

## Trust

- *assured reliance on the character, strength or truth of someone or something*
  - *a basis of reliance, faith or confident hope*
  - *something entrusted to one to be cared for in the interest of another*
- The Merriam-Webster Dictionary.*

The word “trust” is the cornerstone of the investment business; it is the base of the whole industry. Without trust we have nothing.

I remember trying years ago to describe what I did for a living to an elderly uncle. “I pick stocks”, I stated, “and then I buy them for clients.” “But”, my uncle asked, “what do you receive in return for your hard-earned money?” I replied, “a stock certificate.” “A piece of paper?” he exclaimed. I then tried to explain that I interviewed management, reviewed auditor statements, examined annual reports, did value investigative research etc. “Ultimately,” I concluded, “it comes down to one word, trust.... one must trust management, the auditors and various corporate documents.” But my uncle could never quite understand this concept of trust. He had grown up in the 1930’s Depression, in a dog-eat-dog world and his street-smart senses made him very skeptical. Unfortunately I never won him over and he walked away muttering that I was too naïve, too foolish and too trusting.

Fast forward to year 2000. Bay Street and Wall Street, in spite of the odd black mark, are both solidly grounded on trust. By and large the worldwide investment community has survived the twentieth century on this principal and will continue to do so in the future. The fact is that if we mistrusted everyone and everything we would never buy any common stocks. To invest we must have a sense of trust. While we might occasionally stumble over a dishonest individual we must have trust or else we cannot function in this business.

But trust also affects portfolio management. For instance over the past two years we have had a number of clients who redeemed their ABC Funds. In some cases they despaired of value investing or else the skyrocketing high tech stocks such as Nortel

seduced them. During this tumultuous time disciplined value managers, such as myself, were defenseless. I remember being called every name in the book by irate, anxious clients. I was accused of not investing with the times, being stubborn or “having lost your touch.” It was not an easy period, just ask my wife and kids, they will tell you! But we stuck to our fundamental value disciplines just as we had promised our clients when they initially entrusted us to oversee their money.

The rest is history. The Nortel juggernaut and the high tech mania gradually came to an end during the latter part of year 2000. This occurred just as value investing and the ABC Funds, like the proverbial phoenix, came back to life. In all candor, we happen to take our portfolio management responsibility very seriously. We offered no excuses a year ago when value investing was in the dumps. At that time we reviewed our investment disciplines and premises and concluded that we must stick to our mandate.

What made it easier for us to function as investment managers was that the majority of our clients had the patience, understanding and trust to hang in. But this trust relationship is a two-way street. Trust must be earned, continuously cultivated and never taken for granted. In the end, trust does, in fact, have its rewards. Our recently improved investment performance is clearly a reflection of this.

Irwin A. Michael, CFA

**ECONOMIC PERSPECTIVES****Mending the Economy**

There are two dominant views on the state of the North American economy. The first is that the economy is presently dodging the recessionary bullet and will exhibit steady growth by year-end. The second view is that we are in a stealth recession with more layoffs, reductions in capital spending, bankruptcies, bad loans, etc. to come. Our view is somewhere in the middle.

We believe the six U.S. Federal Reserve interest rate cuts since the beginning of January, the

surging growth in the U.S. money supply and pending tax cuts will assist in repairing the U.S. economy. We expect a 1½-2½% GNP growth rate by year-end 2001. We foresee, however, more bad news in the short-run in the form of layoffs, strikes and corporate financial difficulties. But we do expect a mending economy by mid 2002 to precipitate improving corporate profits, greater business and consumer spending and ultimately, significantly ascending common stock prices.

**INVESTMENT PERSPECTIVES****Patiently Focused**

With continued economic and investment uncertainty common share prices have traded within a wide range and with considerable price volatility. We expect this price variation to persist to at least the end of 2001.

Unfortunately the wear-and-tear of this common share price volatility has heavily influenced investor attitudes. As a result there appears to be less investor patience and lack of investment focus. This fact, in turn, is adding to the market's inconsistency and further reinforces

this circle of volatility. But we regard the present investment environment as quite positive. We expect the U.S. economy to benefit from the series of Federal Reserve interest rate cuts sometime over the next 6-12 months.

This should precipitate recoveries in economic activity, unemployment and corporate profits. In consequence, investors, we believe, should be patiently focussed on the longer-term outlook and not on the immediate concerns.

**PORTFOLIO PERSPECTIVES****Refreshing the Portfolios**

During the past quarter we tried to refresh our three ABC portfolios by selling overvalued holdings and raising cash for future opportunities. We have taken profits and have sold Gulf Canada Resources, Hudson Bay Company and Imperial Oil Ltd. We added Abitibi-Consolidated, Canadian Natural Resources, Regional Cable and Group Laperriere & Verreault.

While we are basically optimistic with regard to the stock market outlook, our cash reserves are temporarily at 20%. These funds will be utilized over the next several months as we attempt to upgrade and rebuild our portfolios. More importantly, this large cash reserve positions us to take advantage of any temporary market opportunity which may appear.

## Goodwill

*The excess of the purchase cost over the book value  
of all identifiable assets purchased*

*The Principles of Managerial Accounting*

*- Kryzanowski, Gandhi, & Gitman*

I do not like goodwill. Furthermore I must admit that I do not like to see goodwill on a company balance sheet. Simply described, goodwill can be an obscure, intangible asset. It is very fluffy.

As explained by Carl Moore and Robert Jaedicke in Managerial Accounting:

*“ The intangible assets consist of valuable rights, privileges or advantages. Although the intangibles lack physical substance, they have value. Sometimes the rights, privileges and advantages of a business are worth more than all of the other assets combined... A Company is said to possess goodwill if it can earn a higher-than-normal rate of return upon invested resources. The higher rate of return may be caused by various factors such as managerial skill, popular acceptance of the products, or some other favorable circumstance.”*

Now the fact that goodwill lacks physical substance and may not even exist bothers me. In reality, goodwill only exists if a company is earning extraordinary returns. But economic and investment circumstances do change. New processes, inventions, and patents are discovered and older advantages no longer have value. In effect, goodwill becomes a depleting or a wasting asset. Often the reality of this occurrence is recognized far too late. Several examples come to mind.

In May Nortel Networks Corp. announced it would close down Promatory Communications Inc. of Fremont, California

which it purchased only 12 months earlier for over \$1 billion dollars. Nortel also announced that it has written off two other acquisitions, which it bought several years ago for greater than \$800 million. The magnitude of these writedowns and timing so soon after purchase concerns me as an investment analyst.

Moreover as described in the National Post on May 17, 2001:

*“But goodwill writedowns still loom, especially since JDS Uniphase Corp. of Ottawa announced in April a massive US\$40 billion writedown of its goodwill assets.*

*Goodwill accounts for 45% of the total value of Nortel assets according to a study , a level that makes it highly vulnerable to a write down. Nortel said it is reviewing the carrying value of its goodwill and “long-lived assets” .”*

Overall we take a hard-line view towards goodwill. When confronted with goodwill on a corporate balance sheet, with few exceptions, we discount its value to virtually “nil”. This might be considered an unduly harsh treatment. But we believe that with the multitudinous corporate acquisitions of the late 1990’s and the accompanying enormous goodwill, many corporations are vulnerable to significant goodwill writedowns. Consequently we will continue to take a serious and discriminatory approach toward corporate goodwill.

**Irwin A. Michael, CFA**

## Investment Discipline

I last wrote on the subject of investment discipline about a year and a half ago. At that time it was a most difficult period for value investors who clung to their fundamental investment disciplines. Expensive stocks became more and more outrageously priced whereas the listless value stocks remained relatively cheap and virtual investment outcasts.

In April of 1999 at the height of my investment frustration I concluded:

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

*As a fundamental analyst one must refrain from joining the frenzied mania and instead hunt for cheap stocks. Sticking to one’s discipline is key. Strangely enough there are still a number of cheap value stocks which have not been discovered. In some cases we have scratched our head and wondered why they have not traded substantially higher. These value shares are the exact opposite or flip side of the vastly overvalued Internet stocks.”*

I have always believed that obediently sticking to investment disciplines and fundamentals is key to investor success. This can be, however, a very frustrating and fatiguing process since the stock market will constantly test our resolve. The key is not to get sucked into what is the current flavor of the day; unfortunately the herd instinct will make what is presently in vogue very appealing to an investment manager who may be under intense pressure from grumbling clients. Nonetheless, I firmly believe that a portfolio manager, who adheres to a tried-and-true discipline, will ultimately achieve successful investment performance.

In all candor I often refer to our ABC Funds’ Ten Commandments of Value Investing to rejuvenate my investment focus and self-control. This process also reminds me of my investment mandate. I have sold value investing to our clients and they expect us to adhere to our style. Ultimately while all this might appear to be “simple stuff”, we deem it to be extremely important. Accordingly as a refresher I would like to review our Ten Commandments.

## Ten Commandments of Value Investing



### 1. Low Price to Earnings Multiples

We search out stocks trading at under ten times price to earnings multiples, which reduces the risk of overpaying for a security.

### 2. Low Cash Flow Multiples

We look for companies trading at under five times price to cash flow. This also reduces the risk of over paying and uncovers many “dirt cheap” equities.

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

We like to buy stocks trading at a discount to book/net asset value. In many cases, this not only uncovers significantly undervalued stocks but also prime takeover candidates.

### **4. Hidden Assets**

Some examples of hidden assets that can be uncovered after a thorough analysis are tax-loss carry forwards, over-funded pension funds, real estate, potential spin-offs, IPOs, and favourable litigation.

### **5. Management**

Two types of management could be key in the search for a turnaround candidate: a) Solid, proactive management and b) Poor management, which leaves the company ripe for a proactive acquisition or merger.

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

This includes expandable, growing markets with good margins. We tend to avoid companies with outdated, shrinking products.

### **7. Value Catalyst**

In order to push up the value of a stock, we look for a significant value creator. Some examples of possible value creators are fresh management with new directions, an important sale or purchase of a meaningful asset, an unsolicited takeover bid, or disgruntled and impatient proactive shareholders who may put pressure on management to make changes or sell.

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

Comparative valuation measures such as price to earnings and cash flow could indicate a take-over by relatively expensive Canadian or foreign competitors looking to expand market presence.

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

With little investor exposure, undervalued stocks are 'pregnant with possibilities', providing very little buying competition when attempting to accumulate the security. Generally an undervalued and under followed security will offer terrific capital gains opportunities.

### **10. Discipline**

Stay on track and adhere to strict value discipline of low P/Es, strong cash flows and price targets. Do not get sucked into buying the flavour of the day! Combine patience and persistence to attain superior performance. Patience! Patience! Patience!

Irwin A. Michael, CFA

## ABC Fully-Managed Fund (ABC FMF)

<b>NAVPS</b>	<b>7.8576</b>
<b>Inc. Dist.</b>	<b>0.0377</b>

*June 30, 2001*

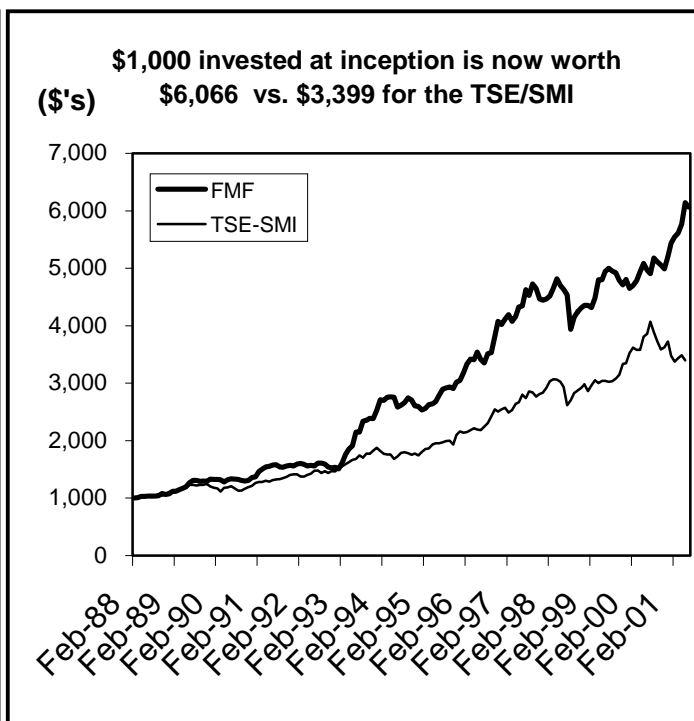
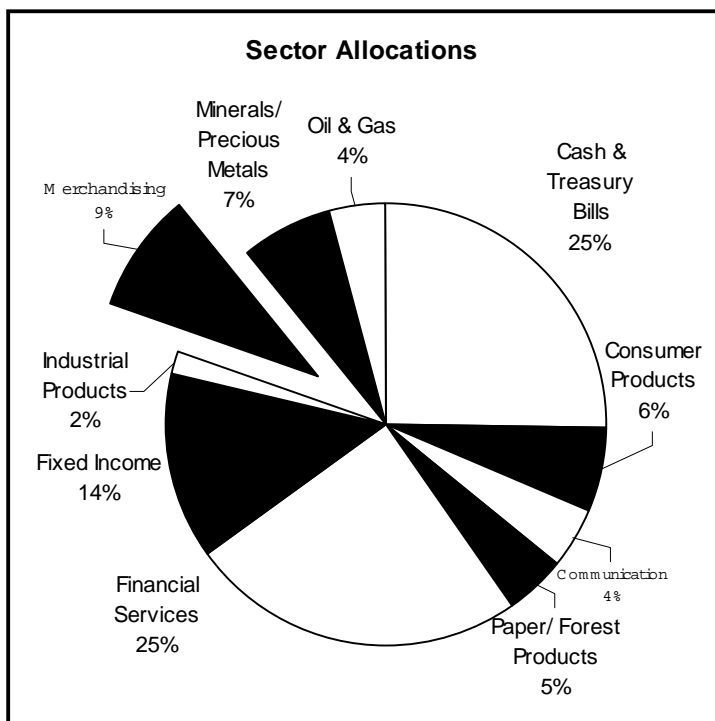
### Objective

*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	<b>22.08</b>	-10.76	1989	<b>23.68</b>	17.10
2 Year	<b>10.74</b>	5.75	1990	<b>2.17</b>	-4.08
3 Year	<b>9.41</b>	3.97	1991	<b>14.69</b>	17.08
5 Year	<b>12.18</b>	9.17	1992	<b>-1.48</b>	4.11
10 Year	<b>14.43</b>	10.21	1993	<b>64.35</b>	25.27
Since Inception*	<b>14.48</b>	9.61	1994	<b>2.82</b>	-2.15
			1995	<b>17.25</b>	18.27
			1996	<b>31.99</b>	20.18
			1997	<b>10.56</b>	12.47
			1998	<b>-2.03</b>	4.51
			1999	<b>10.38</b>	15.29
			2000	<b>8.31</b>	8.83
			Q2 2001	<b>8.05</b>	0.70

\*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, 2001**

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

*exchange rate used is 1.51759*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH --25.19%</b>				<b>MINERALS/PRECIOUS METALS-- 6.60%</b>			
3,140,031	C\$ Cash	3,140	3,140	100,000	Cominco Ltd.	1,805	2,800
435	U\$ Cash	1	1	1,875,000	Eastmain Resources Inc.	1,031	731
103,435	RT CAP Cash In Action Fund	10,344	10,344	<b><u>TOTAL</u></b>			
0	RT CAP Cash In Action Fund US \$	-	-	<b>2,836</b>		<b>3,531</b>	
<b><u>TOTAL CASH</u></b>		<b>13,485</b>	<b>13,485</b>	<b>PAPER/FOREST PRODUCTS -- 4.33%</b>			
<b>FIXED INCOME -- 13.75%</b>				<b>INDUSTRIAL PRODUCTS -- 1.58%</b>			
2,000,000	Nexen Inc. - 6.85% 11/15/06	1,960	2,002	200,000	Abitibi Consolidated	2,507	2,320
2,000,000	Co-Steel Conv. Deb. - 6.50% 4/30/07	1,780	1,250	<b><u>TOTAL</u></b>			
2,000,000	Nova Chem Corp. - 7.85% 08/30/01	1,984	1,930	<b>2,485</b>		<b>844</b>	
2,500,000	Stelco Unsec. Deb. - 10.40% 11/30/09	1,862	2,175	<b>OIL &amp; GAS -- 4.19%</b>			
<b><u>TOTAL</u></b>		<b>7,587</b>	<b>7,357</b>	50,000	Canadian Natural Resources	2,441	2,243
<b>COMMON STOCKS -- 61.06%</b>				<b>CONSUMER PRODUCTS -- 6.19%</b>			
<b>FINANCIAL SERVICES -- 24.68%</b>				<b>COMMUNICATION -- 4.48%</b>			
100,000	Laurentian Bank	2,554	3,182	250,000	Canada Bread Company	2,510	3,313
250,000	MFP Financial	2,321	2,875	<b><u>TOTAL</u></b>			
150,000	National Bank	2,322	4,350	<b>2,510</b>		<b>3,313</b>	
175,000	Surrey Metro Savings Credit	2,253	2,800	<b>200,000 Regional Cable Systems</b>			
<b><u>TOTAL</u></b>		<b>9,450</b>	<b>13,207</b>	<b>2,106</b>		<b>2,400</b>	
<b>MERCHANDISING -- 9.01%</b>				<b><u>TOTAL COMMON STOCK</u></b>			
200,000	North West Co. Inc.	2,197	2,960	<b>28,913</b>		<b>32,680</b>	
250,000	Suzy Shier Ltd.	2,381	1,863	<b><u>TOTAL PORTFOLIO</u></b>			
<b><u>TOTAL</u></b>		<b>4,578</b>	<b>4,823</b>	<b>49,984</b>		<b>53,521</b>	

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

## ABC Fundamental-Value Fund (ABC FVF)

<b>NAVPS</b>	<b>12.9756</b>
--------------	----------------

*June 30, 2001*

### Objective

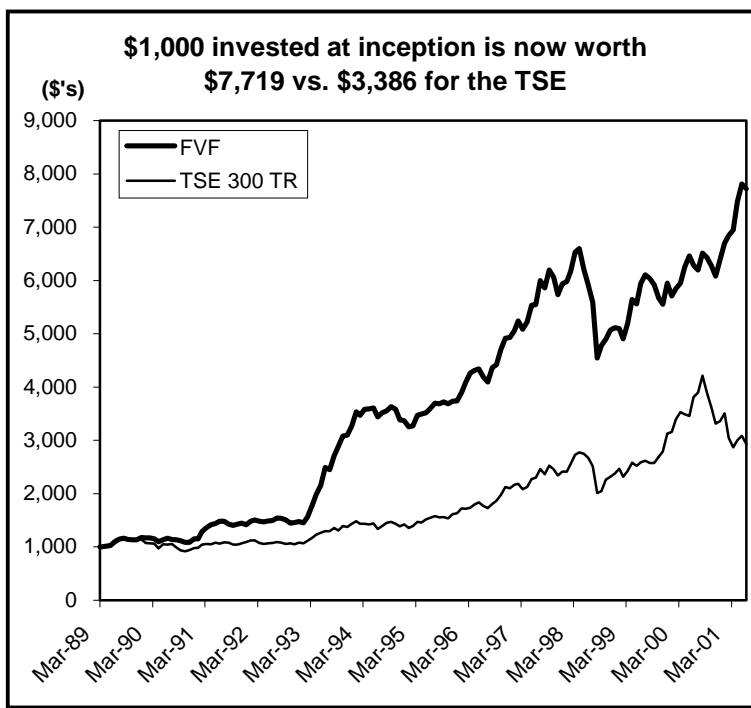
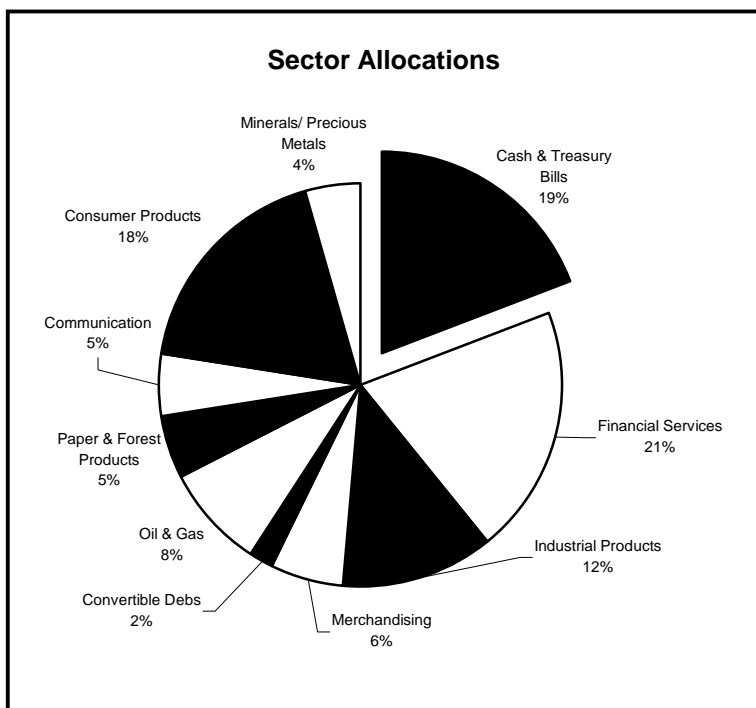
*ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive “value research” style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian 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	<b>22.85</b>	-23.11	1990	<b>-1.98</b>	-14.80
2 Year	<b>13.95</b>	6.47	1991	<b>22.92</b>	12.02
3 Year	<b>9.29</b>	3.12	1992	<b>4.05</b>	-1.43
5 Year	<b>13.00</b>	10.63	1993	<b>122.19</b>	32.55
10 Year	<b>17.95</b>	10.69	1994	<b>3.03</b>	-0.18
Since Inception*	<b>18.13</b>	9.58	1995	<b>11.08</b>	14.53
			1996	<b>31.75</b>	28.35
			1997	<b>20.35</b>	14.98
			1998	<b>-13.81</b>	-1.58
			1999	<b>16.25</b>	31.71
			2000	<b>7.51</b>	7.41
			Q2, 2001	<b>11.12</b>	2.09

\*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, 2001*

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

*exchange rate used is 1.51759*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 19.17%</b>			
6,139,995	C\$ Cash	6,140	6,140
4,774	US\$ Cash	7	7
242,840	RT CAP Cash In Action Fund	24,284	24,284
0	RT CAP U\$ Cash Mgmt Fund	-	-
<b><u>TOTAL CASH</u></b>		<b>30,431</b>	<b>30,431</b>

<b>CONVERTIBLE DEBENTURES -- 1.91%</b>			
4,852,000	Co-Steel Inc. 6.50%, 04/30/07	4,197	3,033
<b><u>TOTAL CONVERTIBLE</u></b>		<b>4,197</b>	<b>3,033</b>

**COMMON STOCKS -- 78.92%**

<b>PAPER &amp; FOREST PRODUCTS -- 5.12%</b>			
450,000	Abitibi Consolidated	5,775	5,220
315,600	Taiga Forest Corp.	2,952	2,900
<b><u>TOTAL</u></b>		<b>8,726</b>	<b>8,120</b>

<b>FINANCIAL SERVICES -- 20.06%</b>			
200,000	Laurentian Bank	5,198	6,364
650,000	MFP Financial	5,940	7,475
400,000	National Bank	5,795	11,600
400,000	Surrey Metro Savings Credit	5,267	6,400
<b><u>TOTAL</u></b>		<b>22,201</b>	<b>31,839</b>

<b>INDUSTRIAL PRODUCTS -- 12.23%</b>			
494,700	Co-Steel Inc.	8,945	3,339
500,000	Groupe Lapierre & Verreault	3,793	4,325
550,000	Premdor Inc.	6,068	5,995
1,250,000	Stelco Inc.	9,991	5,763
<b><u>TOTAL</u></b>		<b>28,797</b>	<b>19,422</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>MERCHANDISING -- 5.80%</b>			
375,000	North West Co. Inc.	3,890	5,550
490,000	Suzy Shier Ltd.	4,729	3,651
<b><u>TOTAL</u></b>		<b>8,619</b>	<b>9,201</b>

<b>OIL &amp; GAS -- 8.22%</b>			
125,000	Canadian Natural Resources	6,100	5,606
800,000	Devlan Exploration	2,493	2,080
1,350,000	Energy North, sp. Warrant	1,013	945
387,800	Gauntlet Energy	1,770	1,900
700,000	Real Resources	2,965	2,506
<b><u>TOTAL</u></b>		<b>14,341</b>	<b>13,037</b>

<b>CONSUMER PRODUCTS -- 17.99%</b>			
365,000	Andres Wines Ltd. "A"	4,497	4,563
326,600	Arbor Memorial Services "B"	4,354	3,348
500,000	Canada Bread Company	5,005	6,625
850,000	FPI Limited	5,055	8,415
625,000	Shermag Inc.	4,124	5,619
<b><u>TOTAL</u></b>		<b>23,035</b>	<b>28,569</b>

<b>MINERALS/PRECIOUS METALS -- 4.41%</b>			
250,000	Cominco Ltd.	4,624	7,000
<b><u>TOTAL</u></b>		<b>4,624</b>	<b>7,000</b>

<b>COMMUNICATION -- 5.10%</b>			
675,000	Regional Cable Inc.	7,465	8,100
<b><u>TOTAL</u></b>		<b>7,465</b>	<b>8,100</b>
<b><u>TOTAL COMMON STOCK</u></b>		<b>117,808</b>	<b>125,288</b>
<b><u>TOTAL PORTFOLIO</u></b>		<b>152,436</b>	<b>158,752</b>

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

## ABC American-Value Fund (ABC AVF)

**NAVPS 5.4846**

*June 30, 2001*

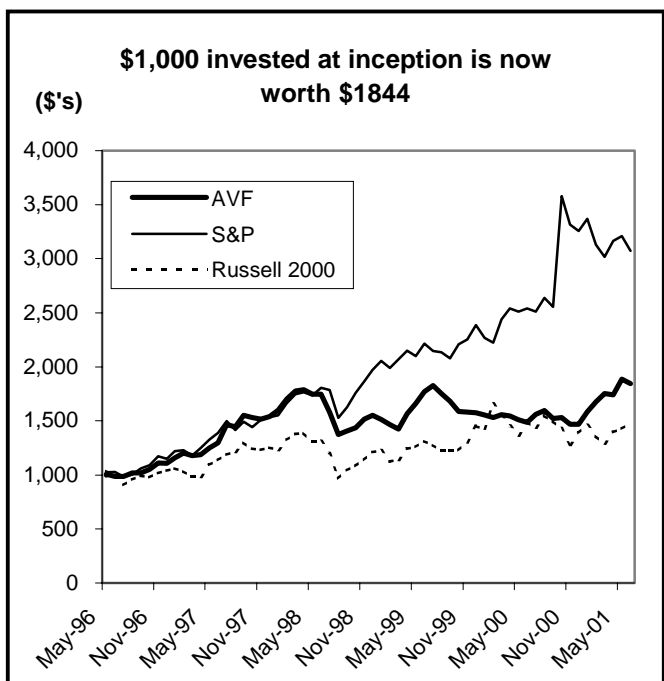
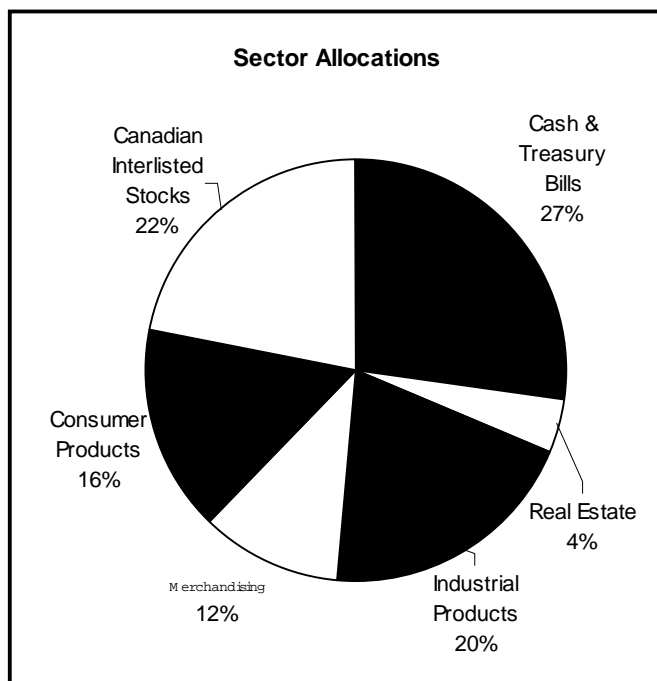
### Objective

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	<b>-2.23</b>	3.38	-4.20
Q2 2001	<b>5.18</b>	13.93	1.85
1 Year	<b>24.04</b>	-0.76	-12.62
2 Year	<b>2.08</b>	5.90	-2.96
3 Year	<b>1.86</b>	3.92	4.96
4 Year	<b>9.16</b>	6.67	12.54
5 Year	<b>13.29</b>	8.17	16.95
Compounded Since Inception	<b>12.80</b>	7.79	16.94

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



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

**June 30th, 2001**

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

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 27.25%</b>			
1,089,494	Cash	1,089	1,089
29	RT CAP Cash In Action Fund	3	3
521,524	US \$ Cash	791	791
19,935	RT CAP US\$ Cash Fund	3,032	3,025
<b><u>TOTAL CASH</u></b>		<b>4,916</b>	<b>4,909</b>

**COMMON STOCKS -- 72.75%**

**INDUSTRIAL PRODUCTS -- 20.03%**

40,000	Amcast Industrial Corp.	1,234	519
65,000	Ampco-Pittsburgh Corp.	1,147	1,115
25,000	Dura Automotive Systems Inc.	1,051	607
75,000	Griffon Corp.	821	1,252
44,100	National Steel Corporation	644	115
<b><u>TOTAL</u></b>		<b>4,897</b>	<b>3,608</b>

**CONSUMER PRODUCTS -- 15.93%**

60,000	Haggar Corp.	1,145	942
42,500	Lone Star Steakhouse	807	838
75,000	TBC Corp.	793	1,090
<b><u>TOTAL</u></b>		<b>2,745</b>	<b>2,871</b>

*exchange rate used is 1.51759*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>MERCHANDISING -- 10.65%</b>			
126,900	Bombay Company Inc.	526	520
32,500	Dillard's Inc.	1,164	753
75,000	Syms Corp.	1,364	645
<b><u>TOTAL</u></b>		<b>3,054</b>	<b>1,918</b>

**REAL ESTATE -- 4.21%**

100,000	Amrep Corp.	1,334	759
<b><u>TOTAL</u></b>		<b>1,334</b>	<b>759</b>

**CANADIAN INTERLISTED STOCKS -- 21.93%**

175,000	Belair Energy Corp.	746	613
75,000	MFP Financial	698	863
67,500	Premdor Inc.	738	736
70,000	Regional Cablesystems Inc.	752	840
100,000	Shermag Inc.	685	899
<b><u>TOTAL</u></b>		<b>3,619</b>	<b>3,950</b>

<b><u>TOTAL COMMON STOCK</u></b>		<b>15,648</b>	<b>13,105</b>
----------------------------------	--	---------------	---------------

<b><u>TOTAL PORTFOLIO</u></b>		<b>20,564</b>	<b>18,015</b>
-------------------------------	--	---------------	---------------

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



## Summer Season Opportunities

*Major bottoms are usually made when analysts cut their earnings estimates and companies report earnings which are below expectations.*

*-Edward Babbitt Jr.  
Avatar Associates*

With the onset of summer many investors have become preoccupied with golfing, vacations, school break and BBQs. Over the years I have noticed that investors tend to lose their competitive edge and investment zeal as the thermometer edges towards 30°C. And really who can blame them?

This year, with the normal summer seasonality and the continuous flow of corporate profit warnings, missed revenue targets and investment analyst downgrades, investors have become quite skeptical and gun-shy. Stock prices have started to drift downward. In fact, the TSE 300 has fallen over 12.7% year-to-date and generally investors remain either frozen or rather complacent. But it is not as if there has been massive selling of securities in the market place; rather there is an absence of buying which has precipitated these price declines.

As a fundamental analyst the current state of the market both intrigues and excites me. Firstly, with this summer drift there is little competition when purchasing a particular security. A motivated seller for instance, with little demand for his shares will often liquidate stock at a considerably lower price than

originally contemplated. Secondly, new financings, index and portfolio liquidations, etc. often present excellent purchase opportunities to the enterprising portfolio manager with cash and stamina. Ultimately this summer seasonality frequently leads to significant future portfolio gains.

Of particular interest to me right now is the preponderance of company profit and revenue warnings accompanied by investment analyst downgrades of earnings estimates. This psychologically negative environment is providing many interesting investment opportunities. This fact is particularly true for common stocks which may be reclassified from "buy" to "hold". My feeling is that now is a great time to research many of these fallen angels. The key, I believe, is that portfolio managers must not be mesmerized by the current summer seasonality. We must remain alert and ready to pounce on any extraordinary buying opportunity.

**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](http://www.abcfunds.com) [www.valueinvestigator.com](http://www.valueinvestigator.com) Email: [info@abcfunds.com](mailto: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.