

Year-End 2010 Shareholder Letter

Dear Fellow Shareholders,

We are pleased to report that the CAMCO Investors Fund had excellent year in 2010, gaining +14.62%. This compares favorably with a gain for the Domini 400 Social Index of 11.89%. Returns for the S+P 500 and Russell 3000 Value Indices were 15.06% and 16.23%, respectively.

Although this past year ended with a very strong fourth quarter, market behavior in the first three quarters was reminiscent of the double headed “pushme-pullyou” from the original 1967 “Dr. Doolittle” movie. The tug of war between bulls and bears, positive and negative economic data, and fear and greed caused the markets to be pulled up and down in a series of swings, without apparent direction. By September, however, it became apparent that the slow pace of the economic recovery was going to continue and that a double-dip recession was unlikely. Fuel was added in the fourth quarter by a more business-friendly new Congress, the extension of the 2003 Bush tax cuts and the second round of Quantitative Easing (QE2) from the Federal Reserve.

The Fund was helped by strong moves in the materials and energy sectors, as worldwide economic expansion continued. The portfolio saw strong gains from the iShares Silver Trust, the Market Vectors Junior Gold Miners, National Oilwell Varco, Freeport McMoran Copper and Saul Centers REIT, all rising 50% or more. The portfolio was hurt by weakness in the healthcare and defense sectors as the rollout of “Obamacare” and prospects of cuts in defense spending were digested. L3 Communications (-17%), Medtronic (-12%), and Zimmer (-9%) were the largest drags on Fund performance. We continue to like each of those companies and expect the current low valuations in healthcare and defense to provide an excellent source for new investment ideas. We would also like to mention that the Fund performance was achieved in spite of a cash hedge position exceeding 10% for most of the year.

Naturally, after two strong years of stock price recovery comes the million dollar question: What will happen to stock prices in 2011? We would like to make guarantees of X% gains this year. I would also like to be twenty years younger and play golf like Phil Mickelson, but that also is not going to happen. The truth is we just don’t know and neither does anyone else.

As we survey the landscape, there is much to be positive about. The economy is slowly growing; stocks are under-owned and selectively undervalued. The health of corporations has improved along with increasing sales and earnings. The growing world economy continues to drive the need for everything from automobiles to zinc.

There are areas of concern as well. Unemployment remains stubbornly high and is a drag on the consumer sector. Out of control spending and deficit borrowing is a long term issue which must be addressed. Europe faces significant problems today in unwinding unsustainable welfare states. However, experience tells us that no matter what the current circumstances are, great companies purchased at low valuations tend to make great long term investments.

Where do we see such opportunities today? Right here in the USA in value-priced large-cap companies. These firms have been continuing to grow revenues and earnings (especially overseas), increasing dividends and improving their already strong balance sheets over the past few years, while the market has focused on smaller and lower-quality companies. We believe that this trend will reverse and we are positioning the Fund to take advantage of these opportunities. We also continue to hold large positions in energy and materials stocks in spite of their strong recent performance.

We believe that the Federal Reserve's short term fiscal and monetary stimulus is stoking commodity inflation and recent government actions show us nothing to change our outlook. With this view on inflation, let me remind you of the warning we shared in our semi-annual letter last summer.

We believed that a bubble in bonds was building and that investments in bonds were priced to provide very little upside and tremendous downside. Our fears about bonds were realized when we watched the 10 year treasury bond yield rise from a low of 2.41% in early October to 3.30% by the end of December. We believe that if bonds continue in this direction, it will be positive for assets flows into stocks.

According to a Wells Fargo study, pension funds held only 30% of assets in stocks at the end of 2010, an all-time low. This is well below the 45% average of the past fifty years. A move back to the average stock weighting of 45% by these pension funds would be very bullish for equities.

We appreciate the confidence you have in your Portfolio Managers. We consider it a great privilege to serve you as you seek to be good stewards of your investment resources. Thank you.

Very Respectfully,

Rick Weitz
Portfolio Manager

Dennis Connor
President

The CAMCO Investors Fund
(NASDAQ: CAMCX)
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