

March 5th, 2010

Dear clients and colleagues,

We are celebrating the first year anniversary of the great panic of 2008. Markets bottomed 1 year ago today and experienced their best rally ever since. What should we expect from now on?

At the beginning of this year, our forecast for the stock market was for a good first quarter followed by a very difficult six-month period. With markets ending the year about flat.

We are now close to the end of the first quarter and we continue to hold that scenario. Here are few reasons why:

As expected, the year-on-year improvement in earnings for Q4-09 was very strong. Easy, since the last quarter of 2008 was a low point in earnings. The first quarter of 2010 should also see good earnings growth year-on-year due to easy comparisons. But then it becomes more difficult. We think earnings expectations are too high for the rest of the year and 2011.

Another important statistic which will soon have ugly comparisons with last year is **inflation** and the market is not anticipating it. At this time last year, the price of oil was \$43 it is now above \$80. The price of copper was \$1.65, it is now \$3.40. The price of cotton was \$40 it is now \$80. Coffee and cocoa are up more than 15% and sugar is up 70%. The only commodities that have not moved significantly are the grains and we think they will soon follow the others and increase significantly as well. PPI inflation around the World has increased significantly in the last few months and will continue to increase. Either producers will pass those price increases and we will see CPI inflation, or they will not be able to and we will see shrinking profit margins, both scenarios being negative for stock prices.

News in the last few weeks have been dominated by Sovereign Debt Risk with a new acronym being used, PIGS for Portugal, Ireland, Greece and Spain, countries that are now being added to the Baltic States and Iceland in terms of their dire situation. In the last week, a new country was added to the list, the UK with the Pound taking a beating. Budget deficits in the developed economies are now completely out of control with the inevitable outcome of rising interest rates.

Massive stimulus spending is temporary and will be removed and measures such as “cash for clunkers” have not produced a sustained recovery. In Germany, new car sales were down 10% in January and 29% in February 2010, after the program expired last fall. European car makers are now expecting domestic sales in 2010 to be down compared to 2009.

Sweden went back into recession last quarter; the rest of Europe might be next.

Unemployment figures are still very high in Europe and in the US putting a sustained recovery at risk.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

We believe that the possibility of a “double-dip” recession has increased in the last six months. Our opinion is certainly not shared by the consensus and not reflected by the stock market.

We may be wrong. After all, we are stock pickers, not economists.

The upside risk to our scenario would most likely come from the US and Japan. The US because its recession started before and real estate prices have corrected more. Japan, because of its leadership in Asia and because of the low base where it starts.

The Country most at risk if our scenario is proven right is Canada. Because of its exposure to commodities, the strength of the dollar, the out of control deficit and the domestic real estate bubble.

Despite this negative view on the economy in the short term, we do not believe markets will panic the way they did in March of last year. The most vulnerable sectors are those which have led the recovery, that is the materials and early cyclicals. Another factor which should sustain the markets is what we believe will be a major cycle of M&A, this time driven by strategic buyers using cash.

Our portfolio strategy is taking a long-term 3 to 5 year view. Over that period we are fairly optimistic about the growth of the economy, particularly the US and Japan. Our commentary last week identified some of the themes which we think will see good growth for years to come. You will see two more commentaries on themes in the weeks to come.

We maintain a well diversified portfolio with companies that are amongst the leaders in more than 30 different industries. These companies will grow faster than their peers, exhibit superior margins, have a stronger balance sheet and have management teams that are significant shareholders, aligning their interests with ours.

Have a good week.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.