VENATOR
CAPITAL MANAGEMENT LTD.

SELL IN MAY OR COME OUT AND PLAY

If there is one thing Venator Capital Management is becoming known for, it's market beating returns. But if there is another thing we are becoming known for, it's our ability to grab sneak previews to the most anticipated movies of the year. To that end we are pleased to announce our third movie night, a July 19th sneak preview to the Dark Knight Rises, the final installment in the Batman trilogy. As usual, there will be great food up at our Yonge and Eglinton offices and, as usual, we will be looking to fill only about one-third of the theatre to ensure everyone gets a good seat.

The age old market prophecy of "Sell in May" proved prescient once again as stocks fell significantly last month. Regrettably our funds gave back some of their strong year-to-date gains, but still sit up markedly this year despite the overall market's recent dip into negative territory for the year.

Instrument (Inception)	**May's Return**	**Year-to-Date**	**Compound Growth**
Venator Founders Fund (March 2006)	**-4.4%**	**12.6%**	**11.3%**
Venator Income Fund (August 2008)	**-0.9%**	**8.5%**	**15.7%**
TSX Composite (March 2006)	-6.1%	-2.6%	2.6%
Russell 2000 (March 2006)	-6.6%	3.4%	2.0%
S&P Toronto Small Cap (March 2006)	-7.7%	-5.9%	0.1%
S&P 500 (March 2006)	-6.0%	5.2%	2.5%

**Please note that we are no longer including the Venator Catalyst Fund in our results. We have agreed to sell this fund to its current portfolio manager, Jan Mizrahi, and his new firm pending registration. Jan can be contacted at 416-722-8628 for more information. We expect the transition to be completed either this month or next, and wish him the best in his future endeavors.*

At this point in the market's greed-fear cycle, we are finding it difficult to take sides being either greedy or fearful. We are greedy because many companies appear both stable and cheap. Yet we are fearful because we see both a marked slowdown in China, which will hurt commodity markets and Canada specifically, and we are wary of the potential financial calamity unfolding in Europe.

The first issue, that of a slowdown in China, should be of significant concern to investors in resources, as marginal oversupply of resources can wreak havoc on those markets. However, the second issue should be of concern to everybody because, as we learnt in 2008, financial crises tend to be deeper and more broad than industry-specific bubbles (think dot-coms in 2000 vs. what we saw in 2008). The European issues would definitely be considered financial issues. As near as we can tell, the various near-bankrupt European governments (Spain, France, Italy, Portugal and Greece) need money and want Germany to approve loans, but refuse to accept any responsibility (austerity, more stringent tax collection) or put up any political collateral for these loans, with the excuse that Germany is trying to take over Europe again, this time with commerce rather than munitions.

Now if you haven't been keeping track, the latest bit on nonsense involves the United States stepping in to support the Euro, because it's trillion dollar deficits and 9% unemployment rate put it in a better situation to help out than Germany with its budget surplus. That and there is no reason to believe the US would ever go to war for financial reasons, making them far less intimidating than Germany. Why not

20 Eglinton Avenue West, Suite 1004, PO Box 2073 Toronto ON M4R 1K8 T 416.628.8198 F 647.477.2529 www.venator.ca

support a foreign continent when things are so good over here? I am sure the voters will understand this, in an election year. They just need to make sure that they can adequately explain why the dollar needs to stay weak, and prices of European goods need to stay high in these times of heightened patriotism. But I digress.

With great long term opportunities, and scary near-term risks, we are hedging the Founders Fund much more than usual in an attempt to protect our gains while taking advantage of some of the exceptional investment opportunities we are uncovering today. We have been doing this through volatility matching on the short side of the portfolio so that the long side of the portfolio is only slightly more volatile than the short side. Without getting into too much detail, statistically speaking, the fund currently carries a "beta" of less than 20%, meaning that the fund should experience moves equal to less than 20% of the overall market move, plus or minus stock specific factors. Historically we have carried a beta in excess of 60%.

The bottom line for us is that going short the market just isn't in our nature. As optimists we are always looking for, and can always find, great companies doing great things that have been overlooked by the market. We simply don't want to let a little short-term fear cause us to miss out on these opportunities, which is why we are taking a more market neutral stance rather than running to cash in an attempt to time the market.

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

Brandon Osten, CFA
President, Venator Capital Management Ltd.

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 seeking long-term capital gains. Read the Offering Memoranda 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.