

## July 2015

|                 |               | Fund               |                          |               | S&P500 Index       |                          |
|-----------------|---------------|--------------------|--------------------------|---------------|--------------------|--------------------------|
|                 |               | <i>Performance</i> | <i>Inception to Date</i> |               | <i>Performance</i> | <i>Inception to Date</i> |
| <b>2005</b>     |               | <b>+14.01%</b>     | <b>+14.01%</b>           |               | <b>+4.78%</b>      | <b>+4.78%</b>            |
| <b>2006</b>     |               | <b>+16.91%</b>     | <b>+33.29%</b>           |               | <b>+13.62%</b>     | <b>+19.05%</b>           |
| <b>2007</b>     |               | <b>+4.06%</b>      | <b>+38.70%</b>           |               | <b>+3.53%</b>      | <b>+23.25%</b>           |
| <b>2008</b>     |               | <b>-47.99%</b>     | <b>-27.86%</b>           |               | <b>-38.49%</b>     | <b>-24.18%</b>           |
| <b>2009</b>     |               | <b>+42.74%</b>     | <b>+2.97%</b>            |               | <b>+23.45%</b>     | <b>-6.40%</b>            |
| <b>2010</b>     |               | <b>+24.94%</b>     | <b>+28.65%</b>           |               | <b>+12.78%</b>     | <b>+5.57%</b>            |
| <b>2011</b>     |               | <b>+1.79%</b>      | <b>+30.96%</b>           |               | <b>0.00%</b>       | <b>+5.56%</b>            |
| <b>2012</b>     |               | <b>+24.17%</b>     | <b>+62.61%</b>           |               | <b>+13.41%</b>     | <b>+19.71%</b>           |
| <b>2013</b>     |               | <b>+42.96%</b>     | <b>+132.46%</b>          |               | <b>+29.60%</b>     | <b>+55.15%</b>           |
| <b>2014</b>     |               | <b>+3.92%</b>      | <b>+141.59%</b>          |               | <b>+11.39%</b>     | <b>+72.82%</b>           |
|                 | <i>MTD</i>    | <i>YTD</i>         |                          | <i>MTD</i>    | <i>YTD</i>         |                          |
| <b>Jan 2015</b> | <b>-2.59%</b> | <b>-2.59%</b>      | <b>+135.32%</b>          | <b>-3.10%</b> | <b>-3.10%</b>      | <b>+67.46%</b>           |
| <b>Feb 2015</b> | <b>+3.53%</b> | <b>+0.84%</b>      | <b>+143.63%</b>          | <b>+5.49%</b> | <b>+2.21%</b>      | <b>+76.65%</b>           |
| <b>Mar 2015</b> | <b>+0.99%</b> | <b>+1.84%</b>      | <b>+146.03%</b>          | <b>-1.74%</b> | <b>+0.44%</b>      | <b>+73.58%</b>           |
| <b>Apr 2015</b> | <b>-1.96%</b> | <b>-0.15%</b>      | <b>+141.22%</b>          | <b>+0.85%</b> | <b>+1.29%</b>      | <b>+75.06%</b>           |
| <b>May 2015</b> | <b>-1.89%</b> | <b>-2.04%</b>      | <b>+136.66%</b>          | <b>+1.05%</b> | <b>+2.36%</b>      | <b>+76.89%</b>           |
| <b>Jun 2015</b> | <b>+1.98%</b> | <b>-0.10%</b>      | <b>+141.35%</b>          | <b>-2.10%</b> | <b>+0.20%</b>      | <b>+73.18%</b>           |
| <b>Jul 2015</b> | <b>-2.03%</b> | <b>-2.13%</b>      | <b>+136.21%</b>          | <b>+1.97%</b> | <b>+2.18%</b>      | <b>+76.60%</b>           |

In July the Fund fell by 2.03%, while the S&P500 rose by 1.97%, in a reversal of last month's moves. Worldwide slowdown returned as the dominant theme and drove growth at any price. Consequently, the types of stock doing best were, again, the type we do not have. Small cap indices were down, and within them, we did better than the Small Cap Value Index but worse than the Small Cap Growth Index.

We are not neutral about market sectors. The continued worldwide deflationary pressure is not a surprise. We have no precious metals, no materials and no energy and so are dodging what is now called the worst commodity bear market in 30 years. We do have many consumer stocks and many are doing very well. New highs were achieved by Calavo Avocado Growers, Servicecorp Funerals and J&J Pizzas this month. We also have many community banks which have reported very good second quarter earnings, and are making highs based on upturns in mortgage volumes and small business loans. Some are still at book value and just 10 times earnings. However, we do not have the rocket boosters which are pushing the S&P higher. This month Google, Amazon and Netflix were massively up and stocks with visible strong growth, such as Starbucks, Visa and Chipotle move on to ever higher ratings. This move into a Nifty Fifty type environment reduces interest in small cap, and many of our stocks continue to go sideways. Worse, our holdings of anything cyclical have been crushed and this includes the consumer discretionary sector, which remains a surprise as large consumer discretionary are fine.

I am gently steering towards more defensive sectors, but not enough to protect against July's sudden deflationary lurch. Even though this commodities move must mean interest rates cannot rise much, I find it hard to pay the required prices for visible growth as I haven't seen these prices before. On the positive side, many leading commodity producers are down 80% in the last few years and thirty years ago was an interim deflationary high point, so it may get hard to push these valuation extremes much further.

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