

October 26, 2011

Dear Friend,

It was a turbulent third quarter with the S&P 500 declining by 13.9%. Our Diversified Equity Composite declined by 15.6%; our Concentrated Equity Composite declined by 17.5%. For the first nine months of the year the S&P 500 is down 8.7%. Our Diversified Equity Composite is down 12.4%, and our Concentrated Equity Composite is down 13.5%.¹

Even though the S&P 500 only briefly touched the negative 20% mark which most economists agree defines a bear market, make no mistake, this *is* a bear market. Excluding a few large technology and consumer goods companies, the markets have been treacherous, both here and abroad. The US index for Smaller Cap stocks declined by 19% during the quarter and the international indices declined by 17%.

With 100% of my assets invested in Integre products, I understand how painful bear markets can be. That said, it is important to remember what can happen after them. In 2009, for example, just one year after the bear market brought on by the subprime mortgage crisis, our Diversified Equity Composite increased by 41.0 %, and our Concentrated Equity Composite increased by 60.0%.

During the quarter our consumer staples performed well, but our small-cap stocks, despite being very cheap on a free cash-flow or price-to-book basis, did poorly, mostly due to liquidity. The sellers were determined to sell despite the fact that there were no natural buyers and essentially dumped their shares on the market. The growing popularity of Exchange Traded Funds and the trend toward high frequency trading has made this sort of price-be-damned selling increasingly prevalent in the small-cap sector. By the same token however, these prices can also move very quickly upwards; both portfolios have moved up over 8% in the first 25 days of this month.

¹ 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 composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a diversified equity portfolio that are greater than \$250,000 in size. The concentrated equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a concentrated equity portfolio that are greater than \$250,000 in size. Accounts must be managed for a full calendar quarter before inclusion. Portfolios are excluded from a quarter if the account falls below the composite minimum, or as Integre Advisors receives notice of termination. 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 are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and may have more or less volatility and risk than an investment in the S&P 500 Total Return. Management fee information available upon request.

Over time, we believe that the best way to grow and preserve wealth is to make as much money as we can when there is money to be made, while simultaneously avoiding the overpriced sectors, like technology in 2001 and financials in 2008, so we don't lose as much as we otherwise might when the downturns come. Adhering to this methodology we have returned 108% in our Diversified Equity Composite over the last ten years. We have returned 71% in our Concentrated Equity Composite since its inception in 2004.

This fall we are launching a third investment product, the Domestic Small-Cap Strategy. The Domestic Small-Cap Strategy will invest in approximately 40 companies with market capitalizations of \$3.5 billion or less. The portfolio will be diversified with regard to sector and industry, and will be benchmarked to the Russell 2000, a small-cap index. With Exchange Traded Funds and high frequency traders dumping small-cap stocks without regards to underlying fundamentals, small-caps have become an increasingly fertile ground for bargain hunters like ourselves. We look forward to being on the other side of those trades.

With all good wishes,

Manny Weintraub, CFA