

## **Mirzam Capital Appreciation Fund September 2008 Fund Commentary by Albert Meyer**

For the quarter ended September 30, 2008, the Mirzam Capital Appreciation Fund posted a negative return of -20.25%. During this period, the S&P500 Index declined -9.2%

Up until the end of the second quarter of 2008, the fund had done very well relative to the S&P500. The fund received a large cash infusion in the second quarter and we set about investing this at a time when the market was hovering at the edge of an abyss. We had no inkling of what was to follow, other than the fact that we kept out of financials, on account of the credit crunch and related problems.

**Not a Replay of the Thirties** In this regard, we are in the same camp, if we may be so presumptuous, of Dr. Gary Becker, Nobel laureate, who wrote in the *Wall Street Journal*, October 7, 2008, "Although it is the most severe financial crisis since the Great Depression of the 1930s, it is a far smaller crisis, especially in terms of the effects on output and employment... Although I admit to having greatly underestimated the severity of the current crisis, I am confident that sizeable world economic growth will resume before very long under a mainly capitalist world economy."

We strongly believe that the global economy is on its best footing ever, despite the current turmoil. The unending refrain of the fear-mongers and doomsayers is that we face a deep recession, even a depression of 1933 proportions. The facts are that our current GDP (\$13.6 trillion), measured in constant dollars is more than 18 times the 1933 GDP. In 1933, bank failures, bankruptcies, unemployment numbers, and other economic measures of hardship and calamity were off the charts. Government intervention or bail-outs at the time represented approximately 60% of GDP. Today's bail-out represents at worst 5% of GDP. In 1933, Europe was in turmoil preparing for war. Communist China and Russia were economic backwaters. South America was a haven for fugitives and of no economic consequence. India was mired in political uncertainty and still seeking an independent political future. Today, Europe is united and matches the US in GDP (\$13.1 trillion GDP). China (\$7 trillion GDP\*) and Russia (\$2 trillion GDP\*) are sizeable economies and growing strongly. South America, especially Brazil (\$1.8 trillion GDP\*), has never enjoyed such favorable economic conditions and prospects. India (\$4.2 trillion GDP\*) is moving full speed ahead as it tries to catch up with China. In 1933, there were no safety nets and no deposit insurance. The kinds of technologies we enjoy today were unheard of. We have come a long way since 1933.

\* On a purchasing power parity (PPP) basis

**Time in the Market, Not Market Timing** We hold to the principle that it's time in the market, not timing, that counts. According to ING research, over the past ten years, the S&P 500 delivered an annualized return of 9.9% per annum (p.a.). Those who tried to time the market by jumping in and out and consequently missing the 30 best-performing days would have had an annualized return during this period of only 0.8% p.a. Missing out on the ten best-performing days would have limited portfolio returns to 5.7% p.a. ING further shows that by staying invested for at least ten years, investors over the past

two decades benefited from reduced volatility and consistently positive returns. On a rolling ten-year annualized return, only 1982 and 1998 yielded annualized returns of less than 7% p.a. (measured by MSCI World Index). There were 12 years during the period 1982 and 2002, in which investors enjoyed an annualized return in excess of 15% p.a., eight years of which booked returns in excess of 20% p.a. The message: negative returns disappear for those who stay invested for five years or more.

During the past 118 years, the stock market experienced 19 periods during which the stock market declined at least 20%, from top to bottom as measured by the Dow Jones Industrial Average (DJIA). In the years following the bottom of these 19 bear markets, the DJIA had an average annual return of 40%. The S&P500 only goes back to 1920, during which it has experienced 13 bear markets. The S&P500's average annual return in the years following the bottom was 44%.

We are not liquidating any of our positions. A large number of investors who lost money in the 2000 to 2003 bear markets were those who owned the dot-com disasters and other Enron-type stocks, as well as those who sold out their positions in companies that hugely outperformed the index on the rebound.

**Quality Matters** We are confident that the stocks we own are among the best listed on the world's capital markets. They have long track records, have single digit debt/equity ratios, and generate double digit cash flow yields.

Our equity holdings have strong underlying fundamentals that should invariably bring them back to their true intrinsic values, values that are considerably higher than what the current prices reflect. We have no doubt that in coming months the market will again rationally price these fundamentally sound businesses that we own. This is the way we believe to defeat the bear. Follow a long-term strategy of buy-and-hold and harvest the dividends.

Because we seek companies with executives that we can trust, especially those who shun employee stock options in favor of protecting shareholder value and avoiding dilution, we have more than 50% of the fund invested in foreign stocks. US corporations, for the most part, suffer from bad and greedy managers addicted to stock options. Our foreign exposure did not help our returns in the third quarter and has not been of any help so far in the fourth quarter. Nonetheless, we will not change our strategy of buying foreign stocks if they meet our criteria and pass our due diligence.

It is true that the standard deviation of returns in emerging markets is much higher than that of the S&P500, but the volatility in emerging markets is just a reflection of lower liquidity and market perception of historic risk and not of higher relative fundamental risk associated with the business models of individual companies. By not being invested in these great companies that have richly rewarded the buy-and-hold investors in the past one could miss out on future growth.

This notwithstanding, many of the best companies in the US are currently on sale and trading at values that have not been seen in years. We anticipate increasing our exposure to US companies in quarters to come.

- 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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