FOLLOW THE VOL ON THE ROAD TO NOWHERE

Instrument (Inception)	September 2019 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund* (March 2006)	**-0.5%**	**4.8%**	**10.7%**
Venator Income Fund (August 2008)	**0.3%**	**6.0%**	**10.5%**
Venator Select Fund (September 2013)	**0.1%**	**18.0%**	**14.9%**
S&P/TSX Total Return (March 2006)	1.7%	19.1%	5.7%
Russell 2000 (March 2006)	2.1%	14.2%	7.0%
S&P Toronto Small Cap (March 2006)	-2.8%	9.1%	1.4%
S&P 500 (March 2006)	1.9%	20.6%	8.7%
Merrill Lynch High Yield Index (August 2008)	0.3%	11.5%	8.0%

***** *Venator Investment Trust is also available as an extension of the Founders Fund strategy; its monthly performance mirrors the Founders Fund, and it is eligible to be held in both registered & non-registered accounts***

Absent volatility the market is surprisingly flat-ish over the last five months (S&P 500 up 1%) and one year (S&P 500 up 2%). We use the S&P 500 as our primary example - because it continues to be the best performing index out there, likely for the third year in a row, and, indeed, since 2015 nothing else even comes close. That said, for those with a good memory of recent history, it's worth noting that the strength of the market 'this year' and weakness 'last year' has been comprised of a huge downturn in Q4 of 2018, followed by a big bounce up in Q1 of 2019. Lots of sound and fury, but, in the final analysis, a big benign nothing.

The biggest event of the last month was a 'mic drop' for oil bears as we received fairly definitive proof that oil prices are not likely to cycle up beyond $70 anytime in the near future; and investors are going to have to make do building their models on $40-$60 oil going forward. *When Iran attacks oil facilities in Saudi Arabia and all you get is a two-day, 10% pop, that subsequently gives back all its gains within a week, you might as well pack up your 'buy' orders and go home.* The 'black swan' geopolitical oil bulls got their best shot, and it was a blank. Human ingenuity got those facilities back to almost 100% within weeks, and there was absolutely no talk of oil shortages in North America, which remains oversupplied based on domestic production. At this point, my personal belief is that the type of catastrophic geopolitical event that would send oil to $100 will leave me with far bigger things to worry about than my investment portfolio, and they are the kinds of events that would make ETF put options and, perhaps, gold a better investment than oil.

Money is flowing fast and the 'big picture' dominates the investment scene these days. Earlier in the month, we saw a huge move out of growth (as symbolized by technology), and a big move into value (represented, apparently, by the retail sector). Many research firms were writing about the largest divergence between growth and value in decades, although we have noticed that unusually bad days for technology have been associated with unusually strong days for retail for several years now. With money flow narratives dominating monthly trading, it's no wonder that a great company like Shopify can drop 25% in a month with little news.

If we were to assume that the market flatness over the past year is more representative of the investment climate than the volatility, it becomes a bit easier to calm down and rationally analyze investment opportunities. It does appear that the domestic industrial economy is slowing (at least according to recent ISM numbers and confirmed by Dr. Copper) and this is having an outsized negative effect on high-growth/high valuation names, in part because growth slowdowns have a larger compounding effect on higher growth names (slowing from 2% growth to 1% barely registers 10 years out, but slowing from 20% growth to 12% cuts your future expectations in half). Therefore, we are looking specifically at companies with both de-risked expectations and valuations. Put another way, it doesn't seem like a good time to play the 'greater fool' theory of hoping for that incremental dollar to push up investments when

earnings expectations appear tough to beat. Secular growth is always a great investment strategy, but only to the extent that expectations are not running ahead of the opportunity.

One factor we like to track in terms of sniffing out opportunities is the extent to which a stock has outpaced or underperformed its financial progress over a recent timeframe (typically 1-5 years). Historically, this has been a fairly good way to identify i) opportunities in growth stocks that have yet to catch-up to fundamentals, and ii) short selling candidates that have outperformed their fundamentals. This doesn't always work; for example, Walmart and Apple are trading near all-time highs despite both companies having experienced their EBITDA dollars peak several years ago and both companies are expected to post negligible growth this year. However, this doesn't invalidate the strategy, especially for companies that don't have the ETF money flow benefit of being a large component of the SPYs.

By way of example, in the past four years Omega Flex, Inc. (OFLX), a producer of flexible metal hoses, among other things, has seen revenues increase, in aggregate, by 20% and EBITDA increase by just over 10%. Amazingly, the stock is up 300% over this timeframe, vastly outperforming its financial performance! This may have been justified if the company were extremely cheap or went through some form of restructuring, but this is not the case. With Omega Flex operating at near peak efficiency, the company is sporting a growth rate of 0% as of last quarter, yet the business trades at an earnings multiple of 50x P/E or, for you EBITDA followers out there, a 35x EV/EBITDA multiple. One would be hard pressed to find a competitor in the challenged industrial products sector operating at near peak efficiency and trading at 20x earnings with those growth numbers. If I were still working on the sell side, I would feel generous awarding a target of $50 to this stock (25x EPS/17x EV/EBITDA). I would also note that with a market capitalization of $1 billion, it would be difficult for anyone this side of Facebook to pay such a high dollar amount for such a small business.

As always, we reserve the right to change our mind!

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