

## Discipline

- *Training that produces obedience, self-control or a particular skill,*
- *Controlled behaviour produced by such training.*  
- *Oxford Dictionary*

We have discussed the subject of investment discipline a number of times over the past twelve months. It has been particularly relevant over the past six months when momentum stocks in the high tech, telecommunications and Internet sectors carried the market upward to new record levels. During this period these overvalued, high price to earnings and trendy concept shares soared in price at the mere hint of growth potential. Investors paid little attention to the fundamental attraction of individual stocks. In consequence fundamental value securities languished.

It was a very difficult period for disciplined value managers who obediently clung to their investment mandates. Expensive stocks became even more expensive whereas the listless value stocks became relatively cheap and virtual investment outcasts. Our opinion with regard to this state of investment affairs prompted my comments of last April, which I still believe are relevant today:

"I am astounded also because I am noticing companies with little or no sales, let alone earnings, which are trading at millions or billions of dollars of market capitalization. There is a dichotomy in the market between Internet, high-tech, large liquid companies versus small/mid capitalization out-of-favour value plays.

As a fundamental analyst one must refrain from joining the frenzied mania

and instead hunt for cheap stocks. Sticking to one's discipline is key. Strangely enough there are still a number of cheap value stocks, which have not been discovered. In some cases we have scratched our head and wondered why they have not traded substantially higher. These value shares are the exact opposite or flip side of the vastly overvalued Internet stocks."

I believe investment discipline or obediently applying self-control to one's investment mandate is all-important. Although it might have been very disappointing and disconcerting to many investors who applied this regimentation while the high tech sector has surged upward, I believe this current state is a test of our convictions. This testing, I feel, is a healthy stimulus and excellent catalyst to reassess our investment values. The end result, I contend, will be a reaffirmation of the principles of value investing which have survived innumerable market cycles, fads and manias. I believe the current investment frustration is temporary and that tenaciously adhering to value disciplines will triumph in the end.

**ECONOMIC PERSPECTIVES****The Canadian Economy: Running Fast, Running Deep**

Consider the facts: the lowest Canadian unemployment rate in 18 years of 6.9%, strong economic growth of 4 ½ to 5%, low inflation of 1.5 to 2%, rising real incomes, business investment, housing starts and expanding federal government surpluses. The reality is that the Canadian economy is very strong. Economic activity is the most buoyant in two decades. While there are potential pitfalls such as building inflationary pressures, a declining consumer savings rate, increasing family debt and the need for lower Canadian tax rates, the fact is, the Canadian economy is still running fast and running deep.

The present benefit of this very strong Canadian economic activity is continued employment growth, greater consumer confidence, healthy retail sales, rising government tax revenues and ultimately budget surpluses. These budgetary surpluses should accentuate the already mounting pressures on the federal and provincial governments to lower their respective tax rates. Lower tax rates would add to consumer confidence and provide greater growth and competitiveness to the Canadian economy and elongate the present business cycle.

**INVESTMENT PERSPECTIVES****Bargains in the Bin**

With the great surge and present popularity of high technology, Internet and telecommunications stocks, traditional value shares have become virtual pariahs. The stocks which have done well in recent months have been those securities with considerable price momentum, astronomical price to earnings multiples and huge price to book ratios. These stocks are by no means cheap and due to their current outrageous demand, they have become even more over-valued. It has become an upward-spiraling vicious circle.

On the flip side of this high tech mania are the traditional value securities. Many value stocks are trading at incredibly low price to earnings and cash flow multiples with big discounts to book and net asset values. There is very little investor demand as evidenced by their lowly share prices. They are a contrarian investor's dream. They are literally bargains in the bin. Canadian examples include common shares in the forestry, oil and gas, mining and cyclical sectors. In the U.S. huge declines in household names such as Goodyear Tire and Allstate Insurance are similar overlooked value shares.

**PORTFOLIO PERSPECTIVES****Preparing our Portfolios for the Next Value Move**

We have been attempting to continuously upgrade our ABC portfolios by opportunistically switching to undervalued stocks whenever available. For instance, since the end of September, we have made some tax loss sales, disposing of Destination Resorts, Future Shop, Royop Properties and MMI Holdings. We have added undervalued holdings such as TriLink Resources, Newport Petroleum, International Forest Products, Alliance Forest Products and Hudson's Bay Company. In addition, due to our extreme optimism for the Canadian dollar, we have purchased two

Canadian dollar forward contracts for the ABC American-Value Fund.

We have reduced our 15% previous quarter end cash position to a current 8 to 10% reserve. We expect that this cash reserve may build up early in the New Year with the pending takeover of SMED International and other possible ABC merger / takeover targets. While we are quite concerned about the over-extended high technology shares, we are quite comfortable with the overlooked value stocks. Our portfolios remain overweight in these shares.

## **The Tortoise and the Hare**

You know the story of the race between the tortoise and the hare. The overconfident hare fritters away his speed advantage while the disciplined and carefully plodding tortoise wins the battle. The moral was "sure and steady" always comes through in the end.

This Aesop's fable recently came to mind when I had an interesting chat with a loyal and long-standing ABC client, whose judgement I deeply respect. This client was lamenting the fact that he had not personally sold a few of his cyclical value stocks and instead purchased a selection of the fast-paced Internet and high-technology shares. He admitted that when he went to cocktail parties he often had to subject himself to the weighty bragadaccio of a number of his friends who boasted of the huge sums of money they were apparently making. Their success centered on investment flip-flopping around the innumerable Internet and high-technology stocks and initial public offerings.

My client shook his head. His cocktail buddies never discussed such things as company balance sheets, P/E and cash flow multiples and quite frankly, they did not really care. They kidded him about being far too conservative and not getting on with the times. They were, in my client's words, playing the stock market like they were betting the horses at the racetrack.

While my client might have regretted not having invested in these high-flying stocks, this did not take away from his excellent grasp of investment common sense and historical reality. He went on to explain how nervous he was about the current state of affairs and how similar the present investment environment was to the October

1987 crash when concept stocks were the rage. His present concerns related to the huge U.S. trade deficit; rising long-term interest rates; soaring stock prices in the high tech, telecommunications and Internet sectors which were defying all historical value standards; increased levels of stock purchases on margin; and growing euphoria by overly-exuberant, inexperienced investors.

As I reflected on my client's comments, I had to admit that I shared a number of his concerns. I did acknowledge, however, that the "new economy" of high technology was probably sustaining powerful worldwide economic growth. But the all-pervasive high tech and day-trading mania was further adding fuel to the massive, red-hot speculation. At the risk of sounding like sour grapes I, too, lamented the fact that very few investors were analyzing stocks in a disciplined and carefully plodding fashion. Far too many investors were throwing all caution to the wind in their quest for fast profits.

After our conversation ended I thought about what we had discussed. While there may be nothing wrong in this high tech mania and current investment environment, I did, however, have a nagging sense of déjà vu of the "Tortoise and the Hare". Although these fastbuck investors may be initially leading in the intense race for investment profits, I firmly believe that the tried and true value investing of the plodding tortoise will come to greater success in the end.

**Irwin A. Michael, CFA**

## **A Reality Check for Year 2000**

The late autumn stock market surge continued into December and has met up with the traditional Santa Claus rally. What is most interesting is that share price firmness has continued in the face of all the stock market pessimists who worried about an impending Y2K collapse. Clearly, by late summer or fall the markets had discounted all Y2K paranoia, interest rate, inflation and economic concerns and ascended to higher levels simply through supply and demand.

While we remain generally optimistic, as evidenced by our portfolios' reduced cash portions, the very narrow market advance particularly concerns us. A select few stocks are leading the markets upward. Once again Bell Canada and Northern Telecom, now comprising over 24% of the TSE 300 Index, have powered the general market move. The TSE index performance has been led by anything related to high technology, telecommunications or Internet, whereas most other sectors such as financial services and resources have languished.

It is interesting to note that while the TSE 300 advanced approximately 31.7% for 1999, if we exclude Bell Canada and Northern Telecom, the remaining 298 stocks appreciated 8.63%. Clearly, the TSE index remains very narrowly focussed and is sending the wrong message to investors who are benchmarking their performance to this standard. It is important to bear in mind that while the TSE 300 benefited substantially from the extraordinary 1999 performance of Bell and Northern Telecom, any decline in their over weighted values could have a correspondingly substantial negative effect on the future course of the TSE 300.

We continue to champion out-of-favour, small and medium capitalization value stocks. Although we do not dispute the economic importance of high technology, telecommunications or e-commerce, many of the public companies associated with these sectors are outrageously expensive. For instance many stocks are trading at well over 100 times P/E ratios and have huge multiples of sales and price-to-book values.

As one well-known analyst commented on a recent conference call when asked about the hot sectors, he estimated that there is over \$1 trillion of Internet stock market value without any visible profits. Clearly over-exuberant investors are discounting earnings well into the future. In fact, when queried further, the same analyst declared that the NASDAQ or U.S. over the counter market is discounting earnings not for Y2K, but rather Y3K. Whether the analyst was facetious or not is irrelevant. The fact is that excessive investor speculation in the technology and Internet sector could lead to a substantial reactive snapback of share prices. Presently this wild speculation, akin to the 17<sup>th</sup> century Dutch Tulip Bulb Mania, continues unabated with inexperienced investors increasingly raising their investment antes as their speculative bravado grows.

At the risk of sounding like sour grapes, we are concerned about this speculation and have abided by our fundamental value philosophy. We believe that the present excessively spread between small and medium capitalization companies versus the red-hot technology sector will eventually narrow. As we enter year 2000 we expect momentum to gradually shift back to the realization that "value stocks" are indeed "dirt-cheap".

We are particularly attracted to the natural resource and cyclical sectors, which have become virtual investment pariahs. Especially cheap are oil and gas, forestry, metals and mines which have significantly under-performed the popular stock averages for the past six months. Many companies trade at huge discounts to net asset value with low P/E and cash flow multiples. Many are ripe for takeover, mergers or reorganization.

Over the past month we have taken advantage of the tax-loss-selling season. While we have liquidated stale, under-performing losers such as Destination Resorts, Future Shop and MMI Holdings, we have added on price weakness Alliance Forest Products, TriLink Resources, International Forest Products, Arbor Memorial Services and Maxx Petroleum. We have initiated new positions in Hudson Bay Company and Stantec Inc.

# ABC FUNDS

We are particularly optimistic with regard to the Canadian dollar. We believe the dollar should appreciate to at least 70 to 72 cents over the next twelve months. Accordingly we have already purchased two Canadian dollar forward contracts for year 2000 and have now hedged half of our Canadian dollar currency exposure in our ABC American-Value Fund.

The recently aborted takeovers of FPI Limited and Surrey Metro Credit Union, while unfortunate, have nonetheless highlighted these overlooked stocks. We see both these holdings performing considerably better in 2000 as other acquirers or investment alternatives become available to these two companies. The late December unsolicited takeover bid of SMED International Inc. by Office Specialty Inc. heartens our value philosophy. While we are pleased with the proposed takeover, we believe

the \$19 cash takeover price is too low. Assuming a deal is consummated, our 700,000 share holding, purchased less than six months ago, will add over \$14 million to our cash reserve to buy other undervalued securities.

Overall, we remain optimistic for year 2000 and expect our ABC value stocks could become continued beneficiaries of takeovers, mergers or reorganizations. While interest rates may trend higher creating a risk to equities, we believe that a very firm North American economy with at least a 4% growth rate and moderate inflation of 2-3% will power cyclically-oriented common shares to higher prices.

At this time, I would like to wish everyone a healthy, happy and prosperous year 2000.

**Irwin A. Michael, CFA**

## Administration Update

**RRIF** - The transfer of the RRIF's currently administered by RBC Dominion Securities to new ABC RRIF's at Royal Trust were completed for year-end.

\* Don't forget that at age **69** you must roll over your **RSP** plan to a **RRIF**. We are, as always; available to help you make the switch over to a **RRIF**. Please call us to answer any questions you may have about this process.

### DON'T FORGET YOUR RRSP CONTRIBUTIONS FOR 1999 AND 2000

**Unitholder Meetings -**

<b>Friday January 21, 2000</b>	<b>Friday April 28, 2000</b>
<b>Friday July 21, 2000</b>	<b>Friday October 20, 2000</b>

**Updates** - Just a reminder that you can get a monthly update on Irwin Michael's thoughts and views on the funds and the market by using our toll free number ( 1-877-ABC -VALU ) or (416)365-9442 in the local area.

## STATISTICAL PERSPECTIVES

BUSINESS INDICATOR	December 31, 1999	September 30, 1999	One Year Ago
<b>TSE 300 Composite Index</b>	8413.75	6957.72	6485.94
<b>Dow Jones 300 Industrial Average</b>	11497.12	10336.95	9181.43
<b>3 Month Canada Treasury Bills</b>	4.86%	4.62%	4.63%
<b>Chartered Bank Prime Rate</b>	6.50%	6.25%	6.75%
<b>Long Term Canada Bond</b>	6.30%	5.88%	5.24%
<b>Canadian \$/US. \$</b>	\$0.6929	\$0.6805	\$0.6534

# ABC FUNDS

## ABC Fully-Managed Fund (ABC FMF)

December 31, 1999

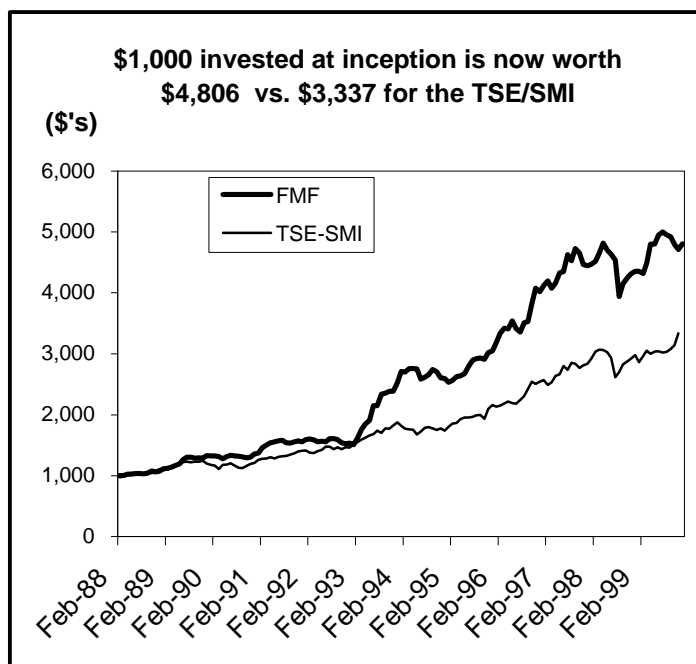
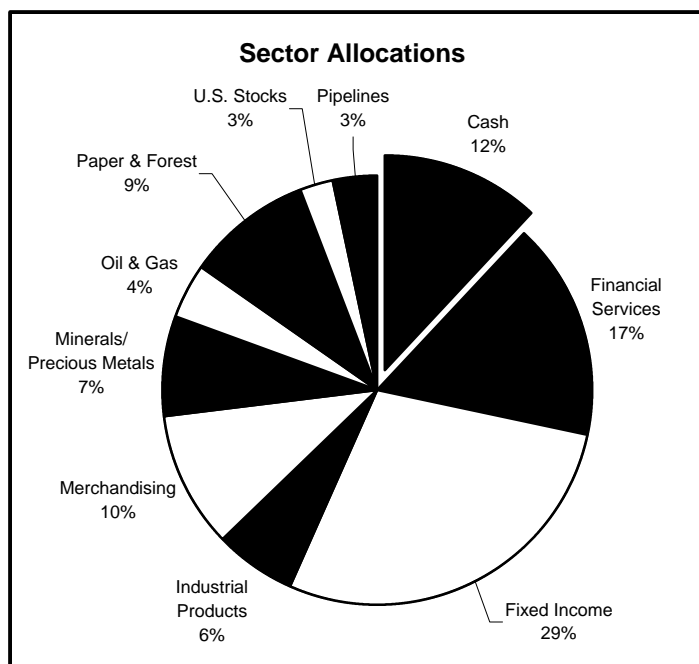
<b>NAVPS</b>	<b>6.4324</b>
<b>Inc. Dist.</b>	<b>0.048234</b>
<b>Capital Gain</b>	<b>1.033811</b>

### Objective

ABC Fully-Managed Fund is a diversified Canadian balanced fund. While our long-term asset mix target is 50% fixed income and 50% Canadian equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.

Annualized Compounded Rates of Return			Annual Returns		
	ABC FMF (%)	Benchmark**		ABC FMF (%)	Benchmark**
1 Year	<b>10.38</b>	15.29	1989	<b>23.68</b>	17.10
2 Year	<b>3.99</b>	8.87	1990	<b>2.17</b>	-4.08
3 Year	<b>6.14</b>	10.00	1991	<b>14.69</b>	17.08
5 Year	<b>13.10</b>	13.47	1992	<b>-1.48</b>	4.11
10 Year	<b>13.70</b>	10.32	1993	<b>64.35</b>	25.27
Since Inception*	<b>14.19</b>	10.80	1994	<b>2.82</b>	-2.15
			1995	<b>17.25</b>	18.27
			1996	<b>31.99</b>	20.18
			1997	<b>10.56</b>	12.47
			1998	<b>-2.03</b>	4.51
			1999	<b>10.38</b>	15.29
			Dec-99	<b>2.06</b>	0.34

\*Inception date for the Fund was February 22nd, 1988  
 \*\*Benchmark consists of 50% of the TSE300 Total Return Index and 50% of the Scotia McLeod Bond Index



***ABC Fully-Managed Fund, Statement of Investment Portfolio***

***December 31st, 1999***

*all dollar amounts in thousands (cdn\$)*

*exchange rate used is 1.44329*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 12.00%</b>				<b>PAPER &amp; FOREST PRODUCTS -- 9.29%</b>			
38,909	C\$ Cash	39	39	175,000	Alliance Forest Products	2,533	2,984
37,991	U\$ Cash	55	55	415,400	Nexfor Inc.	3,952	3,489
16,123	RT CAP Cash In Action Fund	1,612	1,612	<b><u>TOTAL</u></b>			
3,650,000	Cda T-Bill, 5.56% due 11/09/00	3,471	3,471			<b>6,484</b>	<b>6,473</b>
3,350,000	Cda T-Bill, 5.33% due 08/17/00	3,183	3,183	<b>MINERALS/PRECIOUS METALS-- 7.44%</b>			
<b><u>TOTAL CASH</u></b>							
		<b>8,360</b>	<b>8,360</b>	400,000	Aur Resources Inc.	2,702	1,120
<b>FIXED INCOME -- 28.39%</b>				1,875,000	Eastmain Resources Inc.	1,031	563
7,500,000	CDA-GOVT. - 5.00% 12/01/00	7,470	7,457	150,000	Noranda Inc.	2,895	2,910
2,000,000	Cdn Occidental - 6.85% 11/15/06	1,960	1,896	700,000	Viceroy Resources Corp.	2,384	588
2,000,000	Cdn Occidental - 6.45% 07/11/07	1,911	1,841	<b><u>TOTAL</u></b>			
2,000,000	Co-Steel Inc. Conv. Deb. - 6.50% 4/30	1,780	1,850			<b>9,012</b>	<b>5,181</b>
2,000,000	Crestar Energy - 6.45% 10/01/07	1,864	1,835	<b>INDUSTRIAL PRODUCTS -- 6.11%</b>			
2,000,000	Hudson Bay Co. - 7.10% 5/13/04	1,939	1,938	250,000	AT Plastics	2,850	858
2,000,000	Stelco Unsec. Deb. - 8% 2/15/06	1,998	1,994	200,000	Co-Steel Inc.	3,975	3,400
1,000,000	TD Bank Note - 6.00% 07/28/00	1,000	964	<b><u>TOTAL</u></b>			
		<b>19,922</b>	<b>19,774</b>			<b>6,825</b>	<b>4,258</b>
<b>COMMON STOCKS -- 59.61%</b>				<b>OIL &amp; GAS -- 4.28%</b>			
<b>FINANCIAL SERVICES -- 16.28%</b>				150,000	Crestar Energy Inc.	3,754	2,978
125,000	Clarica Life Insurance Co.	2,869	3,250	<b><u>TOTAL</u></b>			
150,000	Laurentian Bank	4,019	2,663			<b>3,754</b>	<b>2,978</b>
175,000	National Bank	2,710	3,238	<b>PIPELINES -- 3.32%</b>			
175,000	Surrey Metro Savings Credit	2,253	2,188	100,000	Westcoast Energy Inc.	2,860	2,315
		<b>11,850</b>	<b>11,338</b>	<b><u>TOTAL</u></b>			
						<b>2,860</b>	<b>2,315</b>
<b>MERCHANDISING -- 10.26%</b>				<b>U.S. STOCKS -- 2.63%</b>			
150,000	Hudson's Bay Company	2,575	2,580	175,000	Guilford Mills Inc.	2,591	1,831
250,000	North West Co. Inc.	2,708	3,188	<b><u>TOTAL</u></b>			
250,000	Suzy Shier Ltd.	2,381	1,375			<b>2,591</b>	<b>1,831</b>
		<b>7,663</b>	<b>7,143</b>	<b><u>TOTAL COMMON STOCK</u></b>			
						<b>51,039</b>	<b>41,515</b>
				<b><u>TOTAL PORTFOLIO</u></b>			
						<b>79,320</b>	<b>69,648</b>

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

# ABC FUNDS

## ABC Fundamental-Value Fund (ABC FVF)

December 31, 1999

<b>NAVPS</b>	<b>10.1407</b>
<b>Inc. Dist.</b>	<b>0.210307</b>
<b>Capital Gain</b>	<b>0.822813</b>

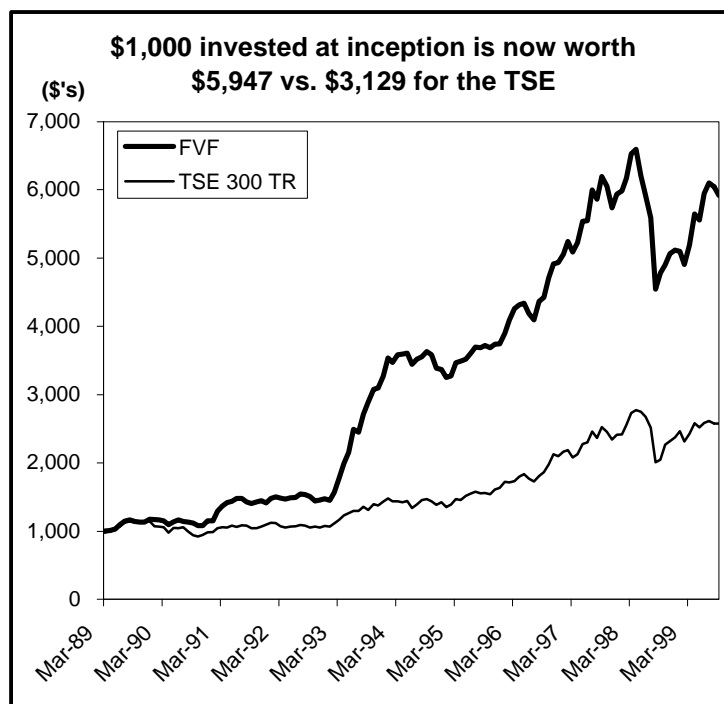
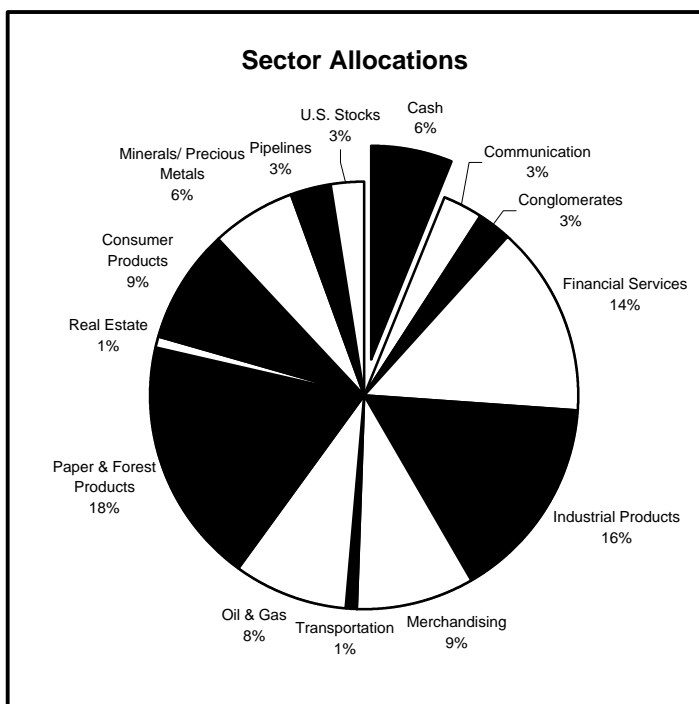
### Objective

ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian value stocks. When fully invested and having discovered new, fundamentally attractive securities, our sell discipline forces us to cull our portfolios to liquidate the most expensive holdings.

### Performance of the Fund vs. The Benchmark

Annualized Compounded Rates of Return			Annual Returns		
	ABC FVF (%)	Benchmark**		ABC FVF (%)	Benchmark**
1 Year	<b>16.25</b>	31.71	1990	<b>-1.98</b>	-14.80
2 Year	<b>0.10</b>	13.85	1991	<b>22.92</b>	12.02
3 Year	<b>6.44</b>	14.23	1992	<b>4.05</b>	-1.43
5 Year	<b>12.03</b>	17.04	1993	<b>122.19</b>	32.55
10 Year	<b>17.61</b>	10.55	1994	<b>3.03</b>	-0.18
Since Inception*	<b>18.04</b>	11.13	1995	<b>11.08</b>	14.53
			1996	<b>31.75</b>	28.35
			1997	<b>20.35</b>	14.98
			1998	<b>-13.81</b>	-1.58
			1999	<b>16.25</b>	31.71
			Dec-99	<b>7.11</b>	12.05

\*Inception date for the Fund was March 20, 1989  
 \*\*Benchmark consists of the TSE300 Total Return Index



**ABC Fundamental-Value Fund, Statement of Investment Portfolio**  
**December 31st, 1999**

*all dollar amounts in thousands (cdn\$)*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 6.40%</b>			
3,675	C\$ Cash	4	4
45,579	U\$ Cash	66	66
57,250	RT CAP Cash In Action Fund	5,725	5,725
388	RT CAP U\$ Cash Mgmt Fund	56	56
3,000,000	Cda T-Bill, 5.16% due 06/22/00	2,859	2,859
7,500,000	Cda T-Bill, 5.31% due 08/17/00	7,127	7,127
<b><u>TOTAL CASH</u></b>		<b>15,836</b>	<b>15,836</b>

**COMMON STOCKS -- 93.60%**

**PAPER & FOREST PRODUCTS -- 19.40%**

600,000	Alliance Forest Products	13,913	10,230
1,100,000	International Forest Products	4,747	4,345
1,575,700	Nexfor Inc.	14,870	13,236
750,000	Pacifica Papers Inc.	5,689	7,238
450,000	Riverside Forest Products Ltd	6,968	9,563
265,000	Taiga Forest Corp.	2,556	3,392
<b><u>TOTAL</u></b>		<b>48,741</b>	<b>48,003</b>

**FINANCIAL SERVICES -- 14.93%**

400,000	Dundee Bancorp	6,347	5,940
550,000	Laurentian Bank	14,438	9,763
505,300	MFP Financial	4,342	6,518
525,000	National Bank	7,606	9,713
400,000	Surrey Metro Savings Credit	5,267	5,000
<b><u>TOTAL</u></b>		<b>38,000</b>	<b>36,933</b>

**INDUSTRIAL PRODUCTS -- 14.80%**

96,900	AT Plastics	779	332
750,000	Co-Steel Inc.	13,560	12,750
700,000	SMED International Inc.	5,798	14,350
687,500	Stelco Inc.	5,569	7,425
655,700	Strongco Inc.	3,637	1,770
<b><u>TOTAL</u></b>		<b>29,344</b>	<b>36,628</b>

**MERCHANDISING -- 9.27%**

2,000,700	Dylex Limited	7,163	4,201
750,000	Hartco Enterprises Inc.	4,823	5,550
54,100	Hudson's Bay Company	925	931
750,000	North West Co. Inc.	7,779	9,563
490,000	Suzy Shier Ltd.	4,729	2,695
<b><u>TOTAL</u></b>		<b>25,419</b>	<b>22,939</b>

*exchange rate used is 1.44329*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>OIL &amp; GAS -- 8.72%</b>			
550,000	Crestar Energy Inc.	14,148	10,918
806,700	Maxx Petroleum Ltd.	6,932	3,316
1,000,000	Newport Petroleum Corp.	4,118	3,300
550,000	Tri Link Resources Ltd.	4,743	4,043
<b><u>TOTAL</u></b>		<b>29,941</b>	<b>21,576</b>

**CONSUMER PRODUCTS -- 7.50%**

325,000	Andres Wines Ltd. "A"	4,015	4,599
325,000	Arbor Memorial Services "B"	4,343	3,916
500,000	Cott Corporation	4,520	3,850
800,000	FPI Limited	4,437	6,200
<b><u>TOTAL</u></b>		<b>17,315</b>	<b>18,565</b>

**MINERALS/PRECIOUS METALS -- 6.61%**

1,100,000	Aur Resources Inc.	8,352	3,080
1,166,666	Geomaque Exploration Ltd.	3,297	618
321,000	Manhattan Minerals Corp.	1,605	1,685
500,000	Noranda Inc.	9,717	9,700
1,500,000	Viceroy Resources Corp.	7,274	1,260
<b><u>TOTAL</u></b>		<b>30,244</b>	<b>16,344</b>

**PIPELINES -- 3.04%**

325,000	Westcoast Energy Inc.	9,251	7,524
<b><u>TOTAL</u></b>		<b>9,251</b>	<b>7,524</b>

**COMMUNICATION -- 2.98%**

500,000	Electrohome Broadcasting "	3,056	7,375
<b><u>TOTAL</u></b>		<b>3,056</b>	<b>7,375</b>

**CONGLOMERATES -- 2.62%**

825,000	Harrowston Inc. "A"	3,944	3,828
241,500	Stantec Inc.	2,413	2,657
<b><u>TOTAL</u></b>		<b>6,356</b>	<b>6,485</b>

**TRANSPORTATION -- 0.98%**

1,350,000	Royal Aviation Inc.	5,882	2,430
<b><u>TOTAL</u></b>		<b>5,882</b>	<b>2,430</b>

**U.S. STOCKS -- 2.73%**

300,000	Guilford Mills	4,472	3,139
400,000	TBC Corp.	4,066	3,608
<b><u>TOTAL</u></b>		<b>8,538</b>	<b>6,747</b>

**TOTAL COMMON STOCK** **252,087** **231,548**

**TOTAL PORTFOLIO** **267,922** **247,384**

## ABC American-Value Fund (ABC AVF)

<b>NAVPS</b>	<b>4.6790</b>
<b>Capital Gain</b>	<b>1.103553</b>

*December 31, 1999*

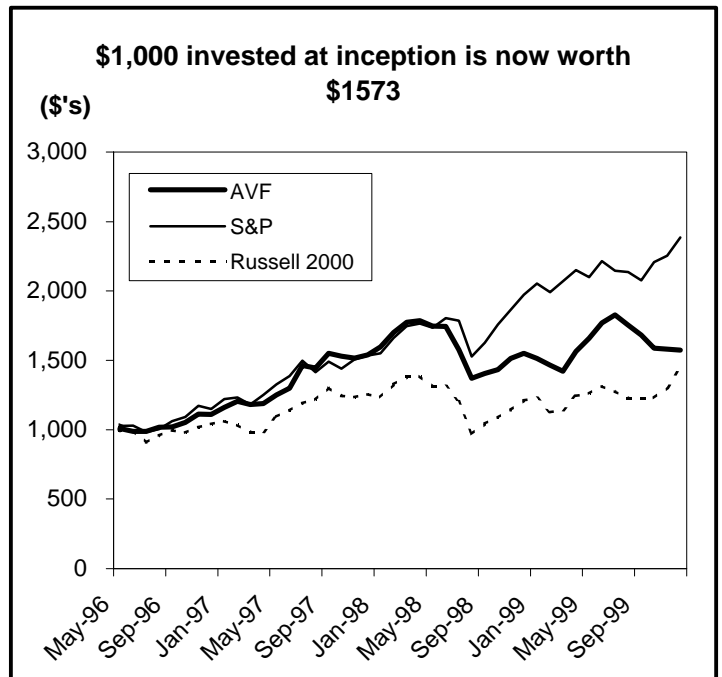
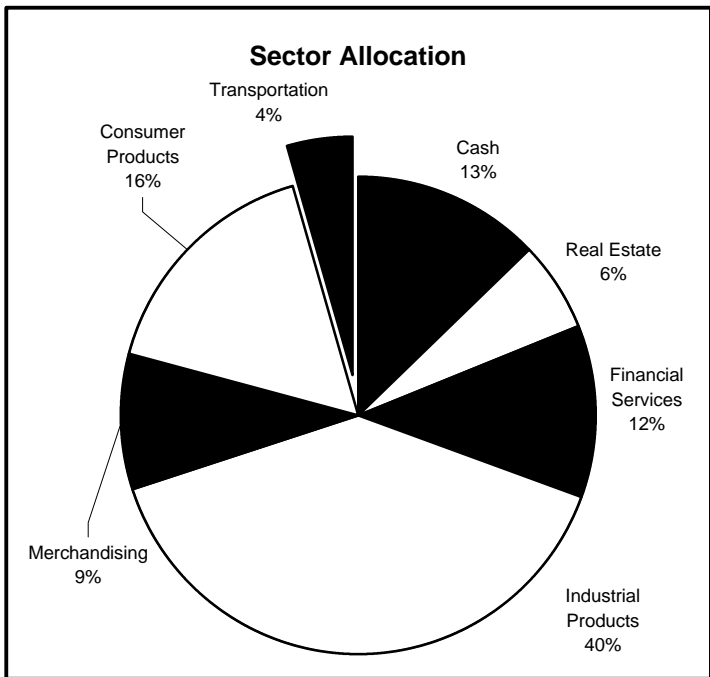
### Objective

ABC American-Value Fund searches out fundamentally undervalued American and foreign U.S. stock exchange listed common shares. While using the same investment techniques as our two Canadian ABC Funds, the American market due to its sheer size provides us with extensive value opportunities. The American Value Fund is unrestrained by the Canadian 20% RSP limits; therefore, it offers maximum portfolio flexibility.

### *Performance of the Fund vs. U.S. Benchmarks*

	<b>ABC AVF (%)</b>	<b>RUSSELL 2000 (%)</b>	<b>S&amp;P 500 (%)</b>
1 Month	<b>-0.50</b>	11.16	5.89
4th Qtr '99	<b>-6.47</b>	18.13	14.88
Year to Date	<b>1.47</b>	19.62	21.04
1 Year	<b>1.47</b>	19.62	21.04
2 Year	<b>1.11</b>	7.47	24.75
3 Year	<b>12.36</b>	11.66	27.56
Compounded Since Inception	<b>13.48</b>	10.91	26.78

*Note: Inception date is May 2nd, 1996*



**ABC American-Value Fund, Statement of Investment Portfolio**

**December 31st, 1999**

*all dollar amounts in thousands (cdn\$)*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 12.68%</b>			
85,911	Cash	86	86
24	RT CAP Cash In Action Fun	2	2
46,899	US \$ Cash	68	68
6,311	RT CAP US\$ Cash Fund	911	911
2,250,000	Cda T-Bill, 4.8% due 01/06/01	2,246	2,246
<b><u>TOTAL CASH</u></b>		<b>3,312</b>	<b>3,312</b>

**COMMON STOCKS -- 87.32%**

**INDUSTRIAL PRODUCTS -- 39.44%**

40,000	Amcast Industrial Corp.	1,234	945
20,000	Ameron International Corp.	1,121	1,142
65,000	Ampco-Pittsburgh Corp.	1,147	950
50,000	Atchison Casting Corp.	1,140	659
25,000	Dura Automotive Systems Ir	1,055	629
100,000	Griffon Corp.	1,091	1,128
80,000	Guilford Mills Inc.	1,156	837
52,500	LTV Corp.	914	313
75,000	National Steel Corporation	1,097	805
42,500	Rouge Industries Inc.	919	483
50,000	Sunrise Medical Inc.	1,007	447
30,000	Tech-Sym Corporation	1,315	893
40,000	Wellman Inc.	1,237	1,075
<b><u>TOTAL</u></b>		<b>14,433</b>	<b>10,305</b>

**CONSUMER PRODUCTS -- 16.30%**

60,000	Haggar Corp.	1,145	985
110,000	TBC Corp.	1,163	992
76,670	Uno Restaurant Corp.	821	1,231
60,000	Wolohan Lumber Co.	663	1,050
<b><u>TOTAL</u></b>		<b>3,792</b>	<b>4,258</b>

*exchange rate used is 1.44329*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>FINANCIAL SERVICES -- 11.85%</b>			
30,000	Liberty Financial Companies	1,061	993
27,500	MONY Group Inc.	1,100	1,158
45,100	Westcorp Inc.	1,052	944
<b><u>TOTAL</u></b>		<b>3,214</b>	<b>3,095</b>

**MERCHANDISING -- 9.25%**

32,500	Dillard's Inc.	1,158	947
75,000	Syms Corp.	1,364	541
45,000	Toys "R" Us	1,102	930
<b><u>TOTAL</u></b>		<b>3,625</b>	<b>2,418</b>

**REAL ESTATE -- 6.08%**

100,000	Amrep Corp.	1,334	686
32,500	Beazer Homes U.S.A. Inc.	1,105	903
<b><u>TOTAL</u></b>		<b>2,440</b>	<b>1,589</b>

**TRANSPORTATION -- 4.40%**

50,000	Teekay Shipping Corporatio	1,185	1,150
<b><u>TOTAL</u></b>		<b>1,185</b>	<b>1,150</b>

**TOTAL COMMON STOCK** 28,689 22,815

**TOTAL PORTFOLIO** 32,002 26,128

\* Above portfolio does not include unrealized gain on forward exchange contracts (approximately \$214k).

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## Snakes and Ladders

I just bought a game for my six-year-old son which I incidentally played as a child. Snakes and Ladders is a very simple game encompassing one of man's greatest failings and that is coping with life's "ups and downs".

For those not familiar with Snakes and Ladders, it is a straight-forward children's board game where the object is to advance from square number one to square one hundred. Players toss dice and move their markers according to the numbers rolled on their dice. Along the way to reach the final square 100 and to win the game players are confronted by a number of obstacles (as in life) or snakes and ladders.

If a player lands on a square with the bottom rung of a ladder, the player moves up the ladder to the square bearing the top rung of that ladder. The player has fortuitously picked up a free ride to advance up the board. If, however, a player lands on a square bearing the tail-end of a snake, the player moves right down the snake to the snake's head. The player is penalized and will have to retrace his previous upward movement. This sudden turn of events can be extremely frustrating. A player can be well ahead early in the game with only ten or fifteen squares from winning when he suddenly lands on a snake and tumbles downward to almost square one. Snakes and Ladders like everyday life, is not exactly a "bowl of cherries". One must contend with both good and bad surprises.

Snakes and Ladders is also similar to the stock market. After all, as investors we are constantly confronted by a series of ups and downs. Our innumerable choices will ultimately determine

our future course. How we cope with our temporary investment setbacks is key. Persevering and trudging on to attain our goal of performance excellence is all-important. Let me explain.

Presently the stock market is hitting new all-time highs with high technology, Internet and telecommunication stocks running wild. Many investors have taken a lucky ladder up to new heights. The value players concentrating on traditional book and net asset values, price earnings and cash flow multiples have been severely penalized as they have repeatedly slid down the innumerable precarious snakes or roadblocks along the way. It has been extremely frustrating. In fact, many impatient value investors have given up. They have thrown in the towel, changed their style and have chased the recent high tech winners.

Perseverance, however, is key to those remaining value investors since the stock market like the Snakes and Ladders game can be extremely fickle. A sudden roll to a snake or ladder can change the game's whole complexion. Investors' conviction, too, is constantly challenged. While testing of our mettle can be very excruciating to value investors, the market can turn very quickly. Today's big laggards can turn into tomorrow's big winners.

**Irwin A. Michael, CFA**

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