VENATOR
CAPITAL MANAGEMENT LTD.

ALL THAT GLITTERS IS GREEN

Congratulations! All Venator funds finished the month at record highs in October. This means that everyone currently invested with Venator has made money, which is the whole point of the exercise; not an easy feat given that our benchmarks are down approximately 20% since our March 2006 Founders Fund (up 73%) launch, down 25% since our January 2008 Catalyst Fund launch (up 17%), and down 20% since our August 2008 Income Fund launch (up 21%). Of course the bad news is that you are all paying performance fees again, which is actually good news from our perspective. We would also like to thank-you for sticking with us during these tough times, noting that we only had three small redemptions through the bear market.

Instrument	October's Return	Year-to-Date
Venator Founders Fund[1]	**2.3%**	**41.2%**
Venator Income Fund[2]	**1.6%**	**32.5%**
Venator Catalyst Fund[3]	**0.2%**	**11.8%**
TSX Composite	-4.2%	21.4%
Russell 2000	-6.8%	12.7%
S&P Toronto Small Cap	-0.4%	39.0%
S&P 500	-2.0%	14.7%

1. *The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund.*
2. *YTD of Fund is for Class "F" units net of distributions reinvested. The benchmark of S&P/TSX Income Trust is no longer relevant as the Fund is now comprised of a high proportion of bonds.*
3. *The Venator Catalyst Fund has no benchmarks.*

There has been a lot of talk about the demise of the US dollar lately. It started at the beginning of the month with a publication out of the UK about how various government bodies are currently conspiring to move oil purchases away from US dollars (incidentally, this was not an article based on fact). This started a run on all commodities (which tend to move inversely to the dollar) and especially gold, which is a pure play on the dollar's demise as it is the one commodity that has no pesky fundamental economic underpinnings.

Now we all like paradigm shifts, surprise endings and outspoken contrarians, but things don't change that quickly or easily, and contrarians are usually wrong (you only hear about the ones that are right…after the fact). Some things are the way they are for a reason, and the US is the dominant currency standard for many reasons. This is unlikely to change anytime soon.

For one thing: If not the greenback, then what? Speculation is that we could go with the "basket" approach, but even then the greenback will likely remain the dominant part of the basket. There really aren't a lot of ways to safely bring other currencies into the basket without lowering the quality of the reserves. Do countries really want to put their reserves in the mafia-influenced ruble? Or the demographically challenged yen? Or the centralized euro whose monetary policy is controlled by a bunch of disparate governments with their own political agendas? Anyone for Middle Eastern kingdoms/dictatorships? I could see the Indian rupee in there, as well as the Brazillian real. Admittedly, Canada should be in there to the greatest extent possible. Letting China in there to any great extent will have negative consequences in due time (explained below).

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The US is number one for several important reasons that aren't likely to change. For one thing, you need a big float in a country that does a lot of (relatively free) international trade. Not too many countries or commodities have the trade (Brazil) or float (Canada) requirements. You want a democracy where the people can vote out bad leadership without a bloody and disruptive revolution. You want a capitalist system where resources flow to the most efficient places and companies are encouraged to trade internationally without excessive government aid (they can stand on their own two feet). You want a country where the intellectual property is owned, because it's tough to compete sustainably by being the low price assembler. You want a strong army with a near impregnable fortress-like geographic situation so that all the points above can remain in place with relative ease.

Most importantly, you really want a country that embraces immigration. I cannot overstate the importance of this in a demographically challenged developed world. Watching last year's Beijing Olympics, the Chinese government tried to show off their cultural and economic strength; but what I saw was their greatest weakness. While America, Canada and the UK showed off a multicultural rainbow of whites, blacks, Asians, Hispanics and Arabs, the Chinese procession was entirely Chinese (the same "uni-culturalism" can be observed in most countries). Barak Obama, a mixed race minority with a non-citizen father and light-weight religious dedication, wouldn't have been able to get elected to the role of President 20 years ago. Imagine how far behind the Middle Kingdom is with regard to multiculturalism and making immigrants feel comfortable that they can set up a permanent multigenerational family within that country. This will be a massive advantage to America in 10 years when China's one child policy catches up to them in a very bad way (if you think Japan's demographic situation is bad, we would suggest that you ain't seen nothing yet).

Being the reserve currency holds a massive self-fulfilling advantage. Namely that most of its debt is denominated in its own currency. If they need to fire up the printing presses to pay down the debt the world knows nearly exactly how much they need to print. It's comforting for their creditors to know that the US would never need to print an unlimited amount paper to pay off its debts. It's also the reason why other countries that issue debt do it in US dollars and can't do it in their own currencies. Yes, we realize that in theory the Fed and the Treasury are supposed to run on separate agendas and that the Fed isn't supposed to bail out the Treasury; but let's face it, if the last twelve months have taught us anything, it's that in times of crisis, the two departments know how to cooperate.

The gold bugs would have the world revert to a gold standard which is something that is unlikely to happen. For one, the float in value just isn't there. We have been doing some cursory research (gold isn't our specialty so we aren't dedicating too much time to this) and estimate that the amount of US dollars held as foreign currency reserves is about $10 Trillion dollars (64% of all foreign currency reserves) with total foreign currency reserves of all currencies at $16 Trillion. The total value of all gold ever mined is roughly 5 billion ounces equating to $5.5 Trillion at $1100 per ounce. The total amount of gold held as currency reserves is roughly 1 billion ounces worth roughly $1.1 Trillion at $1100 per ounce; the US owns $300 billion of that. The total gold float not held as jewelry is roughly $1.7 Trillion (one-third of all gold). To go to a pure gold standard you would need about $16 Trillion of gold. If you eliminate jewelry you would need gold to go to $14,000-$16,000 per ounce. Interestingly, that makes the US Government's holdings of gold worth $4.5 Trillion, or equal to roughly one-third of its gross national debt. The way we are thinking about it is that this is such a ridiculous goal, that there is no real point in even moving in that direction. Note that gold is quite useless from a practical point of view and pays no interest (although the same could be argued about the US dollar right now – technically it's just a piece of paper that pays no interest). Countries also are not likely to want the potential for reserves to be decimated by a big gold find (basically what happened to Spain's silver reserves five hundred years ago, which economically crushed the country). Countries would be better off building fields of storage tanks to hold oil than vaults to hold gold.

In any case, the US dollar would still likely remain the dominant currency of global commerce anyways. We have been doing some research into this, but admittedly can't seem to get to the consensus dollar figure of global securities denominated in US dollars that are not held domestically. We have seen numbers ranging from $30 Trillion to $50 Trillion. As we said above, no other currency has the float or clout to pull this off. Therefore, it would be pretty tough for the global economy to materially reduce its dependence on the US dollar as the dominant global financial currency.

It takes a long time to move off a standard. If the greenback can hang on to its reserve status for another ten years, then it is unlikely to lose that exalted position in my lifetime. By 2020, China's inevitable demographic disaster will be upon them (and possibly a revolution depending on how bad it gets). By 2020 the big infrastructure build-out will be behind us. By 2020 oil demand will be on the wane while natural gas demand will be on the rise. All these items will only re-strengthen the greenback's status in global trade. Yes, America will have some substantial social programs to pay for, but amazingly most of the fiscal problems could be solved with a 5% GST (not sure what political party will be tasked with justifying that political hot potato).

On a corporate note, Venator is proud to welcome Avner Mandelman and his nearly 30 year's investment experience to the team, pending OSC approval. Avner is very well respected in the financial community, having been the Research Director at three respected brokerages, and most recently the Founder of Giraffe Capital, running a successful technology-focused hedge fund which returned approximately 14% per year over its 9-year existence during a very turbulent time in the technology market.

Thanks for your continued support,

Brandon Osten CFA
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