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Dear Friend,

The S&P 500 has moved up 6% since the start of the fourth quarter, quite a difference from the turbulence we endured during the third quarter, when a flight from risk affected nearly all asset classes. This downdraft was the result of the economic slowdown in China that led to concerns that there might be a general global slowdown to come. Against this challenging backdrop there was a flight to safety, with mid-cap stocks performing worse than large-cap stocks, and small-cap stocks performing worst of all.

For the third quarter, our Diversified Equity Composite returned -8.8%, net of fees; our Concentrated Equity Composite returned -8.6%, net of fees; and our Small-Cap Equity Composite returned -15.2%, net of fees. The S&P 500 returned -6.4%, and the Russell 2000 returned -11.9%.¹

While we are never happy when the market is down, we believe that the indiscriminate nature of the sell-off created many great investment opportunities. During the quarter, for example, we had the opportunity to buy several mid-cap companies which have durable franchises that we believe should be able to grow their earnings for years to come.

We believe that the market was pricing in a more severe economic downturn than was likely to occur. Slowing growth in China is a problem, but its economy is in transition from being one driven by exports and capital investment, to one driven by the consumer purchases of its own people. While this transition will be difficult for the commodity companies which benefitted the most from Chinese infrastructure build-out, for most multinational corporations, volatility in different regions of the world is just part of doing business. Meanwhile, and most importantly for our purposes, the economy in the U.S. remains robust with housing strong and unemployment low.

In our Diversified product, we spent the quarter selling high-yielding securities which we bought to protect the portfolio in case of a decline. We then used these proceeds to buy growing mid-cap companies that, in many cases, we had followed for years in the hopes of buying them on a pullback.

¹ See full disclosure on the last page.

Over in our Small-Cap product, we believe our stocks were being unfairly tarred with the problems in China, and with commodities, as small-cap stocks tend to have less exposure to the commodity sector than large-cap stocks, and because they tend to have the least exposure abroad and the most domestically. Given that small-cap stocks will always be more volatile than large ones, and the fact that our product is relatively small itself, with \$42 million in assets under management, we have decided to use that liquidity advantage. Going forward we will realize a mix of short-term and long-term profits from upward moves in individual stocks. Our Diversified product will continue to emphasize long-term capital gains.

Over on the corporate front, we would like to introduce our most recent hire, Senior Research Analyst Manish Saini, who joined us in September from Eastern Advisors, a long/short global hedge fund, seeded by Tiger Management founder Julian Robertson. Manish's background in shorting and international investing have already brought a fresh perspective to our team. As Manish has worked on both the long and short side of investing for more than fourteen years, he will assist us in controlling risk in our portfolios, and helping us to see all of our potential long-side investments through short-seller eyes. In addition to aiding us in stock selection, Manish will mentor our two younger analysts, thereby helping us to build-out a deeper research bench.

With the fourth quarter now underway, we are pleased with the portfolio that our team has put together. In the past, market downturns have been an opportunity to position the portfolio for further gains, we believe this time will be no different.²

Wishing you a wonderful autumn.

All Best Wishes,



Manny Weintraub, CFA

^{1,2} **Disclosure:** Preliminary performance figures are unaudited. Past performance may not be indicative of future results and every investment program has the potential for loss as well as profit. The diversified equity, concentrated equity and domestic small-cap composites represent the asset-weighted returns of those accounts sharing the objective of the respective diversified equity, concentrated equity and domestic small-cap strategies. As of 1/1/13, portfolios are included in a composite at the beginning of the first full month under management and stay in the composite until the end of the last full month under management. Prior to that, the composites included portfolios with a minimum of \$250,000 that were managed for a full calendar quarter before inclusion and stayed above the minimum during any quarter. Individual account results will vary from that of the composite based on fee structures, investment restrictions, the timing of contributions and withdrawals and other factors. Comparisons to the S&P 500 Total Return and Russell 2000 are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and Russell 2000 and may have more or less volatility and risk than an investment in the S&P 500 Total Return and Russell 2000. Management fee information is available upon request.