Cape Ann Capital, Inc.

April Letter

Dear Friend:

All asset classes except Pacific stocks were up in April. European stocks were up the most and commodities were not far behind. Year-to-date, commodities are the strongest performer by far and, despite all the negative press about the bond market, US bonds have so far outperformed US stocks.

	Last 10-Yrs	Last 5-Yrs	YTD	April
Cash	18.6%	0.3%	0.0%	0.0%
U.S. Bonds	58.2%	25.7%	2.7%	0.8%
U.S. Stocks	119.3%	143.8%	2.1%	0.1%
European Stocks	114.0%	105.0%	4.8%	2.6%
Pacific Stocks	69.4%	68.3%	-2.9%	-0.3%
Emerging Markets Stocks	172.0%	64.7%	0.1%	0.5%
Commodities	8.8%	25.2%	9.6%	2.4%
Risk Level 8 (0/42/22/7/7/7/15)	85.9%	60.8%	3.1%	0.9%

We use a rigorous, quantitative process to select the mutual funds on our Buy List. We start with every mutual fund in the country and eliminate all funds that do not show statistically significant evidence of skill. This gets us from about 30,000 funds (counting all share classes) to about 500 funds. Our current Buy List contains seventeen funds, handpicked from the top of this list. We use these seventeen funds as the building blocks for every client portfolio.

We update our analysis roughly once a year. For the last three or four years First Eagle Global (SGIIX) has been our number one ranked fund. Last June, First Eagle Global got nudged to second. A fund cannot make it to our Buy List unless it has a track record that is at least ten years long. As soon as this new fund passed the ten-year hurdle it rocketed to the top of our list. First Eagle is a go anywhere equity manager. The new fund is a go anywhere bond manager. Benjamin Graham's analytical approach is paramount in both firms. Protection of capital is the primary goal.

The two primary risks in a fixed income portfolio are interest rate risk and credit risk. Fixed income managers control the former by managing the maturities of the bonds they own. They control the latter by moving up or down in quality. This manager has structured his fund so its exposure to rising rates is minimal. The fund's average duration is about 2 years. A high quality bond portfolio with a duration this low would yield about 1% per annum. This fund is yielding over 4%. The bonds in this portfolio pay higher yields because they are judged to have a higher risk of default. The key to success in the high yield bond market is to avoid defaults. This manager has never had a default. He mitigates the risk of default by careful credit analysis, by spreading his bets among about 120 different bonds and by holding back about 12% of the portfolio in cash.

This fund is not benchmark constrained. The manager believes that the current short-dated, high yield strategy offers the best balance of risk and return at this time, but a couple years down the road, the strategy could well be a long-dated, high quality strategy. Strategic flexibility has been a key ingredient of this fund's success.

Dave & Jim