



## **Frank Value Fund**

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**Frank Capital Partners LLC**

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**Fourth Quarter, 2004**

To our shareholders,

In our previous letter we discussed how stock prices were falling and we were buying. Our persistence and faith in our strategy paid off. The Frank Value Fund's previous quarter of operation (September 1 – December 31, 2004) enjoyed sharp appreciation of these low-priced issues. We outperformed the market in 2004 by 5.5%. The Frank Value Fund finished the year ended December 31, 2004 up 14.5% with our benchmark, the S&P 500, up 9%. While our returns may fluctuate in the short-term, we believe we will outperform the S&P 500 over the long-term.

There is a common misconception in the financial world that volatility is an indication of risk. We not only disagree with this mindset, but we also structure our buying and selling to take advantage of it. The Frank Value Fund invests some of its assets in small cap companies, which Wall Street perceives as volatile and therefore risky. However, the small cap companies we invest in have strong balance sheets with piles of cash and little or no debt. As the great investor Peter Lynch says "It is hard to go bankrupt with no debt." Small cap stocks tend to have significant price swings in both directions. These volatile price swings, although tough for the average investor to stomach, are no indication of the investment risk of the stock. This is not a new idea; it is a core tenet of Warren Buffett's investment philosophy.

The best example of volatility is the fund's best performing stock, Alloy. We purchased Alloy stock on four different occasions, when the stock was trading in a range from \$3 to \$5. All of our purchases came in the lower part of the range, despite the stock shooting to \$6 and back. We did not get excited when the stock was trending upwards, nor did we get discouraged when it was trending downwards – we just purchased more. Eventually, the strong fundamentals of the company took hold and currently Alloy is in the high \$7 range, with a gain of over 70%.

We thank you for your investment and look forward to 2005.

Sincerely,

Alfred and Brian Frank  
Frank Value Fund Portfolio Managers