



CAPITAL MANAGEMENT CLUB

August 4, 2010

Dear Members, Partners, and Friends:

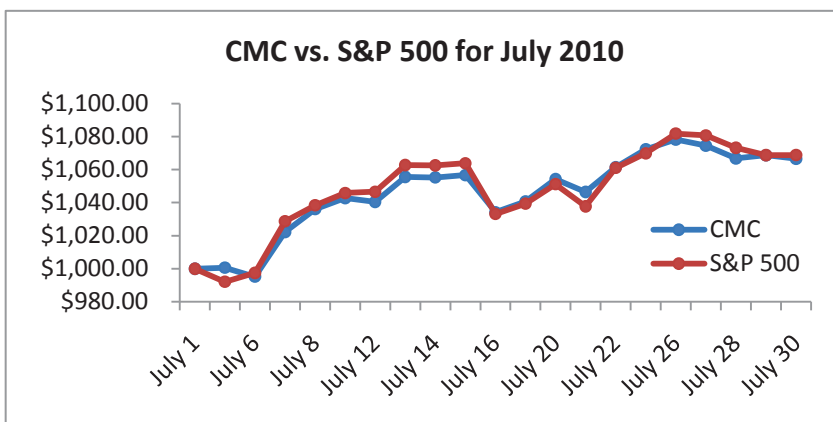
Perhaps more impressive than the markets massive swing upward this month was the jaw-dropping World Cup game choosing ability of Paul the Octopus. As many of you know, this eight-legged wonder of the deep somehow miraculously predicted 100% winners throughout the tournament (http://en.wikipedia.org/wiki/Paul_the_Octopus). Incredible! If you haven't heard, essentially Paul was situated in a large aquarium with two cases, each hosting the flag of one of the opponents and filled with a snack. Whichever case Paul picked the mussel out of was the team that he had deemed the winner. We watched in awe as the tentacled phenomenon chose game-after-game correctly this World Cup and we wondered how on earth he could possibly be doing it. If only trading the current market environment was this easy! In fact, there were many times throughout Paul's rein where we questioned whether or not we should place PM Winikates in front of two acrylic cases labeled "buy" and "sell".

The most important game that Paul chose was the final, Spain against his native Germany. Millions of people watched in awe as Paul went and snacked in the Spanish-labeled case, betraying his homeland. PM Kreindler was not amused by Paul's pick and immediately got his silverware ready to eat the delectable little guy (we all know Kreindler loves a good calamari dish). As fate would have it, Spain prevailed in the World Cup final, meaning that Paul predicted his eighth game of the tournament correctly.

After what has happened in the market the last few months, a prophetic cephalopod should not come as a surprise to any of us. But a key questions remains -- was this luck or was this skill? That is still to be determined; however, PM Curley suggested that we give Warren Buffet's title of "The Oracle" to the octopus. Paul the Oracle – it has a good ring, eh? Now let's look at the feats of Paul the Octopus from a purely statistical standpoint. In total, the probability of choosing eight-out-of-eight games correctly is about .39%. This is almost impossible to do and the performance was nearly three standard deviations above the mean. One has to truly wonder about tail events like this (although you could argue that the distribution was skewed due to the hue and glossiness of the cases) and prepare for these types of black swan events.

The S&P 500 ran up 6.88% this month and we one-two stepped with it returning an admirable 6.65% for July. Overall, we have returned 6.71% versus the S&P's -.80%. Our portfolio is currently structured where our

long book consists of about 75% of our portfolio's value, our short book is working against that by 15%, and we are holding 40% cash. We feel that these allocations have greatly helped us in maintaining a low variance while still generating great returns. In fact, our Sharpe Ratio since inception is .80, while the market's over the same period is -.16. Keep in mind that the long-run Sharpe Ratio for the market is about .41. Let's compare our performance with some of our rivals within the Long/Short Equity



category of the CS-Tremont Hedge Fund Index. Over our fund's existence, the index has lost 2.34% with a negative Sharpe ratio. In total, we have drastically outperformed our peer group and benchmark, while retaining a much lower variance.

Analyst Newcomb suggested we pull the trigger on Golden Star Resources (GSS) and we purchased it earlier this month. We were happy to learn that a recent discovery has added 500,000 oz of gold to their resource base. We believe discoveries and expansion like this will greatly strengthen the company going forward. Moreover, new management has impressed us by undertaking various renovations in an effort to streamline mines. On a risk-reward basis, a global gold-bug could send this small cap flying.

We are also delighted to announce that Waterstone Bank (WSBF) became our first "one-bagger" and we netted over 110% in the position. Analyst Goldberg remained diligent in tracking the stock and decided that it was time to sell amidst uncertainty regarding the financial sector and the scarcity of news surrounding the stock. His thesis played out well as the company rode the recovery upward. Golderg still continues to follow the stock and when valuation is correct we may jump back in for round two.

Our last transaction of the month was the short sale of Garmin (GRMN), a producer of GPS navigation devices. The heart of Analyst Graf's thesis was a play on the secular trend toward standard GPS software in smart phones. As more and more operating systems begin to offer navigation, Garmin will likely sell fewer devices and be pressured to the downside. Moreover, automobiles continue to offer standard navigation equipment, which we feel will continue to stifle revenues. In fact, sales declined 15% last year and if that movement continues then we believe that the negative carry from its erratic dividend will more than pay for itself.

Best July Performers						
Name	Price (Beg)	Value (Beg)	Price (End)	Value (End)	Gain/(Loss)	% Return
iPath S&P 500 VIX Futures (VXX)	\$ 31.20	\$ (873.60)	\$ 22.57	\$ (631.96)	\$ 241.64	27.66%
Waterstone Financial (WSBF)	\$ 3.41	\$ 975.26	\$ 4.20	\$ 1,194.17	\$ 218.91	22.45%
Yongye International (YONG)	\$ 6.89	\$ 992.16	\$ 8.18	\$ 1,177.92	\$ 185.76	18.72%
RTI International Metal (RTI)	\$ 24.11	\$ 1,036.73	\$ 28.38	\$ 1,220.34	\$ 183.61	17.71%
United Parcel Service (UPS)	\$ 56.89	\$ 796.46	\$ 65.00	\$ 910.00	\$ 113.54	14.26%

Our best performer of July was our short VIX ETF (VXX), which we talked about in last month's letter. VXX returned us 27.66% as global fears subsided and the market rallied back. Waterstone was another outstanding performer, convincing us to take gains and put them in the "bag". Yongye netted us \$185.76 this month after share dilution had beaten its price down. In addition, RTI jumped on news that Airbus would increase titanium orders this year. UPS was another great performer this month after posting strong earnings and increased forecasts.

Worst July Performers						
Name	Price (Beg)	Value (Beg)	Price (End)	Value (End)	Gain/(Loss)	% Return
Applied Micro Circuits (AMCC)	\$ 10.48	\$ (1,048.00)	\$ 11.96	\$ (1,196.00)	\$ (148.00)	-14.12%
Ameren Corporation (AEE)	\$ 23.77	\$ (665.56)	\$ 25.37	\$ (710.36)	\$ (44.80)	-6.73%
SPDR Gold Shares (GLD)	\$ 121.68	\$ 851.76	\$ 115.49	\$ 808.43	\$ (43.33)	-5.09%
Express Scripts (ESRX)	\$ 47.02	\$ 846.36	\$ 45.18	\$ 813.24	\$ (33.12)	-3.91%
Marvell Technology (MRVL)	\$ 15.76	\$ 598.88	\$ 14.92	\$ 566.96	\$ (31.92)	-5.33%

Applied Micro Circuits (AMCC), our short semi-conductor play and sector hedge, lost us 14.12% after a good earnings announcement. We were happy that we put the hedge in place a few months ago to protect our sector exposure. Overall, our portfolio still gained money in the tech/semis this month, offsetting losses from AMCC and the lagging Marvell (MRVL). We continue to expect big things out of MRVL and believe that it has much

to gain from supplying to China Mobile. In addition, our gold ETF (GLD) lost a bit of money as investors put risk back on over the course of the month. Express Scripts slid on a poor report from competitor Medco (MHS); however, ESRX has since taken back some of its losses after posting record earnings this quarter.

So now the most important question is: what can the likes of Paul the Octopus teach us about finance? Well, we have certainly seen a lot happen in this market over the last few years. Although the worst may be behind us, it is always important to stress test and scenario test your expectations and key stock drivers. This type of analysis allows you to quantitatively assign outcomes to different situations. Having a decent view of the bull and the bear case will give you a good idea of how a stock will perform in various circumstances. We plan on stress testing and scenario testing our entire portfolio as part of our new risk management program. Being able to know the limits of your portfolio is a key part of sustaining performance. You never know when financial Armageddon will strike, or when Paul will correctly select eight winners in a row.

In fact, we will be doing a lot this next semester to enhance our club, our fund, and our returns. Mark has a full syllabus outlined for us in Advanced Investment Management with everything from portfolio analytics to expectations-based modeling. Our Scottrade account is now set up for options trading, allowing us to think up even more creative trading strategies. We are one step closer to getting outside investment, as the School of Business has granted us the ability to keep alumni on the Courses@Bus website. Moreover, the co-presidents have been diligently finalizing what they would like to cover in our Tuesday night teaching sessions.

We are taking things to a whole new level next semester, and by year-end we will have all of the same tools and resources of major hedge funds, prop desks, and trading firms across the country. We wish you the best of luck in concluding their internships this summer, but just wait until next semester begins... and remember, if Paul the Octopus can pick them right then so can we.

Sincerely,



Alex Kreindler
Portfolio Manager



Brandon Winikates
Portfolio Manager



Sam Curley
Portfolio Manager

