



## Fourth Quarter 2011 Commentary

### Oberweis Small-Cap Opportunities Fund (OBSOX)

#### The Year and Quarter in Review

2011 was a challenging year. In last year's outlook, we noted that valuations for small-cap growth stocks, as measured by price/earnings ratios, were below average, and that we expected P/E's to gravitate upward toward longer-term averages. In retrospect, risk aversion rose markedly in 2011 as investors increasingly fretted about the sovereign debt crisis in Europe. P/E's for small-cap growth stocks compressed further, despite reasonable earnings growth. With the exception of late 2008 and early 2009 – which turned out to be an extraordinary buying opportunity – small-cap growth companies have never been cheaper in the last 20 years.

Admittedly, stock valuations and bond yields are currently low for real reasons. They reflect a high degree of uncertainty, renewed fears of global recession, and the possibility of an apocalyptic collapse in Europe (though we assign a low probability to such an event). Many questions remain unanswered. What will happen to the Euro and how will 27 disparate nations with varying interests agree on a resolution to fix it? How will the U.S. pay back its debts and who will keep loaning us money until we do? Are China's days of high-octane growth behind it? Will the Middle East explode into chaos? We don't profess to have the answers to all of these questions, though we believe extreme pessimism relative to these issues is unwarranted.

Declines in bond yields in 2011 clearly reflected these higher levels of risk-aversion among investors. Bonds again appreciated and U.S. 30-year Treasury bond yields slipped from 4.36% to a stunningly low yield of 2.89%, the lowest level since the 2008-2009 global financial crisis. Risk aversion was also captured in equities, as riskier asset classes like small- and micro-cap stocks underperformed seemingly less risky large-caps during 2011: the larger cap Russell 1000 Growth Index returned +2.64% versus a return of -2.91% for the smaller cap Russell 2000 Growth Index, a difference of 555 basis points. Micro-cap stocks, as defined by the Russell Microcap Growth Index, fared even worse, returning -8.42%.

Another by-product of risk aversion in the marketplace over the last several years has been a dramatic increase in equity correlations. According to research by Bank of America Merrill Lynch, pair-wise correlations (correlation coefficients describe the strength of the relationship between two variables) of the stocks in the Russell 2000 Index hit a record high of 56.4% in 2011, far above the long-term average of 15.9% observed since 1990. The result is an increase in the number of stocks that do not trade in-line with underlying company fundamentals. While investors continued to obsess over macro issues for much of 2011 – and manically traded “risk-on” and “risk-off” in response to every whimsical change in the macro picture – we have remained steadfastly focused on investing in small-cap growth companies in which our proprietary earnings expectations differ from consensus expectations. We believe that in a more normalized environment these well-positioned companies will be rewarded with above-market P/E ratios.

#### Outlook 2012

History notes that times of immense uncertainty and exceeding pessimism have often worked out to be the best opportunities to buy equities, although it sometimes takes time to play out. Small-cap growth stocks often get clobbered when bad news hits the economy for two reasons: first, earnings expectations decline, and second, the P/E multiple investors are willing to pay for those earnings also declines as uncertainty increases. Thanks to the post-2008 risk-averse environment, valuations have already been clobbered, which makes us much less worried about further compression from here. Eventually we expect mean reversion; stocks don't stay cheap forever. With P/E multiples for small-cap growth stocks already at the low end of their historical range, we believe an upward bounce is much more likely than a further decline, even if the economy does not show robust growth in 2012.

The real risk, in our view, is that earnings fall significantly short of expectations. This risk applies to all equities, and frankly we believe it's less worrisome for small-caps than for large-caps. We

also submit that recent U.S. economic data, which have generally been better than expected, do not support a pessimistic view of earnings in 2012 relative to muted expectations. Furthermore, niche-oriented small-cap growth companies are often growing because of innovation, more so than broad-based GDP growth. These types of companies will find opportunities to grow even if the broader economy doesn't, because of their innovation edge. In fact, when bonds pay nothing, and large-cap earnings depend on relatively modest GDP growth, one would expect investors to eventually pay a premium for companies generating growth in excess of expectations and market averages. Currently, as noted above, they are paying a sharp discount to normal premiums.

In short, our forecast calls for investors to warm to riskier assets by the end of 2012, although risk tolerance could certainly oscillate wildly at various points during the year. Declining risk aversion will trump economic growth itself (which will likely remain quite modest) as the driver of stock prices. More importantly, even if we are wrong, we believe the risk of losing money in equities is substantially lower than normal. Small-cap growth stock valuations are cheap, and like most things in life, economies are cyclical, even if this cycle has been a long and painful one. For the contrarian with a reasonable time horizon, we believe that spells opportunity.

#### Fund Highlights

During 2011, the Oberweis Small-Cap Opportunities Fund returned -3.88% versus -2.91% for the Russell 2000 Growth Index. During the fourth quarter, the Fund returned 10.60% versus 14.99% for the Russell 2000 Growth Index.

The Fund benefited from strong stock selection in consumer staples, consumer discretionary, and energy during the year. Stock selection in consumer staples added 170 basis points of excess return relative to the Russell 2000 Growth Index, consumer discretionary added 145 basis points, and energy added 71 basis points. Performance during the year was hampered by stock selection in technology, materials and process, and financials. Stock selection in technology detracted 196 basis points relative to the Russell 2000 Growth Index, materials and processing detracted 85 basis points, and financials detracted 78 basis points. The technology and consumer discretionary sectors were among the worst performers during the year as investors shunned risk; defensive sectors like consumer staples and financials were the best performers.

#### Organization Update

There was no change in OAM's Small-Cap Opportunities team.

#### Oberweis Asset Management's Investment Philosophy

We believe that investing in rapidly growing small companies in the early stages of their growth cycles results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation – smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

For over 20 years, we have focused exclusively on these companies, seeking opportunities where rapid change is driving growth and the potential for superior investment results over the long-term. Our time-tested and proprietary Oberweis Octagon is a specific research framework that allows us to quickly identify and understand the companies driving innovation in the global economy.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

## Growth Equity Investing

James W. Oberweis, CFA  
President, Co-Portfolio Manager

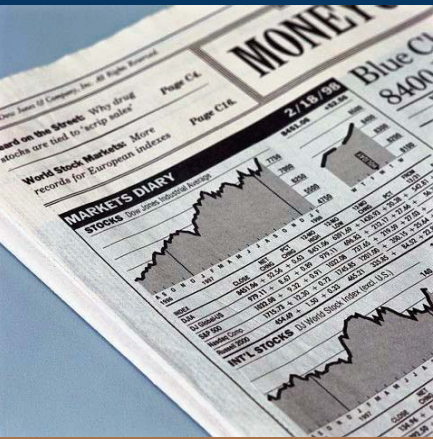
Ken Farsalas, CFA  
Director of U.S. Equities,  
Co-Portfolio Manager



# Oberweis Small-Cap Opportunities Fund (OBSOX) Fourth Quarter 2011

Investing in small-cap growth companies where we expect growth to exceed expectations.

## Oberweis Asset Management, Inc.



### Key Benefits

The Small-Cap Opportunities Fund seeks to capitalize on the exceptional growth potential of smaller companies that are often misunderstood by traditional Wall Street research analysts. The Oberweis Small-Cap Opportunities Fund invests, under normal circumstances, at least 80% of its net assets in the securities of companies (with a market capitalizations less than \$5 billion at the time of investment) where our expectations for earnings growth differ from consensus expectations. These companies often boast exciting products and/or services, a strong and sustainable competitive position, and the potential for upward revisions in earnings expectations in the future. Our fundamental research process is specifically designed to efficiently identify such opportunities.

The potential key benefits of the Small-Cap Opportunities Fund are:

- Potential for significant alpha over a full market cycle
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Fundamental research process specifically designed to efficiently discover smaller cap companies that are misunderstood by traditional Wall Street research analysts
- Exposure to smaller cap companies offering the potential for earnings growth that differs from consensus expectations
- Diversified portfolio with a focus on risk management

**Minimum Investment:** \$1,000

The Oberweis Funds invest in rapidly growing smaller and medium sized companies which may offer greater return potential. However, these investments often involve greater risks and volatility. There is no guarantee that the portfolios can achieve their objectives.

For more information  
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## Oberweis Asset Management, Inc. – Advisor to The Oberweis Funds

Recognized as a leading small-cap stock specialist, Oberweis has been helping institutional investors manage their assets prudently and effectively for many years. Our key investment professionals include:

**James W. Oberweis, CFA**  
President, Co-Portfolio Manager (Principal)



- MBA, University of Chicago
- Over 17 years of investment experience
- Featured guest on CNBC and Bloomberg television

**Kenneth S. Farsalas, CFA** Director of U.S. Equities, Co-Portfolio Manager (Principal)



- MBA, University of Chicago
- Over 19 years of investment experience
- Featured guest on Forbes.com

**David I. Covas, CFA**  
Portfolio Manager (Principal)



- MBA, University of Chicago
- Over 15 years of investment experience
- Featured guest on Bloomberg television

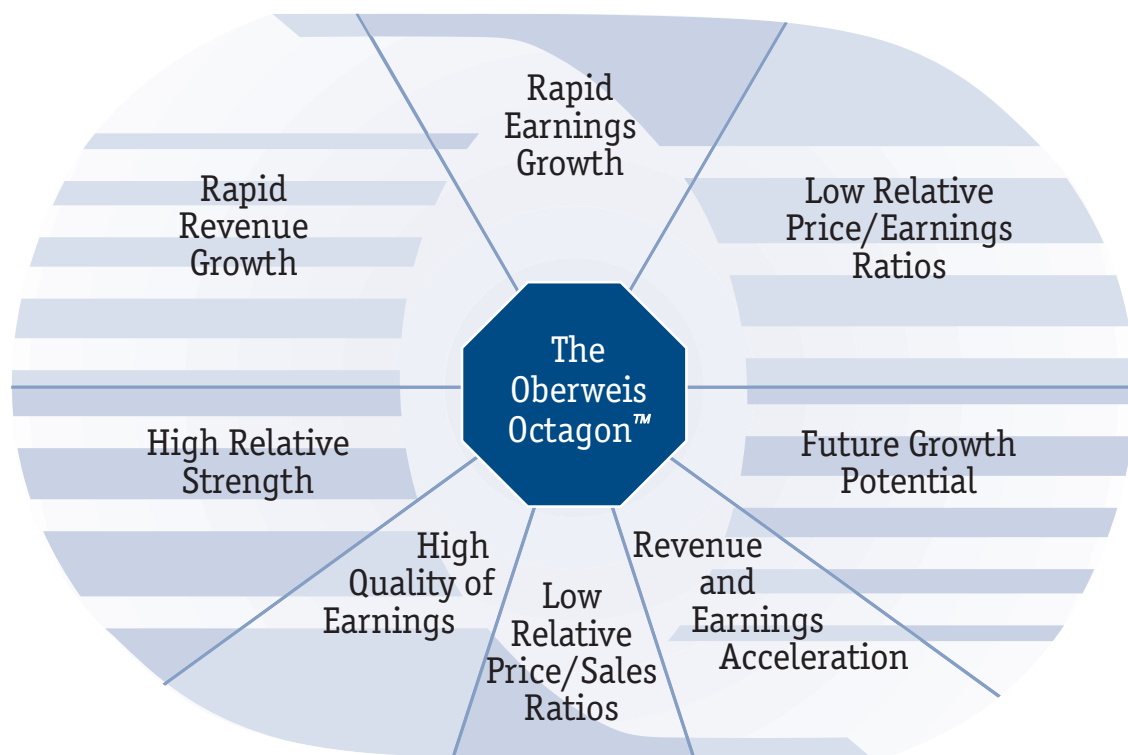


## The Oberweis Octagon™

A unique blueprint for success

Our unique, highly disciplined investment approach includes a series of eight criteria to focus our research efforts. Beginning with a universe of approximately 14,000 companies, we select only those with the potential for exceptional growth. These companies must be profitable in the most recently reported quarter and have:

1. Rapid Revenue growth
2. Rapid Earnings growth
3. Price/earnings ratio no greater than the company's rate of growth (12 month fwd P/E)
4. Products or services offering the potential for extraordinarily rapid and sustained growth
5. Ideally, the company should be experiencing revenue and earnings acceleration
6. Reasonable price/sales ratio
7. High quality of earnings
8. High relative strength





## Oberweis Small-Cap Opportunities Fund Characteristics

(as of December 31, 2011)

Source: Baseline

### Oberweis Small-Cap Opportunities Fund (OBSOX)

Number of Stocks	61
Weighted Market Capitalization (in millions)	\$1,384
Median Market Capitalization (in millions)	\$1,189
P/E Forward 4 Quarters (estimated)	21.0x
P/E Trailing 4 Quarters	25.0x
Long-Term Future EPS Growth Rate (estimated)	21%
2011 P/E to Growth Rate Ratio	1.3x
2012 P/E to Growth Rate Ratio (estimated)	1.0x
Dividend Yield	0.2%
Price to Book Ratio	2.9x
Price to Cash Flow Ratio	16.0x
Price to Sales Ratio	1.7x
Long-Term Debt to Total Equity	13.0%
Return on Equity	12.6%
Net Profit Margin	6.9%
Cash Position	1.1%
Portfolio Turnover (2011)	127.9%



## Oberweis Small-Cap Opportunities Fund Sector Weightings

(as of December 31, 2011)

Source: Baseline

### Oberweis Small-Cap Opportunities Fund (OBSOX)

Consumer Discretionary	23.6%
Consumer Staples	1.2%
Energy	7.1%
Financial Services	6.9%
Health Care	21.4%
Materials & Processing	1.5%
Producer Durables	15.7%
Technology	20.5%
Utilities	1.2%
Cash	0.9%
Total	100.0%

Sector Weightings as a % of Total Net Assets

# Oberweis Asset Management, Inc.



## Oberweis Small-Cap Opportunities Fund Ten Largest Equity Holdings

(as of September 30, 2011)

Source: Baseline

Company Name	Percentage	Line of Business
1. Acacia Research Corporation	6.5%	Acquires and licenses patented technologies
2. Vera Bradley, Inc.	5.7%	Designs and markets accessories for women through retail stores and independent retailers
3. Crocs, Inc.	3.9%	Designs, manufactures, and distributes footwear for men, women, and children
4. Perry Ellis International	3.3%	Designs & markets a broad line of high quality men's sportswear
5. Select Comfort Corporation	2.4%	Designs and manufactures a line of air bed mattresses
6. Amerigon, Inc.	2.3%	Develops high-technology products for automotive OEM's
7. Pros Holdings, Inc.	2.2%	Provides pricing and revenue optimization software and services
8. BroadSoft, Inc.	2.1%	Provides software that enables service providers to deliver voice and multimedia services over their networks
9. Twin Disc, Inc.	2.0%	Manufactures marine & heavy duty, off-highway power transmission equipment
10. IMAX Corporation	2.0%	Designs, manufactures, markets & leases proprietary projection and sound systems for IMAX theaters

### Top 10 Holdings as a % of Total Net Assets

Portfolio Holdings are subject to change at any time. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

## Oberweis Small-Cap Opportunities Fund Total Returns

(as of December 31, 2011)

	Quarter	Annualized			
		1-Year	3-Year	5-Year	10-Year
Oberweis Small-Cap Opportunities Fund (OBSOX)	10.60%	-3.88%	26.14%	-0.46%	2.38%
Russell 2000 Growth Index	14.99%	-2.91%	19.00%	2.09%	4.48%

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that you may have gain or loss when shares are sold. Current performance may be higher or lower than quoted. Visit us online at [oberweisfunds.com](http://oberweisfunds.com) for most recent month-end performance.

The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted earnings growth rates. The index is an unmanaged group of stocks, whose performance does not reflect the deduction of fees, expenses or taxes.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. To obtain a copy of the prospectus please visit our website at [oberweisfunds.com](http://oberweisfunds.com) or call 800-323-6166. Read it carefully.

The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

## Growth of \$10,000 invested

9/15/96 (with income reinvested)

