SHORT IN MAY…(or something to that effect)

April was a successful month for the Founders Fund, which experienced a gain of 5.2%. This puts our year-to-date return at 14.8%, our twelve month return at 41.7% and our NAV at $15.29 per unit. Before we start patting ourselves on the back, it's worth noting that April was a very strong month for the markets in general. As a result, our 30% short position proved quite costly. We continue to short what we estimate to be our market risk (i.e. those stocks that are sensitive to factors outside of management control such as commodity prices, as well as higher P/E multiple positions), which has provided "dampened" returns but has demonstrated our ability to find outperforming investment opportunities.

We have been taken aback by a complete lack of skepticism in the market and inflationary factors on valuation. In fact, we can find very few areas where valuations appear to be in decline. The Fed appears unlikely to lower rates, yet no one appears terribly concerned anymore. Commodities continue to hold their all time highs, yet inflation is nowhere to be seen in the eyes of the market (although reality begs to differ). The Congo is now considered to be a first world, stable political environment (as evidenced by 6% discount rates attributed to mining companies in the region, only slightly above that of a Canadian Government Bond). Income Trust investors seem to have forgotten that they will be taxable starting in 2011. We have seen a rebirth in the zero-revenue, $200MM market cap tech start-up. Poor, mismanaged companies are expensive, as it is a forgone conclusion that they will all turn themselves around; if not, private equity will come to the rescue. The consumer will continue to spend, unencumbered by high oil prices, higher mortgage rates, and a worsening employment picture.

Unfortunately, the longer this situation persists, the worse the endgame. While certain fundamental characteristics can be sustained for a little longer (which could admittedly last a few years), such as tight commodity supplies, low junk debt rates for LBOs, and reduced amounts of investable equity, eventually these situations have a way of reversing themselves. Economies that expand too quickly tend to "overbuy" and aren't prepared for the slowdown; when commodity prices stay too high for too long, too many projects get completed creating too much supply going forward; too many LBOs too quickly will create too much equity supply down the road when they decide to "monetize" their investments; and too much junk debt issuance will eventually drive up the junk yields and make these deals too expensive.

The Fund's percentage allocations remain for the most part unchanged. We are 70% invested in Canada and 30% invested in the US. This overweighting of Canada is due largely to our continued opinion that Canadian small-cap industrials remain a rare neglected sector. However, we also believe that the money funneling into emerging markets and commodities have left some good "pockets of value" in the US as well. We continue to maintain a 25% short weighting as a hedge against a potential market correction. While it is not our goal to time the market, it appears to us that there is too much unbridled optimism pumping up the market nowadays.

As Always, Thank you for your support,

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