



## 2Q 11 Commentary

Colonel Sanders has his 11 herbs and spices, McDonald's has its secret Big Mac sauce and Coca-Cola closely guards its secret recipes. As the manager of the Auer Growth fund, we are commonly asked what the secret is to our investment strategy. After all, the Auer family has been managing money using the exact same process for the last 23 years to what many believe is great success. And now we want to share that secret with you. The secret sauce we use at the Auer Growth Fund is plain and simple hard work. We examine every stock listed on every US market every quarter, as long as the company publicly reports earnings. That's over 8,000 stocks every quarter and in excess of 32,000 stocks a year. That averages out to 87 stocks per day. This is just step 1 of our 13 step process!

This fiscal year, November 30, 2009 to November 30, 2010, has been a bit of a mixed bag for the fund. We started the year strong. Then, as the jobless recovery began to weigh on the market, the fund gave back much of what we had gained by midyear. For the first half of the year we saw the market reward "glamour" stocks. Apple, Amazon, and Netflix are companies we consider "glamour" stocks. They trade at astronomical multiples of their PE and their pricing tends to have little or no correlation to their underlying fundamentals. In addition to the market's "glamour" stock focus, we saw technical analysis come to the forefront as the focus of the day. May through July, technicals were where the market tended to place more weight. With the focus on high PE stocks and technical analysis, our low PE fundamental approach suffered. Thank goodness the year didn't end in July.

While the combination of technicals and "glamour" did not bode well for the fund, we were able to take advantage of the market fluctuation to load up the portfolio with strong names that met the criteria of the investment discipline. We were excited to be able to invest in a number of technology names such as Micron, Intel, and Texas Instruments. It's not often you will find these companies trading with the strong earnings and sales and at the same time in the PE range we invest in. So naturally we took advantage of the opportunity.

Not all of our investments fared well this year. In particular, one sector remained out of favor. The Auer fund is invested in several of the for profit universities, such as Corinthian Colleges, ITT Educational Services and DeVry. Several of the for-profit Universities came under strong pressure by a small group of short sellers who believed they could benefit by driving the price of the stock to an artificially low level. In addition, the threat of misguided legislation from the Congress threatened the future earnings of the sector. As long as these companies continue to qualify on a quarterly basis, we remain committed to holding them. We look at the service they provide, training unskilled or under-skilled people to immediately move into the job market, and wonder why the government, which is desperate to create job growth, hasn't embraced this model. Regardless of legislation and short term profiteers, we believe that since we will always need nurses, technicians and mechanics these universities will continue to grow. However our investment in these companies did have a negative impact on the performance of the fund.

The work we did during the downturn of the market began to pay off as the market recovered in the fall. The fall recovery began August 26th. August 26th was the last day the Dow Industrial Average was below 10,000. As the market recovery began to increase its pace, the performance of the fund really benefited. From the last day the market was below 10,000 through the end of the fiscal year the Auer fund returned 21.52% compared to the Dow's 11.02% and the S&P 500's 11.27%. Despite the strong 3rd and 4th quarter performance from the fund, the S&P 500's annualized return of 9.97% was well above the fund's 3.16%. The underperformance was due in large part to the mid year period when the market was focused on "glamour" and technical stocks and excluded our fundamental, low PE stock selection. In addition, our heavy commitment to the for-profit schools contributed to the fund's performance shortfall. While for the full year the fund did underperform the market, we believe that the explosion the fund had off the market bottom of August 26th shows what the strategy is capable of producing.

As we are sure you know, we are always bullish. Looking forward, we believe the market will benefit greatly in the short to intermediate term as funds flow from a drastically over-bought debt sector into equities. We look at next year with great optimism. The third year of the presidential cycle has historically been positive for equities, and we believe we are positioned very strongly to grow.

You trust us to use our 23 year old investment strategy to find the companies that meet our criteria of increasing sales, increasing earnings and all for a very low price. We take that trust very earnestly. Your trust is what guides us on a daily basis.

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**Auer Growth Fund (AUERX)**

#### *Important Notes*

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*The Fund's past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-888-711-2837.*