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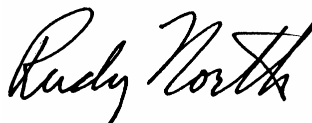
Experience has shown it is essentially futile to talk about the long term superiority of investing in equities during a bear market. In bear markets investors are focused on short term performance and completely distracted by the bad news and the negative slant of most market commentators. Reference to the longer term record of the market or of a managed account such as the North Growth US Equity Fund is likely to be the last thing that some investors are interested in thinking about during a period of "crisis".

This is discouraging to managers who would like to help clients follow a successful long term investment plan. Even if it is just whistling into the wind, I feel compelled to go on record now when equity markets are weak and have declined significantly — the very time when one must stay fully invested and, if possible, buy more equities.

During a market decline the news gets bleaker and bleaker. In any bear market the situation looks absolutely terrible and irredeemable at the bottom. Negative emotions will be running high. In many cases the bear market ends with a short period of "free fall" reversing and turning into a short term spike up. This change will take place with no apparent improvement in the state of the economy. After such an initial reversal often the market becomes very erratic for a period of time before a powerful trend develops.

The enclosed report, "US Investment Realities", should help investors keep a proper investment perspective near the end of a bear market when neither the economic news nor the behaviour of the equity market do anything but add to feelings of confusion and anxiety.

Yours truly,
North Growth Management Ltd.



Rudy E. North
President

REN/ee

"US Investment Realities"

The long term return on equities is dramatic and remarkably consistent in the decades following the Second World War. Consider the following table:

Table 1

	1950s	1960s	1970s	1980s	1990s	2000-07	Annualized Return**
Small-Company Stocks*	16.9	15.5	11.5	15.8	15.1	10.8	14.4
S&P 500	19.4	7.8	5.9	17.5	18.2	1.7	11.9
Long Term Corporate Bonds	1.0	1.7	6.2	13.0	8.4	8.1	6.3
Long Term Government Bonds	-0.1	1.4	5.5	12.6	8.8	8.8	6.0
Treasury Bills	1.9	3.9	6.3	8.9	4.9	3.2	4.9
Inflation	2.2	2.5	7.4	5.1	2.9	2.8	3.8

Source: Ibbotson SBBI Yearbook, 2008

** North Growth Management has limited confidence in the integrity of the data for the Small-Company Stocks category as a result of its contraction. The Small-Company Stocks data series compiled by Ibbotson consists of the fifth capitalization quintile of stocks on the NYSE for 1950-1981, the Dimensional Fund (DFA) Small Company Fund for 1982-March 2001, and DFA Micro Cap Fund for April 2001-present.*

***Annual return calculated over the cumulative period covering the 1950s, 1960s, 1970s, 1980s and 1990s, and the 8 years of the current decade.*

The above is an amazingly strong case for being a long term equity investor.

The reason many investors find it so hard to take advantage of the long term superiority of investing in equities is the unfortunate reality of bear markets. Bear markets are tough to handle both intellectually and emotionally; intellectually, because of all the bad economic and financial news that surfaces during a market decline, and emotionally, because of the speed with which the prices of equities drop.

The following table records all of the bear markets since the end of World War II:

Table 2

Date of Market Peak	Date of Market Trough	Return Peak To Trough	Duration Of Past Bear Markets
May-29-1946	Jun-13-1949	-30%	36.5 Months
Aug-2-1956	Oct-22-1957	-22%	15 Months
Dec-12-1961	Jun-26-1962	-28%	6.5 Months
Feb-9-1966	Oct-7-1966	-22%	8 Months
Nov-29-1968	May-26-1970	-36%	18 Months
Jan-11-1973	Oct-3-1974	-48%	20.5 Months
Sep-21-1976	Mar-6-1978	-19%	17.5 Months
Nov-28-1980	Aug-12-1982	-27%	20.5 Months
Aug-25-1987	Dec-24-1987	-34%	4 Months
Jul-16-1990	Oct-11-1990	-20%	3 Months
Jul-17-1998	Aug-31-1998	-19%	1.5 Months
Mar-28-2000	Oct-9-2002	-49%	30.5 Months

The above shows all of the short term setbacks in market value that long term investors have had to live through since the end of World War II. Weathering out a bear market is never pleasant, but it is the only way that the superior long term returns of equities can be realized. The only way! Attempting to time the market by jumping in and out of equities simply does not work.

Equity markets are too unpredictable over the short term, and, more importantly, at significant turning points, to permit successful timing in and out. This is especially true at the bottom of a bear market. From a practical point of view, when equities have declined significantly from their peak—say, 19% or 20%—buying stocks will turn out to be a smart move that in hindsight improves an investor's long term results. That has been the reality of past markets. There have been twelve bear markets where the decline has ranged between -19% and -49% for an average of -30%. Investors have to accept these swings if they are to participate in the long term potential of equities.

For market timers who are keeping their "powder dry" this is a critical time. Typically, after the bear market hits bottom they respond by claiming the rally has gone "too far too fast". Somewhere after a recovery of between 20% and 50% they will acknowledge that a bull market has been "confirmed". Then they enter a frustrating period of looking for an opportunity to get back into the market. The opportunity, of course, has already been lost and their long term investment results much reduced.

When the time is really right for buying equities, you won't want to buy. If all of the above observations seem to be taking place, second guess that hollow feeling in your stomach and buy equities. This advice is far less cavalier than buying when the mood is euphoric and the economy booming.

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