

Catalyst

- *a substance that causes chemical catalysis*
- *anything that brings about some change or changes, without being directly affected itself*
- *The World Book Encyclopedia Dictionary*

Underperforming value stocks often need a catalyst to stimulate price appreciation. Quite often a poorly followed value stock will drift downward in price and remain cheap for a considerable period of time until a catalyst unlocks its value.

While waiting, investors often lose patience. They sell the stock and the share price declines further. The lower the stock falls, the more investors avoid the stock. Even once-curious potential investors assume something is seriously wrong with the company and may back off.

But eventually a catalyst does emerge. It could be anything such as a new contract, the sale of a division, the purchase of another company, the invention of an advanced process or even a TSE 300 listing. The catalyst suddenly generates investor interest and with it a whole new investor following is created. The shares, having been discovered, surge in price. A recent example that comes to mind was our ABC Funds' holding of the common shares of Industrial-Alliance Life Insurance.

In February, we purchased Industrial-Alliance, a fundamentally undervalued, small capitalization, demutualized life company. At about \$16, the company was deeply underpriced and along with its larger demutualized peers, it did quite well. As Industrial-Alliance appreciated, we reviewed the company and raised our target price three times. We continued to favour the company but when it broke through \$30, we believed that

Industrial-Alliance was no longer undervalued. Unfortunately, liquidity was very limited and the sale of a large block of stock could have severely depressed the share price.

But a catalyst suddenly materialized. There had been increasing speculation that Industrial-Alliance was to be included in the TSE 300 Index and, in fact, on Tuesday September 19, this was officially confirmed. The stock rose substantially and we were able to liquidate our entire holding of 600,000 shares at over \$33. While this is not to imply that Industrial-Alliance may not appreciate further, we felt that we had made a full and substantial gain on a relatively illiquid stock. Ultimately, we benefited from the sudden appearance of a catalyst that created an opportunity to sell our entire holding.

This example has led us to the following conclusions:

1. The market eventually discovers good value in overlooked companies.
2. While underpriced value stocks often appear to have no sizzle, a timely catalyst can suddenly turn a dull, illiquid shareholding into an exciting, newsy momentum stock.

ECONOMIC PERSPECTIVES**The Economy: Showing Signs of Battle Fatigue**

While the North American economies continue to confound the experts with their robust strength, we believe that the economies are starting to show signs of battle fatigue. True, unemployment is at cyclical lows, inflation is contained and, generally, the consumer and big business are in upbeat spirits. However, we are of the opinion that with the recent oil price shock, the world economies will have to adjust downward toward slower and more economically

sustainable growth rates.

The fact is that regardless of the spectacular rise of oil prices, the North American economies are a little long in the tooth. Eventually reality will set in to naturally constrain future economic activity. The point to be made is that while we expect positive economic growth, we believe that investors and business planners will have to recalibrate their expectations and reduce their economic outlook to more realistic levels.

INVESTMENT PERSPECTIVES**Discipline, Discipline, Discipline**

One of the easiest paths to take in a stock market fraught with massive price volatility, indecision, and considerable client pressure is to change one's investment management style to what is currently popular. While this might temporarily silence investor criticism, we believe that the investment mantra of *discipline, discipline, discipline* remains of utmost importance.

We believe that regardless of one's investment management style - growth, momentum

or value, one must stay true to one's particular comfort level. Switching styles to what may be temporarily in fashion can be quite risky and can lead to a loss of investment manager focus and objectives. Although it is not easy today to keep a "firm hand on the tiller", we believe that, in the long run, adhering to one's disciplines that led to past success is of paramount importance to future performance.

PORTFOLIO PERSPECTIVES**Cash is King**

While we have been attempting to upgrade our portfolios and to produce tax-effective transactions, we have at the same time substantially raised our cash reserves. We have sold Beazer Homes, Dylex, Hartco, Industrial-Alliance, Renaissance Energy, Sunrise Medical and Westcoast Energy. We have added Startech Energy and Regional Cable.

With risk-free Treasury Bill rates over 5½% and our concern for the stability of the high tech

market, we believe that the seasonal market weakness of September and October could lead to terrific buying opportunities later in the fall. With the view that cash is king in a weak, tax-selling environment, we decided to raise our cash equivalent holdings to almost 15%. We view this as a temporary measure and expect to opportunistically deploy this liquidity during any extended market weakness in October, November or December.

Value Investing: Where Have All the Value Investors Gone?

It is very lonely today to be a value investor. It seems that few are willing to admit that they follow the tedious approach of exhaustive balance sheet analysis and the frustration of not being in sync with today's wave of growth/momentum investors.

Quite frankly, it is far easier now to buy an indexed portfolio or to gravitate to a growth/momentum investment style to keep pace with the crowd. Moreover, with Nortel's 30% weighting of the TSE 300 benchmark index, many investors find it far easier to resign themselves and become a closet indexer. Certainly this strategy would have been successful over the past two years as the supercharged Nortel took off in price, to the detriment of value investing. Now the question is: where do we go from here? I have a few thoughts.

I find it confusing that serious investment analysts, armed with MBAs or CFAs, can better manage a portfolio by simply buying a market index while refraining from the hardcore investment analysis that we were taught early in our careers. However, we are not suggesting that all portfolio managers are passively managing money by purchasing an index or modeling a portfolio on a number of TSE 300 heavyweights. Rather it seems to me that many analysts and portfolio managers have capitulated to what is in fashion and have loaded up on Nortel and other high technology and biotechnology winners of the past 12-18

months. Now this observation is not to take anything away from these stocks' past success. Instead I would like to point out that with the market's preoccupation with these securities and the flight of value investors to other styles, numerous opportunities have presented themselves with few takers. Let me explain.

With the switch toward growth and momentum investing, many investors are not paying attention to dirt-cheap equities trading at big discounts to book and net asset values or low cash flow and earnings multiples. Many of these companies are ripe for a catalyst. A good example is Crestar Energy, an ABC Funds' holding. Crestar Energy was an out-of-favour, senior oil and gas producer that traded at an extremely low cash flow multiple and at a discount to its net asset value. Many analysts acknowledged that Crestar was incredibly undervalued, however the stock continued to languish. But Gulf Canada Resources Limited has just provided a catalyst with its takeover offer for Crestar.

There are many undervalued common shares, like Crestar, in today's market place. They are dirt-cheap and they are languishing. They are ripe for a merger, takeover, reorganization or privatization. Any type of catalyst could catapult their price upward. The key to successful investing is the combination of discipline and patience. We strongly believe that value investing will once again come back into fashion.

Irwin A. Michael, CFA

Value Laggards

The volatility of this market has been treacherous for all investors. While the past two years have put value investors in the doldrums, the current market environment has actually left every species of investor looking for their place in the investing food chain.

Over this period, value investing has taken a backseat to Nortel, along with many other telecommunication, technology and biotechnology stocks. We have watched the prices of these high-flying stocks soar to record levels while the fundamentally strong old economy stocks have hit rock bottom. But recently many of these overvalued stocks have been under a great deal of pressure. It seems that this sporadic, risky environment may be giving investors the jitters. Our feeling is that uneasy investors will begin to flock to the security of lower risk and higher income value investments.

It appears that the current market and economic behaviour has classified the financial sector as a stable investing arena. With an economic slowdown on the horizon, the need for interest rate increases will be reduced. This will prove to be very positive for the banks. In fact, this sentiment has already begun to be reflected in the market, with most of the big banks trading near their 52-week highs.

As value investors, a stock trading near its 52-week high is not exactly something we would like to tuck in our portfolio. But, we must remember that the big six banks are not the only institutions in the financial sector. Once they are perceived as fully-valued investments, we may see investors moving down the food chain to the second tier banks such as Laurentian Bank or Canadian Western Bank and then to other financial institutions such as credit unions.

As can be seen in the stocks highlighted below, ABC Funds has seized the opportunity to take advantage of this upward trend through many undervalued financial holdings in our portfolio. Also highlighted below is an undervalued telecommunication stock, along with three fundamentally cheap, old economy holdings.

Laurentian Bank of Canada

Laurentian Bank has shown considerable improvement since our last ABC Perspective. As expected, management targeted Laurentian's net interest margin and its efficiency ratio in order to return to acceptable levels of profitability. This strategy was validated, as the return on common shareholders' equity grew from 8.1% in 1999 to 12.4%. In addition to improving profitability, Laurentian acquired 43 bank branches in Quebec in order to expand its operations and client base. Notably, the Bank issued 2.5 million shares as partial payment for this purchase. Laurentian Bank's recent share price appreciation demonstrates returning investor interest in this fundamentally attractive bank.

Surrey Metro Savings Credit Union

Surrey Metro, with its B.C. customer base, has grown to become the second largest credit union in Canada. Currently trading at \$12, Surrey Metro experienced considerable volatility in 1999 with two unsuccessful merger attempts. Also, being an illiquid, small capitalization stock that is under-followed by investment analysts has hindered Surrey's stock price performance. In spite of its present price weakness, we feel that Surrey Metro is a fundamentally attractive company. Trading at 29% below its year-end 2000 estimated book value of \$17, yielding 3.2% and having purchased 145,300 shares out of a 5% or 272,732-share buyback, Surrey Metro is grossly undervalued.

Dundee Bancorp

Dundee Bancorp is a merchant banking and financial services holding company that provides wealth management services, manages the Dynamic Mutual Funds and operates Dundee Securities. Dundee Bancorp reported substantial revenue and asset growth in the first half of 2000, reflecting the recent acquisition of Fortune Financial. Despite good operating results, Dundee was still trading at a discount to its net asset value. In an effort to improve the Company's valuation, management announced a normal course issuer bid for approximately 10% of its common shares. We believe that this buyback represents a good long-term use of funds for Dundee Bancorp and its shareholders.

MFP Financial Services Ltd.

MFP is a niche provider of technology and equipment leasing and financial services to large public and private North American companies. Trading at a 20% discount to an estimated September 2000 book value of \$13, this under-followed, small capitalization company trades at a 5.6 times estimated March 31, 2001 year end earnings of \$1.80. Moreover, MFP just increased its dividend to \$0.60 for a 5.9% dividend yield. MFP is overcapitalized and has just filed a 5% or 510,000-share buyback. It has been cutting expenses, has an improving 2001-2002 earnings outlook and no controlling shareholder.

Regional Cablesystems

Regional Cablesystems is a Canadian rural cable operator based in St. John's, Newfoundland with over 242,000 basic subscribers. Regional Cable is extremely undervalued relative to the larger cable companies. It is trading at under \$1,500 per subscriber versus over \$2,500-\$3,000 for the larger cable operators. Though Regional Cable is relatively illiquid and is the smallest publicly traded cable company, it is comparatively more profitable. The company has reported positive earnings since the first quarter of 1996. With only 24% of its subscribers regulated by the CRTC, its systems are predominantly non-price regulated. We feel that Regional Cable is a well-run company with considerable future growth and net asset value potential.

Fishery Products International

Newfoundland-based Fishery Products is one of North America's leading seafood companies. FPI is an old economy, under-followed fundamental value play trading at 0.85 times book value with a dividend yield of 1.7%. Instituting an annual dividend of \$0.12 per share in 1999, the first since 1988, is a reflection of the company's improving operations. In addition, FPI announced a 3.3% or 500,000 share buy back.

Fletcher Challenge Canada

Fletcher, a B.C.-based producer of pulp and newsprint continues to be one of our favourites in this sector. The company enjoys a pristine balance sheet with a huge cash position of \$855 million or \$6.90 per share. It is trading at 0.9 times its book value of \$17.07 and yielding almost 4%. As an under-leveraged company it has many options for the use of its cash position such as a levered buyout, paying a large cash dividend or purchasing

attractive acquisitions. While awaiting the catalyst, the company is a huge potential beneficiary of rising commodity prices.

Hudson's Bay Company

Hudson's Bay runs Canada's largest retail-department store chain under the well-known banners of The Bay and Zellers. In light of its new operational strategies and steady progress, Hudson's Bay remains extremely undervalued. It is presently trading at only 0.5 times its \$31.02 book value with a 2.3% dividend yield. The company has recognized its low market valuation and as a result has instituted a 3.5 million or 5% share buyback plan. Hudson's Bay's overall corporate debt now stands at \$962 million, which is \$69 million less than last year. We believe that Hudson's Bay's management plan is progressing well in an extremely difficult and challenging retail market.

We made a few significant changes to our portfolio during the quarter ended September 30. In particular, we wish to discuss the sale of our holdings of Industrial-Alliance and Westcoast Energy. We believed in both of these companies and feel that a brief comment is warranted. We do not wish to imply that these companies will not appreciate further but rather that we identified other opportunities that may hold greater potential.

Industrial-Alliance

We purchased Industrial-Alliance when it demutualized in February of this year. As IAG appreciated in price, we reviewed each of the company's quarterly financial results and raised our target price three times. When Industrial-Alliance was included in the TSE 300 index, the stock rose sharply and traded heavily due to index buying. We seized this opportunity and sold our entire position for a substantial gain.

Westcoast Energy

We originally purchased Westcoast Energy for its defensive nature during a turbulent market clouded by the anticipation of interest rate hikes. As the market outlook became more favourable, Westcoast became less attractive relative to other opportunities. Our disciplined approach to investing demanded that we reallocate our capital in the belief that the market will reward our efforts.

ABC Fully-Managed Fund (ABC FMF)

NAVPS	6.7296
Inc. Dist.	0.0322

September 30, 2000

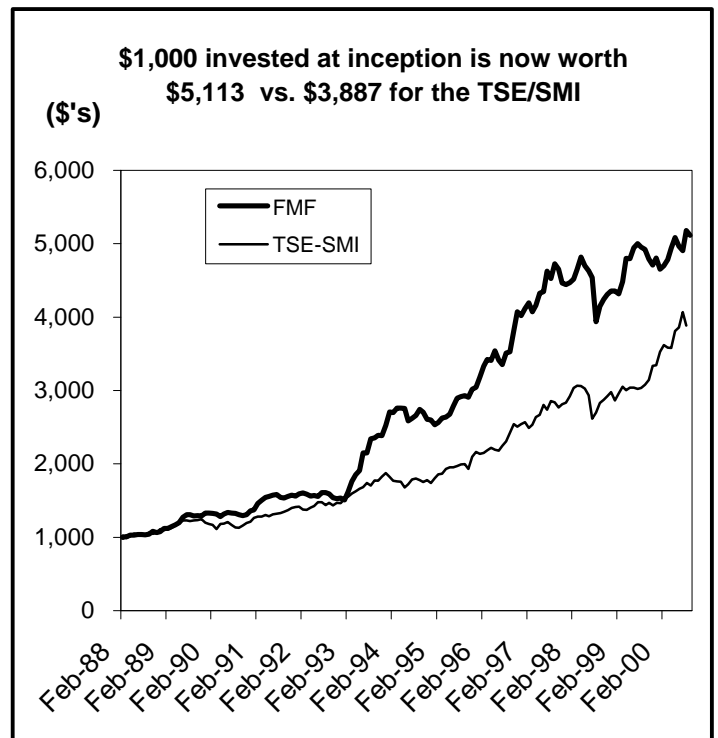
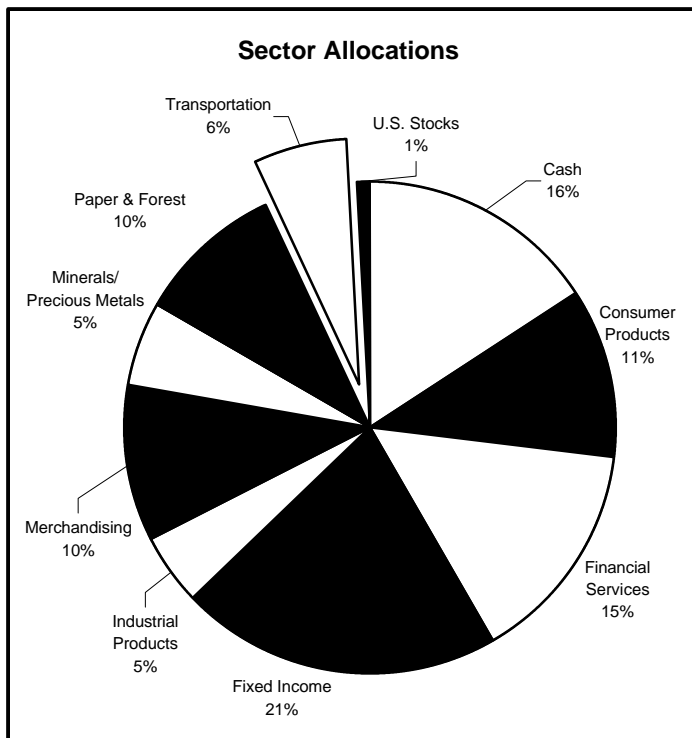
Objective

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	3.89	28.12	1989	23.68	17.10
2 Year	11.02	19.96	1990	2.17	-4.08
3 Year	2.65	10.84	1991	14.69	17.08
5 Year	11.76	14.30	1992	-1.48	4.11
10 Year	14.59	13.13	1993	64.35	25.27
Since Inception*	13.81	11.36	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

September 30th, 2000

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.5046

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 15.94%				PAPER & FOREST PRODUCTS -- 9.91%			
3,546,829	C\$ Cash	3,547	3,547	150,000	Fletcher Challenge Canada	2,300	2,513
64,718	U\$ Cash	97	97	415,400	Nexfor Inc.	3,952	2,970
2,275	RT CAP Cash In Action Fund	228	228	<u>TOTAL</u>			
65	RT CAP Cash In Action Fund US \$	10	10	6,252		5,483	
1,500,000	Canada T-Bills, 5.47%, 12/07/00	1,484	1,484	MINERALS/PRECIOUS METALS-- 5.42%			
2,000,000	Canada T-Bills, 5.56%, 12/21/00	1,973	1,973	1,875,000	Eastmain Resources Inc.	1,031	863
1,500,000	Ontario T-Bills, 5.67%, 12/14/00	1,481	1,481	150,000	Noranda Inc.	2,895	2,133
<u>TOTAL CASH</u>				<u>TOTAL</u>			
		8,819	8,819	3,926		2,996	
FIXED INCOME -- 20.88%				INDUSTRIAL PRODUCTS -- 4.73%			
2,000,000	Cdn Occidental - 6.85% 11/15/06	1,960	1,982	250,000	AT Plastics	2,850	638
2,000,000	Cdn Occidental - 6.45% 07/11/07	1,911	1,934	200,000	Co-Steel Inc.	3,975	1,980
2,000,000	Co-Steel Conv. Deb. - 6.50% 4/30/	1,780	1,690	<u>TOTAL</u>			
2,000,000	Crestar Energy - 6.45% 10/01/07	1,864	1,911	6,825		2,618	
2,000,000	Hudson Bay Co. - 7.10% 5/13/04	1,939	2,003	TRANSPORTATION -- 5.99%			
2,000,000	Stelco Unsec. Deb. - 8% 2/15/06	1,998	2,032	75,000	Canadian National Railway	2,576	3,315
<u>TOTAL</u>				<u>TOTAL</u>			
		11,452	11,552	2,576		3,315	
COMMON STOCKS -- 63.18%				CONSUMER PRODUCTS -- 10.94%			
FINANCIAL SERVICES -- 14.90%				250,000	Canada Bread Company	2,510	2,663
100,000	Laurentian Bank	2,554	2,540	200,000	Rothmans Inc.	2,687	3,390
150,000	National Bank	2,322	3,570	<u>TOTAL</u>			
175,000	Surrey Metro Savings Credit	2,253	2,135	5,197		6,053	
<u>TOTAL</u>				U.S. STOCKS -- 0.89%			
		7,129	8,245	175,000	Guilford Mills Inc.	2,591	494
MERCHANDISING -- 10.39%				<u>TOTAL</u>			
150,000	Hudson's Bay Company	2,513	2,310	2,591		494	
250,000	North West Co. Inc.	2,708	2,613	<u>TOTAL COMMON STOCK</u>			
250,000	Suzy Shier Ltd.	2,381	830	42,098		34,957	
<u>TOTAL</u>				<u>TOTAL PORTFOLIO</u>			
		7,602	5,753	62,369		55,328	

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 10.9635

September 30, 2000

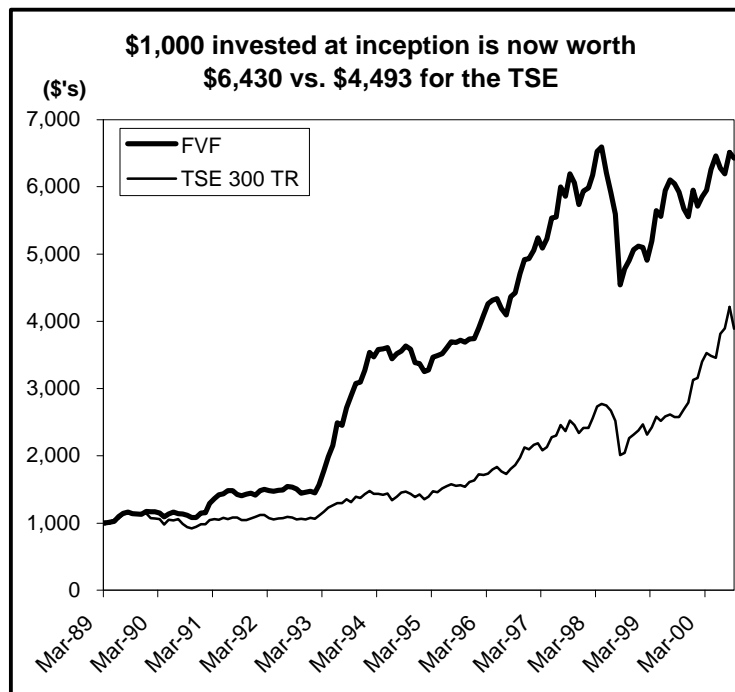
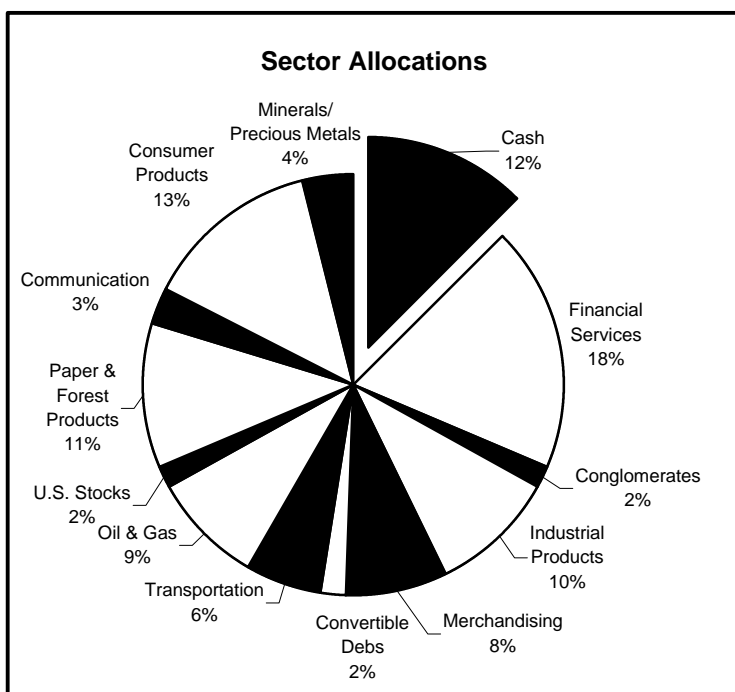
Objective

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	8.64	50.97	1990	-1.98	-14.80
2 Year	16.02	37.88	1991	22.92	12.02
3 Year	1.23	15.50	1992	4.05	-1.43
5 Year	11.57	20.02	1993	122.19	32.55
10 Year	19.12	15.29	1994	3.03	-0.18
Since Inception*	17.52	12.67	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
September 30th, 2000

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.5046

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 12.57%			
208,101	C\$ Cash	208	208
56,174	U\$ Cash	85	85
100,202	RT CAP Cash In Action Fund	10,020	10,020
403	RT CAP U\$ Cash Mgmt Fund	61	61
5,000,000	Cda T-Bill, 5.47% due 12/07/0	4,948	4,948
7,500,000	Cda T-Bill, 5.56% due 12/21/0	7,399	7,399
7,500,000	Ontario T-Bill, 5.67% , 12/14/0	7,405	7,405
<u>TOTAL CASH</u>		30,125	30,125
CONVERTIBLE DEBENTURES -- 1.72%			
4,887,000	Co-Steel Inc. 6.50% - 04/30/0	4,227	4,130
<u>TOTAL CONVERTIBLE</u>		4,227	4,130
COMMON STOCKS -- 85.71%			
PAPER & FOREST PRODUCTS -- 11.16%			
500,000	Fletcher Challenge Canada Lt	7,749	8,375
1,250,000	International Forest Products	5,351	4,900
1,575,700	Nexfor Inc.	14,870	11,266
265,000	Taiga Forest Corp.	2,532	2,226
<u>TOTAL</u>		30,502	26,767
FINANCIAL SERVICES -- 18.92%			
400,000	Dundee Bancorp	6,347	7,280
575,000	Laurentian Bank	14,889	14,605
600,000	MFP Financial	5,475	6,090
525,000	National Bank	7,606	12,495
400,000	Surrey Metro Savings Credit	5,267	4,880
<u>TOTAL</u>		39,584	45,350
INDUSTRIAL PRODUCTS -- 9.8%			
96,900	AT Plastics	779	247
750,000	Co-Steel Inc.	13,560	7,425
550,000	Premdor Inc.	6,068	6,435
1,250,000	Stelco Inc.	9,991	8,063
800,000	Strongco Inc.	4,000	1,320
<u>TOTAL</u>		34,399	23,490
MERCHANDISING -- 7.81%			
600,000	Hudson's Bay Company	9,265	9,240
750,000	North West Co. Inc.	7,779	7,838
490,000	Suzy Shier Ltd.	4,729	1,626
<u>TOTAL</u>		21,774	18,704

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
OIL & GAS -- 8.80%			
450,000	Crestar Energy Inc.	11,576	11,250
1,000,000	Maxx Petroleum Ltd.	7,792	6,050
500,000	Startech Energy	3,807	3,700
<u>TOTAL</u>		23,175	21,000
CONSUMER PRODUCTS -- 13.36%			
365,000	Andres Wines Ltd. "A"	4,497	4,836
326,600	Arbor Memorial Services "B"	4,354	2,286
925,000	Canada Bread Company	9,262	9,851
825,000	FPI Limited	4,639	7,425
450,000	Rothmans Inc.	6,124	7,628
<u>TOTAL</u>		28,876	32,026
PRECIOUS METALS -- 4.02%			
800,000	Aur Resources Inc.	6,074	2,520
500,000	Noranda Inc.	9,717	7,125
<u>TOTAL</u>		15,791	9,645
COMMUNICATION -- 2.87%			
675,000	Regional Cable Inc.	7,465	6,885
<u>TOTAL</u>		7,465	6,885
CONGLOMERATES -- 1.57%			
920,000	Harrowston Inc. "A"	4,422	3,772
<u>TOTAL</u>		4,422	3,772
TRANSPORTATION -- 5.83%			
275,000	Canadian National Railway	10,119	12,155
1,000,000	Royal Aviation Inc.	4,357	1,810
<u>TOTAL</u>		14,476	13,965
U.S. STOCKS -- 1.57%			
300,000	Guilford Mills	4,472	846
400,000	TBC Corp.	4,066	2,934
<u>TOTAL</u>		8,538	3,780
<u>TOTAL COMMON STOCK</u>		229,000	205,384
<u>TOTAL PORTFOLIO</u>		263,353	239,639

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

ABC FUNDS

ABC American-Value Fund (ABC AVF)

NAVPS 4.5277

September 30, 2000

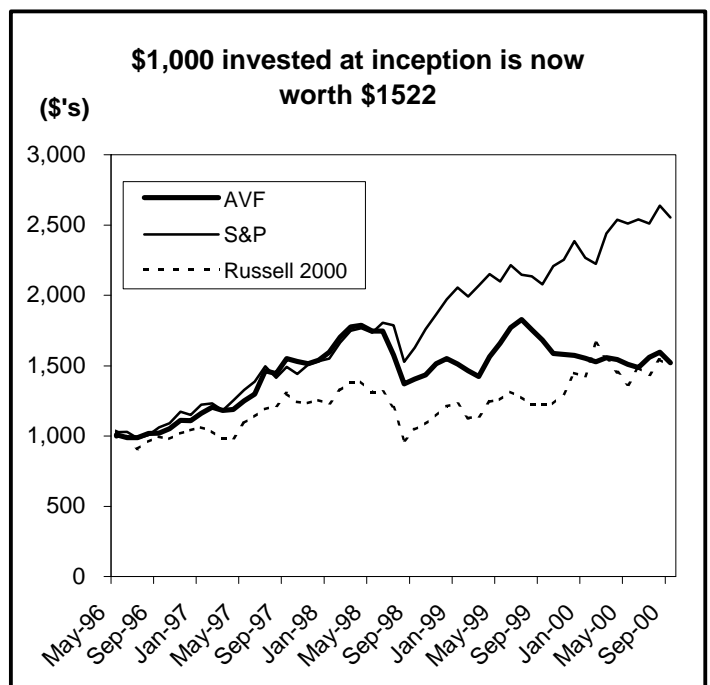
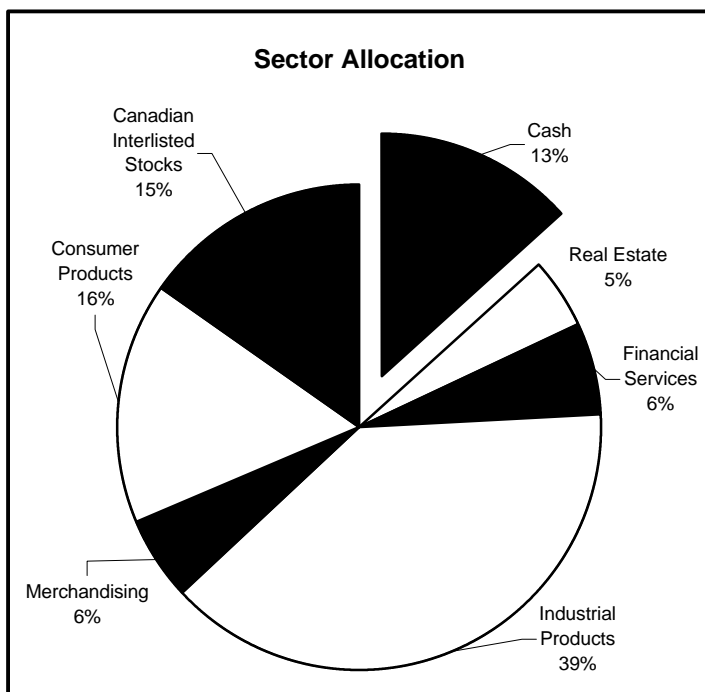
Objective

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	-4.64	-3.07	-3.11
3rd Qtr 2000	2.39	0.80	0.60
Year to Date	-3.23	3.29	7.09
1 Year	-9.49	22.01	14.81
2 Year	4.09	19.75	18.11
3 Year	-0.61	4.73	19.69
4 Year	10.51	10.76	24.57
Compounded Since Inception	9.98	9.76	23.68

Note: Inception date is May 2nd, 1996



ABC American-Value Fund, Statement of Investment Portfolio

September 30th, 2000

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 13.21%			
1,247,135	Cash	1,247	1,247
85	RT CAP Cash In Action Fun	9	9
29,124	US \$ Cash	44	44
3,063	RT CAP US\$ Cash Fund	461	461
500,000	Canada T-Bill, 5.47%, 12/07/01	494	494
<u>TOTAL CASH</u>		2,254	2,254

COMMON STOCKS -- 86.79%

INDUSTRIAL PRODUCTS -- 38.97%

40,000	Amcast Industrial Corp.	1,234	569
20,000	Ameron International Corp.	1,121	1,106
65,000	Ampco-Pittsburgh Corp.	1,147	1,002
50,000	Atchison Casting Corp.	1,140	296
25,000	Dura Automotive Systems Ir	1,055	347
100,000	Griffon Corp.	1,091	1,138
80,000	Guilford Mills Inc.	1,156	226
52,500	LTV Corp.	914	104
75,000	National Steel Corporation	1,097	339
42,500	Rouge Industries Inc.	919	180
30,000	Tech-Sym Corporation	1,315	1,351
<u>TOTAL</u>		12,189	6,658

CONSUMER PRODUCTS -- 16.08%

60,000	Haggar Corp.	1,145	1,128
110,000	TBC Corp.	1,163	807
53,500	Wolohan Lumber Co.	974	810
<u>TOTAL</u>		3,282	2,745

exchange rate used is 1.5046

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
MERCHANDISING -- 5.60%			
32,500	Dillard's Inc.	1,158	519
75,000	Syms Corp.	1,364	436
<u>TOTAL</u>		2,523	955

REAL ESTATE -- 4.79%

100,000	Amrep Corp.	1,334	819
<u>TOTAL</u>		1,334	819

FINANCIAL SERVICES -- 6.21%

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

CANADIAN INTERLISTED STOCKS -- 15.13%

22,500	Canadian National Railway	773	995
67,500	Premdor Inc.	738	790
75,000	Canada Bread Company	753	799
<u>TOTAL</u>		2,264	2,584

TOTAL COMMON STOCK 22,654 14,822

TOTAL PORTFOLIO 24,908 17,077

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



Running the Gauntlet

"When one is forced to run the gauntlet, one runs between two facing lines of opponents, each intent on administering as much bodily harm as possible in the time it takes to pass"

-Morris Dictionary of Word and Phrase Origins

Needless to say, the present investment environment is perilous. The stock market is fraught with revenue shortfalls, missed cash flow projections and debt repayment concerns. Corporate earnings warnings are numerous and growing.

And yet, despite increasing investment uncertainty, investor complacency is rampant. As a result, the incredible and increasing share price volatility has grown in crescendo, contributing to an emotionally-charged, fickle stock market. Moreover, with the reported investor margin debt at all-time highs and rising interest rates, the general investment horizon appears to be flashing amber.

Now this is not to be interpreted that we are bearish or negative on the securities market. On the contrary, we believe that a certain class of stocks will outperform, namely out-of-favor equities that are extremely undervalued and are ripe for merger, restructuring, privatization, or takeover. However, the equity market is dichotic, as the undervalued, unloved value stocks are the polar opposite of the power-charged and grossly overvalued high technology, new economy stocks.

These seemingly turbo-powered high tech equities have been trading at astronomical valuations, high price to book and sales multiples and triple digit price to earnings multiples. In many cases they have gargantuan cash burn rates and the only way they survive is through perpetual equity financings. But this hasn't, up until recently, bothered investors. There remains considerable

investor optimism that these technology stocks will recover and that sky-high valuations will charge upward once again. Maybe so, but the risks are increasing and these stocks are now *running the gauntlet*.

As a value investor, I must admit that it has not been an easy time. Basic "Investment 101" tenets are disregarded and snubbed by the marketplace. Underpriced old economy stocks are trading at inexplicably low prices. Clients incessantly ask, why? All I can reply is that it is very difficult to explain. However, I do believe that the incomprehensible overvaluations are vulnerable and that value investing will triumph in the end.

Strangely enough, we believe that we now detect an early stage investor switch back to the basics. This flight to quality toward terra firma, old economy stocks started with the Canadian banks, insurance companies and utilities. They have done remarkably well. While it is still a little early to definitely state that this trend could become an investment groundswell, we are heartened and encouraged.

We suspect, however, that the end result will be a continued shift back to the relative safety of balance sheet, cash flow, and price to earnings analysis. This rotation, we believe, will be the ultimate catalyst toward value stock success and exceptional performance.

Irwin A. Michael, CFA

This newsletter is published by

I.A. Michael Investment Counsel Ltd. and the ABC Funds
8 King Street East, Suite 500 Toronto, Ontario M5C 1B5

Phone: (416)365-9696 Toll Free: 1-888-OPEN ABC Fax: (416)365-9705

Web sites: www.abcfunds.com www.valueinvestigator.com Email: info@abcfunds.com

Update Line: 1-877-ABC-VALU or (416) 365-9442

The information contained in this investment letter is not and under no circumstances is to be construed as a solicitation or recommendation to buy or sell securities, including, without limitation, any units of any of the ABC Funds. While the information contained in this newsletter has been drawn from sources believed to be reliable, its accuracy or completeness cannot be guaranteed, nor in providing it does I.A. Michael Investment Counsel Ltd. assume any responsibility or liability. I.A. Michael Investment Counsel Ltd., its directors, officers, and other employees may, from time to time, have positions in securities mentioned in this letter. I.A. Michael Investment Counsel Ltd. is the manager and investment advisor of the ABC Funds, and as such, receives from the Funds certain management and investment advisory fees based on the net asset value of the Funds from time to time. Irwin Michael is the sole shareholder of I.A. Michael Investment Counsel Ltd.