BACK TO "NORMAL"

Instrument (Inception)*	February 2018 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**-3.8%**	**2.7%**	**11.8%**
Venator Investment Trust (September 2007)	**-3.8%**	**2.9%**	**8.5%**
Venator Income Fund (August 2008)	**-1.1%**	**-1.1%**	**11.5%**
Venator Select Fund (September 2013)	**-7.0%**	**3.4%**	**16.2%**
S&P/TSX Total Return (March 2006)	-3.0%	-4.4%	5.3%
Russell 2000 (March 2006)	-3.9%	-1.4%	7.7%
S&P Toronto Small Cap (March 2006)	-4.5%	-6.6%	2.0%
S&P 500 (March 2006)	-3.7%	1.8%	8.7%
Merrill Lynch High Yield Index (August 2008)	-0.9%	-0.3%	8.6%

February was an unusually ‘choppy’ month for financial markets relative to recent history. There can be no doubt that we have been in an extended period of complacency over the last several years, with easy money interest rate policies and money flows into broad market ETFs moving the market upwards at a very steady, low-volatile pace, with the last bump in the road occurring in February of 2016 (and prior to that, a mini-scare in the fall of 2015).

Over the past couple of years, the market has been setting records for low-volatility in terms of days since a 1% drop, or a 20% correction. The VIX measure of volatility stayed between 10 and 12 (which is low) for a disproportionate amount of time with a consistent downward trend. Since the US election, daily volatility has been a mere 0.3%, which is the lowest in 50 years over such a time frame. The S&P 500 experienced 400 trading days without a 5% reversal (a record) and set a record for the longest period without a 3% reversal in history. These factors helped to create an environment where collectively investors have become lazy; and history shows that when that happens, investors tend to take on more speculative risk because as the adage states - higher risk equals higher reward. Of course, that isn't technically true as higher risk equals higher risk - there is no statistical guarantee of higher reward.

When the VIX spiked from 10 to 50 on February 6th, some Funds that made successful multi-year bets on low volatility were forced to shut down; while other high-risk bets such as cryptocurrencies and marijuana stocks suffered larger losses than the broader market. Those that thought they were invested in non-market-correlated assets learned very quickly that when high flying markets attract speculators rather than committed investors, they become more correlated to general financial markets by virtue of money flows, and with more volatility, because the last ones in are only there for the ride, and don’t have the low-cost base to help them stomach the volatility.

The Venator Funds outperformed admirably during the early month downtrend, but lagged the rebound, culminating in monthly performance approximating that of the market. This result was frustrating as we had made some constructive trades near the market bottom, but in the end, many of our long positions simply did not participate in the mid-month bounce back.

Overall, the core positions held across our portfolios remain largely unchanged, as the market drop was not severe enough to cause companies on our watchlist to fall to levels where we would take initial equity or bond positions. That said, we did take the opportunity to re-load on several positions which we had previously sold at higher levels. For example, we continue to maintain a $105 target on Wayfair (W), a position which was purchased in our equity strategies last year. Wayfair is the leading online retailer of furniture and home furnishings, and a very controversial stock. Currently, the company loses money because of its investment in the future infrastructure and logistics operations of the business, something it has accelerated its investment in, so that is can keep up with its 40% growth rate, which has lasted longer than anyone expected. While the EBITDA profitability in the US is good enough for us to think that the model works, the losses stemming from the overseas buildout has left many skeptical of its future profit potential. In our opinion, Wayfair's investment in its internal delivery network (trucks, warehouse, software, etc.) makes it a rare business that can legitimately claim to have a lead on Amazon.com in its chosen field of expertise; one that we see lasting several years. Over the intermediate term, this potentially makes Wayfair an attractive acquisition candidate for companies such as Walmart, Home Depot or even Amazon itself.

As long-term investors in Wayfair, we believed that the company was set to beat its revenue targets (which it did), but we were faced with two issues heading into the quarter. First, the stock had become an outsized position due to its run-up over the past several months. Second, the street stood ready to punish the stock if its expenses came in ahead of expectations, which has typically been the case whenever the company has found itself growing faster than expected. Considering this, we decided to sell approximately half of our position prior to the quarterly release, which proved to be a good move because while company did manage to beat its revenues (and guide) by a healthy margin, it announced an increase in spending for Q1, the result of which sent the stock down 20%. In the end, we took advantage of the decline in price and bought a bit more than what we had sold a few days earlier (note that if the revenues had missed, we likely would have sold the balance of our position).

We bring up the Wayfair trading anecdote to illustrate that, while we have long term theses, we aren't lazy when it comes to short-term analysis and risk management. We remain very focused on staying the course with what we believe will be very profitable long-term investments, but we also try to manage our portfolio in a way that allows us to isolate the outlying fundamental and valuation criteria on which we have selected these investments. The goal is to provide profitable returns to our investors over intermediate term intervals, a target we remain comfortable with for the future.

As always, we reserve the right to change our mind!

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