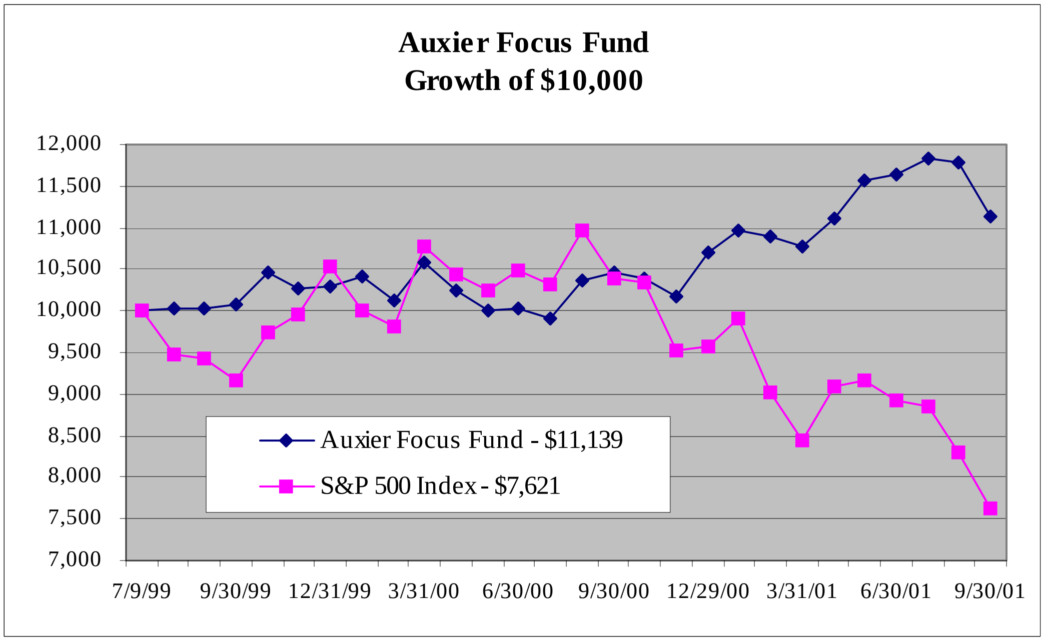
AUXIER FOCUS FUND UPDATE
BY JEFF AUXIER
SEPTEMBER 30, 2001

The table below summarizes the performance for the quarter, six months, and year ended September 30, 2001.

	3 Months Actual Return	6 Months Actual Return	1 Year Average Annual Total Return	Average Annual Total Return Since Inception (July 9, 1999)
Auxier Focus Fund	-4.29%	3.31%	6.44%	4.95%
S&P 500 Stock Index	-14.68%	-9.68%	-26.62%	-11.47%



This graph, prepared in accordance with SEC regulations, shows the value of a hypothetical initial investment of $10,000 in the Fund and the S&P 500 Index on July 9, 1999 (inception of the Fund) and held through September 30, 2001. The S&P 500 Index is a widely recognized unmanaged index of common stock prices and is representative of a broader market and range of securities than is found in the Fund portfolio. Individuals cannot invest directly in the index. Performance figures reflect the change in value of the stocks in the index, and reinvestment of dividends. The index returns do not reflect expenses, which have been deducted from the Fund's return. The performance of the Fund is computed on a total return basis, which includes reinvestment of all dividends. THE FUND'S RETURN REPRESENTS PAST PERFORMANCE AND DOES NOT PREDICT FUTURE RESULTS. Investment returns and the 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.

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Management Discussion of Fund Performance

OVERVIEW

In past letters I cautioned against the promotion of index funds, that they were weighted heaviest in the most overpriced issues. Unfortunately, this past quarter, the lack of downside protection became evident. The portfolio torpedoes came in. Allocating capital without regard to price and value clearly can have unpleasant consequences. The September 11 tragedy accentuated a trend that was already in place -- the purging of an unprecedented capital spending boom. Markets tend to correct the excesses and usually prices of assets return to their historic trend. There are no new eras and all bubbles typically end the same way, with prices adjusting back to normal or even cheaper. What is still worrisome is that the technology component of the S&P 500 still trades in excess of 40 times 2001 earnings projections, which is discounting tremendous growth ahead that may not materialize. SOURCE: *First Call*

THE GOOD NEWS

Despite the tragic events of September 11 there are some positives:

- The country and its leaders are united in a powerful way.
- The Federal Government has a surplus that can act as a safety net. Look for fiscal spending and tax cuts in the $100-200 billion range.
- Oil prices have dropped from a November 2000 peak of $34.50 per barrel to a more recent price of $23. This can act like another tax cut to stimulate spending.
- Home refinancing is running triple the level of just four months ago. SOURCE: *Mortgage Bankers Association*
- Margin debt continues to drop
- The ratio of insider sells to buys has dropped to a seven-year low of nearly 3-to-1, vs. a high of 13-to-1 in 2000. SOURCE: *Financial Times*
- High quality companies are starting to look interesting on a price basis.
- Bearish sentiment among institutional investors recently reached 42% vs. 34% for the bulls -- a healthy sign. SOURCE: *Investors Intelligence*
- The nine recessions we have had in the past 50 years have all been followed by recoveries.
- Extraordinary volatility and uncertainty is the friend of the long-term investor. It represents an infrequent opportunity to exploit discrepancies between the price of a company and its underlying value. Any time investors substitute emotion for rational thought there is the potential for above-average returns.
- Recessions and corrections are not an everyday event and should be viewed as a necessary cleansing event. Real wealth may be created in economic downturns as assets can usually be acquired at a fraction of their underlying value.
- In October, the Value Line Investment Survey, a highly respected publisher with a solid long-term record, issued the strongest buy signal in 30 years.

REASONS TO BE CAREFUL AND SELECTIVE

- The accounting for many publicly traded companies is simply unacceptable. More money continues to be robbed at pen point then gunpoint. Pro forma earnings releases allow companies to cherry pick. It is like golfing and taking a mulligan on every hole. Because of this and other omissions like stock options I strongly believe that many companies' earnings are overstated and caution is in order.
- Very little attention seems to be paid to the balance sheet by equity analysts in general. Since September 11, the risk premium in the corporate bond market has widened (prices are down), while many of the stocks have rallied. The essence of investing is discounting back future cash flows to the present, and the bond analysis is much more focused on the cash flows. Balance sheet strength is critical in a weak economy as most bankruptcies result from too much debt.

- The corporate capital spending cycle is a very large component of corporate earnings. We overspent so much during the boom that it seems likely that the declining trend will continue for some time.

WHAT WORKS IN THIS ENVIRONMENT?

The best thing about a recession is that there can be a tendency for a greater number of misappraisals on the part of investors due to the negative emotions of fear, pessimism and disgust. In these times a rational investor should seek the best companies, those with an enduring competitive advantage, excellent underlying economics and able management.

Guidant Corporation is an example of such a company. I have watched and admired Guidant for years but never invested in it because the price always seemed too high. This year the company finally reached a price that made sense, and as of September 30, it is the top holding in the Fund (representing 3.32% of assets). Guidant is a medical equipment company that specializes in devices for use in cardiovascular procedures. The demand for this product tends to be insensitive to the general economy. However, the demographic trends are strong, as the population is aging and over 61 million Americans have some sort of heart disorder. SOURCE: *American Medical Association* When it comes to the health of your heart you typically don't take the low bid.

Guidant is a leader in heart stents, which are small medical devices used to help keep your arteries open. Also, heart rhythm management (pacemakers) is a large part of their business. The industry has been rapidly consolidating. The company typically spends twice the industry average on research and development and has achieved the following:

- Consistently high returns on equity, over 30% on average the past seven years
- Double digit growth in sales and earnings
- High free cash flow
- A strong balance sheet
- Strong product pricing with high margins
- High barriers to entry
- Numerous new product introductions

This company would generally sell for over 30 times earnings the past few years, so when it broke to 14 times we were there. The stock dropped for what I determined were temporary reasons and we were able to buy at a 5-year low price point. So by waiting for our price we now have an attractive risk/reward profile with a margin of safety, and exciting upside potential.

The strategy is to identify the superior companies you want to own ahead of time and then wait for that temporary problem that knocks the price down to a compelling level where you can achieve a double or triple play -- higher earnings with a higher valuation. The hardest part is the patience it takes to wait for that price.

IN SUMMARY

An environment of pessimism, fear, and uncertainty is good for the long-term investor because of the lower prices it brings. The ultimate objective is to buy the highest quality businesses at compelling valuation levels that provide for a margin of safety. Like Warren Buffett has said, "The best thing that can happen to us is when a great company gets into temporary trouble. We want to buy them when they are on the operating table." In these volatile times we must not lose sight of the power of compounding and the importance of knowing the intrinsic value of each one of your holdings. Only then can we quantify the downside risk. To win we must first not lose.

Thank you for your support!