

Mirzam Capital Appreciation Fund
August 2007 Fund Commentary by Albert Meyer

Mirzam Capital Appreciation Fund [MIRZX] was launched this month at perhaps one of the most volatile moments in the US stock markets in thirty years. Pundits were drawing parallels between the turmoil in August and the turbulent times of 1987 and 1998. We found it interesting that the average price/earnings (P/E) ratio of the S&P500 hovered in the 22+ range about two months before the crash of 1987. It was above 20 for most of the year and leveled off at 15 and above by year-end. In 1998, the P/E on the S&P reached 30 and leveled off to 25 after the sell off, only to rebound strongly to 32 by year-end. Prior to the most recent sell off in the market, the S&P500 P/E touched 18, which by 1987 and 1998 standards looks pretty darn cheap. The yield on ten-year Treasury Notes has shown little volatility and is nowhere near the levels of 1987 when it reached 10% prior to the crash. Many see this as an encouraging sign going forward. Still, the problems in the sub-prime credit markets will continue to plague the markets.

Great fortunes have been made in the past by those who bought with confidence while others sold in panic. The secret of buying with confidence lies in knowing what you buy. Such knowledge comes from a process of exhaustive and rigorous research, called due diligence. We allocated capital in August, as we will be doing on an ongoing basis as capital becomes available and we find stocks selling at prices that are below their intrinsic values. Determining a stock's intrinsic value is more of an art than a science. It is more difficult to get it right if you are short-term focused, with the idea of trading in and out of names to take advantage of short-term volatility. Such a strategy does not allow much time for due diligence. On the other hand, long-term investors are rewarded by their due diligence and strict pricing discipline. Buying at the right price is half the battle.

The following story underlines the reason for our aversion to employee stock options. On August 9, 2007, Dell Inc. announced that it made a – hold your breath – \$48.5 million cash payment to former CEO Kevin Rollins relating to stock options that had vested at the time of his premature retirement. On August 17, 2007, Dell owned up to past accounting problems that gave rise to a restatement of the past four years' earnings, effectively cutting such earnings by \$150 million. The company “identified evidence that certain [accounting] adjustments appear to have been motivated by the objective of attaining financial targets.” The company's new CFO, Don Carty, told analysts during a conference call to explain the restatements that “the ones [executives] who knew about it are the ones that are gone.” As the size of gains garnered by the exercise of stock options are directly related to and enhanced by a rising stock price, the purpose of “attaining financial targets” is to buoy the stock price, so as not to imperil any potential stock option gains. In 2005, after completing our due diligence on Dell Computers, we issued a report under the title, “Perfect for your Dorm Room, but Bad for your Portfolio.” Alas, when the best laid plans of management go awry and shareholders take the knock, executives walk away with a truckload of cash, thanks to stock options, that invisible enhancer of executive compensation. You won't find stocks of companies that use this form of obfuscation to transfer shareholder wealth to insiders in our fund's portfolio.

- 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.

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