

# ADVISER'S PERSPECTIVE QUARTERLY | Q3 2009

## QUAKER LONG-SHORT TACTICAL ALLOCATION FUND

Domestic equity markets marched higher each month of Q3 2009 shrugging off economic uncertainty and stretched valuations. The S&P 500® Total Return Index (S&P 500) ended the quarter up 15.61%, reflecting a year-to-date return of 19.26%.

Class A shares of Quaker Long-Short Tactical Allocation Fund were down 10.99% before sales charges for the quarter ended September 30, 2009 reflecting a year-to-date return of -5.48%. (After sales charges the Fund returned -15.89% for the quarter and -10.67% year-to-date). We continue to focus each day on assessing current market risk levels and on searching for the best reward opportunities given the assessed level of risk.

The past three (and six) months have been extraordinarily difficult and unusual. The market has celebrated the avoidance of another Great Depression (happy times are here again!). However, market participants have become increasingly euphoric in their relief since the March 6 lows, and seem to be ignoring real and serious economic challenges that still surround the US equities market.

Economic and financial challenges that give us pause:

- **Second Stimulus Bill:** If a second stimulus bill is announced and only includes temporary stimulus measures, such as new tax rebates, the stock market in general may consider the news as more negative than positive because of the risks associated with increasing the deficit without maintaining long-term stimulus that could meaningfully accelerate growth and enable the economy to grow fast enough to narrow the deficit.
- **Fed Rate-Hiking Cycle:** Telegraphs from Federal Reserve officials that the central bank will begin unwinding its historic stimulus by raising interest rates to more normal levels could cause stocks to weaken on the prospect of higher costs of capital for specific companies and the economy as a whole.
- **Dollar Strength:** Stock market strength this year has coincided, at times, with dollar weakness. Consequently, a strong rally in the dollar could translate into stock market weakness. Potential catalysts for a dollar rally could include a clear warning by U.S. officials that the dollar would be supported if necessary, which would effectively set a floor on the value of the greenback in foreign exchange markets.
- **Equity Put/Call Ratio:** Given the contrarian nature of this ratio, the number of puts being purchased by market participants in relation to calls is falling to levels that signal the market is overbought in the short-term by historical standards. Strength amid such conditions has been the hallmark of the rally since March, but at some point that strength may become weakness.
- **Excessive Bullish Sentiment:** The correlation between percentage moves in the S&P 500 and volume continues to be negative, both actual and implied volatility are trending downward, more investors are bullish than bearish, and the historically smarter investors (including company insiders) are more bearish than individual investors. All of these conditions point to complacency in the stock market, making the market especially vulnerable to negative catalysts.
- **Increased Protectionism:** With many expecting unemployment rates to continue rising around the world, protectionist tendencies may increase. In September, Global Trade Alert, an independent monitoring agency, reported that G20 countries implemented 121 'blatantly protectionist measures' during the previous year, with much more to come.
- **Unemployment:** With reported unemployment creeping up on 10% and actual unemployment arguably in the high teens, we are left to speculate how top line growth is expected to grow in near term to support the stretching valuations. At some point aren't we collectively just laying off our own consumers?

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Performance	For Calendar Quarter Ended 9/30/2009		
	Before Sales Charges	After Sales Charges	S&P 500 Total Return Index
Class A Inception 12/31/2002			
3 Months	-10.99%	-15.89%	15.61%
Year-to-Date	-5.48%	-10.67%	19.26%
1 Year (Cumulative)	-3.38%	-8.69%	-6.91%
3 Years (Annualized)	-4.28%	-6.07%	-5.43%
5 Years (Annualized)	-1.12%	-2.23%	1.02%
Life of Share Class (Annualized)	5.91%	5.03%	4.82%

Expense Ratio: 3.35%

As of June 15, 2009, Class A Shares of the Fund have a maximum sales charge of 5.50%. Performance information prior to June 15, 2009 represents that of the Top Flight Long-Short Fund (the "Top Flight Fund"), a series of the Rock Canyon Funds. On June 15, 2009, the Top Flight Fund was reorganized into the Quaker Long-Short Tactical Allocation Fund.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end is available by calling us toll free at 800-220-8888.

**Additional disclosures about the Fund appear on the next page.**

**Sub-Adviser:** Rock Canyon Advisory Group, Inc.

**Fund Assets:** \$9.3 Million

**Public Offering Price:** \$ 9.69

### Ticker Symbols

Class A: QLSAX

Class C: QLSCX

Institutional Class: QLSIX

### Mutual Fund Exposures % Assets

Long Positions 73.67%

Cash & Cash Equivalents 16.68%

Exchange-Traded Fund 12.03%

Limited Partnerships 3.72%

Short Positions -6.10%

### Top Positions % Assets

Harmony Gold Mining Co. Ltd. 3.78%

Crosstex Energy LP 3.72%

Dynegey Inc 3.33%

Superior Well Services Inc. 3.32%

Golden Star Resources Ltd. 3.27%

Clayton Williams Energy Inc. 3.21%

THQ Inc. 3.20%

Quiksilver Inc. 3.19%

Zale Corp. 3.12%

Penn Virginia Corp. 3.12%

Total 33.26%

The Fund's holdings and characteristics are as of 9/30/2009 and are subject to change. Current and future holdings are subject to risk.



**QUAKER® FUNDS**

Quaker Long-Short Tactical Allocation Fund engages in short selling (selling securities not owned at time of sale), which involves special risks and requires special investment expertise.

The Fund invests in small capitalization companies, which involve additional risks such as limited liquidity and greater volatility. As a non-diversified fund, which invests in a small number of issuers, changes to a single security held in the Fund will have a more pronounced negative effect on the Fund than if the investments were more widely distributed.

The S&P 500® Total Return Index is a widely recognized, unmanaged index of the approximately 500 largest companies in the United States as measured by market capitalization. The index assumes reinvestment of all dividends and distributions and does not reflect any asset-based charges for investment management or other expenses. You cannot invest directly in an index.

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• Residential Real Estate: Over 1.5 million homes in the sub-prime mortgage category have already been lost with another 2 million sub-primes currently delinquent. On top of this an entirely new wave of mortgage default risk approaches as Alternative-A Paper (Alt-A) and Option Adjustable-Rate Mortgage (Option ARM) loans are reset in the next two years. The Center for Responsible Lending estimates that over eight million foreclosures will occur in the next four years. That's EIGHT MILLION. The credit crisis chapter of this book simply cannot be closed yet.

• Commercial Real Estate: We have a friend who recently returned from a conference in which Real Estate Trust (REIT) fund sales people told him the commercial real estate threat is exaggerated. Yet those of our contacts who are actually doing business in the sector are telling us the outlook for the refinancing of upcoming loans due is dire and that players are beginning to whistle past the graveyard.

During the quarter, our allocation model recognized a much higher level of downside risk than has been apparent from market performance. Investor sentiment measures hovered in bearish signal zone throughout the quarter and spiked to mild extremes on multiple days causing us to position the portfolio net short much of the quarter only to be punished by resilient dip-buying in the markets.

From a stock selection perspective, the dominant factors describing the leaders and laggards have performed an "about face" once a month, without supporting an overarching trend. In fact, the rolling correlation between the current week's attribution of relative performance to specific factors, and the average attribution of performance over the past four weeks in Q3 was at its highest negative reading since we began collecting the data. Alpha generation through our stock selection discipline becomes more difficult with this kind of market behavior.

Such behavior can swoop in and lay waste to the quantitative landscape from time to time, but has never persisted. We believe we're about to see the market find a home in a new factor landscape for an extended period of time and that our indicators that have provided a useful frame of reference in analyzing investor behavior for decades will be relevant and precise again.

We have witnessed a lot of markets over the years. They may stretch, stretch and sometimes stretch some more. But ultimately, overly stretched markets have snapped back to a point of rational intrinsic value, and the more they were stretched the greater the correction. We don't profess any uncanny ability to time market peaks or troughs, nor do we attempt to do so. We do, however, approach each day attempting to recognize where the risks are and allocate portfolio capital in accordance with the risks and opportunities that we see.

For this reason we have positioned the portfolio with greater short exposure than long exposure in recognition our quantitative work that indicates risk currently skewed to the downside in the market. If our model indicates to us that, in the short run, risk has neutralized, we will begin adding more long exposure to the portfolio, and rent (rather than own) a bullish position in what we believe is a longer-term high-volatility environment that will include stock market moves in both directions like the one we have just experienced to the upside.

We remain committed to our investment discipline and are confident that over the long run investors in the Fund will appreciate that we have remained true to our philosophy and discipline, and that the Fund will continue to be a strong diversifier to an investment portfolio. As always, we appreciate your confidence in us.

*Provided by Rock Canyon Advisory Group, Inc.*

**Alpha** is a measure of risk-adjusted return.

**Correlation** is a statistical measure of how two securities move in relation to each other.

**Put/Call Ratio** is a ratio of the trading volume of put options to call options, used to gauge investor sentiment.



**The Sub-Adviser:** Rock Canyon Advisory Group, Inc., based in Lehi, UT, was founded in 2002 and currently has more than \$9.3 million under management.

**Mutual fund investing involves risk, including the possible loss of principal.**

*Consider investment objectives, risks, charges, and expenses carefully before investing. The Prospectus contains this and other information and is available for download at [www.quakerfunds.com](http://www.quakerfunds.com) or by calling 800-220-8888. Read the Prospectus carefully before investing.*



**QUAKER® FUNDS**

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