02	211.8%	33.7%
1986	2.46	2.78	2.47	2.31	2.36	2.33	2.03	2.23	1.98	2.37	2.34	2.34	1986	2.34	15.9%	28.2%
1987	3.21	3.27	3.16	2.55	2.37	2.30	2.47	2.22	1.56	1.44	1.52	1.52	1987	1.52	(35.0)%	9.9%
1988	1.80	1.87	1.78	1.79	1.69	1.94	1.92	1.96	2.01	1.97	1.95	2.07	1988	2.07	36.0%	14.3%
1989	2.42	2.37	2.54	2.63	2.64	2.64	2.93	3.12	3.07	3.05	3.23	3.26	1989	3.26	57.8%	20.2%
1990	3.12	3.15	3.53	3.06	3.47	3.45	3.30	2.70	2.68	2.40	2.52	3.02	1990	3.02	(7.3)%	16.1%
1991	3.08	3.49	3.70	3.68	3.71	3.61	3.86	4.05	4.07	4.69	4.47	5.72	1991	5.72	89.4%	23.0%
1992	5.76	5.61	5.30	5.12	4.98	4.99	5.93	6.06	6.19	6.56	7.25	7.36	1992	7.36	28.6%	23.6%
1993	8.06	8.04	8.20	7.94	8.15	8.57	9.05	10.00	9.99	9.31	8.97	8.90	1993	8.90	21.0%	23.4%
1994	9.52	8.73	8.05	7.85	7.81	7.53	7.66	8.31	8.15	8.52	7.88	7.95	1994	7.95	(10.6)%	19.9%
1995	7.74	8.38	8.72	8.77	9.20	9.35	9.93	10.78	11.22	10.53	10.89	10.40	1995	10.40	30.8%	20.8%
1996	11.12	11.50	11.33	11.62	11.86	12.53	11.91	12.36	13.32	14.03	14.42	15.02	1996	15.02	44.4%	22.4%
1997	16.04	16.81	15.32	17.27	18.42	20.29	22.28	21.39	25.31	24.95	24.95	25.50	1997	25.50	69.8%	25.2%
1998	25.67	29.00	29.89	30.60	28.90	30.44	27.67	21.33	21.74	25.16	27.27	25.41	1998	25.41	(0.4)%	23.3%
1999	26.00	23.71	23.92	26.77	28.94	29.74	28.78	26.74	25.89	27.73	28.54	30.55	1999	30.55	20.2%	23.2%
2000	31.07	31.19	36.01	35.60	35.20	40.32	43.58	45.75	45.62	48.69	44.05	49.84	2000	49.84	63.1%	25.2%
2001	50.23	46.41	44.27	46.96	48.90	49.98	50.67	49.70	46.47	44.81	48.04	51.91	2001	51.91	4.2%	23.9%
2002	53.62	53.74	55.11	52.52	52.83	50.48	42.58	44.92	41.54	42.66	45.78	43.17	2002	43.17	(16.8)%	21.4%
2003	42.72	41.18	42.36	45.98	49.02	50.71	53.47	53.46	56.12	55.83	58.49	58.49	2003	58.49	35.5%	22.1%
2004	64.38	65.08	64.63	61.68	60.86	62.30	58.71	64.08	65.73	68.86	73.53	78.16	2004	78.16	33.6%	22.6%
2005	76.46	77.94	74.06	72.83	77.02	80.25	83.59	83.07	86.03	89.19	96.58	97.35	2005	97.35	24.6%	22.7%
2006	107.62	111.44	110.75	111.88	101.89	100.61	100.62	104.98	114.61	116.64	113.78	118.05	2006	118.05	21.3%	22.6%
2007	125.73	123.77	122.62	127.58	133.57	134.68	126.61	124.07	133.57	148.09	135.13	135.56	2007	135.56	14.8%	22.3%
2008	127.53	115.76	115.94	121.58	130.51	115.68	119.94	120.55	109.69	72.70	62.95	67.91	2008	67.91	(49.9)%	18.1%
2009	57.51	51.76	65.63	79.49	85.67	90.79	99.97	101.69	107.32	107.36	110.94	115.01	2009	115.01	69.4%	19.7%
2010	106.84	110.32	118.13	114.91	100.18	88.17	97.65	89.64	103.59	108.29	108.64	119.58	2010	119.58	4.0%	19.1%
2011	122.80	128.28	127.94	127.97	126.06	121.03	115.49	104.25	91.32	102.44	103.79	103.98	2011	103.98	(13.1)%	17.8%
2012	109.46	120.12	125.37	121.64	108.44	114.12	113.56	118.33	123.18	127.91	131.76	135.00	2012	135.00	29.8%	18.1%
2013	151.20	155.13	165.52	166.55	174.89	164.20	179.01	168.47	176.12	192.14	197.16	208.44	2013	208.44	54.4%	19.2%
2014	194.17	196.87	203.88	196.24	195.40	206.41	194.00	207.06	201.07	205.28	212.28	215.25	2014	215.25	3.3%	18.6%
2015	203.96												2015	203.96	(5.2)%	18.4%

S.No.	Ticker	Name	Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	AMG US Equity	Affiliated Manager	\$22,947	1,377	11/30/1997	\$282,961
2	BLK US Equity	BlackRock	\$23,205	1,658	9/30/1999	\$564,400
3	WDR US Equity	Waddell & Reed	\$27,513	1,587	3/31/1998	\$71,650
4	EV US Equity	Eaton Vance	\$2,641	3,998	1/31/1986	\$161,935
5	TROW US Equity	T. Rowe Price	\$2,423	2,014	4/30/1986	\$158,530
6	BEN US Equity	Franklin resources	\$908	1,263	4/30/1985	\$195,268
7	LM US Equity	Legg Mason	\$1,000	462	8/31/1983	\$25,624
8	FII US Equity	Federated Inv	\$26,381	2,206	5/31/1998	\$69,734
9	FIG US Equity	Fortress Investment Group	\$102,249	3,389	2/28/2007	\$24,198
10	PZN US Equity	Pzena Investment Management	\$122,426	6,317	10/31/2007	\$51,358

THE DEVIL'S ADVOCATE REPORT COMPENDIUM

Index Constituent Changes: 1. New Star Asset Management (NSAM LN) was delisted from the London Security Exchange effective 03/10/2009 and has been removed from the index. 2. Australia Wealth Management (AUW AU) was delisted from Australian Security Exchange effective 05/18/2009 and has been removed from the index. 3. Bluebay Asset Management/UNI (BBAY LN) was delisted from the London Security Exchange effective 12/20/2010 and has been removed from the index. 4. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. 5. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. 6. Invista Real Estate (INRE LN) was delisted effective 8/13/2012 and has been removed from the index. 7. F&C Asset Management Plc (FCAM LN) was delisted effective 5/8/2014 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

International Money Manager Index From Nov 1986 to Jan 2015

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return (since inception)
1986											1.00	1.02	1986	1.02	10.0%	10.0%
1987	1.25	1.37	1.48	1.48	1.37	1.33	1.39	1.40	1.33	0.81	0.76	0.73	1987	0.73	(27.7)%	(23.3)%
1988	0.75	0.92	1.02	0.95	0.80	0.89	0.88	0.82	0.86	0.88	0.89	0.93	1988	0.93	26.4%	(3.4)%
1989	1.03	1.02	1.06	1.17	1.19	1.18	1.25	1.16	1.17	1.20	1.21	1.28	1989	1.28	37.8%	8.1%
1990	1.24	1.24	1.18	1.19	1.22	1.24	1.26	1.26	1.23	1.24	1.25	1.33	1990	1.33	3.7%	7.0%
1991	1.34	1.52	1.56	1.58	1.57	1.47	1.52	1.64	1.81	1.89	1.94	1.92	1991	1.92	44.8%	13.5%
1992	2.01	1.93	1.88	2.14	2.19	2.13	2.08	1.99	1.95	1.77	1.76	1.96	1992	1.96	1.9%	11.5%
1993	1.98	2.03	2.20	2.39	2.42	2.45	2.54	3.05	3.01	3.07	3.01	3.30	1993	3.30	68.7%	18.1%
1994	3.72	3.39	3.17	3.04	2.99	2.89	3.01	3.14	3.13	3.19	3.15	3.15	1994	3.15	(4.7)%	15.1%
1995	3.07	3.12	3.28	3.41	3.56	3.59	3.87	3.76	3.76	3.77	3.70	3.73	1995	3.73	18.6%	15.4%
1996	3.76	3.85	3.70	3.79	3.96	3.90	3.75	3.96	4.16	4.47	4.90	4.86	1996	4.86	30.3%	16.8%
1997	5.11	5.37	4.99	4.96	5.43	5.94	6.57	6.32	7.45	7.24	6.80	7.19	1997	7.19	47.9%	19.3%
1998	7.12	8.05	8.78	9.25	8.95	8.74	8.91	6.67	6.08	7.01	7.51	7.71	1998	7.71	7.3%	18.3%
1999	7.99	8.21	8.68	9.07	8.71	8.61	8.63	8.43	8.47	8.79	9.80	10.79	1999	10.79	39.9%	19.8%
2000	11.23	12.27	13.95	13.50	13.73	15.39	15.85	16.82	17.07	16.31	14.43	16.76	2000	14.43	33.8%	20.7%
2001	17.42	15.88	13.46	15.14	15.84	15.15	14.21	13.61	10.77	11.43	13.90	14.12	2001	14.12	(2.2)%	19.1%
2002	14.74	13.78	15.09	15.11	16.38	14.14	12.92	12.10	11.23	11.06	11.33	10.50	2002	10.50	(25.6)%	15.7%
2003	10.18	9.52	9.69	10.62	12.17	13.04	13.98	15.38	16.67	17.88	18.16	18.07	2003	18.07	72.1%	18.4%
2004	20.00	22.41	29.98	35.46	26.68	30.80	25.37	25.20	23.67	23.34	27.56	31.48	2004	31.48	74.2%	20.9%
2005	32.19	32.57	31.88	33.39	27.36	29.05	30.38	31.49	33.39	32.24	32.95	37.18	2005	37.18	18.1%	20.8%
2006	41.01	40.97	43.69	46.45	42.39	41.58	40.60	43.32	43.55	43.70	44.58	49.38	2006	49.38	32.8%	21.3%
2007	50.95	51.18	53.59	56.09	58.16	56.37	53.90	48.65	50.96	57.03	48.21	45.75	2007	45.75	(7.3)%	19.8%
2008	38.71	39.71	38.59	40.18	39.25	35.10	34.59	33.33	26.09	18.72	14.50	15.79	2008	15.79	(65.5)%	13.3%
2009	14.62	13.24	14.96	19.63	22.82	23.73	26.14	27.05	28.41	28.53	28.69	29.83	2009	29.83	89.0%	15.8%
2010	28.50	27.58	29.90	29.58	25.53	24.72	27.82	26.74	30.36	33.68	31.85	34.52	2010	34.52	15.7%	15.8%
2011	34.91	36.17	36.51	39.63	37.86	35.31	35.83	32.76	29.28	32.04	31.23	30.59	2011	30.59	(11.4)%	14.56%
2012	32.12	34.36	35.67	35.08	31.03	32.92	32.66	34.17	36.33	37.28	38.11	40.73	2012	40.73	33.1%	15.22%
2013	43.61	42.58	44.42	49.29	50.40	47.75	50.58	49.32	52.49	55.65	55.41	58.88	2013	58.88	44.6%	16.19%
2014	55.35	58.98	61.86	59.92	59.05	59.89	57.84	58.64	55.47	54.37	55.77	54.31	2014	54.31	(7.8)%	15.24%
2015	52.77												2015	52.77	(2.8)%	15.07%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	IGM CN Equity	IGM Financial Inc	\$1,000	73	31/11/1986	\$2,517
2	IVZ US Equity	Invesco Plc (Previously Amvescap)	\$1,357	1,153	1/31/1991	\$21,166
3	SDR LN Equity	Schroders Plc	\$1,208	505	3/31/1991	\$21,978
4	RAT LN Equity	Rathbone Brothers Plc	\$1,208	736	3/31/1991	\$24,298
5	ADN LN Equity	Aberdeen Asset Mgmt Plc	\$1,208	1,827	3/31/1991	\$12,014
6	CIX CN Equity	CI Financial Corp.	\$2,585	3,224	6/30/1994	\$82,361
7	EMG LN Equity	Man Group Plc	\$2,862	6,344	10/31/1994	\$12,980
8	AGF/B CN Equity	AGF Management Ltd-CI B	\$3,343	1,346	1/31/1996	\$7,923
9	8739 JP Equity	Sparx Group Co Ltd	\$11,762	108	12/31/2001	\$19,005
10	HGG LN Equity	Henderson Group Plc	\$14,447	8,666	12/31/2003	\$24,773
11	AZM IM Equity	Azimut Holding Spa	\$21,908	4,977	7/31/2004	\$116,242
12	CCAP LN Equity	Charlemagne Capital Ltd	\$36,848	22,300	3/31/2006	\$3,684
13	PGHN SW Equity	Partners Group-Reg	\$36,848	578	3/31/2006	\$155,080
14	ASHM LN Equity	Ashmore Group Plc.	\$36,688	9,873	10/31/2006	\$41,609