



# Leuthold Undervalued & Unloved Fund

(UGLYX)

January 27, 2010: Report for 4th Quarter 2009

## Fund Philosophy

The Undervalued & Unloved strategy is based on the concept that in all market conditions, there will be some companies that are being undervalued by Wall Street investors.

## Investment Objective

The Fund seeks long-term capital appreciation and dividend income, by investing in “Value” stocks of all sizes and industries.

## Symbol

UGLYX

## CUSIP

527289706

## Assets under Mgmt.

\$11,334,254

## Portfolio Managers

Jim Floyd, CFA  
Eric Bjorgen, CFA

## Shareholder Services

1-800-273-6886

## Investment Suitability

The Fund may be appropriate for:

- ◆ *Investors desiring an equity fund that has a low correlation to S&P 500 performance.*
- ◆ *Investors who desire diversification through an unrelated collection of stocks.*
- ◆ *Investors looking for a “Value” investment style as an offsetting complement to more aggressive “Growth” holdings.*
- ◆ *Investors seeking a total return approach; with higher yielding, dividend paying stocks.*

## Strategy Background and Methodology

**The Leuthold Undervalued & Unloved** Fund utilizes a disciplined, quantitative value investment approach which has been in existence at our firm for over 25 years. The strategy was developed by The Leuthold Group in the 1980s for use in research applications, and in more recent years it was adapted as a stock selection screen for managed accounts.

The Leuthold Undervalued & Unloved Fund is designed to attempt to identify securities that appear to be out-of-favor or overlooked – companies with stock prices that seem low in relation to intrinsic valuations. (Note the Fund’s quotation symbol: UGLYX)

## 4th Quarter and 2009 Performance Review

For the 4th quarter ended 12/31/09, the Leuthold Undervalued & Unloved Fund was up +6.85% total return, compared with the Russell 3000<sup>1</sup> Value index gain of +4.17% total return, and the Russell 1000<sup>1</sup> Value index total return gain of +4.22%. The S&P 500<sup>1</sup> had a total return gain of +6.04% in the fourth quarter. Please note that “Value” style indexes are more suitable vehicles (rather than the S&P 500) for comparing relative performance with the Leuthold Undervalued & Unloved Fund.

For the full year 2009, the Leuthold Undervalued & Unloved Fund was up +28.42% total return, compared with the Russell 3000 Value index gain of +19.77% total return, and the Russell 1000 Value index total return gain of +19.68%. The S&P 500 had a total return gain of +26.45% for 2009.

**Note: Performance data quoted herein represents past performance. Past performance is no guarantee of future results. Investment returns and principal will fluctuate so that investors’ shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than performance data cited. For performance data current to the most recent month-end, please call Leuthold Fund Shareholder Services, toll-free: 1-800-273-6886.**

**Per Prospectus dated 1/31/09, the Fund’s net operating expense was 1.50% (excluding acquired fund fees); gross operating expense before expense recovery was 1.36%. The Advisor may recover waived fees in subsequent years; however, the recovery period is limited to three fiscal years, beginning on the date of first recovery.**

## Looking Back at 2009

As pessimism prevailed in the first several months of 2009, stocks fell to extreme valuation lows not seen since 1982. “Growth” stocks were selling at cheap “Value” stock earnings multiples, while Value stocks were selling at single digit earnings multiples with double digit dividend yields. Gloom was pervasive with few investors able to get up the fortitude to buy stocks at any price. But from a Value manager point of view it was an opportunity to buy beaten down blue-chip Growth and Value stocks at discount prices. The Undervalued & Unloved Fund was able to buy depressed Growth stocks at bargain basement levels one rarely sees.

In particular, during 2009, the Fund significantly benefited from investment in the traditionally growth oriented Info Tech sector. This includes stock groups such as Semiconductors, Tech Distributors, Communications Equip. and Systems Software. Additionally beneficial to the Fund’s performance in 2009 were Materials sector stocks (Metals & Mining, Steel, and Fertilizers & Ag. Chemicals); and Industrial sector stocks (Construction & Farm Machinery, Industrial Conglomerates, and Human Resource/Employment groups).

The largest performance detractors during 2009 came from the Financials and Health Care sectors (Pharmaceuticals and Regional Banks stocks), which are traditional “value” style investments. Overall, though, the Fund’s gainers far outweighed the areas of weakness. The U&U Fund outperformance in 2009 was extremely encouraging, as prior to 2009, the Fund had been treading water ever since its inception over three years ago, when it was launched in the midst of a “growth” stock environment.

## Looking Ahead to 2010

The stock market is no longer considered cheap. The cloud of pessimism has largely lifted. The Undervalued & Unloved screening discipline is uncovering fewer qualifiers and hardly any beaten-down Growth stocks as it did a year ago. Things have changed, and with the U&U Fund up about +86% (total return) from its March 9, 2009 low, we are not as excited about market opportunities in 2010 from a valuation perspective. Stocks won’t get cheaper until earnings and revenues improve, or the stock market declines.

If our formerly beaten-down portfolio holdings significantly appreciate in price, and consequently no longer qualify as U&U stocks, we will consider them to be sell candidates. But, these sell candidates will not be sold until their price performance begins to lose momentum. In other words, our discipline allows us to hold on to our winners until their performance begins to fade. On the other hand, stocks that no longer qualify because of bad fundamentals are sold immediately.

## Value Investing Strategy

The strategy behind Value investing is sound, namely that a portfolio of cheap stocks will likely outperform a portfolio of higher priced “Growth” stocks over the longer term. Some stocks that have been beaten down to “Value” stock status (lower P/E ratios) can quickly rebound back to their former growth stock standing (higher P/E ratios). These are the types of companies we are searching for.

<sup>1</sup>The S&P 500, Russell 3000 Value, and Russell 1000 Value are unmanaged indexes and cannot be invested in directly. Gaining exposure to a market index may be attainable through index funds and ETFs (Exchange Traded Funds).

# Leuthold Undervalued & Unloved Fund

## Equity Characteristics vs. S&P 500

	Fund	S&P 500
Median Market Cap:	\$18,388MM	\$8,982MM
Portfolio Beta:	1.48x	1.00x
Wt. Median Price/Earnings:	21.0x	17.7x
Price/Cash Flow:	8.4x	10.6x
Price/Book:	2.3x	2.7x
Price/Sales:	2.0x	1.7x
ROA:	4.5%	6.1%
ROE:	9.9%	13.9%
Operating Margin:	20.2%	18.3%
Net Margin:	9.2%	8.0%
LT Debt/Capital:	36.8%	32.1%

Source: FactSet Research Systems and Standard & Poor's  
Data as of 12/31/09

## Broad Sector Weights vs. S&P 500

	Fund	S&P 500
Financials	18%	14%
Information Technology	16%	20%
Energy	15%	11%
Materials	13%	4%
Industrials	11%	10%
Consumer Discretionary	9%	10%
Health Care	7%	13%
Telecommunication Services	4%	3%
Consumer Staples	4%	11%
Utilities	2%	4%

Data as of 12/31/09

## Significant Quarterly Performance Contributors

	Q4 Price % Change	% of Assets on 12/31/09
Bucyrus International	+58.3%	3.2%
Massey Energy Co.	+50.6	2.0
Collective Brands	+31.4	2.3
MPS Group Inc.	+28.4	NA*

\*As of 12/31/09 stock no longer held in Portfolio

## Significant Quarterly Performance Detractors

	Q4 Price % Change	% of Assets on 12/31/09
NCR Corp.	-28.6%	NA*
Barclays PLC (ADS)	-25.6	0.7%
ViroPharma Inc.	-24.1	NA*
Finish Line Inc.	-22.3	NA*

\*As of 12/31/09 stock no longer held in Portfolio

Securities are listed based on Quarterly % Change, not contribution to return.

## Total Returns Periods Ended December 31, 2009 Returns > 1 year are Annualized

	Q4 2009	1-Year (12 mo.)	3-Year (36 mo.)	Since Inception (11/14/06)
<b>Leuthold Undervalued &amp; Unloved</b>	<b>6.85%</b>	<b>28.42%</b>	<b>-7.13%</b>	<b>-6.14%</b>
Russell 3000 Value Index	4.17	19.77	-8.89	-7.65
Russell 1000 Value Index	4.22	19.68	-8.97	-7.67
S&P 500	6.04	26.45	-5.63	-4.79

S&P 500 is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy based on the changing aggregate market value of these 500 stocks.

Russell 3000 "Value" measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. (The Russell 3000 is composed of the 3,000 largest U.S. companies based on total market capitalization.)

The Russell 1000 "Value" measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. (The Russell 1000 is composed of the largest 1,000 companies in the Russell 3000 index.)

The S&P 500, Russell 3000 Value, and Russell 1000 Value are indices only and cannot be invested in directly. Fund performance return figures are historical and reflect the change in share price, reinvested distributions, change in net asset value, and capital gains distributions, if any.

## Performance Disclosure:

Performance data quoted represents past performance. Past performance is no guarantee of future results. Investment returns and principal will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than performance data cited.

For performance data current to the most recent month-end, please call Leuthold Fund Shareholder Services, toll-free: 1-800-273-6886.

## Expense Ratio Disclosure:

The Expense Ratio for UGLYX is capped at 1.50%; therefore the Advisor has voluntarily agreed to waive its advisory fee to the extent necessary to ensure net expenses do not exceed 1.50% of the average daily net assets. The Advisor may recover waived fees in subsequent years; however, the recovery period is limited to three fiscal years, beginning on the date of first recovery.

Per the Prospectus dated 1/31/09, the net operating expense was 1.50% (excluding acquired fund fees); the gross operating expense, before expense recovery, was 1.36%. Please refer to the Prospectus for a more detailed explanation of the expense ratios.

## Direct Shareholder Services and Account Inquiries:

Call Toll-Free: 1-800-273-6886

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P.O. Box 701  
Milwaukee WI 53201-0701

## Portfolio Managers:

Jim Floyd, CFA  
Eric Bjorgen, CFA

Quotron/ADP Symbol: U G L Y X

CUSIP: 527289706

## Questions On Investment Disciplines:

Please contact:

- Ed Favreau
- Paula Mikl
- Hilary Van de Streek

Telephone: 612-332-9141

Leuthold Weedon Capital Management serves as Advisor to Leuthold Funds.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The Prospectus contains this and other information about the Fund. For current Prospectus, call toll-free 800-273-6886, or go to [www.LeutholdFunds.com](http://www.LeutholdFunds.com). Please read the Prospectus carefully before you invest.

Not FDIC Insured ~ No Bank Guarantee ~ May Lose Value

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