**July 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%** |

In July the Fund was down 0.96%, while the S&P500 was down 2.15%. The June figure has been restated as I took the figures from the 29th instead of the 30th. Last month we were +2.39% v -1.83% not the +1.66% v -2.81% as reported.

July was held together by good results from Green Mountain to the extent that CEO Blandford said he was ‘humbled by the business opportunities before him’. Furthermore the Stifel analyst placed his long-standing sell rating under review, saying he’d been ‘wrong, to put it mildly’. The only previous times I’ve seen a CEO feel humbled have been accompanied by handcuffs, and I have never come across an analyst proclaim such a mea culpa. In the spirit of such enormous discovery, and, as we do best when pressing winners, I decided we should have a little more even though it’s our largest position.

It’s a relief to have success stories because there was plenty of pressure on small stocks which are now underperforming year to date with the Russell 2000 down 3.61% on the month and back to the levels of last December. Generally, this relates to risk aversion, but specifically, and more

dangerously, there is fear of the slow US recovery halting completely. We take the view there has been a sufficient undermining of the dollar that if anywhere falls again, it won't be the US.

Once again, it has been a case of sell in May and go away but this wasn't meant to happen in 2011, the third year of the Presidential cycle, especially as Obama is strongly fancied for a second term. Usually, Presidential stimulus, causing recovery, would have led the bull market to a third good year. This time there are hiccups, though, as so much has been lost from the system and we are in this different but analogous period to the late 1970s. The summer silliness of country downgrades and politicians being roped in is reminiscent of the UK in late-summer 1976, when Chancellor Healey was recalled from the airport to fend off an IMF downgrade of the UK. He'd previously called inflation at 8.4%; which it was, annualised over the previous three months as he'd cut VAT. Over the next twelve months it was 21%, to no-one's surprise. This type of short-termism; desperation to get to the next election, or even just to the end of the summer, is being repeated now with reassurances about Greece's solvency and other bluffs which no taxi driver finds credible. Union discontent has been replaced by general discontent in the marginal countries. It is detrimental, but not fatal, for stocks.

Pushing our luck with the analogy, we can forecast an October massacre next year but not this, gold to peak in 2014 and stocks to be in a volatile trading range until 2016. But it is the differences between the two periods which fascinate. In the 1970s, the industrials won as they had price flexibility in a strong labour market. Today, there is weak final demand so any firm which improves the supply chain, either manufacturer or distributor, does well. Innovation is the more likely path to success. This does not mean we have to be in cloud computing: for instance MWI Vets distributes pet medicine more efficiently than anyone else. Cyclicals should have it now, as then, on the weak dollar, but is growth better than value as it is so rare? The best ever time for US smaller companies was 1975 – 1983 and although they are only up 1.7% year to date, this year's pace set by the S&P400, the mid-caps, is only up 4.0%. Despite bad news everywhere and the ongoing squeezing for the first world middle classes, it is strangely possible to find stocks unaffected which are behaving like rockets – just finding and keeping seems key.


## Risk Warnings and other important information

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