VENATOR
CAPITAL MANAGEMENT LTD.

FEAR AND LOATHING IN WASHINGTON

The bull market of September was kind to our funds. Both our Founders Fund and Income Fund finished at all time highs, which is very exciting for us because it means that every single one of our current investors is making money.

Instrument (Inception)	**September's Return**	**Year-to-Date**	**Compound Growth**
Venator Founders Fund (March 2006)	**3.2%**	**24.6%**	**12.4%**
Venator Income Fund (August 2008)	**0.0%**	**15.7%**	**16.2%**
TSX Composite (March 2006)	3.4%	5.4%	3.7%
Russell 2000 (March 2006)	3.3%	14.2%	3.5%
S&P Toronto Small Cap (March 2006)	2.9%	-0.2%	1.0%
S&P 500 (March 2006)	2.6%	16.4%	4.0%

Are you ready for some politics? I hope so, because that is all we are going to hear about for the next month. After nine months of everything Europe, we can now look forward to every minor tick in the market being attributable to that +/-2% undecided voter swing that decides the fate of every US election.

This election campaign will at least be entertaining because both candidates are set to dig in their heels on two unattractive alternatives. Fear will sway the voters on this one; fear of losing social services (go Obama!) vs. fear of a bankrupt US (go Romney!). Couple this fear with some loathing in the form of class warfare (go Obama!), and you have a recipe for some serious mud slinging.

So without further ado: LET'S GET READY TO RUMBLE!!!

In the RED corner ... We really don't know that much about candidate Romney. We know he is rich and that he is a Mormon (this latter point is always given too much attention). He also used to be at Bain Private Equity, so he is good at cutting costs, cutting jobs and dealing with leverage, the first and last points which may come in handy for the next President. He also ran Massachusetts for a while with mixed reviews. He apparently implemented a universal healthcare plan that I understand only differs from Obama's on some very fine points. He claims to have a plan to lower taxes, spending and the deficit, but is unwilling to discuss specifics (his whole campaign has been a "ready, shoot, aim" exercise).

In the BLUE corner ... We know a lot more about Obama today than we did when he got elected (we really knew nothing substantive about him last election). Unfortunately, what we know is that Obama wants to tax the rich, and spend as much as he can before interest rates go up; this is how you get previously inconceivable trillion-dollar deficits with near record tax revenues. The problem is not the deficit per se, as much of this situation is not entirely of his doing, the problem is that he doesn't see the problem in that balancing the books doesn't appear to be much of a priority. Additionally, the incumbent appears to be running on a platform of class warfare based on bad math, as his most aggressive plan to tax those making over $250,000 per year, if implemented, would only increase the tax base by about $70 billion; a veritable drop in the bucket compared to the $1.3 trillion post-war deficit.

(in billions)	Receipts	Outlays	Deficit	Debt
2008	$2,524	$2,982	$(459)	$10,011
2009	$2,105	$3,517	$(1,413)	$11,898
2012E	$2,468	$3,795	$(1,327)	$16,000

Unfortunately, we can see the downside of either victor. We see tax rates going up slightly under either candidate, but the real problem is that we don't see spending being curtailed by either candidate. So the US will continue to run up a dangerous national debt level for the next guy (or gal) to deal with. You see, while $1 trillion per year deficits (and a total debt of $16 trillion) are easy to fund in the current 2.5% rate environment at $400 billion per year, when rates inevitably eventually rise to 5%+ the cost of servicing the debt will rise to an unmanageable $1 trillion annually, eating up about one-third of the tax base.

So the cheat sheet on investing for the long term would be to invest in health care (especially if you see an Obama victory), consumer goods, some retail and technology. Basically, companies with limited cyclical factors and government spending exposure (healthcare being the exception as increased Medicaid enrolment is huge for this industry). The US government can skate-by for another four years, but eventually the $20 trillion piper will have to be paid.

As always, we reserve the right to change our minds.

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