VENATOR
CAPITAL MANAGEMENT LTD.

WHAT IS AND WHAT WILL NEVER BE

Getting to the point, the Funds had a tough time in the latter half of the month. Venator's results, contrasted with the market, are noted in the chart below.

Instrument	Monthly Return	Year-to-Date Return
Venator Founders Fund*	**-8.4%**	**3.0%**
Venator Income Fund	**-8.4%**	**-6.8%**
TSX Composite	-14.0%	-15.1%
Russell 2000	-8.6%	-11.8%
S&P Toronto Small Cap	-20.2%	-27.7%
S&P 500	-9.3%	-20.7%

* *The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund*

As some of our longer term investors are aware (and have previously experienced) the Founders Fund has a particularly difficult time when the market suffers severe short-term downturns. This is a function of our long-biased strategy and our small cap focus. Months such as September are particularly difficult for us because of the lack of news-flow in our companies (we only had one company release material news in the month). This puts the Fund at the whim of the market, as companies have a difficult time differentiating themselves without news. Compounding the Fund's difficulty in the month were signs of capitulation of the retail and small cap investor in Canada. We saw many names post high-percentage declines on very light volumes as investors were willing to reach down for any liquidity they could find; we have seen this before and it has usually marked a bottoming process in these less liquid stocks.

I think it's fair to say at this point that the last 18 months of the recent 8 year run in commodities may have in fact been a "bubble" (probably 50/50 odds at this point), rather than a new super cycle based on a 20-year high growth cycle in emerging markets that is expected to continue regardless of the state of the economy in North America sending oil through $200, copper through $4.00, potash prices up 20% a year forever, etc. (once again the market is shocked that: IT'S NOT DIFFERENT THIS TIME). The idea of investing blindly in commodity stocks based on the "Keep It Simple Stupid" thesis of *"Why do we like commodities? - China and India"* was as risky as betting on these countries themselves. Now down 50% from their highs (or headed there) investors need to make a 100% return on their China, India, Agriculture, Energy and Metal commodity investments just to get back to where they were a few months ago:

- Oil, the granddaddy of all commodities, is going lower. It really is amazing to see how history repeats itself in the commodity cycles with regard to resource production cycles. Spare capacity, the primary determinant of the oil price boom given the perception of a lack of it, has been increasing through new development in OPEC nations and Canada, just as demand is peaking. If OPEC does cut, the world will see even more of a spare capacity buffer while demand is held in check from a slower economy and energy conservation. *Wars are bullish for oil, spare capacity*

is bearish, and everything else is just a subset of these two factors or just noise. Could oil *eventually* hit $200? *Eventually* sure! But it may drop to $60.00 first which would be a normal percentage drop from past cyclical peaks (sending investments down 80% from their highs, and leaving investors needing a 400% gain to get back to where they were!). We also remain bearish on Natural Gas, but concede that most of the downside move there is behind us.

- Copper is finally showing off that PH.D. in economics it's always bragging about. Yes, inventories remain tight, but demand is slowing and planned expansion of existing mines is already committed to, as evidenced by three year hard backlogs at equipment suppliers. To be sure, the majors (95% of production) are happy to sell copper at anything above $1.50 given their less than $1.00 cost bases. So we think that's probably where copper goes (take a look at nickel and zinc charts if you think we are out of line).
- Agriculture stocks have fallen 50% in six weeks. While we take some pride in having seen this coming, as evidenced by past monthly reviews, we have not been able to make money off the call as the volatility in these stocks triggered stop-losses in our positions before the quick collapse of last week (sometimes a capital preservation strategy doesn't work out); but at least we weren't long. What triggered the collapse was a surprising 20% weekly drop in urea prices, followed by some negative market commentary out of Mosaic. As much as market experts want to think Potash of Saskatchewan is going to make over $13.00 in EPS next year, they forget that they made less than $4.00 per share last year, and that they are only one negotiated price contract away from going back to $5.00 in EPS, or $40.00 per share.

In terms of the stock market in general, pessimism is at an all-time high in the US. Things may get worse before they better, but we think they will get better. Yes, unemployment is high at 6%, but employment is at 94% (there's a statistic you never hear!). Yes, people are losing "their" houses; but if you never had any equity in either your house or furnishings, did you really lose anything? Hopefully the "bailout" works, with the government looking to buy mortgages freeing up the financial system to lend to corporations. Yes, the US economy stinks, but we believe the dollar will strengthen as the rest of the world (i.e. Europe) is only in the proverbial second inning of fixing problems that the US is in the eighth inning of solving. By the end of this year, all the financial institutions that are going to disappear will have disappeared (FYI, JP Morgan recently hit a 52-week high). We have to believe that house prices will hit bottom at some point next year if not sooner (this doesn't mean they bounce back, just that they find a bottom; FYI housing stocks are up this year). A stronger dollar (we are short the Euro big time and its working) and lower commodity prices will help the US consumer stabilize (again not grow, just stabilize). If this thesis plays out, the market should start rallying in the next eight weeks (since the market usually turns six months early). Yes we will have a tough earnings season to get through as companies digest a bad domestic economy and subdued international growth due to the stronger dollar, but stocks are cheap, and many balance sheets are rich.

A word of caution: *Remember that we are contrarians.* We will often be wrong before we are right. Our letters from June of 2007 through June 2008 spoke consistently of why we were concerned about the economy, commodity stocks and the market in general. The volatility prevented us from capitalizing on some of these views (we didn't want to be short Potash while it rallied 70%+ from $125 to $230 in hopes of it eventually dropping to $105, which is what would have happened; wrong for a year in order

to be right for October 2nd and 3rd). However our cautious stance has left the Founders Fund relatively flat on the year, despite average market exposure of 70% through the year, and has allowed us to sidestep some previously very popular investment themes that may be proving incorrect given recent market events.

In terms of investing your money, we are getting more aggressive with our asset allocation in preparation for a market rally (getting more long and less short), while getting more conservative with the underlying investments. Remember that we are looking for a forward view of stabilization to spark a market rally, not a return to high growth. Yes, there are some true growth companies out there like portfolio holdings Zynex and Digital Ally and recent addition Research in Motion, whereby growth is neither debt, nor acquisition reliant. But where we are really focused is on lower growth (5%-15%), solid balance sheet, free cash flow positive, non-economically sensitive companies with good visibility into the next several quarters of business such as portfolio holdings Pet Valu, Allion Healthcare, New Flyer Industries, Futuremed Healthcare, Glentel and Hammond Power Solutions which all trade at valuations around or below 10x earnings. That being said, there are a lot of cheap stocks out there, so you really want to avoid high debt and high valuations (why pay 20x earnings for anything when you can buy Research in Motion's 50%+ growth rate for 15x earnings? Why buy an over-levered company at 10x earnings when you can buy a stronger balance sheet at the same valuation?).

We are not trying to time the markets here. If US markets were to rally 10% over the next twelve months, I can almost guarantee that the first week of that rally is going to see a move of 7%. If you miss that week, you will miss most of the year. That being said, we urge our investors to be careful out there. If we are right about commodity markets, Canadian markets can fall while the US rises. While we have half our money in Canada, it is not in resources, and we hope that investment dollars start finding their way into Canada's non-resource stocks, which would be a huge boost to the portfolio.

Yours Truly,

Brandon Osten

This is intended for informational purposes and should not be construed as a solicitation for investment in any of Venator's Funds. The Funds may only be purchased by Accredited investors with a medium-to-high risk tolerance who are seeking long-term capital gains. Read the Offering Memorandum in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of shares. All stated Venator returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance.