December 2013

		Fund			S&P500 Index	
		Performance	*Inception to Date*		*Performance*	*Inception to Date*
2005		**+14.01%**	**+14.01%**		**+4.78%**	**+4.78%**
2006		**+16.91%**	**+33.29%**		**+13.62%**	**+19.05%**
2007		**+4.06%**	**+38.70%**		**+3.53%**	**+23.25%**
2008		**-47.99%**	**-27.86%**		**-38.49%**	**-24.18%**
2009		**+42.74%**	**+2.97%**		**+23.45%**	**-6.40%**
2010		**+24.94%**	**+28.65%**		**+12.78%**	**+5.57%**
2011		**+1.79%**	**+30.96%**		**0.00%**	**+5.56%**
2012		**+24.17%**	**+62.61%**		**+13.41%**	**+19.71%**
	MTD	*YTD*		*MTD*	*YTD*	
Jan 2013	**+5.52%**	**+5.52%**	**+71.58%**	**+5.04%**	**+5.04%**	**+25.75%**
Feb 2013	**+3.32%**	**+9.03%**	**+77.28%**	**+1.11%**	**+6.20%**	**+27.14%**
Mar 2013	**+5.55%**	**+15.08%**	**+87.12%**	**+3.60%**	**+10.03%**	**+31.72%**
Apr 2013	**-2.18%**	**+12.57%**	**+83.04%**	**+1.81%**	**+12.02%**	**+34.10%**
May 2013	**+3.13%**	**+16.09%**	**+88.76%**	**+2.08%**	**+14.34%**	**+36.88%**
Jun 2013	**+1.47%**	**+17.80%**	**+91.55%**	**-1.50%**	**+12.63%**	**+34.83%**
Jul 2013	**+7.35%**	**+26.46%**	**+105.63%**	**+4.95%**	**+18.20%**	**+41.50%**
Aug 2013	**-1.22%**	**+24.91%**	**+103.12%**	**-3.13%**	**+14.50%**	**+37.07%**
Sep 2013	**+4.86%**	**+30.98%**	**+112.99%**	**+2.97%**	**+17.91%**	**+41.15%**
Oct 2013	**+2.92%**	**+34.81%**	**+119.21%**	**+4.46%**	**+23.16%**	**+47.44%**
Nov 2013	**+4.48%**	**+40.85%**	**+129.04%**	**+2.80%**	**+26.62%**	**+51.58%**
Dec 2013	**+1.50%**	**+42.96%**	**+132.46%**	**+2.36%**	**+29.60%**	**+55.15%**

In December, the Fund rose by 1.50%, while the S&P500 rose by 2.36% to finish the year at +29.60%, its best year since +31% in 1997. In the month, there was a general reversion with the outperforming groups such as small stocks doing worst, and laggard groups such as energy, catching up. The Fund was affected by this, and was also hit by bad earnings, again, from Village Stores, and by Steiner losing a contract from Celebrity Cruises. When you are a hairdresser on cruise ships, you'd better keep growing earnings as it is hard to find asset value to fall back on. In mitigation, our community banks came back to life and generally broke out to new highs.

The Fund finished the year at +42.96%, narrowly edging out the recovery year of 2009, to be our best year since inception in 2005. I am pleased to say this beat every specialist index I could find, including the obscure S&P500 lowest 100 P/Es, and S&P600 growth stocks only, both of which were up around 40%. This exercise shows if we are missing any new themes and in these cases, we are, as we're not much represented in those indices, although we do go for cheaper stocks. We hit themes best in the group analysis where we are overweight both the best groups of the year: consumer discretionary, which was +40% and industrials at +37%.

It is an unusual situation, but we have actually been in the best asset class in the world. Apart from Japanese equities in yen, which again is too obscure, the US smaller caps have been the place to be. This is shocking as a lifetime of conditioning leads me to expect this as often as a blue moon. A good year for equities means everyone wants emerging markets and a bad year means, well, there are other asset classes beating US equities. I last remember this happening in 1983, before emerging markets were even recognised as an asset class and since then the US has performed its usual function of being known, but not loved.

While this has created the expected press attention that the US must now be overvalued and we should look again to emerging markets or Europe to catch up, there is a chance they are wrong. The US small stock peak in June 1983 was a speculative excess that had been cooking for eight years. The gap of 30 years is about right for long cycles to build again: consider stock market lows in 2009, 1974, 1940 and 1907 to feel the 34 year cadence of another beat. Being best asset class does strange things to investors' behaviour and there is just a chance speculation will build up rather than rotate away. Small stocks have not yet seen many indications of increasing excitement and the conditions are in place this could happen in the next few years. This thesis is just a hope, but we have a chance, and even after this good year, our stocks remain undiscovered and still don't look overpriced.

Risk Warnings and Other Important Information

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