

Nonsensical Noise

“On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the stock market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates.”

-Mankoff 1981, The New Yorker Magazine Inc.

Up until the recent precipitous stock market decline, greedy, neophyte investors felt assured that the stock market was the “proverbial horn of plenty.” Common shares, in their view, were a win-win situation since periodic stock market declines had always come roaring back.

As a professional money manager, however, I did not share this view. Like many observers I had become increasingly alarmed at the astronomical market valuations that investors had placed on mere mortal corporations such as Nortel, Amazon, eToys et al. Furthermore, I had become increasingly concerned about the growing nonsensical noise which inexperienced investment commentators had nurtured amongst the gullible public. But little did we know that this placid and prosperous period would ultimately lead to an eventual stock market meltdown.

Now this is not to say that we had called the high-tech/bio-tech bull market 100% correctly. We did not. We underestimated the extent and credibility of the nonsensical noise and the 1999 to early 2000 stock market euphoria. This “bull run” had carried stock prices to unbelievable heights. But given our fundamental value disciplines, even if we had been smart enough to own an assortment of high-tech/ bio-tech stocks, we would have sold out very early in the game due to stretched valuations. In retrospect, I had completely underestimated the power of the nonsensical noise as stocks continued their upward surge. A perfect example was Nortel,

which peaked out at 125 times P/E ratio and over 11 times book value; in hindsight Nortel was grossly overvalued.

Clearly for a period of over 12 months the nonsensical noise provided excellent opportunities to take profits and to place the proceeds elsewhere. However it appeared to many investors that this nonsensical noise would continue forever. But much like the Aesop’s fable of “The Emperor’s New Clothes”, when investors eventually stopped to think about the suddenly unexpected profit and revenue warnings and then reviewed earnings per share, P/E’s, book value and cash flow, they become concerned. When they decided to sell they discovered there was simply no price support. The rest is history.

What is to be learned from this experience? I believe that nonsensical noise, as irrational as it may be, can become a powerful and yet dangerous stock market driver. During this period anyone can make money in a delirious stock market environment. But eventually the music must stop as greed shifts to reality. In the end it is the rational, inquiring and persevering investor who discovers the ruse of the nonsensical noise and survives to partake in the next market cycle.

Investor Psychology: The Wealth Effect

With the substantial decline in North American equity prices from the peak in mid 2000, trillions of dollars of wealth has been wiped out of investment portfolios. The shock of losing substantial realized and unrealized wealth is still settling in investors minds. However, the outcome of this negative wealth effect and deteriorating investor psychology is just taking effect and it could precipitate substantially weaker economic activity.

The wealth effect simply put by economist A.C. Pigou is essentially: “ you are as wealthy as

you feel. If you feel less wealthy you will spend less and if you cut your expenditures, economic activity will contract.” As a result of the wealth effect we have become increasingly concerned about the future vibrance of economic activity. That is, depending upon investor reaction as result of this negative wealth effect, the North American economies are at risk of a consumer-driven slowdown leading toward economic recession.

Being Selective

The equity markets have depreciated substantially over the past six months. As a result, investors in their rush to liquify have occasionally “ thrown the baby out with the bath water.” That is, in their haste to create a larger cash reserve and to escape continued market weakness, investors have tossed out perfectly sound holdings.

The challenge to us as fundamental value hunters is to sift through the debris and to carefully

select bargains. While we remain very cautious with regard to our market stance, we have taken advantage of the huge market swings and have selectively added new holdings on price weakness. In the expectation of continued share price volatility to the end of 2001, we believe that a particularly vigilant, selective and proactive investment policy is warranted to achieve superior returns.

Sticking like Glue

Over the past several quarters we stuck like glue to our value disciplines. We attempted to liquify and upgrade our ABC portfolios. In consequence we added fundamentally undervalued stocks and sold out those which appeared fully priced. Accordingly we sold CNR, Nexfor, Norske Skog and Startech Energy. We added Imperial Oil, Shermag Inc., and Gauntlet Energy.

We believe that we are now in a vibrant trading market which will be characterized by tremendous price swings. In this environment active portfolio management and judicious stock picking will be key to performance success. As a result we intend to continuously upgrade our portfolios and will be on the alert to periodic attractive investment opportunities caused by the expected market volatility.

Research

Good intelligence is nine tenths of any battle

Napoleon

Successful stock picking, I believe, is largely a function of serious research. But deep research is a tedious and at times an extremely difficult task. The fact is that stock research or the process of information gathering must often be carried out in a pains-taking and imperfect fashion since the data and corporate facts may not always be readily available or in proper, understandable form.

Stock selection, moreover, is neither the simple process of tossing a dart at the financial pages of a daily newspaper nor a whispered hot tip at a Saturday night cocktail party. Rather it involves serious analysis of literally peering under rocks, testing worst case scenarios, interviewing company executives and corporate competitors, etc. It involves intellect, investment discipline, patience and courage of one's convictions. Moreover with the considerable growth of the investment management industry, portfolio manager competition has become incredibly intense. As a result, quite often multi-million dollar investment decisions must be made in a compacted time period lest one's rivals discover earlier, a limited quantity hidden gem.

The research process, in effect, has evolved over the past few years into a highly condensed period of intense fact-finding via brokerage reports, internet, corporate interviews, etc. with the ultimate investment decision often made with less than complete information. Also with the plethora of media analyses of mutual fund performance, the research analyst is now under remarkable and growing pressures to perform in an increasingly competitive and hostile investment environment.

The ability to ferret out potentially profitable common share investment information is universal to any line of work. For instance, Marilyn Ferguson, in her publication, The Aquarian Conspiracy concluded:

“Detecting tendencies and patterns is a crucial skill. The more accurately we can get the picture from minimal information, the better equipped we are to survive. The ability to close a pattern with limited information enables the successful retailer or politician to detect trends, the diagnostician to name an illness, the therapist to see an unhealthy pattern.”

Additionally this condensed research process is bringing out a lot of change to our industry. For instance as research analysts we are becoming extremely focussed, intense and impatient for information. The market demands this. We are also becoming testy, pressured for instant gratification and under intense scrutiny by a growing and very sophisticated 2001 investment clientele. Furthermore with the recent Nortel debacle, I believe that investors are going to rely more and more on hard-core fundamental research analysis.

While I consider these new research trends good for the longer-term prospects of our industry, I suspect that with the huge cash flows to be invested, the pressures for research analysts to perform will become even more exaggerated. The end result, I firmly believe, will be the increasing importance of serious fundamental analysis, investment common sense and discipline to the critically essential research process.

Irwin A. Michael, CFA

The Nortel Factor: An Historical Precedent

With the recent price collapse of Nortel many investors remain in a profound stupor. The shock of Nortel's precipitous decline from a year 2000 high of \$124 ½ to the present \$20 price has still not produced the expected reality check to Nortel holders.

Surprisingly there are still a number of investors who cling to the belief that Nortel will claw its way back up to previous levels. They remain complacent and hopeful. Technology, they say, is the wave of the future and Nortel remains the new technology icon for the 21st century. This may be so. But let's face it: Nortel at its 2000 high of \$124 ½ carried a PE ratio of 125 times and a book value of over 11 times. This, no matter which way you cut it, was an extraordinarily rich valuation. Furthermore, Nortel at these multiples left little room for any error or unexpected disappointment.

Nortel's price risk at \$124 ½ was incredibly precarious and it was only a matter of time until its price adjusted downward in the event of any sniff of financial disappointment. This point of view, however, was a minority opinion and so any price weakness was considered temporary. New waves of buying quickly absorbed any investor selling. To make a very long story short the eventual financial disappointments did, in fact, occur. The unravelling of Nortel started to appear in the autumn of 2000 and subsequently mushroomed and grew in crescendo.

The resultant financial fallout of the Nortel price decline not only affected the TSE 300 index, which Nortel, at one point, made up 35 % of its weight, but also, the whole high technology/ bio technology growth sector. Nortel's decline was a lightning rod price depreciation catalyst to both growth and index investors. The end result of this huge wealth destruction has been all-pervasive. Many investors are still in the state of shock. Many are left struggling to understand how this all could have happened since very few investment analysts had forecasted this event. Yet the Nortel downfall is not without historical precedent throughout hundreds of years of financial history. In consequence I would like to relate a 1970's financial event that had a lot of parallels to the Nortel story.

Recently, I reread with great interest "The Tao Jones Averages" by Bennett W. Goodspeed, a terrific down to earth investment interpretation written in the early 1980's. In the book Goodspeed described the early 1970's disaster of the "nifty fifty stocks" which, at that time, were the equivalent to the year 2000 Nortel situation. Not surprisingly there were many similarities to Nortel which serves to exemplify how cyclical and mistake-prone our investment industry is. The descriptions highlight the fact that investors seem to make the same investment mistakes over and over again. Investors generally neglect to review financial history, and as a result, they tend to suffer through the same cyclical consequences that their fathers or grandfathers had learned earlier.

As Bennett Goodspeed relates:

"Billions of dollars were lost in 1974 when the "nifty fifty" collapsed. The "nifty fifty" were a group of stocks that had accumulated impressive records of sustained earnings growth. These companies, as a result of their past achievements, satisfied the investment criteria of almost all-major institutions. Such "one decision" stocks could be purchased at any price, (and they certainly all had high P/E ratios) and sooner or later the company's growth factors would make you look good. Such strategy worked well for a while, and certain institutions smiled smugly each night as they slipped into a deep secure sleep. But they were blithely ignoring the fact that no sizable company could sustain fast enough growth rates to justify such ratios. In doing so these institutions proved once again the maxim that Burton Malkiel, in his book, A Random Walk down Wall Street, refers to: "Stupidity well packaged can sound like wisdom." In his book, Malkiel developed the following table to depict the final outcome of the nifty fifty loser's game."

ABC FUNDS

Security	Price / Earnings Multiple – 1972	Price / Earnings Multiple – 1980
Sony	92	17
Polaroid	90	16
McDonald's	83	9
International Flavors	81	12
Walt Disney	76	11
Hewlett-Packard	65	18

Needless to say there are many interesting conclusions and parallels to the mid 1970's decline of the "nifty fifty" stocks in relation to the 1999-2001 Nortel experience. While I will not delve into all the similarities I do sense that Nortel will settle into the same new valuation parameters (i.e. PE, book Value, etc.) which these six nifty fifty stocks gravitated to by 1980. Moreover the cyclical downfall of the extremely expensive 1999-2001 growth stocks and their subsequent recovery will be put to the investment back burner for at least a year or two. I believe that growth stock investing won't reappear

until growth investors recover from their recent distasteful experience.

In the meantime we expect the switch from growth, momentum and index investing back toward value, fundamental analysis and hard core research to continue. Once again the cyclicity of investment management trends has manifested itself. The ultimate challenge to us in the future, I believe, will be to pay extreme attention, as new investment trends begin to develop.

Irwin Michael, CFA

A Message From ABC

Thank you, our clients, for your ongoing support and patience throughout this volatile period. The Canadian stock markets along with other world markets have been extremely volatile. There is increasing evidence that we are approaching a value-oriented market. This is apparent in our past quarter's performance. In a market where the TSE 300 lost 14.53% we have made a positive returns of 8.64% in our ABC FVF, 7.85% in our ABC FMF, and 19.43 % in the ABC AVF. We know the year is still young; however, we feel that this market is geared for value investors. With proper analysis, perseverance and dedication to the fundamental approach, we hope to reward all ABC unitholders with above average returns. We wish you a very healthy and prosperous spring and summer and hope that you will keep in touch with us throughout the year with any comments or questions via e-mail, letters or telephone.

2001 Quarterly Client Meeting Schedule

January 26, 2001

July 20, 2001

April 20, 2001

October 26, 2001

REMINDER: All clients turning 69 this year must roll their RRSPs into RRIFs before December 31, 2001.

Thank you,

Gabriel Rulli & Ian D'Souza
ABC Funds

ABC Fully-Managed Fund (ABC FMF)

NAVPS	7.3072
Inc. Dist.	.0260621

March 31, 2001

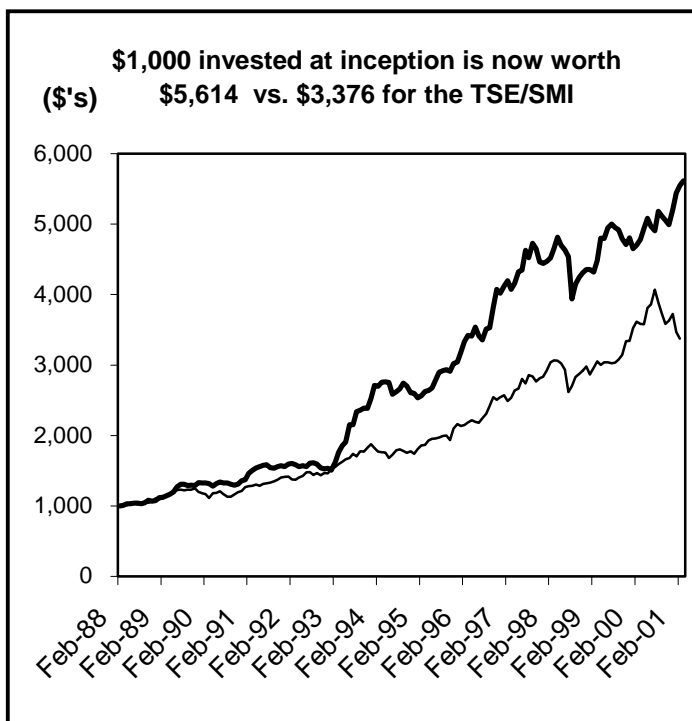
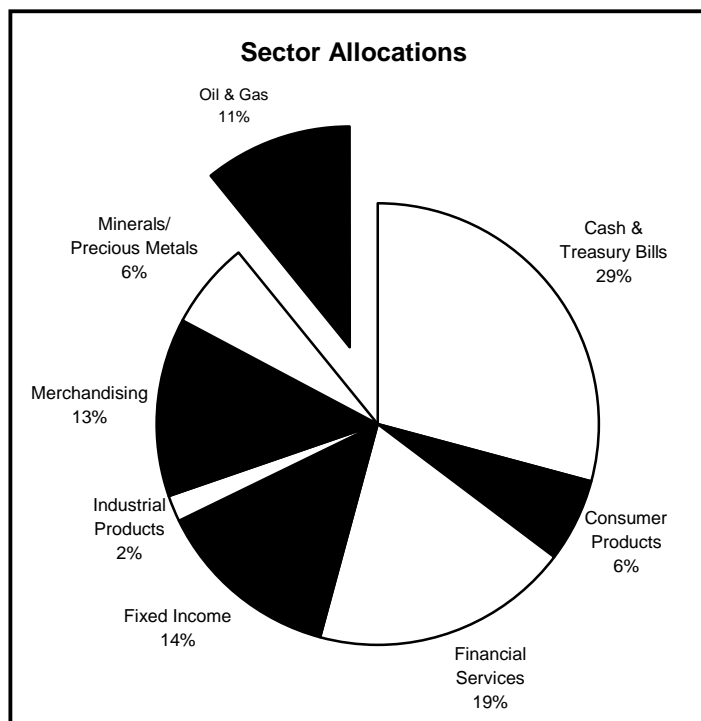
Objective

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	17.36	-6.68	1989	23.68	17.10
2 Year	11.91	6.78	1990	2.17	-4.08
3 Year	6.44	3.59	1991	14.69	17.08
5 Year	10.41	8.41	1992	-1.48	4.11
10 Year	14.07	10.18	1993	64.35	25.27
Since Inception*	14.10	9.74	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
			2000	8.31	8.83
			Q1 2001	7.86	-6.95

*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, 2001

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.5746

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 29.17%				MERCHANDISING -- 13.19%			
1,744,086	C\$ Cash	1,744	1,744	150,000	Hudson's Bay Company	2,513	2,535
435	U\$ Cash	1	1	200,000	North West Co. Inc.	2,197	2,740
1,055	RT CAP Cash In Action Fund	106	106	250,000	Suzy Shier Ltd.	2,381	1,375
0	RT CAP Cash In Action Fund US \$	-	-	<u>TOTAL</u>			
2,500,000	CIBC Bk. Accp., 5.13%,04/12/01	2,488	2,488	7,091		6,650	
3,500,000	Ontario T-Bills, 5.33%, 04/16/01	3,454	3,454	MINERALS/PRECIOUS METALS-- 6.35%			
2,500,000	Ontario T-Bills, 5.03%, 04/30/01	2,480	2,480	100,000	Cominco Ltd.	1,805	2,715
2,000,000	Canada T-Bills, 5.13%, 05/10/01	1,976	1,976	1,875,000	Eastmain Resources Inc.	1,031	488
2,500,000	Nat. Bk. Accp., 5.20%, 06/01/01	2,462	2,462	<u>TOTAL</u>			
<u>TOTAL CASH</u>				2,836		3,203	
		14,711	14,711	INDUSTRIAL PRODUCTS -- 1.72%			
FIXED INCOME -- 13.69%				125,000	Co-Steel Inc.	2,485	869
2,000,000	Nexen Inc. - 6.85% 11/15/06	1,960	2,034	<u>TOTAL</u>			
2,000,000	Co-Steel Conv. Deb. - 6.50% 4/30/07	1,780	1,400	2,485		869	
2,000,000	Nova Chem Corp. - 7.85% 08/30/01	1,989	1,978	OIL & GAS -- 10.86%			
2,000,000	Stelco Unsec. Deb. - 8% 2/15/06	1,998	1,490	300,000	Gulf Canada Resources	2,199	2,592
<u>TOTAL</u>				75,000	Imperial Oil Ltd. , common	2,629	2,884
		7,727	6,902	<u>TOTAL</u>			
				4,828		5,476	
COMMON STOCKS -- 57.15%				CONSUMER PRODUCTS -- 6.20%			
FINANCIAL SERVICES -- 18.83%				250,000	Canada Bread Company	2,510	3,125
100,000	Laurentian Bank	2,554	2,875	<u>TOTAL</u>			
150,000	National Bank	2,322	4,173	2,510		3,125	
175,000	Surrey Metro Savings Credit	2,253	2,450	TOTAL COMMON STOCK			
<u>TOTAL</u>				26,879		28,821	
		7,129	9,498	TOTAL PORTFOLIO			
				49,317		50,434	

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	11.6770
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March 31, 2001

Objective

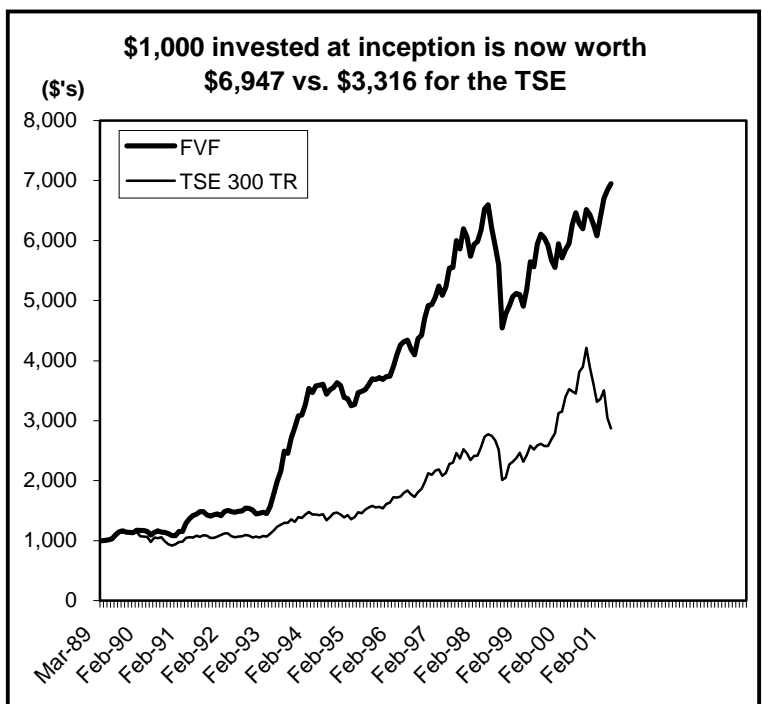
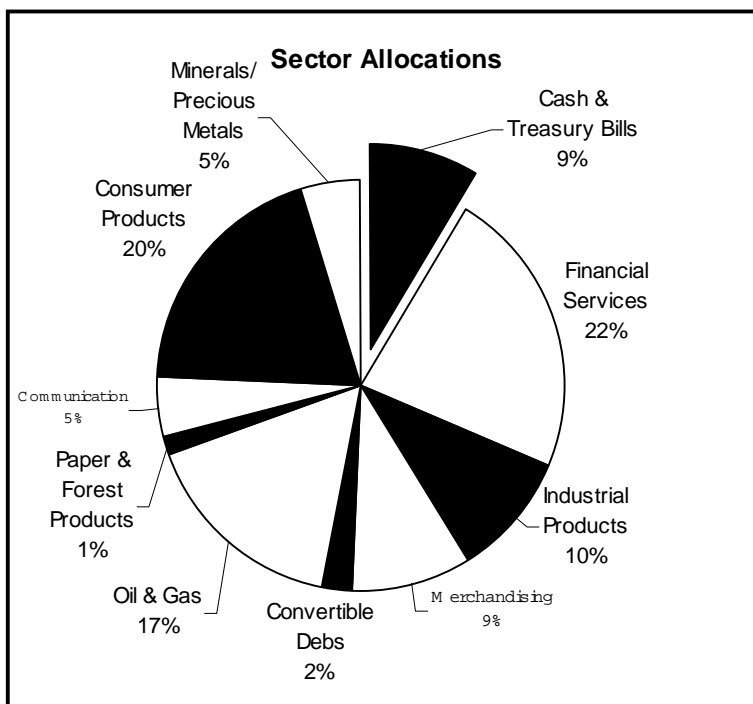
ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive “value research” style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian 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	16.73	-4.82	1990	-1.98	-14.80
2 Year	15.66	9.98	1991	22.92	12.02
3 Year	2.09	2.43	1992	4.05	-1.43
5 Year	10.27	10.41	1993	122.19	32.55
10 Year	17.66	11.14	1994	3.03	-0.18
Since Inception*	17.50	9.74	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
			2000	7.51	7.41
			Qtr 1, 2001	8.64	-14.53

*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, 2001

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.5746

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
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No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
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CASH -- 8.59%

1,422,724	C\$ Cash	1,423	1,423
4,767	US\$ Cash	8	8
60,190	RT CAP Cash In Action Fund	6,019	6,019
0	RT CAP U\$ Cash Mgmt Fund	-	-
5,000,000	CIBC Bk. Accp., 5.00%, 04/12/01	4,976	4,976
<u>TOTAL CASH</u>		12,425	12,425

CONVERTIBLE DEBENTURES -- 2.35%

4,852,000	Co-Steel Inc. 6.50%, 04/30/07	4,197	3,396
<u>TOTAL CONVERTIBLE</u>		4,197	3,396

COMMON STOCKS -- 89.06%

PAPER & FOREST PRODUCTS -- 1.35%

265,000	Taiga Forest Corp.	2,556	1,948
<u>TOTAL</u>		2,556	1,948

FINANCIAL SERVICES -- 22.70%

275,000	Dundee Bancorp	4,364	4,675
200,000	Laurentian Bank	5,198	5,750
600,000	MFP Financial	5,475	5,670
400,000	National Bank	5,795	11,128
400,000	Surrey Metro Savings Credit	5,267	5,600
<u>TOTAL</u>		26,099	32,823

INDUSTRIAL PRODUCTS -- 9.90%

494,700	Co-Steel Inc.	8,945	3,438
550,000	Premdor Inc.	6,068	4,510
167,300	Russell Metals Inc.	505	510
1,250,000	Stelco Inc.	9,991	4,250
800,000	Strongco Inc.	4,000	1,600
<u>TOTAL</u>		29,509	14,308

MERCHANDISING -- 9.45%

345,900	Hudson's Bay Company	5,225	5,845
375,000	North West Co. Inc.	3,890	5,138
490,000	Suzy Shier Ltd.	4,729	2,695
<u>TOTAL</u>		13,844	13,678

OIL & GAS -- 16.5%

453,700	Avid Oil & Gas Ltd.	1,749	2,024
575,000	Gauntlet Energy	2,609	2,818
1,000,000	Gulf Canada Resources	6,723	8,640
700,000	Ketch Energy Ltd.	2,551	4,620
150,000	Imperial Oil Ltd.	5,245	5,768
<u>TOTAL</u>		18,877	23,870

CONSUMER PRODUCTS -- 19.70%

365,000	Andres Wines Ltd. "A"	4,497	3,833
326,600	Arbor Memorial Services "B"	4,354	2,841
761,200	Canada Bread Company	7,620	9,515
825,000	FPI Limited	4,639	7,920
625,000	Shermag Inc.	4,124	4,375
<u>TOTAL</u>		25,234	28,484

MINERALS/PRECIOUS METALS -- 4.69%

250,000	Cominco Ltd.	4,624	6,788
<u>TOTAL</u>		4,624	6,788

COMMUNICATION -- 4.76%

675,000	Regional Cable Inc.	7,465	6,885
<u>TOTAL</u>		7,465	6,885

TOTAL COMMON STOCK **128,209** **128,784**

TOTAL PORTFOLIO **144,831** **144,605**

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March 31, 2001

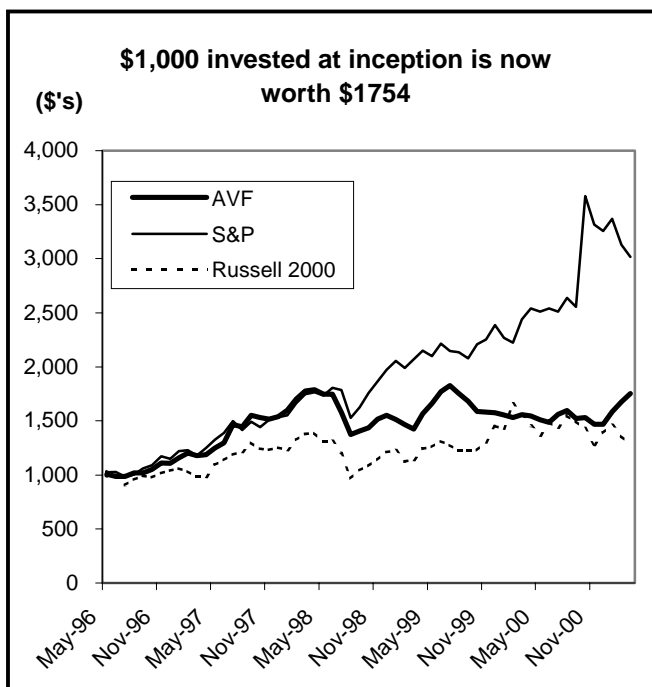
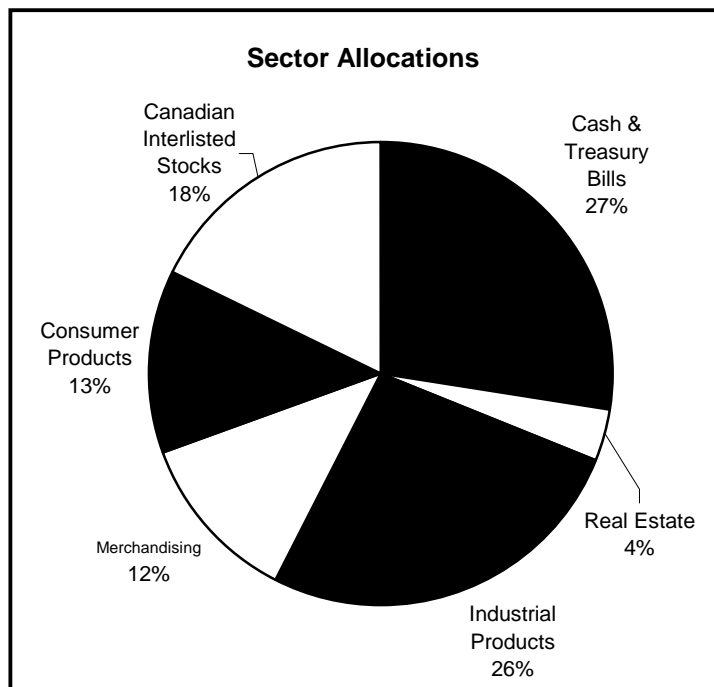
Objective

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	-5.03	-3.54
1st Qtr 2001	19.43	-6.82	-7.32
1 Year	12.56	-16.43	-15.01
2 Year	11.03	-2.14	-1.74
3 Year	-0.40	3.43	6.81
4 Year	10.38	7.09	16.55
Compounded Since Inception	12.32	5.38	17.44

Note: Inception date is May 2nd, 1996



ABC American-Value Fund, Statement of Investment Portfolio

March 31st, 2001

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 27.57%			
738,712	Cash	739	739
7,028	RT CAP Cash In Action Fund	703	703
13,301	US \$ Cash	21	21
21,186	RT CAP US\$ Cash Fund	3,336	3,336
<u>TOTAL CASH</u>		4,798	4,798

COMMON STOCKS -- 72.43%

INDUSTRIAL PRODUCTS -- 26.31%

40,000	Amcast Industrial Corp.	1,234	583
11,800	Ameron International Corp.	663	911
65,000	Ampco-Pittsburgh Corp.	1,147	1,203
30,000	Atchison Casting Corp.	687	144
25,000	Dura Automotive Systems Inc.	1,051	332
100,000	Griffon Corp.	1,095	1,244
44,100	National Steel Corporation	644	160
<u>TOTAL</u>		6,521	4,577

CONSUMER PRODUCTS -- 12.98%

60,000	Haggar Corp.	1,145	1,210
110,000	TBC Corp.	1,163	1,050
<u>TOTAL</u>		2,308	2,261

exchange rate used is 1.5746

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
MERCHANDISING -- 11.88%			
32,500	Dillard's Inc.	1,164	1,123
75,000	Syms Corp.	1,364	945
<u>TOTAL</u>		2,528	2,068

REAL ESTATE -- 3.57%

100,000	Amrep Corp.	1,334	622
<u>TOTAL</u>		1,334	622

CANADIAN INTERLISTED STOCKS -- 17.69%

100,000	Gulf Canada Resources Ltd.	733	864
25,000	Imperial Oil Ltd.	876	961
67,500	Premdor Inc.	738	554
100,000	Shermag Inc.	685	700
<u>TOTAL</u>		3,033	3,079

TOTAL COMMON STOCK 15,724 12,606

TOTAL PORTFOLIO 20,522 17,405

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Herd Instinct

Happiness is running with the crowd and Wall Street is certainly famous for its herd instinct. It is nice and cozy in the center of the herd where the body heat is the greatest. However, there is danger in being too comfortable, as one is not at a good vantage point to observe the subtle early indicators of changing conditions. To be a successful investor over time you need to become nervous when others start feeling secure. This is the "wisdom of insecurity".

*-The Tao Jones Averages
Bennett W. Goodspeed*

One of the most interesting traits of the investing public is the tendency "to ride with the herd". Perhaps it is a psychological investment insecurity that encourages and reinforces individuals' desire to buy whatever everyone else is buying. Regardless of the reason, the end result, in my view, is that many investors tend to own the same core stocks.

While there may be nothing inherently wrong, with the "herd instinct" the fact is that it discourages investor free-thinking and potential profitable contrarian investing. From my investment experience the most successful investors have not been the ones who were clinging to a consensus stock portfolio, but rather, they were the ones who dared to analyze and purchase (or sell) out-of-favor, undervalued securities. These shares were often purchased early before the masses lit up to a story. As a result these investors through their astute non-conformist investing style often tended to do exceedingly well. The most well known of this sort who comes to my mind is Warren Buffett.

Contrarian investing as a counter measure to the "herd instinct" is neither an easy discipline to follow nor instantly gratifying. It literally involves the Patience of Job. But few investors are emotionally capable of bucking the trend, gritting one's teeth and standing the heat. Moreover one must have "the courage of one's convictions" and this is often not easy in the face of media hype, popular delusions or client criticism. An excellent real world example of this point was the recent Nortel growth investing wave of 1999/early 2000 and its subsequent demise.

In conclusion the overall point I wish to emphasize is that herd instinct is a temporary market fix and that having a long term, non-conformist, inquisitive investment approach will often lead to superior investment returns.

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