VENATOR
CAPITAL MANAGEMENT LTD.

STAYING THE COURSE

Instrument (Inception)*	October 2013 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**2.5%**	**27.5%**	**14.1%**
Venator Income Fund (August 2008)	**1.3%**	**12.9%**	**16.1%**
Venator Select Fund (September 2013)	**3.3%**	**6.9%**	**-**
S&P/TSX Total Return (March 2006)	4.7%	10.3%	4.7%
Russell 2000 (March 2006)	2.5%	30.9%	6.9%
S&P Toronto Small Cap (March 2006)	3.9%	4.6%	1.2%
S&P 500 (March 2006)	4.6%	25.3%	6.5%

*Estimated Performance

Two months ago we came out and talked about all the reasons we were cautious heading into year end. Then the US twin powers of the Federal Reserve and the Government kicked the can down the road (again), extending the US stock market's five-year party (to which, as near as we can tell, only the top 1% were invited) to next spring. Yes the bull market seems a little long in the tooth. Every week that goes by is going to bring renewed concerns about how long the market has gone without a 10% correction, and how revenue growth is slower than earnings growth which is slower than multiple growth which makes this market seem unusually manipulated by Central Bank policy.

But we need to remember that the holidays tend to be a bullish time in the markets. Analysts always believe that no growth companies are going to grow by at least 5% next year and the growthier companies are not going to slow down too much; and everyone's margins are going to expand. This is where we get 5% revenue growth and 10% earnings growth expectations at the beginning of every year. These expectations are rarely fulfilled by year end, yet through a pattern of guiding down one quarter then beating those low expectations the next quarter, the street finds ways to accept a year end number that would be a disaster if a company guided to it in January. So optimism reigns supreme into year end and that's where we get the traditional holiday rally from.

If there is one point of short term risk, it is a function of how bad Christmas retail sales are going to be. At this point, no one expects anything good out of Christmas sales, which when coupled with the internet moving holiday purchases closer to Christmas, has the potential to make November sales pretty ugly. But that's pretty much it. And with equity fund flows so strong I don't see any retail weakness infecting other areas of the market such as industrials. Money will continue to find a way into the market, because cash and gold just aren't cutting it when all you read about is new highs in the US.

So while we still have misgivings over both growth and valuations, we are still finding good-to-great companies trading at cheap-to-reasonable valuations, just less of them. The lesser amount of good investment opportunities has resulted in all of our funds being a little less invested than normal, but still adequately invested to achieve solid returns with low day-to-day volatility.

On one last note, we will be moving to our new offices at Bloor & Yonge in early December. Phone numbers will remain unchanged, but our new address will be:

2 Bloor Street West, Suite 901
Toronto, ON M4W 3E2

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

Brandon Osten, CFA
CEO, 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.