

## Capitulation

The momentum has been building. Television, radio and newspaper advertisements have been plentiful in highlighting the ease of e-trading stocks. Rookie investors experience the thrill of buying and selling stocks for as little as \$8 a trade. It appears that day-trading may have become our national pastime supplanting our beloved ice hockey.

So far, there appears to be little downside to investors' double infatuation with day-trading and high technology and telecommunications stocks. Neophyte financiers experiencing their initial taste of profit have been increasing their investment ante on each trade through record margin debt as their rising bravado fills them with greater confidence. There appears to be no sense of fear, only greed.

Technology stock initial public offerings with little or no revenue or earnings but with extraordinary expectations are snapped up within a heartbeat and triple in price. It appears that no analysis is needed, nor is it necessary. One merely buys stocks which will go up in price. There is no caution, fear or prudence. Cocktail party chatter, similar to the childhood game of broken telephone, magnifies profits to incredible sums. Ordinary individuals with not even the slightest sense of rudimentary investment understanding are rushing into this frenzied market place of the "new economy". High technology is the catch-word for year 2000, comparable to the late 1960's "plastics".

Traditional conservative value investment disciplines are tossed aside for being "old economy" and out of step with the new investment reality. No one is interested in Markowitz, Sharpe, alpha, beta or coefficients of correlation. "Don't complicate investing", some people tell me, "just buy and hold technology stocks to go higher and higher and higher". Experienced value investors such as Warren Buffett are deemed to be yesterday's story.

In spite of the present evidence, I disagree with this new investing. I believe that there is yet another extremely important chapter of value investing to be written. I would neither underestimate the explosive potential of value investing nor Warren Buffett. Unfortunately, patience today is a commodity in short supply. In this go-go environment of day-trading there is no patience. Investors only have an appetite for quick profits.

What is really going on? High technology and momentum stocks are in and value is out. William Hanley, an investment reporter for the Financial Post, commented about this phenomenon in a February 8 article:

"... analysts and money managers trying to push "value" stocks at the expense of "growth" are just about the loneliest people since the Maytag repairman. It must be difficult covering companies in areas such as financials and cyclical and watching the fundamental value story falling on deaf ears."

One respected investment dealer recently related to me that the stock market is going through a period of "capitulation". This dealer further explained that with heavy redemptions taking place at traditional value institutions, many of these portfolio managers are selling off their "old economy" value stocks and have been shifting to the high tech flavours of the day. This capitulation may stem from redemptions. In some cases, this shift of style, in the short run, has paid off. But as the crescendo of this capitulation shift continues to build through the conversion of former value investors to born-again momentum investing, it further feeds upon itself.

However, when will this momentum investing return to "value"? While we are confident that value investing will return, I cannot predict when. The decline trigger or catalyst to precipitate the journey back to value could happen anytime, for whatever reason. Perhaps momentum investors' wild expectations could be severely disappointed when a widely anticipated event does not transpire. Momentum investors at that point might rush to the exits and discover that "the emperor (i.e. stocks) is not wearing any clothes". This realization might be the straw that breaks the camel's back. It also could be the ultimate catalyst leading investors back to the value investing world of cash flow, price to earnings ratios, book and net asset values.

**ECONOMIC PERSPECTIVES****The Economy: Firing on All Cylinders**

The North American economies continue their extraordinary advance. The present economic cycle is now the longest post-WWII period of unbroken economic growth. The question is: how long can this prosperity continue?

While there is nothing wrong with this “virtuous economic cycle”, the fact is that with the North American economies firing on all cylinders, we are now seeing potential bottlenecks in the economy. The residential real estate sector, for instance, is red-hot as the low unemployment rate, strong stock market and the prospect of lower taxes has enabled many more Canadians to afford a home. Business is generally good, inflation, although edging upward, is

contained and while borrowing costs are creeping higher, credit is readily available. Due to this surging economic growth, we expect U.S. Federal Reserve Chairman Greenspan to raise interest rates at least several more times to cool down the U.S. economy. This would be an attempt to moderate economic growth and to ultimately suppress inflation and elongate this business cycle. But this strategy is not without risk since high interest rates combined with a naturally cooling economy could precipitate an economic slowdown. Needless to say, we expect any U.S. interest rate increase to be followed by a similar Bank of Canada action.

**INVESTMENT PERSPECTIVES****Values Galore**

With the intense investor preoccupation in the high technology, Internet and telecommunication sectors, we have continued to uncover remarkably undervalued “old economy” stocks in core industries. These industries include forestry, consumer products, oil and gas, banking and general manufacturing. We are amazed at the low valuations and virtual ostracism of these securities by both investors and brokers. Many of these common shares represent striking fundamental “bargoons”.

While we recognize that “new economy” stocks will be the paradigm that will drive the market momentum for the present period, we believe that the “old economy” stocks will eventually reward their value holders. Two recent examples of patiently-held ABC value stocks include SMED International and Electrohome Broadcasting. Both of these companies were bought out this past quarter at extremely generous takeover premiums by astute acquirers.

**PORTFOLIO PERSPECTIVES****Pruning our Portfolios**

Since the start of the year we have been opportunistically pruning our portfolios whenever possible. We have sold Alliance Forest Products in a company share buyback at \$19.70. SMED International and Electrohome Broadcasting were the objects of corporate takeovers. We have also sold Cott Corporation, Manhattan Minerals, Riverside Forest Products, Stantec Inc., Uno Restaurants and Wellman Inc. on significant market strength. In turn, we have bolstered our portfolios by upgrading into

undervalued, dividend-paying securities such as Canadian National Railway, Industrial-Alliance Life Insurance, Rothmans Inc., Fletcher Challenge Canada Ltd., as well as two extraordinary bargain stocks, Premdor Inc. and Ulster Petroleum Ltd.

We believe, overall, that we have cobbled a portfolio of stocks which is not only fundamentally undervalued but will also contain numerous merger, takeover or reorganization targets.

## A True Confession

I have a confession to make. It isn't easy to admit, however, that the greatest individual stock success of my investment career turned out to be an investment which I had grown to have very little patience with. Let me explain.

I purchased Electrohome Ltd., a Kitchener-Waterloo-based conglomerate comprising of electronic and video manufacturing and television stations, in the summer of 1997. I paid \$7.64 for 500,000 shares or \$3,820,000. The company was trading well below book and breakup value of about \$10 and appeared incredibly cheap. But there were some negatives. The shares were non-voting, paid no dividends and the company was an erratic-trading, small capitalization stock.

In the summer of 1998, Electrohome, run by John Pollock was split into two: Electrohome Ltd. comprising video manufacturing and Electrohome Broadcasting which comprised Electrohome's interest in CTV which John Pollock had astutely exchanged for Electrohome's TV stations.

While we subsequently sold off the ABC Fundamental-Value Fund's holding in Electrohome Ltd., we retained our 500,000 shares of Electrohome Broadcasting. These shares had an adjusted cost base of \$6.11 and represented over 7.8% of that class of stock outstanding. Nonetheless, the shares remained illiquid and under-followed by Bay Street.

I must admit the stock started to thoroughly frustrate me. I endured a lot of client criticism for the ABC portfolios' periodic illiquidity, unfamiliar holdings and continued focus on out-of-favour value stocks in a bubbling technology and telecommunications momentum

market. Unfortunately even if I was prepared to sell our shares there were absolutely no buyers for the stock. Some days, in fact, they did not even trade. Electrohome Broadcasting, which closed out December 31, 1999 at \$14.75, remained incredibly cheap and frustrating.

To make a very long story short, in March, Bell Canada Enterprises (BCE) made an unsolicited takeover offer for CTV and Electrohome Broadcasting, the largest shareholder of CTV. The outcome is that on April 7, ABC Fundamental-Value will receive \$32.17 per share or \$16,085,000 for our Electrohome Broadcasting stock. Considering our adjusted cost of \$6.11 or \$3,056,086, this is, admittedly, our most successful ABC Value investment ever. As frustrating as it has been for the past two years and nine months of ownership, the end result has been most gratifying and encouraging to us as value investors.

In retrospect, I believe there are several notable conclusions worthy of consideration:

1. *Successful long-term value investing involves considerable courage of one's convictions. If you believe in something, stick to your guns.*
2. *Value investing literally involves the patience of Job. We endured two years and eight months of utter frustration and suddenly in the space of one month, our out-of-favour, illiquid holding of Electrohome Broadcasting evolved from an ugly duckling into a beautiful swan.*
3. *In the long run, value investing, I believe, pays off. The rewards, while not immediately obvious, do make a painfully long waiting period truly worth it.*

**Irwin A. Michael, CFA**

## Bountiful Bargains

With high technology and telecommunication common shares the present flavour of the day, many investors have been shunning traditional value investing. We believe, however, that value investing, which encompasses fundamental corporate accounting and analysis pertaining to liquidity ratios, book value, cash flow and earnings per share, offers

tremendous long-term benefits in today's frenetic investment environment.

As difficult as it may be in the current high technology mania, we believe that strict investment disciplines should be followed. In practice, we remain focussed on value and continue to abide by our ABC Funds' Ten Commandments of Value Investing:

**1. Low P/E Multiples**

**2. Low Cash Flow Multiples**

**3. Discount to Book/Net Asset Value**

**4. Hidden Assets**

e.g. Tax loss carry forwards, real estate, potential spin-offs, IPO's, favourable litigation, etc.

**5. Management**

- a) Solid, proactive management
- b) Poor management - ripe for proactive acquisition or merger

**6. Products/Services in tune with 2000 and beyond**

- Expandable, growing markets, good margins
- Not outdated, shrinking e.g. buggy-whip manufacturer in pre-automobile period

**7. Value Catalyst**

Significant value creator i.e. new management with new directions; important sale or purchase of a meaningful asset; unsolicited takeover bid; disgruntled and impatient proactive shareholders, etc.

**8. Discounted Valuations Compared to its Peers**

i.e. P/E, cash-flow etc. Could be taken over by relatively expensive Canadian or foreign competitors wanting to expand market presence.

**9. Contrary Opinion and Under-followed by Investment Analysts**

With little investor exposure, undervalued stocks are 'pregnant with possibilities' providing very little buying competition when attempting to accumulate the security.

**10. Discipline**

Stay on track and adhere to strict value discipline of P/E's, cash flow, price targets etc. Do not get sucked into buying the flavour of the day. Combine patience and persistence to attain superior performance. Patience! Patience! Patience!

With value investing out of favour and investor psychology so poor, we are uncovering innumerable extraordinarily undervalued Canadian common shares. These companies,

primarily considered as "old economy", are trading at unduly low financial multiples and at huge discounts to book and net asset values. They are, at present prices, excellent candidates

for takeovers, mergers, share buybacks or reorganizations. Several recent examples of this include: Scott's Restaurants, First Marathon Inc., SMED International, Alliance Forest and CTV. We expect to see many more corporate buyouts/reorganizations and, as a result, we expect the ABC Funds to be beneficiaries since many of our holdings would be prime candidates for such change.

Six favoured ABC Funds' securities held in our three portfolios include:

#### 1. Canadian National Railway

While very "old economy", CNR is the premier railroad operation in North America, encompassing almost 14,000 route miles of track in Canada and the U.S. Led by an excellent manager in Paul Tellier, the company is a serious consolidator of North American railroads providing for improving margins through cost reductions. Trading near book value, paying a 2% dividend with a P/E ratio of 9 times, CNR is very undervalued. A hidden asset is its railroad right-of-way, which enabled it to acquire 9.4 million shares of 360networks inc. through a joint venture.

#### 2. Fletcher Challenge Canada Ltd.

A B.C.-based producer of pulp and newsprint, Fletcher Challenge Canada has new management, a pristine balance sheet with net cash of almost \$800 million or \$6 ½ per share and trades below book value. Under-leveraged, the company can be built up and could make selective acquisitions or be sold by its new proposed majority shareholder, Norske Skog. Yielding almost 4%, the company could also be a huge beneficiary of rising commodity prices.

#### 3. Industrial-Alliance Life Insurance Co.

Recently demutualized, Industrial-Alliance of Quebec City is a well-run and undervalued life insurance company. Industrial-Alliance has excellent product brands, a captive sales force of

over 1200 agents and has been expanding in Ontario and B.C. Trading around book value with a 2000 P/E ratio of under 8 ½ times, Industrial-Alliance, with no controlling shareholder, is a very attractive takeover candidate.

#### 4. Premdor Inc.

One of the world's largest manufacturers and merchandisers of doors, Premdor Inc. has fallen from a 12 month high of \$18.50 to \$11. At this price Premdor trades at slightly above 1999 book value of \$10.41 and 6.3 times estimated 2000 earnings of \$1.75. With forecasted 2000 sales of \$1.75 billion, market capitalization under \$500 million, a solid balance sheet and management ownership under 4%, Premdor is extremely undervalued and is a prime takeover candidate.

#### 5. Rothmans Inc.

Headquartered in Toronto, Rothmans is a major Canadian manufacturer and distributor of cigarettes through its 60% ownership in Rothmans, Benson and Hedges Inc. With BAT's sale of its 71.2% interest in Rothmans Inc., Rothmans now has no controlling shareholder and could be an acquisition target. Rothmans is debt-free, has excellent free cash flow with little capital expenditure and pays an extraordinary 7 ¼ % dividend.

#### 6. Ulster Petroleum Ltd.

Having disappointed investors with its 1999 results, Ulster Petroleum has declined over 50% from its 12 month high of \$17.85. Ulster, nonetheless, is fundamentally very attractive with excellent proven oil and gas reserves, rising 2000 cash flow of over \$2.75 per share at a 2.8 times multiple and trades at a discount to net asset value. With no controlling shareholder, we believe Ulster is very cheap and is a leading takeover candidate.

**Irwin A. Michael, CFA**

## ABC Fully-Managed Fund (ABC FMF)

<b>NAVPS</b>	<b>6.3630</b>
<b>Inc. Dist.</b>	<b>0.0398402</b>

**March 31, 2000**

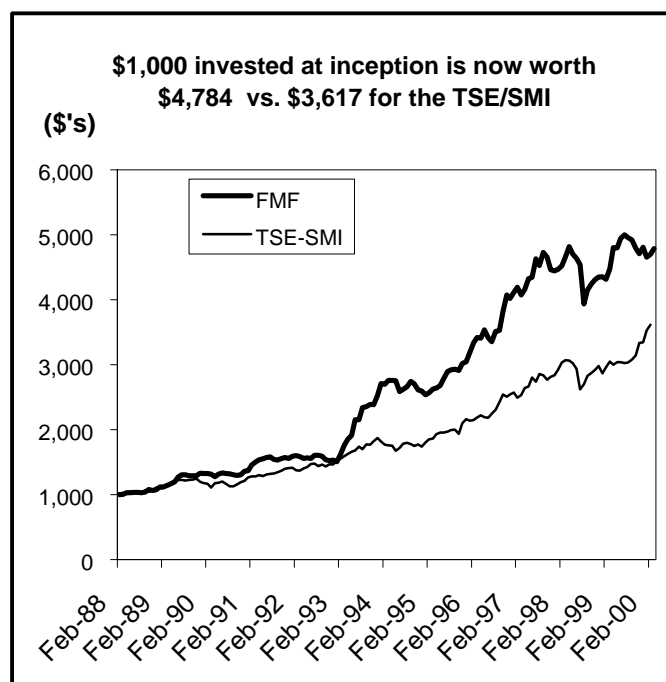
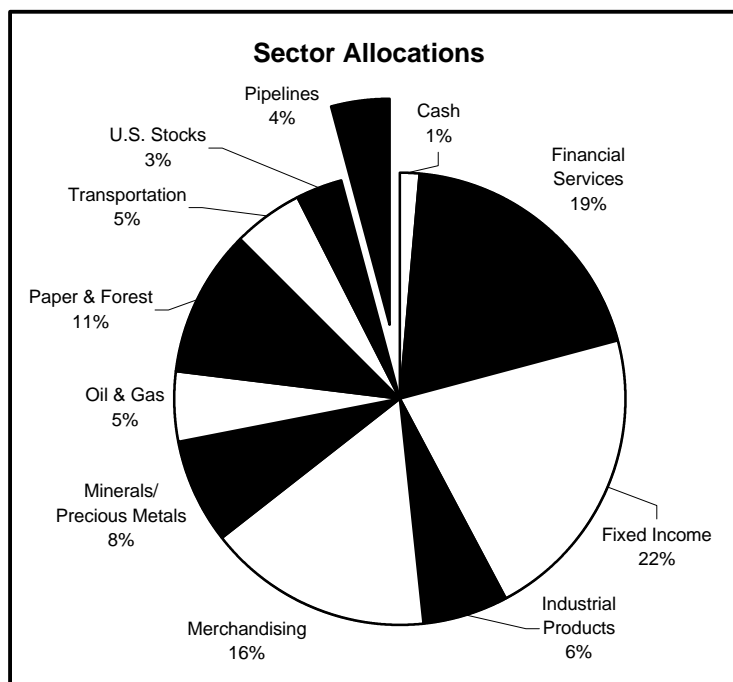
### Objective

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.

### *Performance of the Fund vs. the Benchmark*

Annualized Compounded Rates of Return			Annual Returns		
	ABC FMF (%)	Benchmark**		ABC FMF (%)	Benchmark**
1 Year	<b>6.72</b>	23.43	1989	<b>23.68</b>	17.10
2 Year	<b>1.38</b>	8.89	1990	<b>2.17</b>	-4.08
3 Year	<b>5.50</b>	13.16	1991	<b>14.69</b>	17.08
5 Year	<b>12.74</b>	14.3	1992	<b>-1.48</b>	4.11
10 Year	<b>13.76</b>	11.90	1993	<b>64.35</b>	25.27
Since Inception*	<b>13.83</b>	11.31	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

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



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

***March 31st, 2000***

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

*exchange rate used is 1.4518*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	
<b>CASH -- 1.43%</b>				<b>PAPER &amp; FOREST PRODUCTS -- 10.54%</b>				
48,533	C\$ Cash	49	49	162,200	Fletcher Challenge Canada	2,492	2,595	
48,203	U\$ Cash	70	70	415,400	Nexfor Inc.	3,952	3,489	
7,006	RT CAP Cash In Action Fund	701	701	<b><u>TOTAL</u></b>				
63	RT CAP Cash In Action Fund US \$	9	9			<b>6,444</b>	<b>6,085</b>	
		<b><u>TOTAL CASH</u></b>	<b>828</b>	<b>828</b>	<b>MINERALS/PRECIOUS METALS-- 7.66%</b>			
<b>FIXED INCOME -- 21.59%</b>				<b>INDUSTRIAL PRODUCTS -- 5.89%</b>				
2,000,000	Cdn Occidental - 6.85% 11/15/06	1,960	1,944	400,000	Aur Resources Inc.	2,702	660	
2,000,000	Cdn Occidental - 6.45% 07/11/07	1,911	1,888	1,875,000	Eastmain Resources Inc.	1,031	1,088	
2,000,000	Co-Steel Conv. Deb. - 6.50% 4/30/	1,780	1,780	150,000	Noranda Inc.	2,895	2,235	
2,000,000	Crestar Energy - 6.45% 10/01/07	1,864	1,888	700,000	Viceroy Resources Corp.	2,384	441	
2,000,000	Hudson Bay Co. - 7.10% 5/13/04	1,939	1,961	<b><u>TOTAL</u></b>				
2,000,000	Stelco Unsec. Deb. - 8% 2/15/06	1,998	2,023			<b>9,012</b>	<b>4,424</b>	
1,000,000	TD Bank Note - 6.00% 07/28/00	1,000	979	<b>TRANSPORTATION -- 4.97%</b>				
		<b><u>TOTAL</u></b>	<b>12,452</b>	<b>12,464</b>	75,000	Canadian National Railway	2,576	2,869
<b>COMMON STOCKS -- 76.98%</b>				<b>OIL &amp; GAS -- 4.87%</b>				
<b>FINANCIAL SERVICES -- 19.29%</b>				<b>PIPELINES -- 4.2%</b>				
150,000	Industrial Alliance Life Insurance	2,362	2,865	150,000	Crestar Energy Inc.	3,754	2,813	
150,000	Laurentian Bank	4,019	2,565	<b><u>TOTAL</u></b>				
175,000	National Bank	2,710	3,719			<b>3,754</b>	<b>2,813</b>	
175,000	Surrey Metro Savings Credit	2,253	1,986	<b>U.S. STOCKS -- 3.38%</b>				
		<b><u>TOTAL</u></b>	<b>11,343</b>	<b>11,135</b>	175,000	Guilford Mills Inc.	2,591	1,953
<b>MERCHANDISING -- 16.17%</b>				<b>TOTAL COMMON STOCK</b>				
175,000	Hudson's Bay Company	2,575	2,783			<b>53,162</b>	<b>44,440</b>	
250,000	North West Co. Inc.	2,708	2,775	<b><u>TOTAL PORTFOLIO</u></b>				
200,000	Rothmans Inc.	2,670	2,830			<b>66,442</b>	<b>57,732</b>	
250,000	Suzu Shier Ltd.	2,381	950					
		<b><u>TOTAL</u></b>	<b>10,333</b>	<b>9,338</b>				

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

## ABC Fundamental-Value Fund (ABC FVF)

<b>NAVPS</b>	<b>10.1468</b>
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*March 31, 2000*

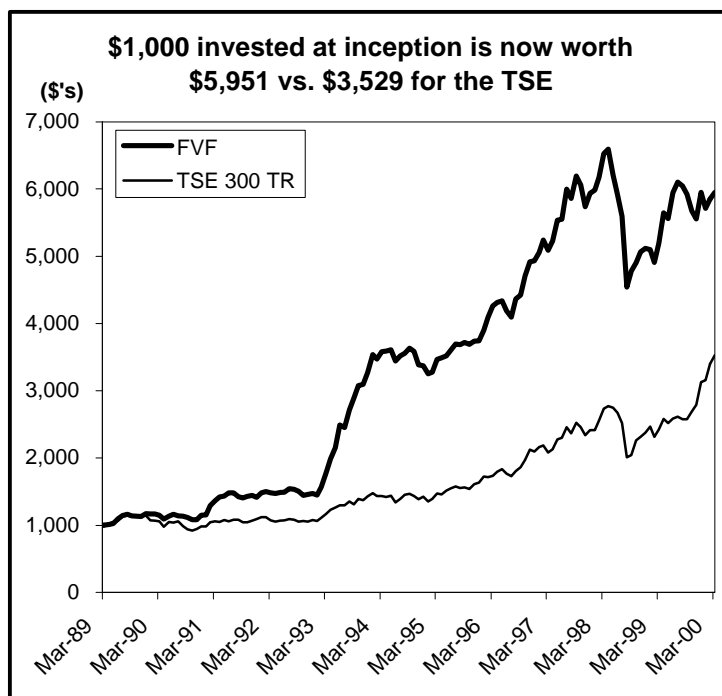
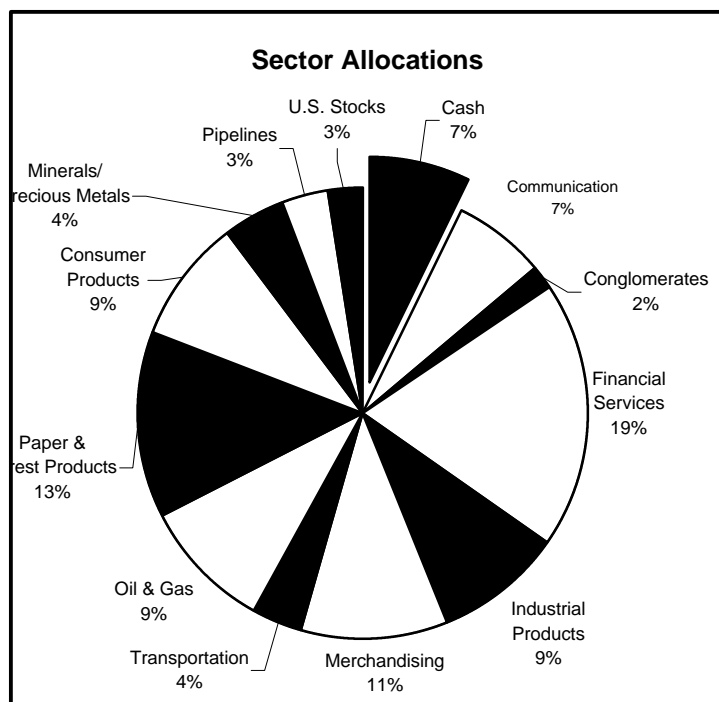
### Objective

*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>14.60</b>	45.48	1990	<b>-1.98</b>	-14.80
2 Year	<b>-4.53</b>	13.62	1991	<b>22.92</b>	12.02
3 Year	<b>5.36</b>	19.24	1992	<b>4.05</b>	-1.43
5 Year	<b>11.40</b>	19.10	1993	<b>122.19</b>	32.55
10 Year	<b>17.85</b>	12.78	1994	<b>3.03</b>	-0.18
Since Inception*	<b>17.60</b>	12.08	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

\*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***  
***March 31st, 2000***

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

*exchange rate used is 1.4518*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 7.15%</b>			
216,560	C\$ Cash	217	217
73,672	U\$ Cash	106	106
101,379	RT CAP Cash In Action Fund	10,138	10,138
394	RT CAP U\$ Cash Mgmt Fund	57	57
3,000,000	Cda T-Bill, 5.16% due 06/22/0	2,859	2,859
4,000,000	Cda T-Bill, 5.31% due 08/17/0	3,801	3,801
<b><u>TOTAL CASH</u></b>		<b>17,177</b>	<b>17,177</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>OIL &amp; GAS -- 9.38%</b>			
550,000	Crestar Energy Inc.	14,148	10,313
806,700	Maxx Petroleum Ltd.	6,932	3,307
1,000,000	Newport Petroleum Corp.	4,118	3,850
550,000	Tri Link Resources Ltd.	4,743	2,613
337,200	Ulster Petroleum Ltd.	2,455	2,445
<b><u>TOTAL</u></b>		<b>32,396</b>	<b>22,527</b>

**COMMON STOCKS -- 92.86%**

**PAPER & FOREST PRODUCTS -- 13.29%**

26,360	Alliance Forest Products	611	448
425,000	Fletcher Challenge Canada Lt	6,632	6,800
1,100,000	International Forest Products	4,747	5,115
1,575,700	Nexfor Inc.	14,870	13,236
273,800	Pacifica Papers Inc.	2,024	3,505
265,000	Taiga Forest Corp.	2,556	2,769
<b><u>TOTAL</u></b>		<b>31,439</b>	<b>31,873</b>

**CONSUMER PRODUCTS -- 9.10%**

325,000	Andres Wines Ltd. "A"	4,015	3,835
325,000	Arbor Memorial Services "B"	4,343	3,023
800,000	FPI Limited	4,437	7,920
500,000	Rothmans Inc.	6,804	7,075
<b><u>TOTAL</u></b>		<b>19,599</b>	<b>21,853</b>

**MINERALS/PRECIOUS METALS -- 4.25%**

1,100,000	Aur Resources Inc.	8,352	1,815
500,000	Noranda Inc.	9,717	7,450
1,500,000	Viceroy Resources Corp.	7,274	945
<b><u>TOTAL</u></b>		<b>25,342</b>	<b>10,210</b>

**PIPELINES -- 3.28%**

325,000	Westcoast Energy Inc.	9,251	7,881
<b><u>TOTAL</u></b>		<b>9,251</b>	<b>7,881</b>

**FINANCIAL SERVICES -- 19.03%**

400,000	Dundee Bancorp	6,347	6,040
450,000	Industrial Alliance Life Insuran	7,327	8,595
550,000	Laurentian Bank	14,438	9,405
505,300	MFP Financial	4,342	5,963
525,000	National Bank	7,606	11,156
400,000	Surrey Metro Savings Credit	5,267	4,540
<b><u>TOTAL</u></b>		<b>45,327</b>	<b>45,699</b>

**COMMUNICATION -- 6.66%**

500,000	Electrohome Broadcasting "	3,056	16,000
<b><u>TOTAL</u></b>		<b>3,056</b>	<b>16,000</b>

**CONGLOMERATES -- 1.76%**

822,100	Harrowston Inc. "A"	3,944	4,234
<b><u>TOTAL</u></b>		<b>3,944</b>	<b>4,234</b>

**INDUSTRIAL PRODUCTS -- 9.22%**

96,900	AT Plastics	779	329
750,000	Co-Steel Inc.	13,560	9,563
505,200	Premdor Inc.	5,574	5,481
687,500	Stelco Inc.	5,569	5,225
655,700	Strongco Inc.	3,637	1,541
<b><u>TOTAL</u></b>		<b>29,119</b>	<b>22,139</b>

**TRANSPORTATION -- 3.57%**

181,300	Canadian National Railway	6,250	6,935
1,350,000	Royal Aviation Inc.	5,882	1,634
<b><u>TOTAL</u></b>		<b>5,882</b>	<b>8,568</b>

**MERCHANDISING -- 10.70%**

2,000,700	Dylex Limited	7,163	3,401
750,000	Hartco Enterprises Inc.	4,823	3,375
550,000	Hudson's Bay Company	8,462	8,745
750,000	North West Co. Inc.	7,779	8,325
490,000	Suzy Shier Ltd.	4,729	1,862
<b><u>TOTAL</u></b>		<b>32,957</b>	<b>25,708</b>

**U.S. STOCKS -- 2.61%**

300,000	Guilford Mills	4,472	3,348
400,000	TBC Corp.	4,066	2,940
<b><u>TOTAL</u></b>		<b>8,538</b>	<b>6,288</b>

**TOTAL COMMON STOCK** **246,848** **222,980**

**TOTAL PORTFOLIO** **264,025** **240,157**

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## ABC American-Value Fund (ABC AVF)

**NAVPS 4.6336**

*March 31, 2000*

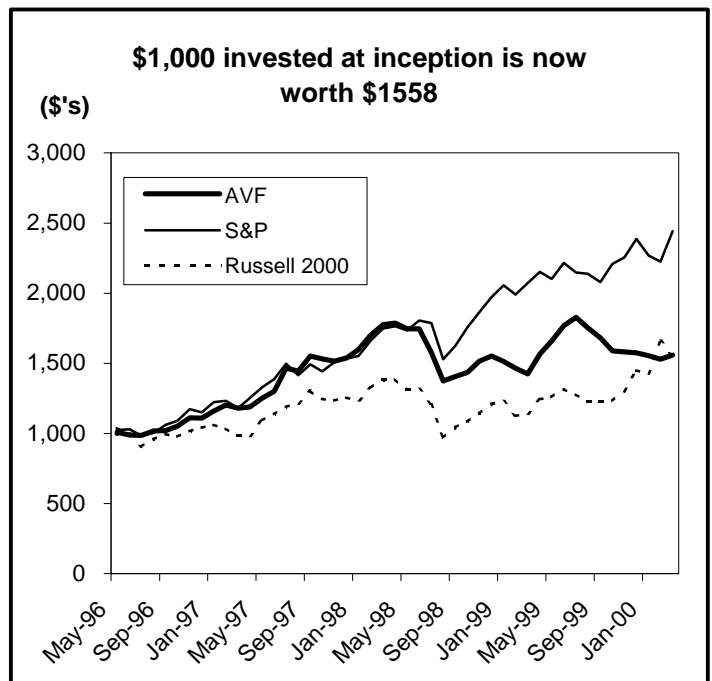
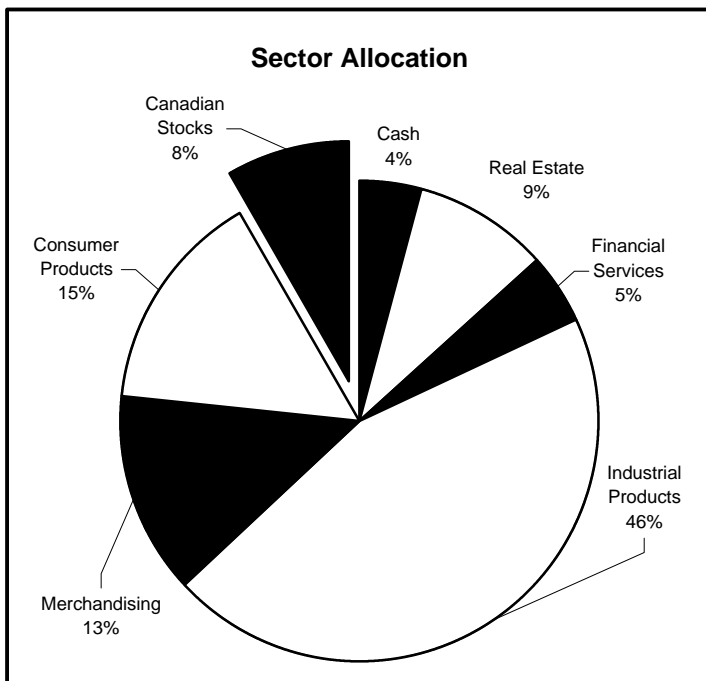
### Objective

*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*

	ABC AVF (%)	RUSSELL 2000 (%)	S&P 500 (%)
1 Month	<b>1.89</b>	-6.69	9.78
1st Qtr 2000	<b>-0.97</b>	6.80	2.29
Year to Date	<b>-0.97</b>	6.80	2.29
1 Year	<b>9.51</b>	35.57	17.94
2 Year	<b>-6.31</b>	5.90	18.20
3 Year	<b>9.67</b>	16.32	27.39
Compounded Since Inception	<b>12.26</b>	12.07	25.60

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



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

**March 31st, 2000**

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

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 4.12%</b>			
307,905	Cash	308	308
3,723	RT CAP Cash In Action Fun	372	372
16,550	US \$ Cash	24	24
512	RT CAP US\$ Cash Fund	74	74
<b><u>TOTAL CASH</u></b>		<b>779</b>	<b>779</b>

**COMMON STOCKS -- 95.88%**

**INDUSTRIAL PRODUCTS -- 45.21%**

40,000	Amcast Industrial Corp.	1,234	534
20,000	Ameron International Corp.	1,121	1,033
65,000	Ampco-Pittsburgh Corp.	1,147	1,026
50,000	Atchison Casting Corp.	1,140	504
25,000	Dura Automotive Systems Ir	1,055	624
100,000	Griffon Corp.	1,091	1,134
80,000	Guilford Mills Inc.	1,156	893
52,500	LTV Corp.	914	272
75,000	National Steel Corporation	1,097	803
42,500	Rouge Industries Inc.	919	389
50,000	Sunrise Medical Inc.	1,007	449
30,000	Tech-Sym Corporation	1,315	879
<b><u>TOTAL</u></b>		<b>13,197</b>	<b>8,539</b>

**CONSUMER PRODUCTS -- 14.94%**

60,000	Haggar Corp.	1,145	1,198
110,000	TBC Corp.	1,163	808
53,500	Wolohan Lumber Co.	974	816
<b><u>TOTAL</u></b>		<b>3,282</b>	<b>2,822</b>

*exchange rate used is 1.4518*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>MERCHANDISING -- 13.47%</b>			
21,000	Brown Shoe Company	396	366
32,500	Dillard's Inc.	1,158	776
75,000	Syms Corp.	1,364	436
45,000	Toys "R" Us	1,102	968
<b><u>TOTAL</u></b>		<b>4,020</b>	<b>2,545</b>

**REAL ESTATE -- 9.25%**

100,000	Amrep Corp.	1,334	862
32,500	Beazer Homes U.S.A. Inc.	1,105	885
<b><u>TOTAL</u></b>		<b>2,440</b>	<b>1,747</b>

**FINANCIAL SERVICES -- 4.57%**

30,000	Liberty Financial Companies	1,061	863
<b><u>TOTAL</u></b>		<b>1,061</b>	<b>863</b>

**CANADIAN INTERLISTED STOCKS -- 8.43%**

22,500	Canadian National Railway	773	861
67,500	Premdor Inc.	738	732
<b><u>TOTAL</u></b>		<b>1,511</b>	<b>1,593</b>

**TOTAL COMMON STOCK** 25,511 18,108

**TOTAL PORTFOLIO** 26,290 18,887

\* Above portfolio does not include unrealized gain on forward exchange contracts (approximately \$123k).

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

## Drawing a Line in the Sand

There comes a time in life, or in business, when one has to take a stand. While it is not easy to "draw a line in the sand" and stand up for what you truly believe in, it is often, in the long run, quite rewarding.

For instance, early in my investment career, I remember asking an old friend how he, as a value investor, survived and performed so well on the aftermath of the 1973-74 bear market. My friend candidly admitted it was an excruciatingly difficult period. He aggravated but worked on an investment plan. He divided his cash reserves into three equal parts. At each successive stock decline in 1974, he invested a third of his cash reserves in unduly depressed value stocks. At that time he could not believe the incredibly low prices being paid for real business's cash flow, earnings and net asset values. But the market did not care for value then. Nonetheless, he drew a line in the sand and stuck to his style and discipline.

Clients grumbled and a number of them quit. Yet my friend stubbornly hung in. He continued to analyze stocks and invest. But stocks plunged further to unprecedented valuations. After his second cash reserve was committed, my friend, albeit a little unnerved at the low valuations, prepared for his final third assault. He had hoped he would never have to use it. But the negative psychology of the day was like a cold, dark mania. In time, he screwed up his courage and invested the final sum. The market declined further and subsequently hit a double bottom in both August and December 1974. I asked him what he did after he committed his final reserve. He smiled and told me he prayed.

When stock prices did bottom and the market for value stocks took off in 1975, his market picks were "golden". His performance turned out to be spectacular as momentum investors now rushed to buy the value stocks that he held.

While it might be trivializing an extremely stressful value investor period of 1973-74, the fact was the investment flotsam and jetsam of that period turned into the elegant swans of the 1975-76 bull market. The

stress on value managers during that difficult 1973-74 stretch was intense. Investors demanded their money back in preference to the sure thing of high interest paying treasury bills. Yet, the loyal investors who believed in his investment style, albeit shaken for six to twelve months, ultimately benefited when the value market later exploded to the upside.

Now, some 25 years later I see many investment parallels. It is presently a very trying and stressful period for value investors. Everything is questioned. Every move is scrutinized under a microscope. Big money appears to be made on seemingly no-brainer high tech investments as relatively more complicated value investing struggles and is chastised. As the value criticizers grow in numbers, many value-oriented mutual funds in redemption mode are forced to raise cash by selling "old economy", value stocks such as Inco, Noranda, Hudson Bay Company, and the oils. This action further depresses value stock prices and adds to an extremely vicious circle. Value investing, to be successful again, needs a catalyst such as a downturn in technology stocks, a spate of takeovers in unduly cheap value stocks or huge corporate share buybacks. But when will this occur and what will be the catalyst?

A most interesting comment on the present environment was offered recently by Nancy Tengler, President and Chief Investment Officer of Global Alliance Value Investors of San Francisco. In a recent conference and as reported by the Financial Post, Ms. Tengler admitted that the mania for short-term growth stocks is exacerbated by the presence of momentum-based day traders and that flames are fanned further by the media, which emphasize short-term price movements. "Our challenge", concluded Nancy Tengler, "is to step back from our emotions and build a belief system that is not easily shaken". It appears to me that Nancy Tengler, like my old friend, has also "drawn her line in the sand".

**Irwin A. Michael, CFA**

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