January 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%**

In January the Fund was up 1.84% and the S&P500 was up 2.26%, in a month that is traditionally the best for small caps. This time, however, we are pleased to have kept in touch as the January effect was so fleeting that small stocks underperformed and the Russell 2000 was actually down slightly on the month.

There is a lot happening, cyclicals are remaining in the ascendant and the market is strong. If it hadn't fallen on Friday 28th, the Dow Jones would have had the longest run of up weeks since 1995. This was one of the strongest uptrending periods when it was reasonable to just stay fully invested. I think this is also the case now. In that mid-90s acceleration from the 1990 recession low, the correction didn't come until the summer of 1997. Emerging markets peaked at the end of 1993 and I remember Barton Biggs, a reasonable consensus chap, writing then that Americans were happily investing in countries they wouldn't dream of visiting. He was commenting on Egypt. They fell then on a rise in short-term American rates which is likely soon, but today it is inflation and the Middle East that worries them most, and having big profits again, they have wobbled.

As for the US, small stocks correlate with emerging markets and that, with the dollar weakness, explains their underperformance this month. The market is so skewed that in the cyclicals we get rescued. For instance, I bought some Potash for arbitrage after the BHP bid, and when that bid failed for political reasons we deserved to be punished severely but made a profit as the stock just floated up and away above the defunct bid. Smurfit Stone Container (the old Jefferson Smurfit and Stone Container) had been out of bankruptcy six months which is always interesting as these situations tend not to be followed and investors are fed up, so valuations can be low. Within a month of owning them we caught a bid and now there is a fight for a packaging company that for years no one would touch. Conversely in consumers, we have some very strong, growing franchises which just go sideways, raising the dividends and getting stronger, waiting as bond yields rise and their values compress.

Cyclicals can be problematic once they have been leading for a few years as danger lurks. Last autumn I looked at rare earths and found they weren't rare. I was back with Mark Twain's dictum that 'a gold mine is a hole in the ground owned by a liar', but exploration is booming and prices are high. We've bought a little Arctic Cat, debt-free, and the only play in snowmobiles and all-terrain vehicles. After a decade of having fun it is now also being run for profit. It's a cheap play on invading the tundra and farming. There's always a way.

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