VENATOR
CAPITAL MANAGEMENT LTD.

October was the Founders Fund's first difficult month since last June. The Fund experienced a 2.0% loss which was quite disappointing in light of what ended up being a strong market in general (even if most of the month's gains came on the last day). This brings the Founders Fund's NAV to $15.31, up 15.0% year-to-date and up 31.1% over the past 12 months. The Fund has been more-or-less flat over the past six months. While we are somewhat frustrated by the lack of "momentum" in the Fund's names, we are understanding of the fact that our investee companies' stocks are just not in the current sweetspots of the market. Namely, we look upon our companies as qualifying as small-cap value in a market that is clearly more focused on large-cap growth (the NASDAQ continues to outperform the S&P500 and TSX 60, which in turn have outperformed the Russell 2000 and TSX small-cap indexed, all by wide margins). That's not to say that our companies are not exhibiting some great growth characteristics; but, until they can get some better exposure or liquidity we will have to either wait for them to grow their earnings, or wait for the market to lift their valuations to levels more reflective of their growth rates.

We are still seeing a continuity of trends in the market that we are either being negatively impacted by, or are not participating in. We remain quite conscientious of these current trends, noteably:

- The US dollar continues to fall against other major currencies including the Canadian dollar. This has been particularly problematic for our Canadian manufacturers doing business in the U.S. (i.e. industrials and software, who suffer profit margin declines), as well as those who simply conduct the majority of the business in U.S. dollars (translation of earnings back to Canadian dollars).
- Commodity prices continue to remain strong, largely because their prices are denominated in U.S. dollars. While Canadians are barely breaking even on gold this year, their investments in commodity-based equities are doing considerably better (even though these companies' costs go up as most don't actually mine their assets in U.S. dollars).
- Selected cyclicals continue to outperform, including agriculture-related stocks and infrastructure/construction related companies. Like the U.S. housing and related financial stocks before them, these are very cyclical stocks, however unlike these sectors during their cyclical heydays, these companies are trading at much higher multiples of forward earnings.
- U.S. housing and financials continue to have issues. While we took advantage of some of these trends for the first half of the year, companies in this sector have fallen quite far below stated book value (which we fully acknowledge is overstated), and we have found the balance sheets of these companies impossible to interpret in a way that gives us enough confidence to continue our previous short positions.

As has been our strategy in the past, we continue to look for new future trends and emerging companies, preferring to wait for momentum to come to us, rather than chasing it. This may continue to result in short-term underperformance followed by spurts of material outperformance, provided we continue to accurately project the future financial performance of our companies. We continue to be very excited about the prospects of our companies; but, the lack of momentum in these companies has kept the stocks from realizing their potential, which in turn has resulted in little turnover in the portfolio. As such,the Fund now consists of 27 names on the long-side, significantly more than the 20 names that we would consider ideal. That being said, we continue to be very bullish on the outlook for the portfolio, and continue to strive to improve our expected returns through new additions to the portfolio.

Thank you for your support,

Brandon Osten
President, Venator Capital Management