February 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%**

In February the Fund was up 3.93% while the S&P500 was up 3.20% putting us at a new recovery high. We are now better than at any time before 2007 and better than any time since 2007 and we just have ten higher levels after February 2007 ahead. A climb of 11.94% is required from here to equal the high of October 2007. At that date the S&P500 was 1549.38 against 1327.22 now, or 16.74% higher, so all is not lost from a performance point of view but we still have a way to go to recover the actual loot.

In the month, we did well with a variety of different types of stocks but frequently they were linked to commodities or were already expensive or had some debt. Their outperformance may make us look clever now but these are the same types of stock that fell in 2008. The problem, to a certain extent, is a continuation of the risk on–risk off trade which can have surprising consequences. For instance, rising oil prices due to the Middle East are counterintuitively associated with a bond market rally: the reduction in consumer confidence and wealth is recessionary and thus bond positive. Until this unrest, however, commodity price rises were bond price negative as they are inflationary. While it would be more relaxing to just have debt free stocks, preferably with a decent book value and return on equity too, where we have them has just reduced performance in this fast rising market. Warren Buffett said that debt speeds things up though reduces the margin for error, but if the sector is in an upswing we can take on a little debt. In February the first margin pressures on consumer stocks appeared as rising commodity prices affected their fourth quarter earnings. The cans of their drink, the prices of their beans or the cost of their freight are reducing growth rates and so shutting down the hatches and going into defensive consumer names is not an option.

The corporate outlook remains benign with no wage pressures and continued strong earnings. Risks taken to pay high multiples for fast growing stocks have paid off as hopes have been justified. We have few technology stocks because of their valuations and this has been a mistake as they have become even more expensive. We do have one or two horses running and I am shocked to say we actually own the stock recently voted the most expensive in the entire market, Green Mountain Coffee Roasters which we have held for five years and a tenfold gain. This genre is a minority to give balance in what is generally a value based portfolio. The surge in growth stocks has not been ideal for us but we have kept up by having some which have more than participated. It's about time value had a bit more of a run – I hope it does as this is what we have been waiting for.

Risk Warnings and other important information