

ON THE DEFENSIVE?

July was a solid month for the Founders Fund, which managed to post a 3.3% gain despite weakness in the core markets that we track. This puts our year-to-date return at 19.0%, our twelve month return at 62.6% and our NAV at \$15.84 per unit. As stated above, July was a very weak month for the markets in general, as early gains reversed themselves moving markets from up 3%-5% mid month, to loss positions by month end. US housing and mortgage stocks collapsed as investors gave up on calling the bottom. This spilled over into the rest of the market as investors started figuring out that American companies weren't doing so well once international operations were backed out of financial results, and that private equity has flooded the market with so much debt that getting 22x earnings for sub-10% growth companies might become tougher to come by when they have to start paying 7% on the leveraged debt used to finance these deals.

Canada didn't fare as poorly, being only down marginally (however the TSX was up 5% mid-month); but, concerns remain over items such as financial exposure to the US, the manufacturing sector's issues with the strong Canadian dollar/weak US dollar, risk premiums attributed to junior resource plays and cost escalation for resource companies in general. In our own opinion, this "cost escalation" may be due to the fact that oil, for example, when converted to US dollars circa the 2000 Loonie exchange rate, is actually below \$50.00 (and gold is below \$500 and so on; this is fun to try with the Euro, too); the panic mongers in the press may want to start focusing more on the deterioration of the greenback (which these commodities are priced in) rather than sensationalizing \$80.00 oil.

Another alarming trend is the reversal of fortune in small caps (generally, not good for us) with the Russell 2000 down 7% in July and 1.5% year-to-date, versus positive year-to-date performances by the other diversified indexes that we track. The Russell 2000 has fallen from a high of 855 to a low of 755, putting it firmly in correction territory with other markets not that far behind. That being said, as is usually the case with these negative market moves, the bulls and bears are in disagreement; the bulls are saying that nothing has changed in the past month, while the bears are saying that the market is starting to appreciate the risks it had previously ignored. We don't know who is right and we can say that we understand both sides of the coin, but we have positioned the fund rather defensively just in case.

The Fund itself is currently positioned for capital preservation. A full 65% of the Fund is invested in companies trading below 10x our 2008 earnings estimates (two-thirds of which trade at approximately 10x our 2007 estimates). While earnings can be difficult to predict with any certainty, we do not believe that any of these companies have any cyclical factors that will work against them within the next three years, and all have shown solid year-over-year growth with good revenue visibility through the end of 2007. The remaining 35% is invested in growth companies trading above 15x 2008 estimated earnings or resource stocks trading below their Net Asset Values, and we are currently carrying a 30% short position to hedge out the valuation risk of these issues.

July was also a busy month at Venator Capital Management. We went through a painful and extensive IT systems upgrade (if you were thinking of upgrading to Vista ... wait). We also are in the process of finalizing our Fundserv certification, which will allow those looking to invest in the RSP Trust to do it through their existing brokers. With regards to the RSP Trust we are working hard to get to our 150 investor goal, and are optimistic we will get there by the end of this year. Finally, JoAnne is now registered as our Head of Institutional Sales which enables her to move on from her previous operational role into sales and marketing.

As Always, Thank you for your support,



Brandon Osten, CFA
President, Venator Capital Management Ltd.