Mirzam Capital Appreciation Fund
April 2008 Fund Commentary by Albert Meyer

Mr. Market Dishes up a Better Quarter Investors have endured three punishing months, but the month of April, in the spirit of spring, has brought welcome relief. The S&P500 was up *+4.75%* for the month, after a first quarter 2008 decline of *-9.9%*. Year-to-date the S&P500 is still down *-5.64%*.

Fund Performance Mirzam [MIRZX] was up *+3.73%* for the month. Year-to-date, the fund is up *+5.31%*. Since the inception of the fund, August 20, 2007, to the end of April 2008, the S&P500 declined *-4.15%*. The fund, on the other hand, shows a positive *+11.10%* return. Our returns are starting to attract attention, and this month the cash inflows virtually doubled the size of the fund. At the end of last month, the fund was 33% in cash. We allocated that cash and other cash flows that came in to equities, but still ended the month with 46% in cash. As we have said in the past, our cash balances help us when the market declines, but cash is a drag on returns when the market rebounds. We are comfortably outperforming the S&P500. As long as we continue to allocate cash to equities in our slow but deliberate manner, the cash factor should not play too big a role. We are committed to deploying cash when the market offers us equities that we have on our watch list at prices that provide an acceptable margin of safety. This is the determining factor in allocating capital, not the size of cash balances.

Portfolio We increased our equity holdings by 66% in April. At the end of March 2008, the fund's equity holdings were split 64%:36% between foreign and domestic stocks, respectively. The average dividend yield on the equity portion of the fund's portfolio is currently 3.24%. Our largest position at the end of the first quarter 2008 was Precision Drilling Trust [PDS], Canada's premier driller. Our yield at the time of purchase was 10%. By the end of April 2008, the stock was up 63% since purchase. Our second largest position was in TransCanada (TRP), another Canadian company and owner of the largest natural gas pipeline network in North America. The current yield was 3.7%. Canadian companies treat shareholders well, pay modest salaries to executives by comparison to US companies, and don't rely on stock-based compensation or if they do, sparingly so.

Since the end of Q1 2008, the composition of our portfolio has changed and PDS is no longer our largest position. We do not disclose our holdings in between quarters. We regret that SEC regulations compel funds to disclose their top ten holdings. It is like forcing the best chef in New York to publish his/her ten best recipes on line. Although, the portfolio has changed since the end of Q1 2008, we have not sold any stocks. In fact, we do not anticipate any realized capital gains in 2008. We are buy-and-hold investors. As long as our original thesis for allocating the capital to a particular stock holds, we see no reason to sell.

Mark-to-Market: Part 3

In part 1 of this series, we noted the "doomsday device" label that some pundits assign to mark-to-market accounting. Many experts and especially CEO's of companies that have been hit by the sub-prime mortgage meltdown, use less flattering language when asked in private. Those in favor of mark-to-market accounting are mainly found in the world of academia and among those who make the rules. The "defenders of the faith" argue along these lines: "Reports must be informative and truthful… financial information is favorable if it unveils truth more completely and faithfully instead of representing an illusory better appearance…. Accountants must forego misbegotten efforts [*like SFAS123 and SFAS123R perhaps?*] to coax capital markets to overprice securities, especially by withholding truth from them…. failing to provide value-based information forces markets to manufacture their own estimates." (*Paul Miller, Journal of Accountancy*, May 2008)

First, CPA's don't certify that financial statements are "truthful." They don't even care if the information is unreliable and irrelevant (case in point, look no further than stock based compensation information). This is because these sentiments are embodied in FASB's Conceptual Framework, which is not part of Generally Accepted Accounting Practice (GAAP) – go figure. Second, these ideals of transparency over obfuscation are being applied selectively. Stock-based compensation has avoided fair value accounting for decades in the financial statements, although the true economic cost (marked-to-market) is still meticulously deducted for tax purposes. Third, when considering whether the accountants should decide on fair value, Peter Wallison (the Arthur F. Burns Fellow in Financial Policy Studies at the American Enterprise Institute) remarked that it is too important an issue to be left to the devices of accountants, reminding us of Clemenceau's remark that war is too important to be left to the generals. "Fair value accounting also has a one-size-fits-all quality that mimics the inflexibility of over-regulation… Given its impact on institution and whole economies, common sense suggest that we consider whether one means of measurement is the only one we should be looking at. The world view of accountants at a particular time should not determine the answers to these questions." (*Financial Times*, May 1, 2008). It is absurd for accountants to believe that they can devise rules that will produce fair values for assets for which there is essentially no market.

Of course criticism of fair value accounting must not be seen as a campaign to keep investors in the dark. We just don't think the rule makers foresaw the impact of the rules in the context of the current credit crunch – to some extent fanned by fair value accounting – when they drafted the rules.

We'll have to let the matter rest, but we'll give Christopher Whalen, co-founder of Institutional Risk Analytics, the last word. "Fair Value accounting is a utopian concept that traces its intellectual roots back to the same origins as efficient market theory, the wellspring for most of the discredited quantitative models employed by the global banks to create the sub-prime mess. Unfortunately, the proponents of fair value accounting ignored the invocations of classical theorists who stated that liquid markets are a necessary condition for using market prices, either as a surrogate for measuring risk or for valuation.

"Fair value accounting is a good idea in theory, but like most good ideas it is difficult to implement. Sylvain Raines, a lecturer at Baruch College in New York, told a meeting of the Professional Risk Managers International Association last September: ‘The Chicago School of Economics has been telling us for a century that price and value are identical… If we do not recognize the fundamental difference that exists between price and value, then we are doomed.’

“While it may be reasonable to apply fair-value rules to actively traded securities, for the vast majority of assets that are illiquid, historical cost remains the only reasonable and consistent way to report the value of financial assets.” (*Financial Times,* March 6, 2008)

-Albert Meyer

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Funds before investing. The Funds' prospectus contains this and other information about the Funds, and should be read carefully before investing. You may also obtain a current copy of the Funds' prospectus by calling (888) 693-8056.

The Funds' past performance does not guarantee future results. The investment return and principal value of an investment in the Funds will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (888) 693-8056.

The Mirzam Capital Appreciation Fund is distributed by: Unified Financial Securities, Inc., 2960 N. Meridian Street, Suite 300, Indianapolis, IN 46208-4715 (Member FINRA).