

## Be Inquisitive

*I'm not smart, but I like to observe. Millions saw the apple fall, but Newton was the only one who asked why.*

**Bernard Baruch**

I was once asked by a longstanding client if there was a secret ingredient or magic formula to successful stock picking. Without any hesitation I replied an unequivocal no. But upon further reflection I immediately called my client back to declare that while there might not be a secret ingredient, there was, in fact, a common thread to investment success. That common element, in my opinion, was “to be inquisitive”.

In our frenetic financial world, we are constantly bombarded by facts and figures. There is a never-ending flow of information. Some of this flow is useful but the bulk of this knowledge is irrelevant to many investment decisions. The challenge to us as investors is to deflect the unimportant facts and to concentrate on what will be germane to profitable investment analysis. Moreover, another key to investment success, I believe, is to use the relevant information sagaciously. As investors, we must dissect this data through shrewd questioning and serious analysis to ultimately produce a well-thought-out conclusion. Once we have formulated an opinion we can then create and execute a credible investment plan of action.

The importance of being inquisitive cannot be overemphasized. It is only through diligent questioning that we can acquire more valuable input to produce greater confidence and conviction to carry out our investment responsibilities. From my experience, the

greater the investment knowledge that a portfolio manager has to make a financial decision, the greater the likelihood of monetary success.

But being inquisitive is easier said than done. As analysts, we must dig deeper and deeper into potential investments. Our questioning must probe for a certain spark or a different investment spin. Unfortunately, this is often a tedious process. However, with a fresh analytical interpretation this effort frequently produces significant incremental profitable returns. The fact is: when all is said and done, it is a labour well spent.



### **The Economy: Building a Base for the Next Run**

The North American economies continue to climb a wall of worry. Specifically in spite of all the concerns of creeping inflation, fears of rising interest rates, the questionable longevity of a Canadian federal minority government, a too-close-to-call U.S. November presidential election, the Iraq uncertainty and international terrorism, equity markets have demonstrated remarkable resiliency.

On the positive side, short-term interest rates remain at historically low-levels, U.S. first quarter 2004

economic growth increased 3.9%, the North American unemployment rate is stable to declining and the outlook for corporate profits continues to improve. It is our view that both the Canadian and U.S. economies have been building a strong base for the next run of economic improvement. While we expect some financial volatility and uncertainty to remain, we continue to foresee improving economic and investment prospects for the balance of 2004 and into early 2005.

### **Improving Corporate Profits: Higher Stock Prices**

While many investors have been fixated on the unrelenting economic, political and investment uncertainty, corporate profits have been quietly improving. Admittedly, although not totally across-the-board, the most recent quarterly earnings results have generally been quite good. Moreover, corporate balance sheets through prudent management and opportunistic fixed income and common equity financings are probably in the best shape in several decades.

In a nutshell, corporate profits have been improving due to a number of factors such as: declining production costs through greater labour

productivity, significant administrative cost cutting, lower financing charges due to the lowest interest rates in almost 50 years and stable product selling prices. These bottom-line improvements appear to be holding and we expect that these trends should continue at least into the first half of 2005. Moreover, if the North American economies continue to accelerate with 4%+ growth rates over the next year, we should expect increasing business operating leverage to produce even greater corporate profits. By extension, this should effectuate higher common stock prices.

### **Portfolio Refinements**

Although we expect continued common share price volatility for the balance of 2004, we remain optimistic with regard to the market outlook. As a result, we have attempted to maintain a maximum 5%-10% cash reserve in the three ABC Fund portfolios. We have made a number of security switches to take advantage of temporary market anomalies. At the same time we have persisted on our disciplined hunt for deep-value common shares to augment our portfolio returns.

Over the past three months we have taken profits by liquidating: Ampco-Pittsburgh Corp., Gaylan's Trading Co., Gehl Company, Lassonde Industries, Norske Skog and Transat AT Inc. With the proceeds we have either purchased or added to existing positions of: Canfor Corp., Canwest Global Communications Corp., Laurentian Bank, Lionore Mining, Morguard Corp., and the Phoenix Companies.

## **A New ABC Funds/RESP Opportunity**

I strongly believe in education and I am grateful that I have had a priceless opportunity to complete two university degrees and the Chartered Financial Analyst (CFA) designation.

As parents, my wife and I have always encouraged our four children to study hard and to prepare for a self-satisfying professional career. We will try to give each of our children the opportunity to fulfill their long-term aspirations through a first quality, higher education.

But a university education no longer comes cheaply. The costs today are anywhere from 5-10 times greater than when I attended university some 3 decades ago. Fortunately, we started to put money away as each child was born through annual contributions to a Registered Educational Savings Plan (RESP). Unlike a RRSP, RESPs provide no tax deductibility of annual contributions, however, RESP income is not taxable as long as it remains within a registered plan. Moreover, a RESP brings three immediate benefits: 1) it is a forced saving; 2) it will benefit from tax-free compounding as long as the funds remain in the plan and 3) the Government of Canada through a Canada Education Savings Grant or CESG will contribute up to a maximum of \$400 per year or 20% of the annual RESP contribution (maximum \$4,000 per child per annum).

When finally collapsed to fund a child's higher education the RESP's original contributed capital is returned tax-free whereas all other sheltered income is taxed in the student's hands at his low tax rate. While this is a very simplistic overview of the RESP, I encourage interested readers to examine the plan more thoroughly for greater details.

Over the past few years, a number of ABC clients have asked us whether the ABC Funds were eligible for RESP. Many ABC investors, including myself, had wanted to utilize the ABC Funds for their children or grandchildren's educational plan.

Unfortunately, due to the finite life of a RESP, unlike a RSP (to age 69 and beyond as a RRIF) few institutions were willing to trustee the ABC Funds. They claimed it just wasn't profitable for them. Nonetheless, we searched around. We asked banks and insurance companies. None were interested; I even offered to personally subsidize the cost. There were still no takers.

While disappointed, I, nonetheless, opened individual RESPs for my four children. I invested in a no-load bank fund although I had really wanted to tie my children's RESP to my ABC Funds where I knew I could exercise greater responsibility and control. Having little choice, I stuck with the bank's no-load fund for the past 10 years. The investment performance was very mediocre, but I rationalized I would wait patiently until an opportunity arose to switch to ABC Funds. This opportunity presented itself last September.

One Saturday morning last September I sat down to read Jonathan Chevreau's column in the Financial Post entitled "Don't Pass Up On Free Lunch For The Kids". In the article, Jonathan referred to self-administered RESPs. Bingo! I had just discovered a solution to trustee the ABC Funds. On Monday I made several calls to brokers and I was able to set up a self-administered RESP for ABC Funds. I then redeemed my existing funds and transferred the proceeds to the ABC Fundamental-Value Fund for October 1, 2003.

Overall, I am pleased to report that my four children were the first ABC clients to utilize the funds for RESP. Now after 9 months, each of their plans has appreciated 20%. I believe the switch was well worth the effort. If anyone wishes to contact us with regard to the mechanics of utilizing the ABC Funds for a RESP within a self-administered plan, please call us anytime.

**Irwin A. Michael, CFA**

**Four ABC Funds Favourites For Mid-2004****CANFOR CORPORATION**

On March 25, shareholders of Slocan Forest Products voted in favour of the plan of arrangement providing for the Company's acquisition by Canfor Corporation. The combination became effective April 1, 2004 and the financial results will be consolidated in the second quarter report. We believe that despite the recent run in the stock, the market has yet to fully appreciate the potential of this combined entity. Capacity should increase to over 5.2 billion board feet of lumber, 1.2 million tonnes of pulp, 950 million square feet of plywood and OSB and 150,000 tonnes of kraft paper. Besides the usual economies of scale and rising commodity prices, the \$60 million in projected synergies appears to be quite conservative.

On April 23, Canfor reported results for the first quarter of fiscal 2004 that were above most analysts' expectations. The Company generated \$92.4 million of EBITDA, almost triple the \$33.5 million of EBITDA last year. Operating income improved to \$62.4 million in the quarter compared to only \$3.1 million in the first quarter of 2003. On an earnings per share basis, Canfor earned \$0.34 compared to \$0.43 the previous year, which doesn't really tell the full story. In the current quarter Canfor had a \$6.0 million unrealized foreign exchange loss on long-term debt compared to a \$36.2 million gain a year ago. Looking past this non-operating item, we saw a real turn in the profitability in the quarter.

What drove this improvement? US dollar denominated lumber prices were 51% higher than in the same period in 2003 due to strong housing demand. Pulp prices were 23% higher as a recovering economy powered demand. Canfor's CRMI program (cost reduction/margin improvement) is now targeting annual savings of \$230 million compared to \$150 million at inception. As an example, productivity at the wood products division was 20% higher and conversion costs were 23% lower than the fourth quarter of 2003. Given the magnitude of improvement, we are optimistic that the forecast of \$60 million in synergies from Slocan will be revised upward.

Looking forward to the second quarter results, Canfor should be "firing on all cylinders". Lumber prices (Western SPF 2x4) have increased to \$462 per thousand board feet compared to \$233 last year and pulp prices have increased to \$640 per tonne from \$558 a year ago. Combine better commodity prices, with continued cost cutting and the Slocan synergies, and Canfor's earnings for the second quarter could surprise many people. How good could they be? Earnings of \$1.00 per share would not be an unrealistic estimate. Finally, as the softwood lumber dispute swings in favour of Canada, the refund of duties paid will eventually become reflected in Canfor's share price.

**LAURENTIAN BANK**

Laurentian Bank had a difficult year in fiscal 2003, as a result of lower net interest margins, loan loss provisions and cost increases. Although the Bank reported \$3.32 per fully diluted common share, the headline number included several unusual items. A restructuring charge and loan losses were more than offset by a large gain on the sale of 57 bank branches. Excluding the unusual items, Laurentian Bank earned \$1.80 per fully diluted common share, implying a return on equity of only 4%. Although the earnings were disappointing, the Bank remains well capitalized and is committed to paying its annual dividend of \$1.16.

As we await the return to more normalized levels of profitability, Raymond McManus, CEO, has begun to define the future direction of the Bank. As he stated in a recent news release, "given the uncertain economic and interest rate environment, the Bank has adopted more conservative growth and profitability objectives". In keeping with this strategy, Laurentian Bank divested 57 branches in Ontario and Western Canada for a pre-tax gain of \$69.9 million, which was included in the results as discussed above. Laurentian received almost twice book value for these branches, which was an excellent price for these assets. Clearly the buyer, the TD Bank, was a motivated purchaser.

Results for the first six months indicate that the Bank is on track to meet its goals for fiscal 2004. Return on equity for the six-month period was 6% compared to the 5% objective. Diluted earnings per share for the first months were \$0.85, which implies that the full year EPS objective of \$1.44 is achievable. Year to date, total revenue of \$244 million is 49% of the annual target of \$503 million. The efficiency ratio came in at 76.6%, ahead of the 77.0% objective for the year. Capital ratios, both Tier 1 and total, were more conservative than mandated. Finally, the loan loss ratio of 0.25% was only slightly higher than the 2004 objective of 0.22%. The Board of Directors considered the results to be "satisfactory", the financial condition of the Bank to be "sound" and declared the quarterly dividend of \$0.29 per share.

Although the strategic repositioning will not occur overnight, we support management's efforts to "get back to business" in order to improve profitability over the long run. Ray McManus seems to have a clear vision for the Bank and has shown a willingness to make things happen. We would point to the sale of the 57 branches in Ontario and Western Canada to TD Bank and the privatization of B2B Trust as examples of his decisiveness. As we wait patiently for the turnaround to play out, the healthy dividend should provide downside protection.

## SHOPKO STORES

ShopKo Stores is a discount specialty retailer, which manages 361 stores in 23 states. Of these stores, 141 are operated under the ShopKo name while the remaining 220 stores operate under the Pamida banner. The ShopKo retail segment consists of a multi-department retailer located primarily in mid-size and larger communities with an average store size of 90,000 square feet. The Pamida retail segment is a general merchandise retailer serving smaller and more rural communities, offering a convenient, one-stop shopping format with an average store size of 27,500 square feet.

Shares of ShopKo reached an all time high of \$40.75 in July 1999. Earnings had grown from \$1 per share in 1993 to \$2.60 a share in 1999, an average annual growth rate over 17% per year. The following year, a softening U.S. economy turned same store sales comparisons negative while competition from Wal-Mart and other larger department stores eroded profit margins. As a result, ShopKo's earnings fell to \$1.14 per share. With that, many investors who purchased ShopKo for its earnings growth exited the stock. As ShopKo's share price fell and interest in the stock dissipated, most of the brokerage firms on Wall Street either issued sell recommendations or dropped coverage entirely. By the end of the year, ShopKo shares had fallen below \$5.

Today ShopKo appears to be making strides to improve its operations and increase sales. First of all, the company has made significant management changes in the last year and a half including the addition of Sam Duncan as CEO. Duncan previously served as President of Fred Meyer, a general merchandise and food retailer. Second, ShopKo has added pharmacies and optical centres to its Pamida stores. In addition to generating store traffic, these services have contributed significantly to the company's overall sales and profitability in its ShopKo division. Finally, the company is busy remodeling and re-modernizing its Pamida stores. The remodeled stores will feature a new "easy-to-shop" appearance, including improved sight lines, reduced aisle congestion and attractive, easy-to-read signing.

ShopKo trades at a 30% discount to its book value of \$20.15 per share and roughly 10 times management's earnings guidance of between \$1.33 and \$1.48 per share. ShopKo also owns nearly half of its store locations as well as its corporate headquarters and distribution centres. Insiders hold less than 3% of the outstanding shares and therefore the company could theoretically be a takeover candidate. Same store sales rose 3.2% in May and if this trend continues, we feel ShopKo could command a higher price to book and or price to earnings multiple going forward.

## TODHUNTER INTERNATIONAL

Todhunter International is engaged in a number of different businesses, all of which are related to the production of alcoholic beverages. First of all, the company is the largest supplier of bulk rum, citrus brandy and fortified citrus wine in the United States. The company sells its bulk alcohol products to over 40 producers of beverage alcohol in the U.S. and exports products to approximately 10 foreign countries. Second, to complement its distilling operations, the company also produces vinegar, vinegar stock and cooking wine. Finally, Todhunter carries its own line of premium branded estate and flavoured rums under the brand name "Cruzan". Cruzan is sold to retailers in the U.S., Europe and Canada, including Liquor Stores in Ontario, which carry Cruzan's Coconut and Vanilla flavoured rums.

Todhunter is 68% owned by Angostura Limited, a Trinidad based distiller. Due to the high percentage of stock that Angostura owns, Todhunter's public float is small and trading in the stock is thin. As a result, very few people on Wall Street bother to follow it and therefore, not surprisingly, many investors do not know the company. Shares of Todhunter sell at a slight premium to its book value of \$12.77 per share: a figure that likely understates the company's 138 acres of land that it owns in Florida and the Virgin Islands. The shares also trade for less than 15 times earnings of approximately \$1 per share. However, if you exclude the operating loss of the Cruzan line, the multiple on the remaining bulk and cooking wine/vinegar divisions would actually be closer to 10 times earnings. This multiple is low considering the high margin high cash flow nature of these businesses.

As for Cruzan Rum, we feel this asset could be the company's hidden jewel. Comparable valuations such as Seagram's sale of Captain Morgan and Diageo's sale of Malibu suggest that Cruzan alone could be worth as much as \$8 to \$10 per share. Furthermore, Barcardi, the world's number one selling brand of rum in the world, is rumoured to be considering a public stock offering. An IPO of this magnitude could revitalize interest in the sector and set a new precedent for valuations in the industry given that Barcardi would likely fetch a premium multiple. On a final note, it seems that Todhunter is close to being taken private by its parent Angostura Limited. On June 9<sup>th</sup> 2004, Angostura purchased \$10 million worth of Todhunter stock in a private placement at \$14.00 per share. Given the lack of interest in the stock, the added costs of being a public company, and the potential hidden value in the Cruzan brand, we would not be surprised if Angostura made a premium offer for the remaining Todhunter shares.

**Irwin A. Michael, CFA**

## ABC Fully-Managed Fund (ABC FMF)

June 30, 2004

<b>NAVPS</b>	<b>10.1042</b>
<b>Inc. Dist.</b>	<b>\$0.090141</b>
<b>C.G. Dist.</b>	<b>\$0.000000</b>

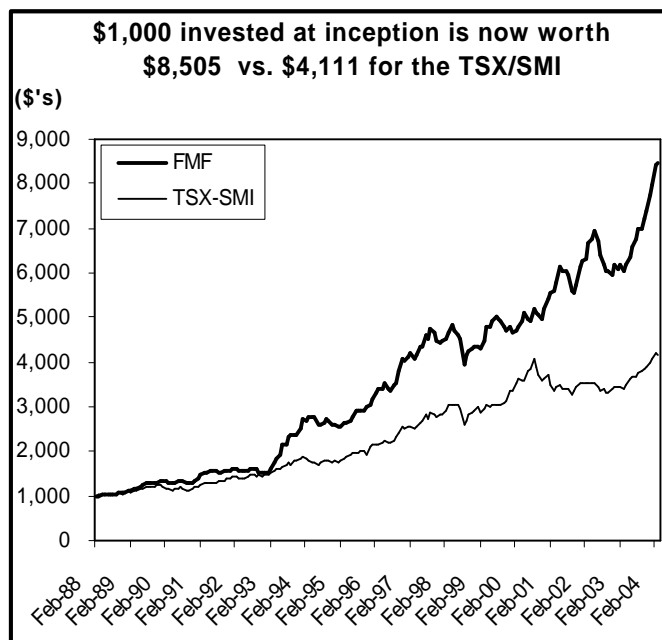
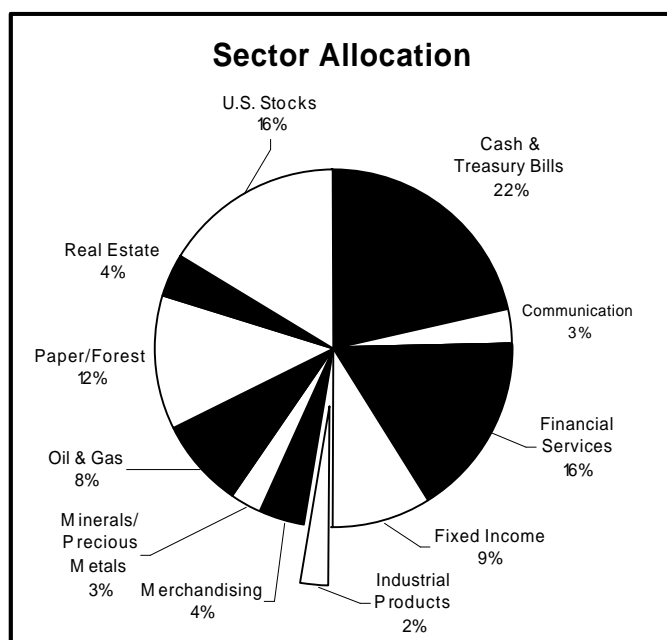
### Objective

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 Month	1.43	0.78	1989	23.68	17.20
Q2 2004	0.69	-1.07	1990	2.17	-4.32
1 Year	29.56	12.48	1991	14.69	17.35
2 Year	12.47	9.16	1992	-1.48	4.75
3 Year	11.93	6.55	1993	64.35	24.36
5 Year	11.45	6.23	1994	2.82	-2.64
10 Year	12.64	9.37	1995	17.25	17.97
15 Year	13.51	8.65	1996	31.99	19.5
Since Inception*	14.00	9.04	1997	10.56	12.22
			1998	-2.02	3.84
			1999	10.37	14.29
			2000	8.31	8.71
			2001	17.62	-2.96
			2002	0.77	-1.47
			2003	25.52	15.27

\*Inception date for the Fund was February 22nd, 1989  
 \*\*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, 2004*

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

*exchange rate used is 1.34075*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 21.72%</b>			
293,728	C\$ Cash	294	294
42,289	U\$ Cash	56	56
206,290	RT CAP Cash In Action Fund	20,629	20,629
9,520	RT CAP Cash In Action Fund US \$	1,275	1,275
<b><u>TOTAL CASH</u></b>		<b><u>22,254</u></b>	<b><u>22,254</u></b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER/FOREST PRODUCTS -- 12.15%</b>			
300,000	Canfor Corp.	3,447	4,560
50,000	Fraser Papers Inc.	800	800
250,000	Norbord Inc.	2,381	3,063
300,000	Timberwest Forest Corp. - Units	3,732	4,026
<b><u>TOTAL</u></b>		<b><u>10,360</u></b>	<b><u>12,449</u></b>

**FIXED INCOME -- 9.07%**

2,000,000	Nexen Inc., 6.85%, 11/15/06	1,960	2,132
2,500,000	Gerdau Ameristeel, conv. 6.50%, 4/30/07	2,216	2,399
2,500,000	Magellan Aero., conv. 8.50%, 01/31/08	2,478	2,688
2,000,000	Nova Chemical., 7.85%, 08/30/10	1,984	2,070
<b><u>TOTAL</u></b>		<b><u>8,638</u></b>	<b><u>9,288</u></b>

**OIL & GAS -- 8.07%**

75,000	Nexen Inc.	2,381	3,900
150,000	Talisman Energy Inc.	2,691	4,365
<b><u>TOTAL</u></b>		<b><u>5,073</u></b>	<b><u>8,265</u></b>

**COMMUNICATION -- 3.07%**

300,000	CanWest Global Communications	3,132	3,144
<b><u>TOTAL</u></b>		<b><u>3,132</u></b>	<b><u>3,144</u></b>

**COMMON STOCKS -- 69.21%**

**FINANCIAL SERVICES -- 16.20%**

13,038	E-L Financial Corp.	3,269	4,794
175,000	Laurentian Bank	4,588	4,916
250,000	MFP Financial	2,321	2,288
200,000	Northbridge Financial Corp.	3,149	4,600
<b><u>TOTAL</u></b>		<b><u>13,327</u></b>	<b><u>16,598</u></b>

**MINING / PRECIOUS METALS -- 2.95%**

500,000	Lionore Mining Ltd.	3,015	3,020
<b><u>TOTAL</u></b>		<b><u>3,015</u></b>	<b><u>3,020</u></b>

**MERCHANDISING -- 4.21%**

32,000	Empire Ltd., common	810	832
200,000	Sears Canada Inc. common	3,254	3,480
<b><u>TOTAL</u></b>		<b><u>4,064</u></b>	<b><u>4,312</u></b>

**REAL ESTATE -- 3.97%**

175,000	Morguard Corp., common shares	3,595	4,069
<b><u>TOTAL</u></b>		<b><u>3,595</u></b>	<b><u>4,069</u></b>

**U.S. STOCKS -- 16.26%**

30,000	Amer. National Ins. Co.	3,244	3,714
50,000	Loews Corp.	2,803	4,020
175,000	Phoenix Companies Inc.	3,213	2,874
225,000	Prime Hospitality	3,090	3,204
150,000	Shopko Stores Inc.	2,867	2,844
<b><u>TOTAL</u></b>		<b><u>15,217</u></b>	<b><u>16,655</u></b>

**INDUSTRIAL PRODUCTS -- 2.34%**

75,000	Wescast Industries Inc., "A"	2,741	2,400
<b><u>TOTAL</u></b>		<b><u>2,741</u></b>	<b><u>2,400</u></b>

<b><u>TOTAL COMMON STOCK</u></b>	<b><u>60,523</u></b>	<b><u>70,911</u></b>
----------------------------------	----------------------	----------------------

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

<b><u>TOTAL PORTFOLIO</u></b>	<b><u>91,415</u></b>	<b><u>102,453</u></b>
-------------------------------	----------------------	-----------------------

## ABC Fundamental-Value Fund (ABC FVF)

June 30, 2004

<b>NAVPS</b>	<b>\$18.6145</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

### Objective

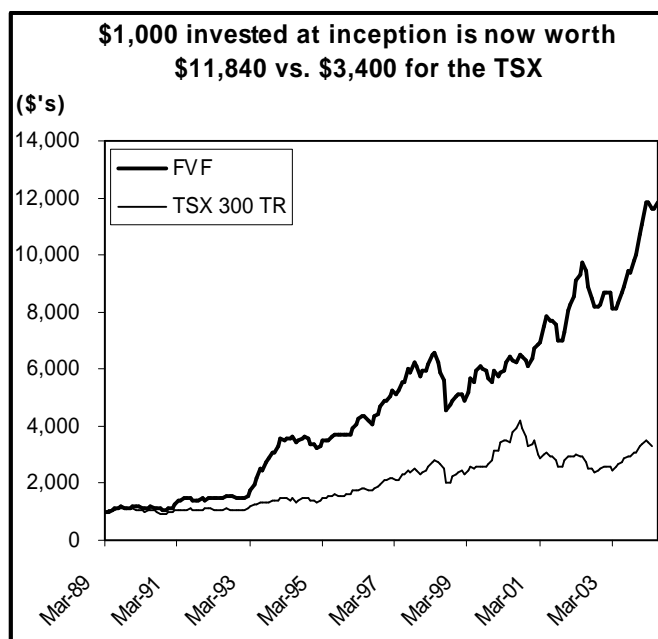
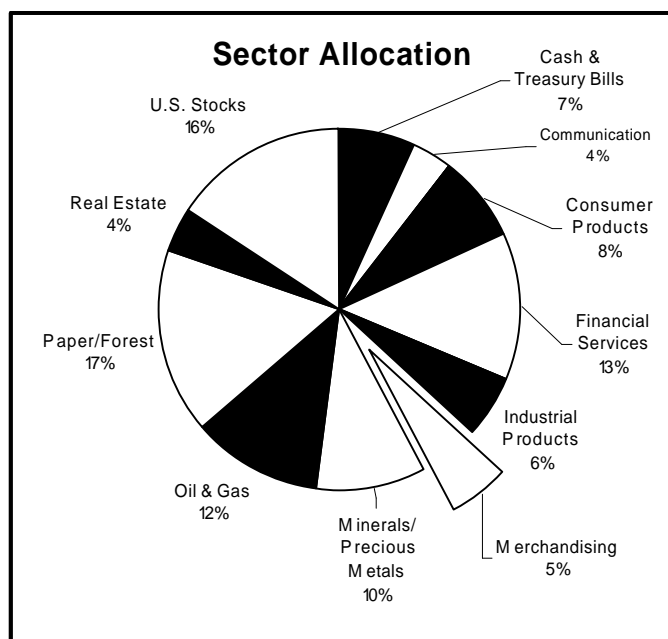
ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian 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 Month	<b>1.97</b>	1.73	1990	<b>-1.98</b>
Q2 2004	<b>0.15</b>	-0.02	1991	<b>22.92</b>
1 Year	<b>36.18</b>	24.48	1992	<b>4.26</b>
2 Year	<b>12.13</b>	11.42	1993	<b>121.75</b>
3 Year	<b>15.32</b>	5.24	1994	<b>3.03</b>
5 Year	<b>14.77</b>	5.73	1995	<b>11.08</b>
10 Year	<b>13.15</b>	9.82	1996	<b>31.75</b>
15 Year	<b>17.18</b>	8.06	1997	<b>20.35</b>
Since Inception*	<b>17.59</b>	8.36	1998	<b>-13.81</b>
			1999	<b>16.25</b>
			2000	<b>7.51</b>
			2001	<b>26.06</b>
			2002	<b>7.62</b>
			2003	<b>23.55</b>

\*Inception date for the Fund was March 20, 1990

\*\*Benchmark consists of the TSE300 Total Return Index



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

**June 30th, 2004**

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

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 6.85%</b>			
2,879,051	C\$ Cash	2,879	2,879
15,150	U\$ Cash	21	20
183,428	RT CAP Cash In Action Fund	18,343	18,343
28,011	RT CAP U\$ Cash Mgmt Fund	3,803	3,756
<b><u>TOTAL CASH</u></b>		<b>25,045</b>	<b>24,998</b>

**COMMON STOCKS -- 77.38%**

**PAPER & FOREST PRODUCTS -- 16.74%**

1,000,000	Canfor Corp., common	10,681	15,200
180,000	Fraser Papers Inc.	2,880	2,880
900,000	Norbord Inc.	7,084	11,025
600,000	Riverside Forest Products	5,501	11,844
700,000	Taiga Forest Corp.	3,356	6,685
1,000,000	Timberwest Forest Corp., Units	12,440	13,420
<b><u>TOTAL</u></b>		<b>41,942</b>	<b>61,054</b>

**FINANCIAL SERVICES -- 13.09%**

39,250	E-L Financial Corp.	9,989	14,385
486,000	Laurentian Bank	12,754	13,652
650,000	MFP Financial	5,940	5,948
600,000	Northbridge Financial Corp.	9,060	13,800
<b><u>TOTAL</u></b>		<b>37,743</b>	<b>47,784</b>

**INDUSTRIAL PRODUCTS -- 5.61%**

1,625,000	Magellan Aerospace	5,478	5,899
450,000	Russel Metals Inc., common	2,695	4,950
300,000	Wescast Industries Inc., A	10,808	9,600
<b><u>TOTAL</u></b>		<b>18,980</b>	<b>20,449</b>

**COMMUNICATION -- 3.84%**

1,335,000	CanWest Global Communications	13,963	13,991
<b><u>TOTAL</u></b>		<b>13,963</b>	<b>13,991</b>

*exchange rate used is 1.34075*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>MERCHANDISING -- 5.29%</b>			
550,000	Danier Leather Inc.	5,520	5,363
800,000	Sears Canada Inc.	12,960	13,920
<b><u>TOTAL</u></b>		<b>18,480</b>	<b>19,283</b>

**OIL & GAS -- 11.81%**

2,500,000	Bow Valley Energy	3,725	3,425
1,100,000	Devlan Exploration	3,091	3,256
250,000	Nexen Inc.	8,028	13,000
550,000	Opti Canada Inc.	12,564	10,313
150,000	Talisman Energy	8,136	13,095
<b><u>TOTAL</u></b>		<b>35,544</b>	<b>43,089</b>

**CONSUMER PRODUCTS -- 7.52%**

365,000	Andres Wines Ltd. "A"	4,497	8,110
400,000	Arbor Memorial Services "B"	5,339	7,144
1,067,200	Shermag Inc.	9,604	12,166
<b><u>TOTAL</u></b>		<b>19,440</b>	<b>27,420</b>

**MINERALS/PRECIOUS METALS -- 9.66%**

12,500,000	EuroZinc Mining Corp.	7,500	8,750
2,000,000	Lionore Mining Ltd.	12,709	12,080
600,000	Teck Corporation	5,329	14,400
<b><u>TOTAL</u></b>		<b>25,538</b>	<b>35,230</b>

**REAL ESTATE -- 3.82%**

600,000	Morguard Corp., common	12,351	13,950
<b><u>TOTAL</u></b>		<b>12,351</b>	<b>13,950</b>

**U.S. STOCKS -- 15.77%**

100,000	Amer. Nat. Ins. Co.	10,941	12,379
150,000	Loews Corp., common	8,545	12,059
750,000	Prime Hospitality	10,218	10,679
575,000	Shopko Stores Inc	11,120	10,901
700,000	The Phoenix Companies	13,008	11,497
<b><u>TOTAL</u></b>		<b>53,833</b>	<b>57,515</b>

**TOTAL COMMON STOCK** 277,815 339,764

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

**TOTAL PORTFOLIO** 302,860 364,762

# ABC FUNDS

## ABC American-Value Fund (ABC AVF)

June 30, 2004

<b>NAVPS</b>	<b>\$9.3678</b>
<b>C.G. Dist.</b>	<b>\$0.000000</b>
<b>Inc. Dist.</b>	<b>\$0.000000</b>

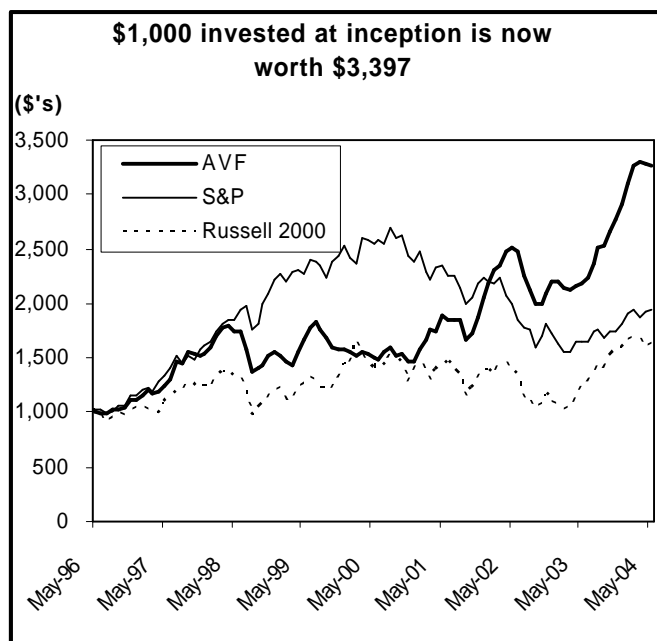
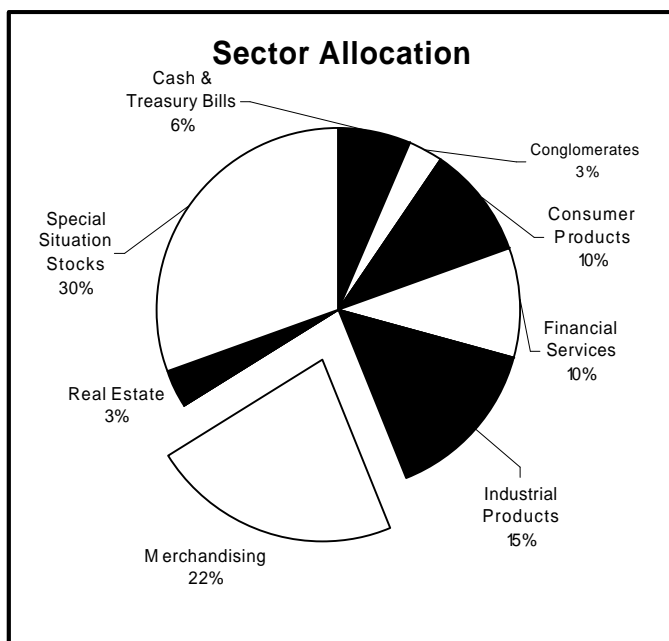
### Objective

ABC American-Value Fund searches out fundamentally undervalued American, special situation 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.

### Performance of the Fund vs. U.S. Benchmarks

	Annualized Compounded Rates of Return			Annual Returns			
	ABC AVF (%)	Russell 2000 (%)	S&P 500 (C\$) (%)	Year	ABC AVF (%)	Russell 2000 (%)	S&P 500 (%)
1 Month	<b>4.03</b>	4.09	0.24	1997	<b>38.76</b>	20.52	39.16
Q2 2004	<b>3.03</b>	0.20	4.05	1998	<b>0.75</b>	-3.45	37.69
1 Year	<b>52.29</b>	31.93	17.80	1999	<b>1.47</b>	19.62	14.14
2 Year	<b>17.08</b>	13.08	2.67	2000	<b>-6.66</b>	-4.20	-5.52
3 Year	<b>22.58</b>	4.84	-4.72	2001	<b>39.52</b>	1.03	-6.45
5 Year	<b>13.93</b>	5.26	-4.02	2002	<b>6.91</b>	-21.58	-22.74
8 Year	<b>16.69</b>	6.91	8.30	2003	<b>32.74</b>	45.37	5.29
Since Inception*	<b>16.33</b>	6.70	8.46				

\*Inception date for the Fund was May 2, 1996



# ABC FUNDS

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

*June 30th, 2004*

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

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

**CASH -- 6.36%**

204,565	Cash	205	205
23	RT CAP Cash In Action Fund	2	2
863,081	US \$ Cash	1,184	1,157
20,006	RT CAP US\$ Cash Fund	2,730	2,682
<b><u>TOTAL CASH</u></b>		<b>4,121</b>	<b>4,046</b>

**COMMON STOCKS -- 96.64%**

**INDUSTRIAL PRODUCTS -- 14.50%**

102,082	Building Material Holding Corp	2,064	2,591
85,513	Edelbrock Corp.	1,266	1,883
50,000	Lufkin Industries	1,602	2,144
21,772	Noland Company, common	1,193	1,242
132,500	Quaker Fabric Corp., common	1,311	1,370
<b><u>TOTAL</u></b>		<b>7,435</b>	<b>9,229</b>

**FINANCIAL SERVICES -- 9.81%**

20,000	Amer. Natl. Ins. Co.	2,191	2,476
125,000	Phoenix Companies Inc.	2,296	2,053
27,500	Prudential Financial Inc.	1,216	1,713
<b><u>TOTAL</u></b>		<b>5,702</b>	<b>6,242</b>

**CONSUMER PRODUCTS -- 9.96%**

225,000	CPAC Inc., common	1,784	1,777
61,000	Haggar Corp.	1,160	1,648
150,000	Todhunter International Inc.	2,258	2,911
<b><u>TOTAL</u></b>		<b>5,202</b>	<b>6,336</b>

*exchange rate used is 1.34075*

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

**MERCHANDISING -- 22.40%**

181,388	Bon - Ton Stores Inc.	1,772	2,565
250,000	Buca Inc.	2,187	1,787
75,000	Dillard's Inc.	2,128	2,242
125,000	Shopko Stores Inc.	2,389	2,370
113,934	Tandy Brands Accessories Inc.	2,021	2,067
250,000	Ultimate Electronics Inc.	2,301	1,656
35,616	Village Super Markets Inc.	1,433	1,570
<b><u>TOTAL</u></b>		<b>14,230</b>	<b>14,256</b>

**REAL ESTATE -- 3.36%**

150,000	Prime Hospitality	2,027	2,136
<b><u>TOTAL</u></b>		<b>2,027</b>	<b>2,136</b>

**CONGLOMERATES -- 3.16%**

25,000	Loews Corp.	1,425	2,010
<b><u>TOTAL</u></b>		<b>1,425</b>	<b>2,010</b>

**SPECIAL SITUATION STOCKS -- 30.45%**

150,000	Canfor Corp. Inc.	2,189	2,280
200,000	CanWest Global Comm.	2,088	2,096
3,500,000	EuroZinc Mining Corp.	2,100	2,450
400,000	Lionore Mining Ltd.	2,372	2,416
75,000	MFP Financial	698	686
100,000	Morguard Corp., common	2,074	2,325
25,000	OpitCanada Inc.	550	469
500,000	Reko Int'l. Group. Inc.	1,677	1,500
100,000	Sears Canada Inc.	1,644	1,740
93,800	Shermag Canada Inc.	989	1,069
175,000	Timberwest Forest Corp., Inc.	2,176	2,349
<b><u>TOTAL</u></b>		<b>18,555</b>	<b>19,380</b>

**TOTAL COMMON STOCK** **54,578** **59,589**

**TOTAL PORTFOLIO** **58,699** **63,635**

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

## Truth in Jest

There is often a great deal of truth in jest. Somehow, through humour, a point is often made quite easily and without discussion. It is my opinion that humour disarms most people and lays the groundwork for a serious thought or opinion to be accepted.

The following list includes ten of my most favourite business quotes. Each one, through humour, I believe, brings home a particular truism which we often take for granted.

1. Business: the art of extracting money from another man's pocket without resorting to violence

Max Amsterdam

2. A rich man is nothing but a poor man with money.

W.C. Fields

3. Put not your trust in money, but put your money in trust.

Oliver Wendell Holmes

4. An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.

Lawrence J. Peter

5. Never invest your money in anything that eats or needs repairing.

Billy Rose

6. A miser grows rich, by seeming poor; an extravagant man grows poor by seeming rich.

William Shakespeare

7. Never lend money to a friend. It's dangerous – it could damage his memory.

Sam Levinson

8. General Motors is not in the business of making cars. General Motors is in the business of making money.

Thomas A. Murphy

9. Buy low, sell high, collect early and pay late.

Dick Levin

and finally

10. If a man runs after money, he's money-mad; if he keeps it, he's a capitalist; if he spends it, he's a playboy; if he doesn't get it, he's a ne'er-do-well; if he doesn't try to get it, he lacks ambition; if he gets it without working for it, he's a parasite; and if he accumulates it after a lifetime of hard work, people call him a fool who never got anything out of life.

Vic Oliver

**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.