

Patience Revisited

*"It is better to have a hen tomorrow
than an egg today."
- Chinese proverb -*

I've written on this topic many times. In fact, I believe that investor patience, assuming a fundamentally sound security, is probably as important as the in-depth, fundamental analysis employed to select that security.

Value analysis today continues to be very frustrating as the market remains in "high tech momentum mode". Value stocks continue to languish. These stocks can be purchased at incredibly low multiples and at a discount to net asset/replacement values. I am astounded at the extraordinarily low valuations that the market is placing on value securities. In consequence, there is little wonder that many companies have recently initiated substantial share buybacks (International Forest Products, Canadian National Railway, Stelco, etc.) or are officially looking at ways to maximize shareholder value (MFP Financial, Maxx Petroleum, etc.). The two cheapest value sectors, in our opinion, are forestry and oil and gas.

But value stock performance is happening at a very slow pace in relation to the fast action of the high technology and momentum stocks. The resulting frustration and agony of low relative performance of value compared to growth/momentum portfolios is taking its toll amongst portfolio managers. Yet it seems to me that with the growing trend of mergers and acquisitions of non-performing value companies, substantial opportunities abound. Consider the recent takeover prices of previously out of favour value stocks. When takeover prices are set, the strike price

is normally a very generous 25%-35% premium over the pre-announcement valuation. In consequence, the substantial frustration and agony are well worth the end result.

Equally frustrating is the "when to sell dilemma". The fact is that when value stocks are so out of favour and are trading at remarkably low valuations, the slightest uptick in price encourages one to sell. But quite often the sudden price improvement is but a mere tease as the stock evolves from a value play to a momentum play before soaring upward in price. The risk at that point is that one becomes impatient and sells too early.

Overall, "be patient" is easy for one to say. But to be a patient investor, in reality, is a very different story since investors are clamouring for instant gratification. Webster's Dictionary defines patience as:

*"bearing pain or trials without complaint,
showing self-control, calm, steadfast and
persevering".*

By definition patience is an extremely difficult yet all-important ingredient to investment success. Clearly the present market is severely testing our patience. I believe this is only temporary. The end result, in my opinion, far outweighs today's frustration.

ECONOMIC PERSPECTIVES**Economic Ebb Tide**

While the North American economies continue to be fairly strong, their rate of growth is starting to ebb. There has been considerable concern by Chairman Greenspan and the U.S. Federal Reserve that the U.S. economy might become overheated, creating inflationary pressures and unsustainable consumer expectations. This perception has precipitated six interest rate increases. We now believe there are definite signs of a slowing economy.

Although slowdowns are normally considered to be very negative and a harbinger of economic recession, we believe the U.S. Federal Reserve, with its proactive stance, has probably elongated this economic cycle by at least 12 months. Nonetheless, we suspect that we probably have seen the last or second to last U.S. interest rate increase as the American economy recalibrates to a more sustainable economic growth rate.

INVESTMENT PERSPECTIVES**Tug of War**

The extreme share price volatility persists. The fickle nature of the market is testing everyone's patience. The battle between old economy stocks as represented by the cyclicals, resources, industrials, banks and the new economy or high technology companies continues.

The ensuing tug of war has created two types of stocks: the dirt cheap old economy value companies, trading at extraordinarily low multiples

and huge net asset value discounts and the select few new economy stocks, such as Nortel, which are grossly overvalued based upon traditional valuation standards. Unfortunately, it is our opinion that for the overlooked old economy stocks to improve, the new economy stocks will have to tumble. At that point we would expect traditional value stocks to rebound, as they become a safe haven and a beneficiary of the new economy decline.

PORTFOLIO PERSPECTIVES**Spring Cleaning**

We have been steadily cleaning up our three ABC portfolios since the start of the second quarter. We have been attempting to upgrade our portfolios toward greater liquidity, income/dividends and quality while the cost to do so has been negligible. In effect, we have sold some smaller capitalization companies to buy larger value ones at the same discounted multiples and valuations.

We have sold Viceroy Resources, Newport Petroleum, Pacifica Papers, Tri Link Resources and Ulster Petroleums. We have purchased Renaissance Energy, Canada Bread and bought Co-Steel Inc. 6.50% April 30, 2007 convertible debentures. While many of our portfolio holdings remain very undervalued, we believe that they are extremely attractive and that many are possible merger, acquisition or takeover targets.

ABC FUNDS

We are thrilled to formally announce the launch of our new multimedia web site, www.valueinvestigator.com. Our objective with Value Investigator is to highlight the principles of value investing, point out fundamental value opportunities, which we have uncovered, and inform interested parties of our value investing style.

We are disciplined, dedicated and patient, but we recognize the frustration and challenges of adhering to our fundamental value investment management style.

As part of our own personal commitment, we will endeavor to update our Value Investigator site on a regular basis. We invite and welcome any and all feedback and we would like to receive both accolades and criticisms. We hope Value Investigator proves both interesting and informative to the value investor. If you don't have Internet access, simply give us a call and we will arrange to either fax or mail you any of our Value Favourites. Enjoy the site.

Irwin A. Michael, CFA

The screenshot shows a web browser window titled "Value Investigator - Home". The address bar contains "http://www.valueinvestigator.com/". The website header features the "VALUE INVESTIGATOR" logo with a cartoon character, and several navigation buttons: "VALUE FAVOURITES", "VALUE INVESTING", "VALUE LIBRARY", "VALUE IN THE NEWS", and "VALUE RESOURCES". The "ABC FUNDS" logo is also present. The main content area is titled "WELCOME TO VALUE INVESTIGATOR" and includes a "Value Check" section with a cartoon doctor icon, and four detailed sections: "Value Favourites", "Value Investing", "Value Library", and "Value Resources".

Value Check: Click one of the links next to this icon to download a brief comment related to value investing by Irwin Michael. The audio file will be updated and archived monthly.

Value Favourites: From our portfolio holdings of 40 to 50 stocks we will select our top 15 to 20 ABC Value Favourites and offer a brief discussion of their fundamental merits. We will explain why ABC Funds purchased each particular holding and will endeavour to add new material and relevant factual information, as it becomes publicly available.

Value Investing: With high technology and telecommunication stocks the current flavour of the day, many investors are shunning traditional value investing. As difficult as it may be in this current high technology mania, we believe strict investment disciplines should be followed. In

practice, we remain focussed on value and continue to abide by our Ten Commandments of Value Investing, which can be found under this section.

Value Library: The Value Library contains an index of articles that should prove interesting to the value investor. The selections are taken from the quarterly ABC Perspective and are used to illustrate the principles of value investing.

Value in the News: Press clippings, from various sources, that highlight either value stocks or the value investment philosophy are compiled here.

Value Resources: The Internet offers a wealth of information online. Unfortunately, many users have difficulty finding their way to credible sites of interest. We have put together a collection of links that we believe cater to the average investor.

Still Finding Value . . .

The present market place continues to be a very challenging one for value investors. With technology stocks still being the major focus for many, fundamentally cheap value stocks are sitting on the sidelines waiting for their turn in the limelight again. When the time comes, ABC Funds will be ready for that encore, as we have stuck to our discipline of value investing.

Though the value investing environment remains difficult we have been able to uncover numerous value stocks, through grueling analysis and research. The following highlights four favourite ABC Funds holdings.

Canada Bread Company Ltd.

Canada Bread, 68%-owned by Maple Leaf Foods, is a leading manufacturer of value-added flour-based products. Its products are sold and distributed under popular banners such as Dempster, Tenderflake and Olivieri. Trading at a slight discount to book value with a 2.4% dividend yield, Canada Bread's share price has drastically declined from \$30 in the beginning of 1998 to a current price of \$10. Signs of recovery are on the horizon with revitalized strategies and a new management team led by Roger Dickhout. Canada Bread enjoys a healthy balance sheet with a strong cash position and very little debt. We believe that Canada Bread will gradually emerge from this downturn to provide excellent long-term capital gain potential.

Co-Steel Convertible Debentures

While Co-Steel Inc. has long been an ABC value favourite, we have recently added Co-Steel's 6½% April 30, 2007 convertible debentures to our portfolio. Priced at only \$86½ and with a yield to maturity of 9.18%, we are attracted to these convertible debentures not only due to its high yield to maturity but also their overlooked convertible feature. The company is presently in a major debt reduction mode having sold off several assets and is attempting to reduce debt to 30% of its capitalization. This is improving the debentures credit worthiness and quality standing. Moreover, we would not be surprised if the company initiated a convertible debenture buy-back.

International Forest Products Limited

International Forest Products (Interfor) is one of western Canada's largest loggers and manufacturers of solid

wood products. Its current price is well below its 1999 book value of \$7.11 and it is trading at only two times 1999 cash flow. With these low multiples Interfor is one of the most inexpensive stocks in its sector. The company possesses one of the best balance sheets in the forest products industry as a result of heavy debt reduction. We expect Interfor to be debt free by year-end. The company is also presently benefiting from its extensive cost reduction program instituted over the past two years. With controlling shareholder William Sauder taking a less active management role, the company's low valuation and the huge amount of consolidation taking place in the industry, Interfor is a prime merger, privatization or takeover candidate.

Laurentian Bank of Canada

Laurentian is the seventh largest Canadian Schedule I Bank in terms of assets. In 1999, aggressive capital expenditures and fierce competition hurt profitability and the share price declined from \$25.50 to \$15.25. With the bank presently trading at only 0.9 times book value and a dividend yield of 4.8%, Laurentian offers excellent value. Although the share price has recovered from its lows we still see more upside. We see continued improvement as management has stabilized Laurentian's net interest margin and its efficiency ratio. A new subsidiary, B2B Trust, was recently established to provide wholesale financial products and related services over the Internet and to position the bank as a niche player. Finally, Laurentian Bank is a prime takeover candidate under proposed changes to the regulations that currently restrict ownership in the financial services industry.

While, it is not unusual for us to highlight a few of our favourite stocks in the ABC portfolios, we do not always give an explanation of why one of our holdings has "disappeared" since the previous quarter. The following offers a short discussion as to why we liquidated some of our positions.

Newport Petroleum Corporation

Though Newport was a fundamentally sound oil stock we saw better opportunities to upgrade our holdings. With many large capitalization oil stocks trading at extraordinarily low multiples we noticed an immense amount of opportunity to invest in more liquid, under-

valued stocks such as Renaissance Energy. We sold our position in Newport for a slight profit at \$4.30.

Pacifica Papers Inc.

Pacifica had reached our target when we sold our position at approximately \$12.00. Though the company is a possible takeover candidate, it is very illiquid and we saw better value elsewhere in the industry. Part of the proceeds allowed us to increase our position in Fletcher Challenge Canada, a more liquid, dividend-paying stock.

Ulster Petroleums Limited

This oil stock was just featured in our last quarterly publication. To quote our April ABC Perspective,

“...Ulster is very cheap and is a leading takeover candidate.” Barely a month later Anderson Exploration acquired the company. Before the deal was finalized, ABC sold its 750,000-share position in Ulster at \$11.50. The proceeds allowed ABC to upgrade into larger, more liquid companies.

Viceroy Resource Corporation

This is a mining stock that ABC Fundamental Value holders have seen on the portfolio for quite some time. While doing some “spring cleaning” of the portfolio, we took the opportunity to sell Viceroy at a loss, as we were no longer optimistic for its future direction. This will help to offset some capital gains in the Fund.

Liquidity, Profits and Volatility

Cash or liquidity to a portfolio manager means opportunity. Is it not always the case that when incredible buying opportunities occur, one never has enough cash reserve to fully take advantage of a substantial unforeseen share price decline?

For instance, in the October 1987 crash, many opportunities abounded but unless a portfolio manager had the luxury of liquidity (greater than 10-15% of the portfolio) many opportunities were missed. The point is that liquidity enables the portfolio manager to be flexible in order to take advantage of periodic and extraordinary stock price declines. On the other hand, liquidity can also drag down a portfolio's performance. In an environment where the market is racing upward a portfolio manager suffers an “opportunity cost” by sitting on the “luxury of liquidity.” The challenge to a portfolio manager is to fine-tune liquidity, yet not miss the big picture of the market's overall direction.

Today, with relatively poor cash inflows to mutual and pension funds, portfolio managers are required to generate liquidity on their own. This encourages more stock trading by managers. For instance, a manager may periodically sell a stock which

is approaching the upper limits of its price target as opposed to patiently waiting for it to achieve a price breakout. In effect, this is forcing a portfolio manager to take a sure 20-30% return as opposed to waiting for a 50% return and running the risk of the stock retracing the 20-30% upside move. I believe we are seeing more of this profit taking, which is a direct result of the market's incredible price gyrations. Managers giddy with 20-30% paper profits quite often become despondent when due to an unexpected event (e.g. oil price decline, lost contract, strike or profit warning) a stock plummets. While short-term trading by managers was less prevalent five or ten years ago, today, with frequent unexpected volatility, managers are encouraged to take profits and provide liquidity.

The prospect of a manager repurchasing a liquidated stock at a lower price encourages more of this trading pattern and ultimately spawns even greater volatility. The end result, in my opinion, is that there is a definite link between liquidity, profitability and stock price volatility. I expect this trend to continue.

Irwin A. Michael, CFA

ABC Fully-Managed Fund (ABC FMF)

NAVPS	6.5714
Inc. Dist.	0.0376064

June 30, 2000

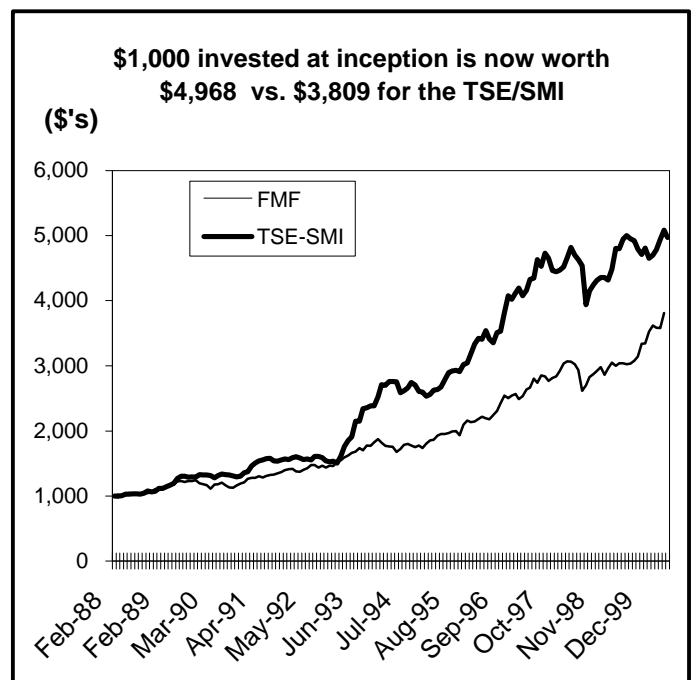
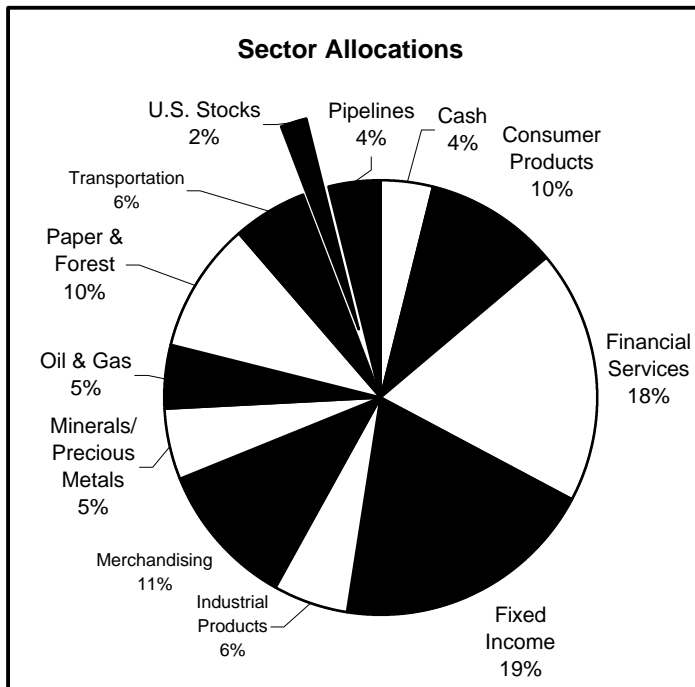
Objective

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	0.45	25.70	1989	23.68	17.10
2 Year	3.58	11.805	1990	2.17	-4.08
3 Year	4.57	12.32	1991	14.69	17.08
5 Year	12.25	14.2	1992	-1.48	4.11
10 Year	14.02	12.26	1993	64.35	25.27
Since Inception*	13.85	11.43	1994	2.82	-2.15
			1995	17.25	18.27
			1996	31.99	20.18
			1997	10.56	12.47
			1998	-2.03	4.51
			1999	10.38	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

June 30th, 2000

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.4817

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 3.80%				PAPER & FOREST PRODUCTS -- 9.78%			
2,030,000	C\$ Cash	2,030	2,030	165,000	Fletcher Challenge Canada	2,537	2,516
64,636	U\$ Cash	95	95	415,400	Nexfor Inc.	3,952	3,199
852	RT CAP Cash In Action Fund	85	85	<u>TOTAL</u>			
64	RT CAP Cash In Action Fund US \$	9	9	6,489		5,715	
<u>TOTAL CASH</u>				<u>TOTAL</u>			
		2,220	2,220				
FIXED INCOME -- 19.70%				MINERALS/PRECIOUS METALS-- 5.26%			
2,000,000	Cdn Occidental - 6.85% 11/15/06	1,960	1,957	1,875,000	Eastmain Resources Inc.	1,031	900
2,000,000	Cdn Occidental - 6.45% 07/11/07	1,911	1,905	150,000	Noranda Inc.	2,895	2,175
2,000,000	Co-Steel Conv. Deb. - 6.50% 4/30/	1,780	1,746	<u>TOTAL</u>			
2,000,000	Crestar Energy - 6.45% 10/01/07	1,864	1,892	3,926		3,075	
2,000,000	Hudson Bay Co. - 7.10% 5/13/04	1,939	1,977	INDUSTRIAL PRODUCTS -- 5.55%			
2,000,000	Stelco Unsec. Deb. - 8% 2/15/06	1,998	2,037	250,000	AT Plastics	2,850	688
<u>TOTAL</u>				200,000	Co-Steel Inc.	3,975	2,560
		11,452	11,514	<u>TOTAL</u>			
				6,825		3,248	
COMMON STOCKS -- 76.50%				TRANSPORTATION -- 5.52%			
FINANCIAL SERVICES -- 18.97%				75,000	Canadian National Railway	2,576	3,233
150,000	Industrial Alliance Life Insurance	2,387	3,675	<u>TOTAL</u>			
100,000	Laurentian Bank	2,554	2,260	2,576		3,233	
150,000	National Bank	2,322	3,315	OIL & GAS -- 4.91%			
175,000	Surrey Metro Savings Credit	2,253	1,838	200,000	Renaissance Energy	2,598	2,870
<u>TOTAL</u>				<u>TOTAL</u>			
		9,517	11,088	2,598		2,870	
MERCHANDISING -- 10.49%				PIPELINES -- 3.90%			
150,000	Hudson's Bay Company	2,513	2,355	100,000	Westcoast Energy Inc.	2,860	2,280
250,000	North West Co. Inc.	2,708	2,900	<u>TOTAL</u>			
250,000	Suzy Shier Ltd.	2,381	875	2,860		2,280	
<u>TOTAL</u>				CONSUMER PRODUCTS -- 10.23%			
		7,602	6,130	250,000	Canada Bread Company	2,510	2,425
U.S. STOCKS -- 1.89%				194,700	Rothmans Inc.	2,599	3,553
175,000	Guilford Mills Inc.	2,591	1,102	<u>TOTAL</u>			
<u>TOTAL COMMON STOCK</u>				5,109		5,978	
				U.S. STOCKS -- 1.89%			
				175,000	Guilford Mills Inc.	2,591	1,102
				<u>TOTAL</u>			
				2,591		1,102	
				<u>TOTAL PORTFOLIO</u>			
				63,764		58,451	

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)

NAVPS	10.7140
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June 30, 2000

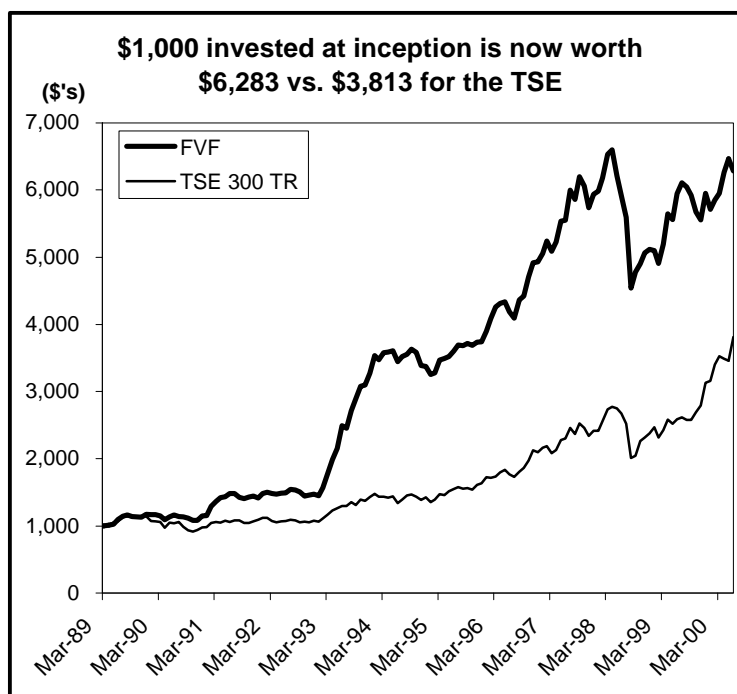
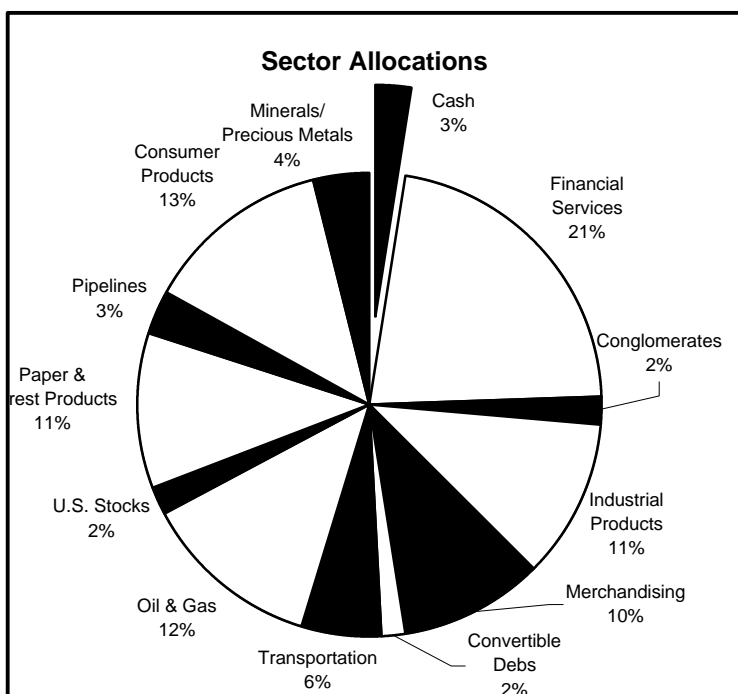
Objective

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	5.69	47.41	1990	-1.98	-14.80
2 Year	3.09	19.41	1991	22.92	12.02
3 Year	4.23	18.34	1992	4.05	-1.43
5 Year	11.75	19.71	1993	122.19	32.55
10 Year	18.35	13.85	1994	3.03	-0.18
Since Inception*	17.71	12.76	1995	11.08	14.53
			1996	31.75	28.35
			1997	20.35	14.98
			1998	-13.81	-1.58
			1999	16.25	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

June 30th, 2000

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 2.60%			
18,059	C\$ Cash	18	18
56,103	U\$ Cash	83	83
23,797	RT CAP Cash In Action Fund	2,380	2,380
399	RT CAP U\$ Cash Mgmt Fund	59	59
4,000,000	Cda T-Bill, 5.31% due 08/17/0	3,801	3,801
<u>TOTAL CASH</u>		6,341	6,341
CONVERTIBLE DEBENTURES -- 1.79%			
5,000,000	Co-Steel Inc. 6.50% - 04/30/0	4,364	4,365
<u>TOTAL CONVERTIBLE</u>		4,364	4,365
COMMON STOCKS -- 95.62%			
PAPER & FOREST PRODUCTS -- 10.79%			
500,000	Fletcher Challenge Canada Lt	7,815	7,625
1,250,000	International Forest Products	5,351	4,438
1,575,700	Nexfor Inc.	15,051	12,133
265,000	Taiga Forest Corp.	2,532	2,133
<u>TOTAL</u>		30,749	26,329
FINANCIAL SERVICES -- 21.90%			
400,000	Dundee Bancorp	6,347	6,500
450,000	Industrial Alliance Life Insuran	7,327	11,025
575,000	Laurentian Bank	14,889	12,995
594,900	MFP Financial	5,423	7,154
525,000	National Bank	7,606	11,603
400,000	Surrey Metro Savings Credit	5,267	4,200
<u>TOTAL</u>		46,859	53,476
INDUSTRIAL PRODUCTS -- 11.29%			
96,900	AT Plastics	779	266
750,000	Co-Steel Inc.	13,560	9,600
550,000	Premdor Inc.	6,068	7,453
1,250,000	Stelco Inc.	9,991	8,500
800,000	Strongco Inc.	4,000	1,720
<u>TOTAL</u>		34,399	27,539
MERCHANDISING -- 9.88%			
1,380,300	Dylex Limited	4,936	2,291
750,000	Hartco Enterprises Inc.	4,823	1,988
600,000	Hudson's Bay Company	9,265	9,420
750,000	North West Co. Inc.	7,779	8,700
490,000	Suzy Shier Ltd.	4,729	1,715
<u>TOTAL</u>		31,532	24,114

exchange rate used is 1.4817

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
OIL & GAS -- 12.43%			
380,000	Berkeley Petroleum	3,739	3,553
450,000	Crestar Energy Inc.	11,576	10,148
1,000,000	Maxx Petroleum Ltd.	7,792	5,150
800,000	Renaissance energy	10,392	11,480
<u>TOTAL</u>		33,499	30,331
CONSUMER PRODUCTS -- 13.09%			
365,000	Andres Wines Ltd. "A"	4,497	4,490
326,600	Arbor Memorial Services "B"	4,354	2,327
905,000	Canada Bread Company	9,061	8,779
825,000	FPI Limited	4,639	7,219
500,000	Rothmans Inc.	6,804	9,125
<u>TOTAL</u>		29,355	31,939
PRECIOUS METALS -- 3.98%			
1,100,000	Aur Resources Inc.	8,352	2,453
500,000	Noranda Inc.	9,660	7,250
<u>TOTAL</u>		18,012	9,703
PIPELINES -- 3.04%			
325,000	Westcoast Energy Inc.	9,251	7,410
<u>TOTAL</u>		9,251	7,410
CONGLOMERATES -- 1.75%			
920,000	Harrowston Inc. "A"	4,422	4,278
<u>TOTAL</u>		4,422	4,278
TRANSPORTATION -- 5.56%			
275,000	Canadian National Railway	10,119	11,853
1,350,000	Royal Aviation Inc.	5,882	1,715
<u>TOTAL</u>		16,001	13,567
U.S. STOCKS -- 1.90%			
300,000	Guilford Mills	4,472	1,889
400,000	TBC Corp.	4,066	2,741
<u>TOTAL</u>		8,538	4,630
<u>TOTAL COMMON STOCK</u>		262,615	233,315
<u>TOTAL PORTFOLIO</u>		273,321	244,021

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ABC American-Value Fund (ABC AVF)

NAVPS 4.4222

June 30, 2000

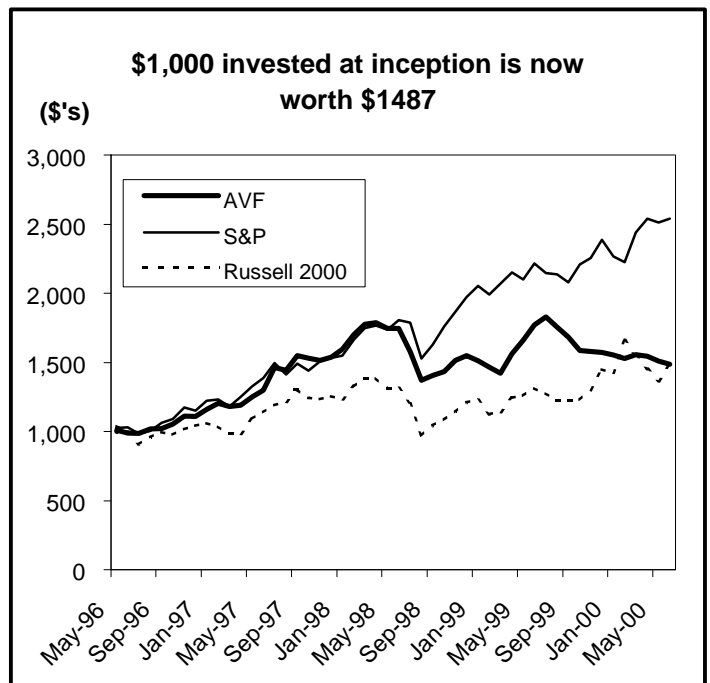
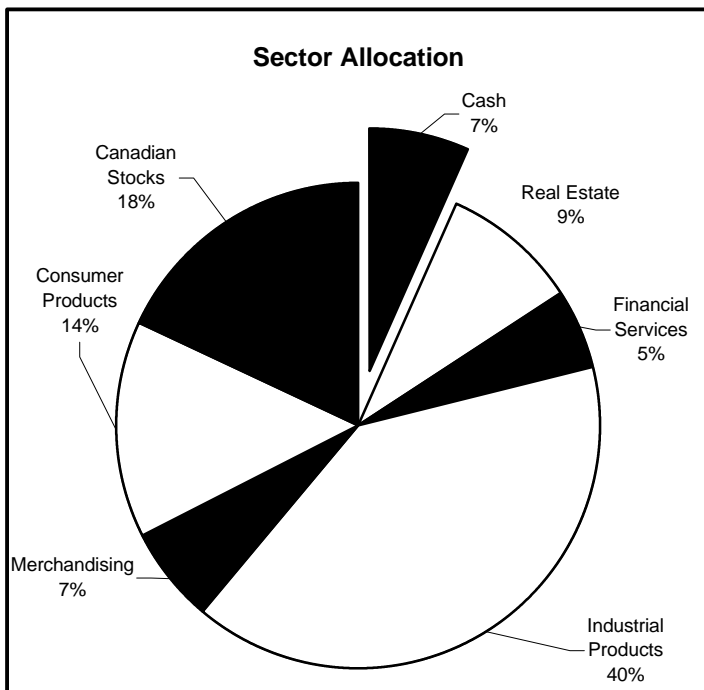
Objective

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	-1.50	8.62	1.12
2nd Qtr 2000	-4.56	-4.05	4.06
Year to Date	-5.49	2.47	6.45
1 Year	-15.99	13.01	6.48
2 Year	-7.70	6.34	13.56
3 Year	4.61	9.28	22.36
Compounded Since Inception	9.99	10.17	25.66

Note: Inception date is May 2nd, 1996



ABC American-Value Fund, Statement of Investment Portfolio

June 30th, 2000

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
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CASH -- 6.60%

1,041,514	Cash	1,042	1,042
87	RT CAP Cash In Action Fun	9	9
57,864	US \$ Cash	86	86
519	RT CAP US\$ Cash Fund	77	77
<u>TOTAL CASH</u>		1,213	1,213

COMMON STOCKS -- 93.40%

INDUSTRIAL PRODUCTS -- 39.74%

40,000	Amcast Industrial Corp.	1,234	519
20,000	Ameron International Corp.	1,121	1,059
65,000	Ampco-Pittsburgh Corp.	1,147	1,071
50,000	Atchison Casting Corp.	1,140	426
25,000	Dura Automotive Systems Ir	1,055	401
100,000	Griffon Corp.	1,091	824
80,000	Guilford Mills Inc.	1,156	504
52,500	LTV Corp.	914	224
75,000	National Steel Corporation	1,097	465
42,500	Rouge Industries Inc.	919	189
50,000	Sunrise Medical Inc.	1,007	361
30,000	Tech-Sym Corporation	1,315	1,250
<u>TOTAL</u>		13,197	7,293

CONSUMER PRODUCTS -- 14.23%

60,000	Haggar Corp.	1,145	1,045
110,000	TBC Corp.	1,163	754
53,500	Wolohan Lumber Co.	974	813
<u>TOTAL</u>		3,282	2,611

exchange rate used is 1.4817

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
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MERCHANDISING -- 6.65%

10,000	Brown Shoe Company	131	193
32,500	Dillard's Inc.	1,158	590
75,000	Syms Corp.	1,364	438
<u>TOTAL</u>		2,653	1,220

REAL ESTATE -- 9.33%

100,000	Amrep Corp.	1,334	833
32,500	Beazer Homes U.S.A. Inc.	1,105	879
<u>TOTAL</u>		2,440	1,712

FINANCIAL SERVICES -- 5.31%

30,000	Liberty Financial Companies	1,061	975
<u>TOTAL</u>		1,061	975

CANADIAN INTERLISTED STOCKS -- 18.14%

22,500	Canadian National Railway	773	970
67,500	Premdor Inc.	738	915
75,000	Canada Bread Company	753	728
50,000	Renaissance Energy	740	718
<u>TOTAL</u>		3,004	3,329

TOTAL COMMON STOCK 25,637 17,141

TOTAL PORTFOLIO 26,850 18,354

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

Frustration

*"I always know we are close to a rally when
I start to question my own work."*

-Elaine Garzarelli

I recently went to an investment analysts lunch and I bumped into one of my competitor-chums. Bob, like myself, is a "deep value investor" who hunts for grossly under-priced value stocks. "How are you doing?" I asked. Bob nodded and then looked me straight in the eye and shot back, "How's business?" I thought for a few seconds and replied, "Challenging, very challenging."

I explained that while our ABC team often came across cheap undervalued stocks, the market seemed to be fixated on momentum and growth plays with astronomical price to earning ratios, little cash flow and big premiums to book value. "It seems to me," I continued, "that the expensive stocks get more expensive and the cheapies become cheaper."

I guess my extreme candour must have hit a chord with Bob. You see, right after my comments Bob loosened up like a pried-open clam. "I have had a terribly frustrating time," Bob admitted, "...and it's starting to get to me. I find a cheap value stock, do considerable research and after I buy it, it either languishes or declines in price. Then I glance over at Nortel, comprising 30% of the TSE 300 Index, trading at 75 to 100 times price to earnings and ten times book value and it takes off in price at the mere sniff of a rumoured new sales contract. If it wasn't for Nortel and a handful of TSE-listed high tech stocks, the TSE performance benchmark would be considerably different and easier to beat," Bob lamented. "Overall," Bob finally admitted, "this has been the toughest time in my 25 years in the business. I am starting to doubt if I know anything and whether it is even worth my while to do serious analysis." Bob then shook my hand and bolted off to another meeting.

I was stunned. I stood there for several minutes trying to figure the weight of Bob's comments. I had immense respect for Bob as an analyst and portfolio manager. He was a very bright, tough and judicious stock picker. How could this market have gotten to him? Later that afternoon as I rode the subway home I thought deeply about Bob's words.

The present stock market environment is very, very frustrating to all investors. This period of frustration has persisted for an inordinate length of time and it is now starting to enervate people. It is testing everyone's patience and conviction.

The extraordinary weighting of Nortel in the TSE benchmark is also frustrating investors. Nortel has evolved

into an 800-pound gorilla representing over 30% of the TSE index. Yet, it is only one out of 300 component stocks. The TSE 300 is now a very difficult benchmark to beat particularly if one is a value investor. Moreover, Nortel is neither a value stock nor a particularly cheap security. To plunk 30% of one's investment portfolio in Nortel in order to match the TSE index weighting is extremely risky, imprudent and verboten considering mutual fund/pension rules. But investor frustration is forcing some to take undue risks lest they wander too far off the benchmark.

It has been a very difficult investment period worldwide. Some well-known investors have lost huge sums and have either closed their shop (Julian Robertson) or substantially scaled back their operations (George Soros). But the fact is that the past 12 to 18 months have seen tremendous changes in the investment industry. The end result has been incredible stress and frustration on many investors, analysts and portfolio managers.

I was really intrigued with a June 27 Financial Post article of a Bloomberg newswire release:

"The big change in the markets...is that they've gone haywire; rational valuations have long since been abandoned in a bubble of new economy flimflam. In an irrational world, rational people can't be expected to operate anymore."

This is a very interesting commentary on a most perplexing financial environment. In my opinion there is no doubt that the securities markets have indeed gone haywire with irrational valuations, IPOs, herd mentality investments, hope-springs-eternal valuations and disjointed index benchmarks. I do believe however, that the rational investor, while temporarily out of synch with this topsy-turvy market, will come out ahead in the end. True, savvy investors like Bob are befuddled and frustrated by the current extreme market volatility and craziness. But I feel the present situation is temporary. I profoundly believe that the basic fundamental analysis of financial and accounting ratios, and serious investigative research are still key to successful investing. The important thing is not to let the present frustration force us to question our work, become impatient or lead to investment inertia.

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