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"Real investment risk is measured not by the percent that a stock may decline in price…but by the danger of a loss in earning power through economic changes or deterioration in management." – Ben Graham

Despite founding the New York Society of Security Analysts in 1937, which later became the CFA Institute, Ben Graham's definition of risk has been largely forgotten. The finance profession, with help from academics, has managed to redefine risk as volatility in market prices. ***We fundamentally disagree*** with this modern definition**.** Market volatility is only a source of risk if you can be forced to sell; otherwise, volatility represents a source of investment opportunity for those who are prepared (as described in our October 2011 letter).

Instead of volatility*,* ***we define risk as the probability of a permanent loss***. The difference is best illustrated with an example: imagine you have recently purchased a home that is very similar in size and condition to the rest of the houses on your street. You discover your neighbors are settling a divorce and they are forced to sell their property on short notice for half the price that you just paid for yours. The market value of your home has technically fallen. This may cause a permanent loss if you financed the purchase with short-term debt and no down payment. However, it is irrelevant if you paid a reasonable price for your home, purchased in cash and have no intention of selling in the short-term. In this case, the price change is not risk. In contrast, if a motorcycle gang moves in next door and sets up a prominent clubhouse, you have probably just suffered a permanent loss.

With stocks, there are three common causes of permanent loss: overvaluation, industry change and excessive debt.

Overvaluation

Cisco Systems is a global leader in networking equipment. Since 2000, their revenue has doubled and earnings have tripled. In short, this is a great company that has performed very well in the last decade. However, the stock was so expensive in 2000 (almost 200 times earnings) that despite a decade of operational success, the stock price has declined 80%.

Industry Change

Blockbuster Video was once the industry leader in home video rentals and its value exceeded $5 billion in 2002. However, new technologies developed by companies like Netflix and Red Box transformed video rental and Blockbuster filed for bankruptcy in 2010.

Excessive Debt

Las Vegas Sands is a large casino operator in both Vegas and Macau. The stock peaked at $139 in late 2007 when the company had $7.5 billion of debt backed by operating profit of just $360 million. When the financial crisis arrived, Las Vegas Sands' solvency was questioned and the stock plunged 98%. Despite rebounding above $50, the stock remains 60% below its peak.

Permanent losses are important because recovery is long and difficult. If you start with $100,000 and lose 50%, you now need to make 100% on your remaining money just to recover your losses.

Assuming average rates of return[1], it will take almost 12 years to restore your initial capital. A 70% loss takes more than 20 years to recover. We work hard to avoid those situations which we believe imperil long-term investment success.

Investment Update

As of February 29, 2012 the Ewing Morris Opportunities Fund LP has returned approximately 11%, net of fees, since inception on September 9, 2011. The Fund currently has 75% invested in thirteen long positions offset by 15% in nine short positions resulting in a cash position of 40%. When we take short positions, we are selling shares today for cash with the plan to buy them back later at a lower price.

The family of limited partners continues to grow and we are pleased to welcome new partners into the Fund this month. We are delighted with the calibre of limited partners that have decided to join us in the early stages of our firm's development.

PricewaterHouse Coopers has begun their audit and our administrators at Apex Fund Services are preparing your tax information. We plan to deliver our Audited Annual Report to Unitholders and release the T5013 tax slips by the end of March.

As always, please let us hear from you if you have any questions regarding this letter or your investment in the Fund. If you are aware of anyone that may be interested in learning more about our firm, we would be pleased to speak with them.

Cordially,

John Ewing
Co-Founder

Darcy Morris
Co-Founder

[1] Assumes 6% annual returns; the S&P 500 returned 5.9% in the 50 years ended December 31, 2011