

ENOUGH IS ENOUGH

Instrument (Inception)*	September 2013 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	3.5%	24.4%	13.9%
Venator Income Fund (August 2008)	1.3%	11.4%	16.0%
Venator Select Fund (September 2013)	3.5%	3.5%	-
S&P/TSX Total Return (March 2006)	1.4%	5.3%	4.1%
Russell 2000 (March 2006)	6.4%	27.7%	6.7%
S&P Toronto Small Cap (March 2006)	1.7%	0.7%	0.7%
S&P 500 (March 2006)	3.1%	19.8%	5.9%

*Estimated Performance

The news of the month was the Fed calling off the QE tapering program that they had been telegraphing for several months. For those in need of a refresher, the QE program was essentially the process of the Fed buying government debt and mortgages among other things in order to fund government deficits in order to keep interest rates low; the low interest rates had the effect of moving investors into bond and stock markets which has largely fuelled the market double off its March 2009 bottom.

The cancellation of the tapering program was quite a surprise as the history of the Fed telegraphing policy moves in order not to surprise the market goes back over fifteen years. Basically, the Fed's PR strategy has been to pre-announce their intentions, see the markets reaction, and if the result is as expected (but not too volatile) they go through with it. In this case, they had successfully announced their intentions to slow the QE program, the market held its all time highs, and therefore there was no reason to believe they would not follow through. But they didn't.

I have been an open and ardent fan of the QE program since it started in 2008. Things haven't been great on Main Street but I firmly believe that Fed policy staved off a true Great Depression. This was Bernanke's stated goal all along, as the man is a qualified expert in 20th century financial history as it relates to the Great Depression. In the infamous words of George W Bush "Mission Accomplished!", so why press your luck?

In backing off his intention to end QE, Helicopter Ben has, in my opinion, gone too far for reasons I can't figure out. I always thought a 10-year rate of 3% was good enough for all parties involved and that the Fed would taper just enough to keep rates there (probably a 50% reduction to QE in dollar terms). As much as we were supportive of QE, many people, possibly correctly, have debated over whether or not QE has gone on for too long. Our attitude has been that it has gone on long enough, and that after six months of acclimating the market to a tapering off of QE, the market was ready to let it go, as evidenced by the continued move out of bonds and into stocks. When someone is prepared to let you off the proverbial hook - you take it.

As we have a stock picking mentality at Venator, I have grown tired of this macro dominated market. When the market increases 1% on the "news" that possible Bernanke successor Larry Summers did not want the job, I think the whole Fed watching game has gone too far. I can't even remember who didn't get the job last time, nor do I remember caring. Now we are heading into another "government shutdown" with our old friend Obamacare getting in the middle of a debt ceiling debate that will dominate headlines on slow news days (about four out of every five days) for the next two months. That, and its only a matter of time before we start worrying about tapering again as eventually it has to happen. Frankly, I tire of the whole thing.

Moving on to the world of companies (stocks) as opposed to the boring world of Fed policy. I don't believe that continued QE has raised the prospects for any individual companies that I can think of (these worlds are not quite as connected as they are made out to be). As we talked about last month, outside of the full-time secular growth stories, those companies more sensitive to the to'ing and fro'ing of the economy have been putting up poor financial results and guidance, seemingly knowing that a continued bull market will give their stock a quick rebound as though nothing had happened (I'm looking at you Lululemon).

So we are still positioning quite cautiously going into year end; although not too cautiously as to completely miss a market rally as evidenced by our positive performance last month. We think we have taken a substantial amount of our market volatility risk off the table and have pared down the lower credit quality end of our income portfolio. While we do not advocate market timing, financial markets in general have had a long and substantial run and do seem overdue for a correction of some sort. Perhaps some possibly really bad holiday retail sales could be the trigger. In any case, we are building our holiday wish list for when stocks go on sale.

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



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