VALUE CONTRARIAN ASSET MANAGEMENT

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2008 First Quarter
Value Contrarian Canadian Equity

Dear Investors,

> ***And yes… a banker should assume that the world financial system is [presently] over inflating commodity prices… Banking is a wonderful business if you just don't blow yourself up every five to seven years.***
>
> ***Ed Clark – CEO***
> ***TD Bank***
> ***May 2008***

Enclosed you will find the Value Contrarian fund 2008 first quarter results. Your fund ended the quarter with a net asset value of $2,279.26 per unit, a decrease of $172.48 from the December 31, 2007 value of $2,451.74 (after distribution).

Our high cash position unfortunately was not enough to cushion the portfolio from the broad based sell-off, especially in the financial services sector. However, it did give us the opportunity to pick up some new names at attractive valuations. The markets improved dramatically in April lifting your fund almost 4%.

During the first quarter we witnessed a climax in the ongoing credit crisis with the near collapse and rescue by the feds of Bear Stearns, the fifth largest investment bank in America. Remember, nothing goes in one direction forever. Excess "greed" creates a ceiling on prices, while excess "fear" eventually creates a floor on prices.

Again, this credit crisis is not about the level of interest rates, but the shoddy (irresponsible) excesses in lending on inflated assets. The sub-prime debacle will take time to run its course. It won't be a pretty clean-up. According to Bob Rodriguez, a "smart-money" portfolio manager; "the process of cleaning these unsound practices is analogous to allowing a body fever to run its course when appropriate medication is unavailable [or in short supply]."

While the stock markets may have bottomed at the end of March, "we may need (U.S.) housing prices to bottom for this entire process to go through and for the market to rebound." But it may take longer than people think to correct the past excesses.

It is also important to understand that the "credit crisis" has led to a "repricing of risk". Repricing of risk is a nice way of saying that lenders are suddenly demanding a higher rate of interest from borrowers. For example, in the first half of 2007, when big banks temporarily lent money to finance LBO's at 7%, three months later they could not sell these loans at par (7%). The "repricing of risk" meant that investors (i.e.; hedge funds) were only willing to buy these loans at perhaps .86 to .90 cents on the dollar. A ten percent loss on a 30 billion dollar loan is not pocket change – hence one of the reasons behind the recent deluge of banking losses. Yes, late in the cycle bankers always manage to engage in "stupid" lending practices by underpricing risks and accepting weaker credit covenants.

The Federal Reserve over the past 6 months has cut short-term interest rates, thereby pushing yields to near historic lows. At current rates investors are not being paid very much for locking up money in longer-term bonds (or even short-term money). The danger is that inflation takes hold, especially with commodity prices going through the roof. Thus, a likely scenario is that once the current credit/housing crisis stabilizes, expect rates to rise 12-18 months down the road.

Over the next 2-3 years we expect the TSX and Dow to continue making new highs. However, it will likely be a "stealth" bull market. These gains will merely mask a "two-tiered" market. This is when a few sectors or limited number of stocks carry the blue chip indexes to new highs. However, at the same time on the battlefield, most stocks will not be making 52 week highs – hence the term "two-tiered". We are already seeing this in Toronto, where as at the end of March, 8 of the 10 TSX sectors have produced negative returns (save commodities & gold).

Remember how after the 1998 bear market "tech and telecom" stocks quickly recovered from the bear and proceeded to climb to record new highs? Those who played the "tech and telecom" excesses from late 1998 to the NASDAQ peak 2.5 years later gave back all their gains, and then proceeded to suffer massive capital losses. True, history does not repeat itself in exactly the same fashion – this time the excess and peak prices are not in tech and telecom. We are certain Value Contrarian investors can deduce from which industry sectors the inevitable bloodbath will occur (Hint: read our opening quote – or maybe instead of Nortel think Oil Sands).

Act I of the present stock market turmoil is over for now. During our next report we will discuss new additions to the Value Contrarian portfolio. Act II in our opinion will occur within the next five years. A geo-political event will eventually lead to a major oil supply disruption and more inflation. In the meantime, until that event occurs, if oil falls back to $70 or $80, expect a rally in the global stock markets.

Respectfully yours **

Benjamin D. Horwood
Portfolio Manager
May 14, 2008

P.S. Do visit us at our web site: ***www.valuecontrarian.com***

** We're often asked: " When is the best time to invest in the Value Contrarian?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.