

Mirzam Capital Appreciation Fund
November 2007 Fund Commentary by Albert Meyer

Investors can't be sorry to see the back of November 2007. Right from the get go, on November 1, 2007, the S&P500 fell 2.64%. It continued this downward spiral, so that by November 21, 2007, it showed a decline for the month of 8.55%. It staged a small recovery to end the month still down 4.40%.

As was the case in October, we used the days of panic selling to buy stock at deeply discounted prices. More than 50% of the portfolio is now invested in equities, up from one-third a month ago. The holdings are more or less evenly split between foreign and domestic stocks. The average dividend yield on the equity portion of the fund's portfolio is currently 3.48% based on the cost prices of the equities in the portfolio. The dividend yield based on the market values of the equities in the portfolio is 3.31%, reflecting the 5.10% increase or capital appreciation in the equity portion of the portfolio since inception until the close on November 30, 2007. The S&P500 was up 2.46% during this period. The overall yield on the portfolio at the end of October was 3.57%, reflecting the fact that half of the portfolio is still in cash. The fund was down 1.59% in October. As noted, the S&P500 fell 4.40%. The high yield and ample cash resources continue to provide decent protection against a weak market, driven by fears of an impending recession in the US.

This month the SEC by a vote of 4-0, ruled that foreign companies with US-listed securities may now report their results in conformity with international financial reporting standards (IFRS), without reconciling them to US GAAP (generally accepted accounting principles). Some are questioning whether this move by the SEC may violate the Sarbanes-Oxley Act. We won't go into the reasons, but wish to examine the implications, especially as we are not averse to owning the stock of companies in countries other than the US, as long as they survive our due diligence process.

If the interpretation and application of accounting rules are done in a manner that reflects their true intent and in accordance with underlying economic fundamentals, it should result in the reporting of financial information that reflects economic reality, regardless of whether the Financial Accounting Standards Board (FASB) or the International Accounting Board (IAB) wrote the rules. That's the theory, but in practice the interpretation and application of accounting rules often produce widely dissimilar results, hence the hullabaloo.

Personally, we don't care which set of rules were used to prepare a company's financial statements. Annual reports provide information about the various accounting policies that companies use in the accounting of their operations. We study and critique these policies for each company that we examine. We also analyze the financial statements diligently using cash flow data as a reference point. Cash flow is the same on every continent, regardless of which accounting rules apply. When there is a divergence between reported earnings and cash flow, our antennas go up and we walk away. We can normally explain

the divergences with reference to the dubious or aggressive application of an accounting policy or policies. We are rarely, if ever, fooled by the numbers, regardless of IFRS or US GAAP.

The numbers are only one piece of the puzzle. There are a host of other factors that influence our investment decisions, such as analyzing and understanding the business model, recognizing the competitive advantages, identifying the trends that drive the growth assumptions, assessing pitfalls and risks, and, very importantly, evaluating the quality and honesty of management. Price to earnings ratio (P/E), with earnings derived from the application of a set of accounting rules or standards, is one small facet of the whole. Too many investors are slaves to valuation multiples and make buying decisions based on, for example, a company's P/E. These investors are the ones that need to be concerned about the recent SEC decision to relax the rules. Those who rely on their own due diligence have little to worry about. As William Shakespeare might say, "Much Ado About Nothing."

- Albert Meyer

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