

April was a bit more successful than March, posting a 6.72% gain for the month (NAV now at \$10.77). Earnings season is contributing the performance of the fund, while the “discovery” of some of our names by other market participants was the primary driver of our stocks. We can “feel” this effect by observing the strong “support” these stocks are receiving, resulting in little or no weakness in these stocks regardless of what the overall market is doing.

Our *Market Commentary* for the month centers on what we believe to be a commodity “bubble” forming, which carries ominous parallels to the Tech Bubble of 1999-2000. On a stock-specific basis, the forming bubble can be witnessed through the dramatic increases in “Moose-pasture gold/silver/uranium/oil/etc.”; speculative exploration “plays” being bid up to market valuations in the \$100MM-\$500MM range due largely to internet chat room promoters. This seems eerily reminiscent of Tech2000.com, with no revenues, dubiously marketable products, and similar market values. The TSX Venture Exchange is up nearly 40% this year on very heavy volumes, and resource issues typically represent nine of the top 10 movers on a daily basis.

With regard to the commodities themselves (the macro perspective), we see another parallel in that the financial markets seem to be getting ever more obscure in its search for “the next thing”. In that vein, we think that corn (or maybe soy) will be the commodity market’s answer to LINUX, whose hype marked the beginning of the end to the technology bubble. Many commodity prices appear to be ruled by something other than supply and demand. An increasing number of commodities are taking on financial asset status through ETFs and increased futures trading (its not just for Gold anymore). In other words, the tail (financial markets) is definitely wagging the dog (fundamental supply vs. demand) in many commodities. Finally, CNBC now dedicates about 30%-40% of their day to commodities, up from 10% two month ago.

As with the “tech bubble”, this situation can persist for several years, however, we are willing to be wrong for three years in order to be right over five. The problem with getting trapped in these bubbles is that it is tough to know when to get out. Bubbles are volatile, and when you have seen your favorite sectors come back from 10% corrections on a regular basis, it’s tough to know if this is the time it doesn’t come back (in 2000 the true panic started after a 30% drop in the NASDAQ).

We are sitting out the commodity boom (approximately 10% total portfolio exposure in selective “asset plays”). The fund has been remarkably stable on a day-to-day basis, with maybe four days during the month where the net asset value moved more than 1% (just barely). Furthermore, we are seeing very little day-to-day correlation with any major market indices (i.e. TSX, NASDAQ, Russell, S&P 500). This is largely attributable to the diversification of the fund, with over 30 positions, and no 10% of the fund showing any particular correlation with any other 10% on a day-to-day basis. We are currently fully invested on the “long-side” (50% Canadian, 50% U.S.) with very little “short” exposure due to fear of takeovers and LBOs (anything under 20x earnings is seemingly a target for private equity nowadays thanks to cheap leverage).

Thank-you again for your support,

Brandon Osten