

## BULLS, BEARS and ... ANTELOPES?

Venator's funds managed to keep pace with a surprisingly flat market in the month of August. Although we should no longer be surprised by these trading patterns, the general markets continued to post consistent 1%+ intraday moves en route to flattish monthly results, a hallmark of the markets since February. Venator's results, contrasted with the market, are noted in the chart below.

Instrument	Monthly Return	Year-to-Date Return
<b>Venator Founders Fund*</b>	<b>3.7%</b>	<b>12.4%</b>
<b>Venator Income Fund</b>	<b>1.8%</b>	<b>1.8%</b>
TSX Composite	1.3%	-0.4%
Russell 2000	3.4%	-3.5%
S&P Toronto Small Cap	0.8%	-9.4%
S&P 500	1.3%	-12.6

- \* The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund

At this point we are losing sight of whether we are in fact in a bear market anymore, and it is difficult to see where the next move is from a macro standpoint (good thing we are bottom-up stock pickers, rather than top-down money managers). The truth is that markets have been in a volatile holding pattern since February, despite rumours to the contrary. Since a rough start to the year, what were perceived to be market recoveries never turned into more than fizzled rallies, indicating good support for markets but lacking the capitulation necessary to mark a true bottom or new bull market. The US economy looks weak, but stock valuations appear reasonable (excluding over-levered companies that may have trouble rolling their debt). China and India are down 50% this year (for reference, it took the NASDAQ 8 months to drop 50% too, before it dropped another 50% over the next 18 months). Canadian markets' reliance on resources and financials have given it a flat year, but the excessive weighting towards the former in the small cap arena has caused the TSX small cap index to unravel. Agricultural commodities appear to be blowing off a short-term rally, as is natural gas. While the market celebrates \$120 oil, with daily \$6.00 moves becoming a regular occurrence, we are merely a week away from \$150, or \$100. What we are trying to illustrate here is that there is plenty of room for both bears and bulls to get excited on a daily basis, with daily 1%-2% moves making each party think they are right every other day:

- Oil bulls can say that supply/demand remains tight and nothing has changed in the outlook since oil hit \$140, the bears can say that the US dollar is rising and Europe and China are headed towards a US-caused slowdown, and that nothing has changed since oil was at \$60.

- Copper bulls can say that copper supply/demand fundamentals remain the same and the stocks look cheap, bears look at nickel and zinc price collapses and wonder what makes copper so special that it won't suffer the same fate.
- US market bears point to the ongoing credit crisis, the weakening consumer, and that stocks will get more expensive as earnings continue to fall, the bulls say that stocks are cheap (many great companies trade at 10–12x earnings) and that we are near the bottom.
- Emerging market bulls take a 10–year view on nearly guaranteed economic expansion in these markets, while the bears have shifted their concerns from valuation (good call) to whether or not they can maintain above 5% growth rates without a strong US export market.

Frankly, we think all of these views make sense. The problem is that the fundamental differences are what make this market uninvestable from a macro standpoint. It's far easier to ride an obvious economic expansion and simply argue about valuation (yes, we miss the 1990's, too). We will have to live in this antelope market, hopping noticeably up and down on a daily basis, without gaining speed in either direction, until the bear or the bull slays it. Investors need to stay focused, pick their spots and try to ignore the daily volatility. If you think a lot of US financials are going to zero, then you need to ignore the 50% short covering rallies. If you think oil is going back to \$150, hold onto those stocks. If you think retailers look cheap at 10x earnings, go get'em.

At Venator, we have become infatuated with the medical services and devices markets. Our three largest positions in the Founders Fund are in the healthcare markets. In fact, at this point over 35% of the Fund is leveraged to healthcare. We have found that there are still a few out there that trade at very reasonable valuation with some big upside "kickers", because in this market, they are not getting a lot of value for the "kickers". Outside of that, we think we are very well positioned in terms of defensive businesses trading at low valuations and we continue to see a lot of upside in these names. We appreciate your continued faith in our stewardship of your money.

Thank you for your support,



Brandon Osten, CFA  
President, Venator Capital Management

*This is intended for informational purposes and should not be construed as a solicitation for investment in any of Venator's Funds. The Funds may only be purchased by Accredited investors with a medium-to-high risk tolerance who are seeking long-term capital gains. Read the Offering Memorandum in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of shares. It is important to note that past performance should not be taken as an indicator of future performance.*