

January 2012

		Fund			S&P500	
	<i>MTD</i>	<i>YTD</i>	<i>Inception to date</i>	<i>MTD</i>	<i>YTD</i>	<i>Inception to date</i>
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%
Dec 2011		+1.79%	+30.96%		0.00%	+5.56%
Jan 2012	+8.46%	+8.46%	+42.04%	+4.36%	+4.36%	+10.16%

In January the Fund rose by 8.46% and the S&P500 by 4.36%, as we had the best January effect since January 2006, yet the difference this time is that while that year was a continuation, this year came as a reversal of all trends in place the previous month. As investors looked around for languishing small stocks to start the New Year we recouped most of the ground since we started to give up performance at the beginning of August when S&P downgraded the US, sparking a flight to safety.

The sustainability of this new move will now depend on whether the US continues to turn the corner but as many of our sectors have been going down since 2005, we are happy that the risk reward is favourable. We had a clue in December: though tiny overall at only \$15 million, we found it difficult to move just 0.5% into any bombed-out small stock as volumes were so low. Overall volumes in small stocks contracted more than 25% last year, a statistic which correlates with any rally in them being sustainable.

In the month we had two stand-out winners in these sectors: earnings from Marine Products and Arctic Cat. I talked about the snowmobile maker a few months ago almost for amusement, as this is surely not a sector to make serious money but it has now doubled since we bought it, our 0.6% rising to 1.2% of the Fund. Marine Products, maker of esteemed fishing boats and other small recreational craft, effectively shut down operations during the recession and this moment when they actually sold a few boats had an electric effect.

The common theme is the debt free balance sheet which at this stage is rare but is scattered throughout our consumer durables. We take the view this is an American recovery and small and strong in the heartlands, making things Americans once bought, is where we want to be.

Risk Warnings and other important information

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