August 2011

		Fund			S&P500	
	MTD	*YTD*	*Inception to date*	*MTD*	*YTD*	*Inception to date*
Dec 2005		**+14.01%**	**+14.01%**		**+4.78%**	**+4.78%**
Dec 2006		**+16.91%**	**+33.29%**		**+13.62%**	**+19.05%**
Dec 2007		**+4.06%**	**+38.70%**		**+3.53%**	**+23.25%**
Dec 2008		**-47.99%**	**-27.86%**		**-38.49%**	**-24.18%**
Dec 2009		**+42.74%**	**+2.97%**		**+23.45%**	**-6.40%**
Dec 2010		**+24.94%**	**+28.65%**		**+12.78%**	**+5.57%**
Jan 2011	**+1.84%**	**+1.84%**	**+31.02%**	**+2.26%**	**+2.26%**	**+7.96%**
Feb 2011	**+3.93%**	**+5.85%**	**+36.17%**	**+3.20%**	**+5.53%**	**+11.41%**
Mar 2011	**+6.77%**	**+13.01%**	**+45.38%**	**-0.10%**	**+5.42%**	**+11.29%**
Apr 2011	**+1.11%**	**+14.26%**	**+46.99%**	**+2.85%**	**+8.43%**	**+14.46%**
May 2011	**-1.47%**	**+12.58%**	**+44.83%**	**-1.35%**	**+6.96%**	**+12.92%**
June 2011	**+2.39%**	**+15.26%**	**+48.28%**	**-1.83%**	**+5.01%**	**+10.85%**
July 2011	**-0.96%**	**+14.15%**	**+46.85%**	**-2.15%**	**+2.75%**	**+8.47%**
Aug 2011	**-7.47%**	**+5.62%**	**+35.88%**	**-5.68%**	**-3.08%**	**+2.31%**

In August the Fund was down 7.47% and the S&P500 was down 5.68%. There was a massacre early in the month for reasons I think were ill-founded, and consequently there has been the usual risk aversion: big stocks received flight capital and every subsequently smaller index did worse until we get to the Russell 2000 which was down 8.81% on the month. We stayed in touch with the mid cap indices because of a few growth stocks, including Green Mountain, that are reluctant to go down for long.

In last month's report, I forecast an October massacre, next year but not this, as there was no excess in the market and a panic in this traditional month seemed unreasonable. Unfortunately we were already into it, even though we started from a low base and a crack in the summer is unusual. However, these events are likely on an annual basis when there is fragility in the system and we have now had May 2010 and August 2011 which have similar characteristics to the Octobers of 1978 and 1979. As before, a succession of negative news items and suddenly confidence is gone. The fears are familiar from the bear market of 2008 and for this reason alone they are wrong, as nothing is ever the same twice.

As the fall was an echo, it was cyclicals that got worst hit on recessionary fears, a process brought to a timely end by Buffett's investment in Bank of America, the most cyclical large bank. We gently moved into Jos B Clothiers and Dollar Tree, two stocks where we have previously done well and which do better as people get poorer. They have already helped this month.

These sharp drops are confidence breaking, and are meant to be. People get sick of equities and give up on them and fund outflows this year verify this. With all the money vanished from the system and military spending still high, it takes years for the robustness to return. However, recognising past problems as being known and thus solvable enables us to have some confidence and to remain fully invested while the media is consistently and universally pessimistic.