

## Sticking To Our Style

*Fashion goes out of fashion...  
but style never does.*

**Coco Chanel**

*continue to provide superior investment performance.”*

The year 2006 was a difficult investment period. For instance: it combined extremely volatile security and commodity prices; a progressively tighter U.S. Federal Reserve monetary policy; a surprisingly strong Chinese economy and natural resource demand; a mid-July \$78 a barrel peak oil price and culminated in a late 2006 concern that a U.S. economic slowdown might ultimately lead to a North American economic recession. Not to be forgotten were the unexpected October 31 Canadian federal government tax proposals negatively impacting the megabillion dollar Canadian royalty and income trust market.

The North American stock market similarly tracked an uncertain course. It started 2006 with a firm trend peaking in the spring and then followed a precipitous decline to a mid July bottom before quietly advancing to new cycle highs toward the end of the year.

At the start of the year, our investment view, as highlighted in our January 2006 ABC Perspective concluded:

*“As we look ahead at the markets over the next 12 months we are quite optimistic. We believe it will be a stock picker’s market with plenty of mergers, acquisitions, takeovers and privatizations. We have targeted our ABC Funds’ portfolios to a fully invested position. We intend to remain true to our investment style and disciplines; this will not change. We are confident that over the long term, our time proven deep-value style will*

Our outlook, today, 12 months later, is essentially unchanged. We believe that the presently low 4-5% cost of money in both the U.S. and Canada is a significant driver toward positive economic and corporate profit growth. We believe that it is cheaper and more timesaving for corporations to acquire other companies in the stock market rather than starting a business from scratch. In fact, clearly this has taken place with the many corporate takeovers and privatizations over the past year. They include: Hudson Bay Company, Dofasco, Falconbridge and Inco as well as smaller companies such as Atlas Cold Storage, Boykin Lodging and Foodarama Supermarkets. We expect this trend to persist into 2007.

The bottom line is that we remain fundamentally optimistic. However, we expect securities markets in 2007 to continue to be extremely volatile, challenging and testing investor resolve. Nonetheless, we intend to stick to our disciplined fundamental analytical style and valued patience. In the end, we believe that on a risk/reward and total return basis, this strategy should lead to exceptional long term investment performance.



**ECONOMIC PERSPECTIVES****The Economy: Slower Growth But Still Positive**

Although there are increasing concerns about a slowing North American economy and a possible 2007-2008 recession, we remain reasonably optimistic. We do not foresee an impending economic slump in 2007.

Admittedly, the pace of economic activity has been moderating over the past six months,

however, our 2007 outlook continues to incorporate North American economic growth of 1½% - 2½%, contained inflation, steady unemployment, an unchanged to slightly more accommodating central bank interest rate policy and improving, albeit, extremely volatile common share and commodity prices.

**INVESTMENT PERSPECTIVES****2007: More Of The Same**

In spite of the lingering price volatility of common shares and commodities and the resulting fear and negativity by investors, the markets continue to climb a wall of worry. Our overall investment view remains reasonably optimistic as we base our positive outlook on a number of factors including: significant worldwide cash/investment liquidity and relatively low interest rates; continued global merger, acquisition and consolidation activity; positive economic growth and generally accommodating central bank interest rate policies.

We expect 2007 to provide more of the same as 2006, however, with even greater security price volatility. It is through the current market fear and volatility that opportunities will present themselves to those investors who remain alert. By extension, we believe that fundamentally undervalued common share selections of today should provide for excellent investment returns over the next 6 – 12 months.

**PORTFOLIO PERSPECTIVES****Upgrading Our Portfolios**

Our 2006 portfolio management policy had been to target a fully-invested equity position and we expect to follow this strategy for at least the first six months of 2007. At the same time, we have been selectively upgrading our portfolios by selling overvalued common shares as well as tax-loss sale holdings.

Over the past three months, we have liquidated Laurentian Bank, Fraser Papers, Handleman, Anvil Mining in addition to Atlas Cold Storage via a takeover offer. In turn, we have purchased Lakeview Hotels REIT, TerraVest Income Fund, Natuzzi, Genesis Lease Ltd. as well as adding to our holdings of Seaspan Corp.

## ABC Funds Value Favourites

### CANAM GROUP

Canam Group can trace its history back to 1960 with the founding of the Canam Steel Works, a 12,000 square foot facility in Quebec. Over the years, the Company broadened its interests to include the manufacture of steel joists and decking, semitrailers and logging equipment, composite flooring, bridges and pre-engineered buildings. With the appointment of Marc Dutil to the position of President and Chief Operating Officer in 2003, the Company began a serious restructuring effort. The logging equipment and semitrailer divisions were sold, along with several underperforming plants.

In early 2006, Canam's share price moved sharply higher on the back of some excellent financial results. In fiscal 2005, the Company earned \$38.7 million or \$0.96 per share, compared to a loss of \$5.9 million or \$0.17 per share the previous year. The return to profitability was achieved through sales growth of 4.8% to \$711.5 million, despite the negative impact of the strengthening Canadian dollar. Gross profit increased 49% to \$175.1 million and EBITDA grew to \$93.7 million, up more than 70%. Marc Dutil's focus on the bottom line, through cost control and emphasis on higher margin, value-added products produced tangible results.

Unfortunately, the shares began to languish after the first quarter of 2006. Marcel Dutil, Chairman of the Board, CEO and father of Marc, had been trying to sell a large amount of his stock since April. When "the Street" knows that a large block is available investors typically demand a significant discount to the market price. Canam's stock slowly drifted lower from the \$11.00 level. Thankfully, on December 20, Canam reported that the sale of Mr. Dutil's 3,500,000 share block at \$8.75 had been successfully completed. It is important to note that Marcel Dutil still holds 8,018,541 shares, or approximately 16.4% of the Company.

Looking at the metrics, we can see why Mr. Dutil was so reluctant to part with stock at a discount. Currently, Canam trades at only 9.4 times 2006 consensus earnings and approximately 8.5 times 2007 consensus earnings. At 1.3 times book value and 6 times EBITDA, the stock is relatively undervalued. The attractive valuation is supported by a positive outlook with good visibility. Recent contract wins include an \$11.5 million order for a casino in Alberta and two warehouses in Quebec, a \$40 million contract to supply steel for the New York Yankees' stadium and a \$70 million contract for the New York Mets' new ballpark. In fact, Canam's backlog has increased to \$297 million from \$226 million, a 31% increase year over year. We look forward to a solid 2007 from this Company.

### JOHN B. SANFILIPPO & SONS

On December 15<sup>th</sup>, 2006 John B. Sanfilippo (JBSS) reported fiscal 2007 first quarter results which included a loss of approximately \$4.8 million, or \$0.41 per share. It is important to note, however, that JBSS's past year's results reflect the impact of higher tree nut prices, particularly almonds, which resulted in lower than normal gross margins. Fortunately, we are now in a new crop year. Tree nut prices have declined considerably and inventories have returned to more reasonable levels.

The Company has also announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operations in Gustine, California. We feel this was a good management decision as it will reduce the commodity risk that had a significant negative impact on fiscal 2006 results. Moreover, it will also reduce labour costs and free up working capital requirements. In turn, the Company can use this increased liquidity to pay down debt, repurchase shares, purchase other nut types or increase its spending on product research and development.

In the meantime, shares of JBSS have rallied from their September low of \$9.78 and now trade at around \$12.20 per share. Nevertheless, we think the shares still offer meaningful upside. For instance, JBSS currently trades at a 25% discount to its \$16.56 book value, a figure that likely understates the value of its real estate and does not account for the value of its Fisher brand. In addition, its shares sell at an attractive multiple to our estimate of future earnings.

We calculate that if JBSS can return its net margin to its five year average of around 2.5% it could eventually earn as much as \$1.35 per share based on fiscal 2006 sales. In addition, we believe that gross sales should improve in 2007 through increased promotional activity from retailers, as well as the introduction of new products such as Fisher Fusion, a line of flavored almonds. We believe these improvements could push sales through \$600 million and restore JBSS's net margin to historic levels. Ultimately this could be the necessary catalyst to propel JBSS shares to previous cycle highs.

**Irwin A. Michael, CFA**



## ABC News

We would like to take this opportunity to thank you, our clients, for your ongoing support and patience throughout 2006. The Canadian stock market was extremely volatile during the year. It tested every investor's mettle and included completely unexpected and high impact developments such as Finance Minister Jim Flaherty's October 31<sup>st</sup> new royalty and income trust tax proposals. Nonetheless, we are optimistic that the 2007 markets will reward value investing and investor patience. As a result, we expect a very promising year for value portfolios. We appreciate your confidence and commitment and would like to state that we, in turn, intend to stick with our deep-value investment style throughout 2007. We wish you a very healthy and prosperous 2007 and hope that you will keep in touch with us throughout the year with any comments or questions. In addition, we invite all clients and prospective investors to attend any of our numerous luncheon information meetings to be held throughout 2007.

### 2007 Client & Prospect Meeting Schedule

January 12	January 26 (Client Only)	February 16	March 9
April 13	April 27 (Client Only)	May 11	June 8
July 13	July 27 (Client Only)	August 17	September 21
October 12	October 19 (Client Only)	November 16	December 7

Please RSVP to [rsvp@abcfunds.com](mailto:rsvp@abcfunds.com) if you would like to attend any of the above meetings.

**REMINDER:** All clients turning 69 this year must roll their RRSPs into RRIFs before December 31, 2007.

### ABC Funds in 2007

Overall we remain optimistic with regard to value stocks for 2007. The current market, however, is far from a textbook case and is both confounding and frustrating many investors. We will try to take advantage of all potential opportunities. This makes it extremely important for us to maintain channels of communication with our clients and prospects. We would like to remind everyone to make use of the many mediums of communication we offer.

One of our many offerings includes our Value Investigator web site. Launched in April 2000, [valueinvestigator.com](http://valueinvestigator.com) has grown substantially to include over 15 common portfolio holding descriptions which are periodically updated. The site is updated weekly and includes a monthly audio commentary as well. This site has been well received by clients, prospects and the media alike. Value Investigator allows us to communicate, in detail, recent purchases and sales. This is particularly important for clients living outside the greater Toronto area who cannot attend our monthly investment meetings.

Of course we cannot forget our main site [abcfunds.com](http://abcfunds.com), which serves to inform clients and prospects about basic ABC Fund information including: historical prices, past & current performance, distributions, portfolio and online versions of previous ABC Perspective and Monthly Commentaries. This year we are revamping this site to better serve its visitors.

Lastly, we have our Value Line at 416-365-9442 or 877-ABC-VALU. Every month, Irwin Michael records a brief message to inform listeners of the events of the last month and offers a preview of the month to come. As with our two web sites, this service is available 24 hours a day, 7 days a week. Incidentally, the audio version is also available for your iPod via podcasts.

For those of you with email access, we would like to inform you of our web site update notification service. Whenever certain parts of our web sites are updated, we send out an email notifying subscribers. We don't like to clutter your inbox so we try to restrict our emails to once or twice a week. For more information on this service and to subscribe, please visit [www.valueinvestigator.com/update/](http://www.valueinvestigator.com/update/) when you get a chance.

Thank you,

ABC Funds

I wrote this piece over seven years ago. It is one of my favourite investment editorials and, in spite of the passage of time, it remains quite relevant to today's marketplace.

---

The following is an excerpt from the ABC Perspective – October 1999 – Pg. 1

### **Persistence**

*Press on. Nothing in the world can take the place of persistence.  
Talent will not: nothing is more common than unrewarded talent.  
Education alone will not: the world is full of educated failures.  
Persistence alone is omnipotent.*

- Calvin Coolidge

What is the most valuable asset to a portfolio manager? I believe it is the gift of "persistence". The dictionary defines persistence as: perseverance, to persist, to go on resolutely or stubbornly in spite of difficulties. Quite frankly, the uncertain and precarious high stress environment of stock selection and trading is tailor-made for an individual's steadfast quality of persistence. Let me explain.

Investment management is a full-time, 24 hour-a-day business. It is nonstop. Successful investing is a function of information and in light of the incessant flow of news there is little respite for the weary. To the security analyst bombarded with the constant flow of economic, political and business information, the investment process has become exceedingly complicated and pressure-packed. Moreover since investment management has become so complex and competitive, on occasion, investment decisions are made without complete knowledge. Furthermore, with the incredible growth of consumer interest, Internet trading and the ever-constant media analysis the pressures continue to grow. There is little margin for error. In the heat of the battle the difference between a manager's buy or sell decision may be a split-second intuitive thought. Now this isn't all that bad. The investment business has forced us to sharpen our thought processes to survive.

What am I getting at? The point is the investment business has changed over the past five years. It is faster-paced, information-overloaded, high tech and laden with stress. The pressures are immense to adapt to changing market conditions. Persistence in sticking with a particular management style is all-important regardless of the attraction of chasing yesterday's hot idea. Persistence is also a reflection of the manager's self-confidence in his work. This is crucial to successful stock picking. With the incredible demands of instant gratification by investors, the pressure placed on analysts is substantial. The emphasis is to be right today, not next week. No one cares about six or eight months down the road. That is an eternity today — particularly in the context of "day trading".

Persistence also means doing in depth investment analysis and having the strength and stamina to hang in with a fundamentally cheap security which might have wandered offside. Persistence is sitting tight no matter how distracting the client pressures, the attraction of other hot sectors (e.g. overvalued Internet stocks) or the self-imposed stress to be "right". It is tough and challenging.

My sense is that most successful investors possess this admirable sense of persistence. I honestly believe it is a significant factor leading to their accomplishments. While it is vitally important to pick stock winners it is far more important to have the persistence of one's conviction to carry one's ability to the next level of success.

Persistence enables an investment analyst to "hang tough" no matter how distracting the criticism and second-guessing may be. It tests our mettle. In fact, I can honestly admit that there is no more satisfying accomplishment in investment management than to have the persistence of one's conviction rewarded by a favoured stock pick initially gone awry — eventually turning into a big stock market winner.

**Irwin A. Michael, CFA**

## ABC Fully-Managed Fund (ABC FMF)

December 31, 2006

<b>NAVPS</b>	<b>\$10.0936</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.350088</b>

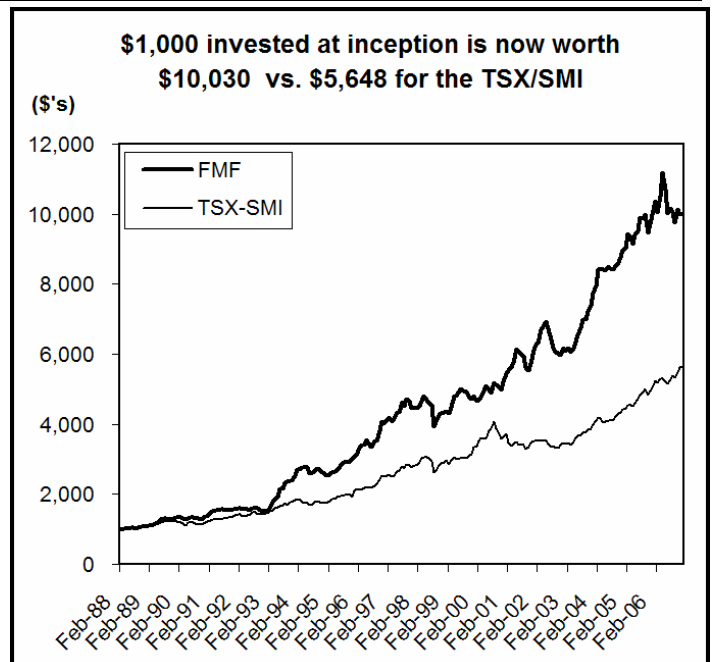
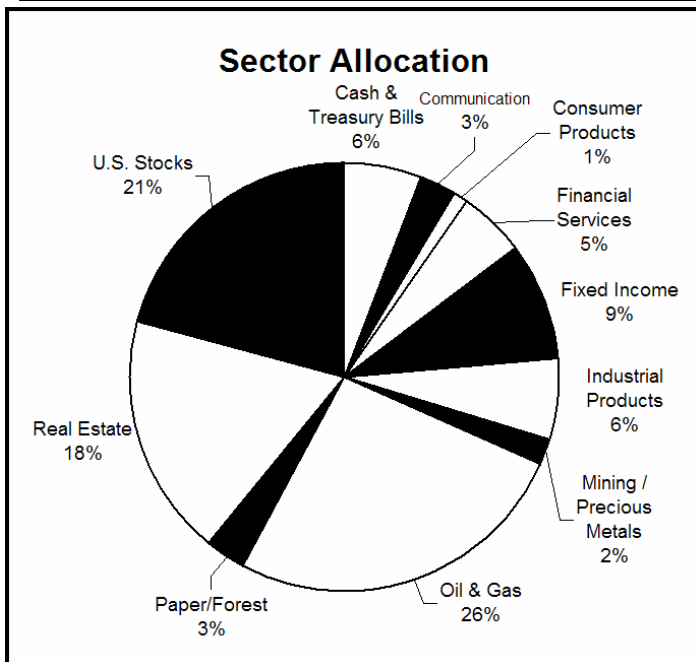
### Objective

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	0.38	0.47	1989	23.68	17.20
Q4 2006	2.92	5.88	1990	2.17	-4.32
YTD	-0.64	11.00	1991	14.69	17.35
1 Year	-0.64	11.00	1992	-1.48	4.75
2 Year	5.71	13.10	1993	64.35	24.36
3 Year	9.00	12.20	1994	2.82	-2.64
5 Year	10.38	9.92	1995	17.25	17.97
10 Year	9.58	8.47	1996	31.99	19.5
15 Year	13.21	9.74	1997	10.56	12.22
Since Inception*	13.02	9.63	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
			2004	15.89	10.42
			2005	12.47	15.25
			2006	-0.64	11.00

\*Inception date for the Fund was February 22nd, 1988  
 \*\*Benchmark consists of 50% of the TSX300 Total Return Index and 50% of the Scotia Capital Markets Universal Bond Index



## ABC Fully-Managed Fund, Statement of Investment Portfolio

**December 31st, 2006**

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

*exchange rate used is 1.1636972*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 5.92%</b>			
1,568,917	C\$ Cash	1,569	1,570
649,597	U\$ Cash	743	756
45,045	RT CAP Cash In Action Fund	4,504	4,504
27,504	RT CAP Cash In Action Fund US \$	3,201	3,201
<b>TOTAL CASH</b>		<b>10,017</b>	<b>10,031</b>

<b>FIXED INCOME -- 9.06%</b>			
1,525,000	Aecon Group Inc. conv., 8 1/4%, 03/17/10	1,468	1,571
2,500,000	Aecon Group Inc. conv., 8 1/4%, 11/02/09	2,494	2,575
2,500,000	First Nickel Inc, 11%, 06/01/2007	2,500	2,500
4,000,000	Frontera Copper, 10%, 06/15/2010	3,324	4,091
2,500,000	Magellan Aero., conv. 8.5%, 01/31/2008	2,478	2,506
2,000,000	Nova Chemical , 7.85%, 08/30/2010	1,984	2,101
<b>TOTAL</b>		<b>14,248</b>	<b>15,344</b>

<b>COMMON STOCKS -- 85.02%</b>			
<b>FINANCIAL SERVICES -- 4.88%</b>			
13,038	E-L Financial Corp.	3,469	8,274
<b>TOTAL</b>		<b>3,469</b>	<b>8,274</b>

<b>REAL ESTATE -- 18.24%</b>			
2,000,000	Huntingdon Real Estate Inv. Trust	5,230	4,600
750,000	Lanesborough Real Estate Inv. Trust	4,568	4,425
850,000	Lakeview Hotel Real Estate Inv. Trust	3,400	3,400
600,000	Legacy Hotels Real Estate Inv. Trust	4,272	5,688
175,000	Morguard Corp. , common shares	3,595	7,552
800,000	Royal Host Real Estate Inv. Trust	4,394	5,240
<b>TOTAL</b>		<b>25,458</b>	<b>30,905</b>

<b>INDUSTRIAL PRODUCTS -- 5.92%</b>			
500,000	Canam Manac Group Inc.	3,290	4,630
750,000	Terravest Income Fund, units	5,894	4,785
54,000	Wescast Industries Inc., "A"	1,974	613
<b>TOTAL</b>		<b>11,158</b>	<b>10,028</b>

<b>COMMUNICATION -- 2.61%</b>			
400,000	CanWest Global Communications	4,120	4,420
<b>TOTAL</b>		<b>4,120</b>	<b>4,420</b>

<b>CONSUMER PRODUCTS -- 1.21%</b>			
386,300	E.D. Smith Income Fund, units	2,007	2,047
<b>TOTAL</b>		<b>2,007</b>	<b>2,047</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER/FOREST PRODUCTS -- 2.89%</b>			
550,000	Norbord Inc.	4,893	4,901
<b>TOTAL</b>		<b>4,893</b>	<b>4,901</b>

<b>OIL &amp; GAS -- 26.32%</b>			
350,000	Avenir Diversified Income Trust	2,126	2,496
1,500,000	Caribou Resources Corp., common	3,299	1,170
232,470	Daylight Energy Trust, units	3,266	2,374
2,750,000	Endev Energy Inc.	4,067	3,410
175,000	Essential Energy Services Trust Units	1,677	912
1,200,000	Grey Wolf Exploration	3,351	3,624
150,000	Nexen Inc.	2,381	9,630
1,060,667	Pearl Exploration & Prod. , common	4,773	5,388
1,500,000	Pulse Data Inc., common	3,713	3,525
750,000	Saxon Energy Services Inc, units	3,675	3,068
375,000	Saxon Energy Services Inc, warrants	0	15
450,000	Talisman Energy Inc.	2,691	8,910
14,595	Trafalgar Energy	0	60
<b>TOTAL</b>		<b>35,019</b>	<b>44,580</b>

<b>MINING / PRECIOUS METALS -- 1.98%</b>			
1,500,000	Amerigo Resources Ltd.	3,697	3,255
133,432	First Nickel Inc.	136	96
<b>TOTAL</b>		<b>3,833</b>	<b>3,351</b>

<b>U.S. STOCKS -- 20.96%</b>			
30,000	Amer. National Ins. Co.	3,244	3,984
150,000	Bassett Furniture Industries Inc.	3,390	2,852
200,000	Covenant Transport Inc.	3,094	2,653
65,000	General Motors Corp.	3,702	2,324
125,000	Genesis Lease Ltd., common	3,321	3,418
75,000	Kansas City Life Insurance Co., common	4,439	4,371
200,000	Phoenix Companies Inc.	3,583	3,698
75,000	Pioneer Natural Resources Co.	3,454	3,464
200,000	Seaspan Corp., common	4,980	5,381
150,000	Superior Industries Intl.	3,760	3,364
<b>TOTAL</b>		<b>36,966</b>	<b>35,509</b>

**TOTAL COMMON STOCK** **126,923** **144,015**

**TOTAL PORTFOLIO** **151,188** **169,390**

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

# ABC FUNDS

## ABC Fundamental-Value Fund (ABC FVF)

December 31, 2006

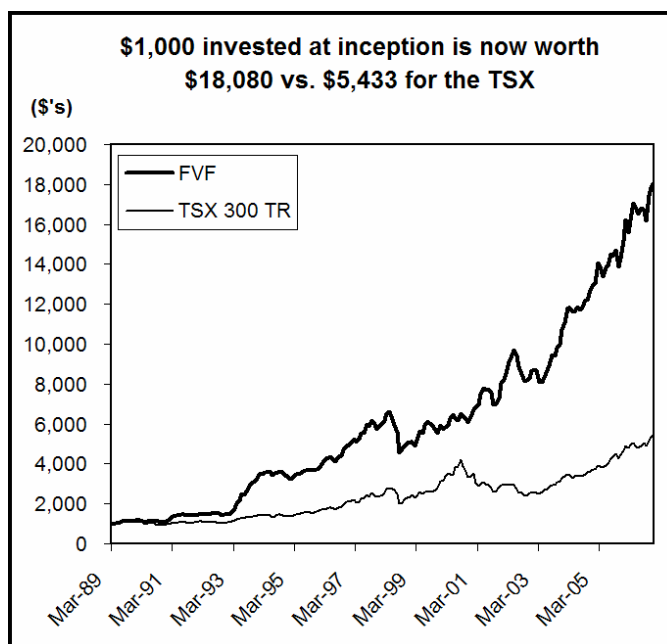
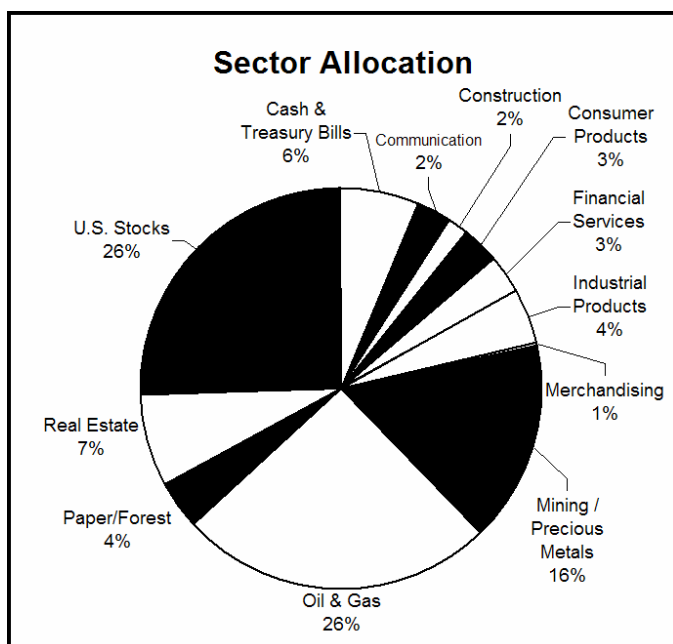
<b>NAVPS</b>	<b>\$21.3348</b>
<b>C.G. Dist.</b>	<b>\$ 1.316289</b>
<b>Inc. Dist.</b>	<b>\$ 0.128979</b>

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	1.41	1.50	1990	-1.98
Q4 2006	11.82	10.42	1991	22.92
YTD	19.13	17.26	1992	4.26
1 Year	19.13	17.26	1993	121.75
2 Year	17.87	20.64	1994	3.03
3 Year	19.04	18.55	1995	11.08
5 Year	17.54	13.08	1996	31.75
10 Year	13.87	9.97	1997	20.35
15 Year	18.51	11.27	1998	-13.81
Since Inception*	17.71	9.97	1999	16.25
			2000	7.51
			2001	26.06
			2002	7.62
			2003	23.55
			2004	21.42
			2005	16.62
			2006	19.13

\*Inception date for the Fund was March 20, 1989  
 \*\*Benchmark consists of the TSX300 Total Return Index



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

**December 31st, 2006**

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

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

**CASH -- 6.46%**

3,038,024	C\$ Cash	3,038	3,038
513,576	U\$ Cash	598	598
364,343	RT CAP Cash In Action Fund	36,434	36,434
114,551	RT CAP U\$ Cash Mgmt Fund	13,330	13,330
<b>TOTAL CASH</b>		<b>53,400</b>	<b>53,400</b>

**COMMON STOCKS -- 93.54%**

**PAPER & FOREST PRODUCTS -- 3.77%**

3,500,000	Norbord Inc.	31,432	31,185
<b>TOTAL</b>		<b>31,432</b>	<b>31,185</b>

**CONSUMER PRODUCTS -- 2.99%**

1,095,000	Andres Wines Ltd. "A"	4,497	13,085
400,000	Arbor Memorial Services "B"	5,339	10,000
310,000	E.D. Smith Income Fund, units	1,644	1,643
<b>TOTAL</b>		<b>11,480</b>	<b>24,728</b>

**INDUSTRIAL PRODUCTS -- 4.54%**

2,500,000	Canam Manac Group Inc.	15,108	23,150
4,000,000	Magellan Aerospace Corp.	11,930	11,000
300,000	Wescast Industries Inc., A	10,808	3,405
<b>TOTAL</b>		<b>37,845</b>	<b>37,555</b>

**COMMUNICATION -- 2.67%**

2,000,000	CanWest Global Communications	21,061	22,100
<b>TOTAL</b>		<b>21,061</b>	<b>22,100</b>

**MINERALS/PRECIOUS METALS -- 15.88%**

10,000,000	African Copper, sub. Recpts.	16,000	13,800
2,750,000	Hudbay Minerals Inc.	7,619	60,060
8,000,000	Ivernia Inc.	12,853	11,760
2,000,000	Lionore Mining Ltd.	11,884	26,500
2,000,000	Polaris Minerals Corp.	9,600	13,760
1,925,000	Richmont Mines	9,433	5,390
<b>TOTAL</b>		<b>67,389</b>	<b>131,270</b>

**REAL ESTATE -- 7.40%**

2,950,000	Huntingdon Real Estate Inv. Trust	7,858	6,785
3,000,000	Legacy Hotels Real Estate Trust	20,761	28,440
600,000	Morguard Corp., common	12,351	25,893
<b>TOTAL</b>		<b>40,969</b>	<b>61,118</b>

**CONSTRUCTION -- 1.78%**

2,275,000	Aecon Group Inc.	12,481	14,674
<b>TOTAL</b>		<b>12,481</b>	<b>14,674</b>

*exchange rate used is 1.1636972*

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

**OIL & GAS -- 25.51%**

775,000	Addax Petroleum Corp.	20,385	25,374
3,000,000	Anderson Energy Ltd., common	19,268	11,640
4,000,000	Atlas Energy Ltd., common	15,835	16,400
1,750,000	Avenir Diversified Income Trust	11,855	12,478
2,500,000	Bow Valley Energy	3,725	16,825
451,589	Daylight Energy Trust Units	7,384	4,611
875,000	Essential Energy Services Trust	8,444	4,559
5,250,000	Geocan Energy Inc.	9,713	8,558
4,500,000	Midnight Oil Exploration	16,398	10,665
500,000	Nexen Inc.	8,028	32,100
4,500,000	Saxon Energy Services Inc.	17,317	18,405
1,125,000	Sound Energy Trust units	9,450	5,749
375,075	Sure Energy Inc., common	443	353
1,350,000	Talisman Energy	8,136	26,730
28,351	Trafalgar Energy, common	120	116
3,000,000	West Energy	16,353	16,260
<b>TOTAL</b>		<b>172,853</b>	<b>210,821</b>

**MERCHANDISING -- 0.34%**

500,000	Danier Leather Inc.	5,018	2,800
<b>TOTAL</b>		<b>5,018</b>	<b>2,800</b>

**FINANCIAL SERVICES -- 3.00%**

39,250	E-L Financial Corp.	10,590	24,823
<b>TOTAL</b>		<b>10,590</b>	<b>24,823</b>

**U.S. STOCKS -- 25.65%**

125,000	Amer. Nat. Ins. Co.	14,057	16,599
250,000	General Motors Corp.	14,238	8,937
800,000	Jo-Ann Stores Inc.	14,459	22,902
385,000	Kansas City Life Insurance Co.	21,852	22,437
2,000,000	Meridian Resources Corp.	7,438	7,192
650,000	Pioneer Natural Resources Co.	29,862	30,022
448,519	Presidential Life Corp.	10,143	11,457
1,000,000	Seaspan Corporation	25,212	26,905
750,000	Superior Industries International	17,700	16,818
1,000,000	The Phoenix Companies	17,648	18,491
1,250,000	Unum Provident Corp., common	25,148	30,227
<b>TOTAL</b>		<b>197,756</b>	<b>211,986</b>

<b>TOTAL COMMON STOCK</b>	<b>608,875</b>	<b>773,059</b>
---------------------------	----------------	----------------

<b>TOTAL PORTFOLIO</b>	<b>662,275</b>	<b>826,459</b>
------------------------	----------------	----------------

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

# ABC FUNDS

## ABC American-Value Fund (ABC AVF)

December 31, 2006

<b>NAVPS</b>	<b>\$ 7.9353</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.057769</b>

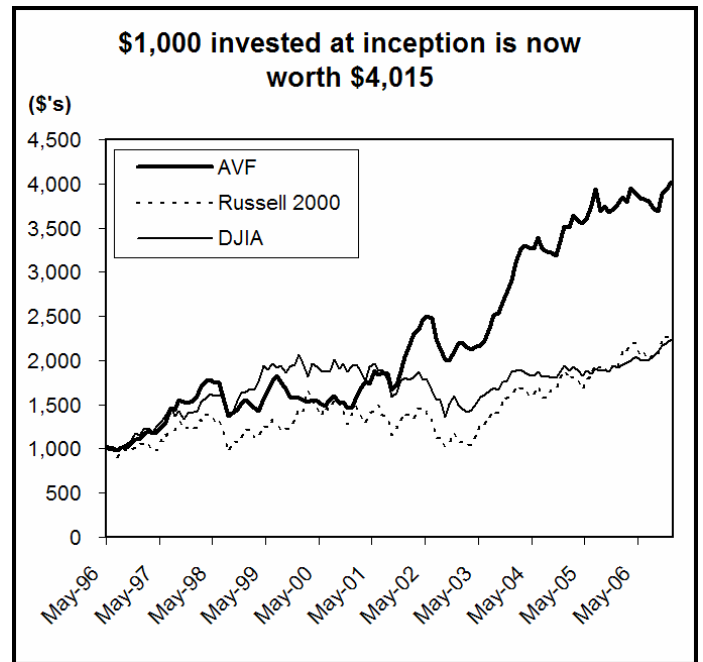
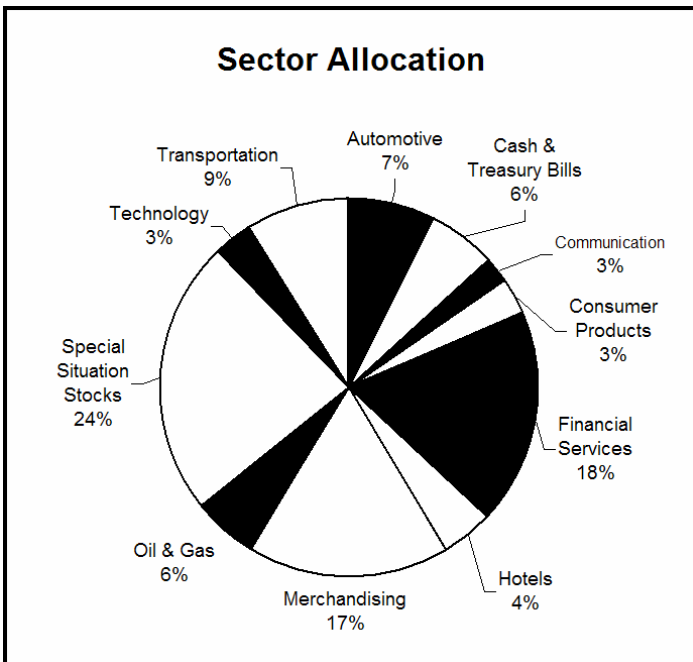
### Objective

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 (%)	Dow Jones (%)	ABC AVF (%)	Russell 2000 (%)	Dow Jones (%)	
1 Month	2.17	0.20	1.97	1997	38.76	20.52	22.64
Q4 2006	8.93	8.55	6.71	1998	0.75	-3.45	16.10
YTD	6.65	17.00	16.29	1999	1.47	19.62	25.22
1 Year	6.65	17.00	16.29	2000	-6.66	-4.20	-6.18
2 Year	6.91	9.95	7.51	2001	39.52	1.03	-7.10
3 Year	11.36	12.25	6.04	2002	6.91	-21.58	-16.76
5 Year	14.41	10.03	4.46	2003	32.74	45.37	25.32
10 Year	13.73	8.07	6.81	2004	20.85	17.00	3.15
Since Inception*	14.04	7.95	7.84	2005	7.16	3.32	-0.61
				2006	6.65	17.00	16.29

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



# ABC FUNDS

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

*December 31st, 2006*

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

*exchange rate used is 1.1636972*

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

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

**CASH -- 5.93%**

443,876	Cash	444	444
0	RT CAP Cash In Action Fund	-	-
348,339	US\$ Cash	405	405
48,878	RT CAP US\$ Cash Fund	5,688	5,688
<b><u>TOTAL CASH</u></b>		<b>6,537</b>	<b>6,537</b>

**MERCHANDISING -- 17.38%**

100,000	Bassett Furniture Industries Inc.	2,469	1,901
250,000	Buca Inc.	2,187	1,399
175,000	Jo-Ann Stores Inc.	3,192	5,010
200,000	John B. Sanfilippo & Sons	3,203	2,853
150,000	Tandy Brands Accessories Inc.	2,669	2,046
60,000	Village Super Markets Inc.	2,422	5,969
<b><u>TOTAL</u></b>		<b>16,141</b>	<b>19,179</b>

**COMMON STOCKS -- 94.07%**

**FINANCIAL SERVICES -- 18.29%**

20,000	Amer. Natl. Ins. Co.	2,191	2,656
125,000	Genesis Lease Ltd, common	3,329	3,418
62,500	Kansas City Life Insurance Co.	3,577	3,642
250,000	National Atlantic Holdings Corp.	3,265	3,392
175,000	Phoenix Companies Inc.	3,070	3,236
150,000	Presidential Life	3,189	3,831
<b><u>TOTAL</u></b>		<b>18,621</b>	<b>20,176</b>

**TRANSPORTATION -- 8.91%**

200,000	Covenant Transport Inc.	3,422	2,653
200,000	Int'l Shipholding Corp., common	3,458	3,140
150,000	Seaspan Corp., common	3,815	4,036
<b><u>TOTAL</u></b>		<b>10,695</b>	<b>9,829</b>

**CONSUMER PRODUCTS -- 3.14%**

27,665	Dominion Homes	520	170
225,000	Flexsteel Industries, common	3,842	3,294
<b><u>TOTAL</u></b>		<b>4,362</b>	<b>3,464</b>

**TECHNOLOGY -- 3.35%**

300,000	Keynote Systems Inc., common	3,747	3,701
<b><u>TOTAL</u></b>		<b>3,747</b>	<b>3,701</b>

**HOTELS -- 4.42%**

300,000	Great Wolf Resorts Inc.	3,545	4,874
<b><u>TOTAL</u></b>		<b>3,545</b>	<b>4,874</b>

**OIL & GAS -- 5.58%**

750,000	Meridian Resources Corp.	3,416	2,697
75,000	Pioneer Natural Resources	3,441	3,464
<b><u>TOTAL</u></b>		<b>6,857</b>	<b>6,161</b>

**SPECIAL SITUATION STOCKS -- 23.50%**

450,000	Accrete Energy Inc., common	3,072	2,745
1,125,000	Atlas Energy Inc., common	4,146	4,613
350,000	CanWest Global Comm.	3,622	3,868
950,000	Grey Wolf Exploration	2,658	2,869
100,000	Morguard Corp., common	2,074	4,316
450,000	Norbord Inc.	3,949	4,010
550,000	Terravest Income Fund, units	3,775	3,509
<b><u>TOTAL</u></b>		<b>23,295</b>	<b>25,928</b>

**AUTOMOTIVE -- 7.41%**

250,000	Coachmen Industries Inc.,	3,069	3,200
45,000	General Motors Corp., common	2,563	1,609
150,000	Superior Industries Intl.	3,787	3,364
<b><u>TOTAL</u></b>		<b>9,419</b>	<b>8,173</b>

**COMMUNICATION -- 2.09%**

700,000	Regent Communications Inc.	3,277	2,305
<b><u>TOTAL</u></b>		<b>3,277</b>	<b>2,305</b>

**TOTAL COMMON STOCK**

		<b>99,960</b>	<b>103,788</b>
--	--	---------------	----------------

**TOTAL PORTFOLIO**

		<b>106,497</b>	<b>110,325</b>
--	--	----------------	----------------

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

## *ABC North American Deep-Value Fund (ABC NADVF)*

<b>NAVPS</b>	<b>\$10.4573</b>
<b>C.G. Dist.</b>	<b>\$ 0.567755</b>
<b>Inc. Dist.</b>	<b>\$ 0.182586</b>

*December 31, 2006*

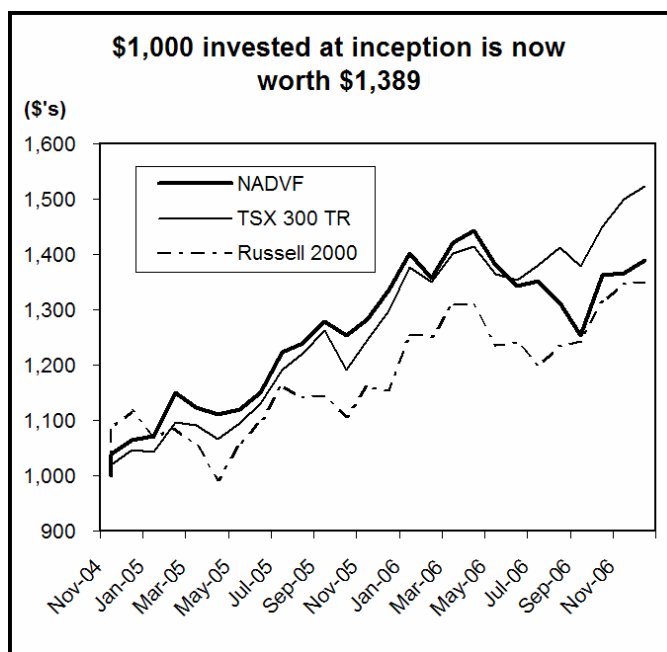
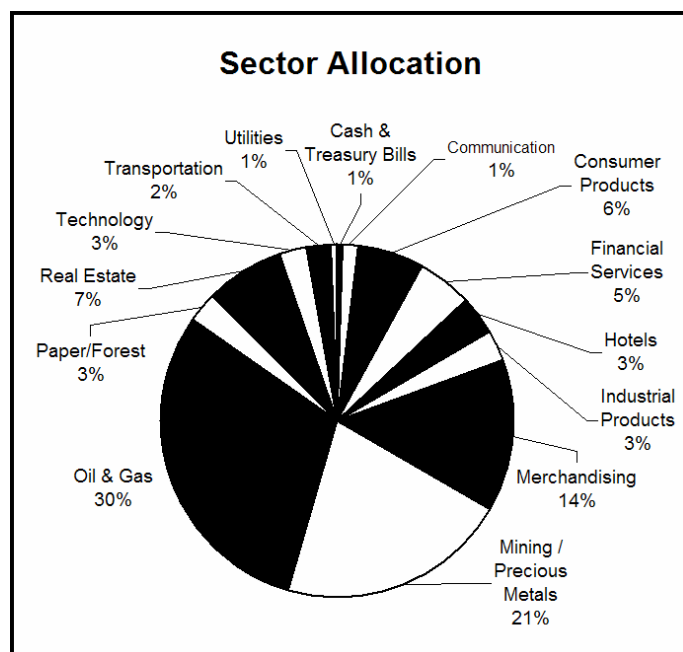
### Objective

*ABC North American Deep-Value Fund searches out fundamentally undervalued Canadian and American stock exchange-listed common shares. This closed-end fund has maximum flexibility to invest in a diversified mix of deep value securities. There is, however, a particular emphasis on micro-caps. The country and asset mix, as well as currency exposure, can vary and has no set limits. The portfolio, ordinarily, will have a mix of 40 to 50 holdings. This fund closed to new money on November 1, 2005.*

### *Performance of the Fund vs. U.S. and Canadian Benchmarks*

<b>Rates of Return</b>				
	<b>ABC NADVF</b>	<b>Russell 2000</b>	<b>Dow Jones</b>	<b>TSX 300</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
1 Month	<b>1.67</b>	0.20	1.97	1.50
Q4 2006	<b>10.74</b>	8.55	6.71	10.42
YTD	<b>3.92</b>	17.00	16.29	17.26
1 Year	<b>3.92</b>	17.00	16.29	17.26
2 Year	<b>14.20</b>	9.95	7.51	20.64
Since Inception*	<b>17.08</b>	14.83	10.56	21.43

**\*Inception date for the Fund was November 1, 2004**



# ABC FUNDS

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

December 31st, 2006

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 0.54%</b>			
629,197	Cash	629	629
10	RT CAP Cash In Action Fund	1	1
201,065	Cash - US \$	234	234
3	RT CAP US\$ Cash Fund	0	0
<b>TOTAL CASH</b>		<b>865</b>	<b>865</b>

**COMMON STOCKS -- 99.46%**

**CANADIAN STOCKS -- 58.56%**

**OIL & GAS / ENERGY -- 25.72%**

650,000	Accrete Energy Inc., common	5,119	3,965
550,000	Anderson Energy Ltd., common	4,155	2,134
2,500,000	Arapahoe Energy Corp.	1,625	550
1,250,000	Caribou Resources Corp.	2,474	975
4,000,000	Choice Resources	3,987	2,480
2,000,000	Endev Energy Inc.	3,204	2,480
850,000	Grey Wolf Exploration	2,378	2,567
1,000,000	Pearl Exploration & Prod.	4,500	5,080
1,500,000	Pulse Data Inc.	3,830	3,525
2,000,000	Rally Energy Corp.	2,730	7,960
1,450,000	Rockyview Energy Inc.	6,279	5,075
500,000	Saxon Energy Services , warr.	0	20
1,000,000	Saxon Energy Services , units	4,900	4,090
<b>TOTAL</b>		<b>45,182</b>	<b>40,901</b>

**PAPER & FOREST PRODUCTS -- 2.80%**

500,000	Norbord Inc.	4,390	4,455
<b>TOTAL</b>		<b>4,390</b>	<b>4,455</b>

**MINERALS/PRECIOUS METALS -- 19.51%**

2,000,000	Amerigo Resources Ltd.	4,522	4,340
1,500,000	Avnel Gold Mining Ltd. units	1,500	1,500
12,500,000	Blue Note Metals Inc.	3,750	6,063
1,531,000	Canadian Zinc Corp.	1,102	1,317
1,250,000	Canadian Zinc Corp., warrants	0	125
2,000,000	Constellation Copper Corp.	3,052	2,880
4,162,000	Goldhawk Resources Inc. units	1,207	2,289
2,525,000	Ivernia Inc.	3,506	3,712
925,000	Polaris Minerals	4,440	6,364
1,500,000	Scorpio Mining Corp.	1,725	2,430
<b>TOTAL</b>		<b>24,803</b>	<b>31,019</b>

**INDUSTRIAL PRODUCTS -- 2.91%**

725,000	Terravest Income Fund, units	5,098	4,625
<b>TOTAL</b>		<b>5,098</b>	<b>4,625</b>

**REAL ESTATE -- 7.30%**

1,750,000	Huntingdon Real Estate Trust	4,576	4,025
710,000	Lakeview Hotel Real Estate Tru:	2,840	2,840
500,000	Legacy Hotels Real Estate Trust	3,583	4,740
<b>TOTAL</b>		<b>10,999</b>	<b>11,605</b>

exchange rate used is 1.1636972

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>U.S. STOCKS -- 41.44%</b>			
<b>MINERALS / PRECIOUS METALS -- 1.46%</b>			
2,500,000	U.S. Silver Corporation units	2,215	2,327
<b>TOTAL</b>		<b>2,215</b>	<b>2,327</b>

**HOTELS -- 3.58%**

350,000	Great Wolf Resorts Inc.	3,644	5,686
<b>TOTAL</b>		<b>3,644</b>	<b>5,686</b>

**UTILITIES -- 0.56%**

50,000	Maine & Maritimes Corp.	1,551	883
<b>TOTAL</b>		<b>1,551</b>	<b>883</b>

**OIL & GAS -- 4.60%**

750,000	Meridian Resource Corp.	3,382	2,697
100,000	Pioneer Natural Resources	4,605	4,619
<b>TOTAL</b>		<b>7,987</b>	<b>7,316</b>

**MERCHANDISING -- 13.83%**

200,000	Bassett Furniture Industries Inc.	4,426	3,803
125,000	Frisch Restaurants Inc.	3,505	4,277
321,801	J. Alexander's Corp., common	3,006	3,363
150,000	Jo-Ann Stores Inc.	2,736	4,294
195,000	John B. Sanfilippo & Sons	3,123	2,782
120,000	S&K Famous Brands	2,383	1,770
125,000	Tandy Brands Accessories Inc.	2,218	1,705
<b>TOTAL</b>		<b>21,397</b>	<b>21,993</b>

**CONSUMER PRODUCTS -- 6.16%**

276,900	Chromcraft Revington Inc.	3,882	2,768
275,000	Coachmen Industries Inc.	3,594	3,520
315,000	Cobra Electronics Corp.	3,006	3,504
<b>TOTAL</b>		<b>10,482</b>	<b>9,792</b>

**TRANSPORTATION -- 2.12%**

125,000	Seaspan Corporation	3,190	3,363
<b>TOTAL</b>		<b>3,190</b>	<b>3,363</b>

**FINANCIAL SERVICES -- 4.99%**

102,700	Merchants Group Inc.	3,085	3,866
300,000	National Atlantic Holdings Corp.	3,447	4,071
<b>TOTAL</b>		<b>6,532</b>	<b>7,937</b>

**TECHNOLOGY -- 2.52%**

325,000	Keynote Systems Inc., common	3,915	4,009
<b>TOTAL</b>		<b>3,915</b>	<b>4,009</b>

**COMMUNICATIONS -- 1.40%**

675,000	Regent Communications Inc.	2,901	2,223
<b>TOTAL</b>		<b>2,901</b>	<b>2,223</b>

**TOTAL COMMON STOCK 154,285 158,135**

**TOTAL PORTFOLIO 155,150 158,999**

# ABC FUNDS

## ABC Dirt-Cheap Stock Fund (ABC DCSF)

December 31, 2006

<b>NAVPS</b>	<b>\$10.6907</b>
<b>C.G. Dist.</b>	<b>\$ 0.297735</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

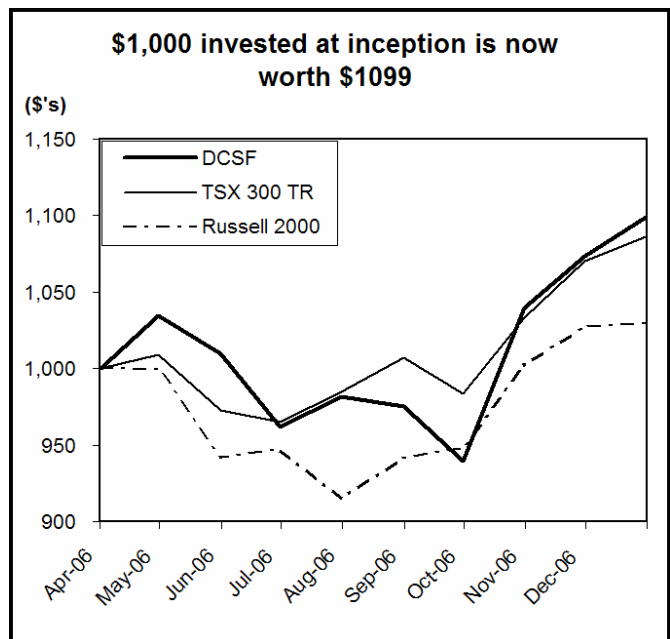
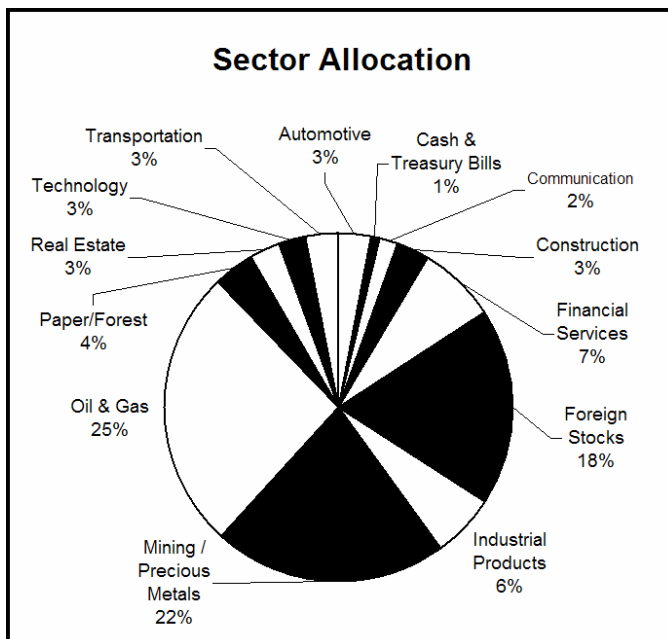
### Objective

ABC Dirt-Cheap Stock Fund is a "go-anywhere in the world" equity fund with unlimited investment flexibility. This deep-value fund has no company-size investment restrictions, and, as a result, can opportunistically purchase overlooked, undervalued and less liquid micro-capitalization stocks. We expect this fund to have a mix of 40-60 holdings comprised of Canadian, U.S. as well as Far East, Australian and European equities. The fund closed to new money on September 1, 2006.

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

Rates of Return				
	ABC DCSF	Russell 2000	Dow Jones	TSX 300
	(%)	(%)	(%)	(%)
1 Month	<b>2.39</b>	0.20	1.97	1.50
Q4 2006	<b>16.97</b>	8.55	6.71	10.42
6 Month	<b>14.24</b>	8.69	11.77	12.54
YTD (from April 1, 2006)	<b>9.88</b>	2.94	12.19	8.60
Since Inception*	<b>9.88</b>	2.94	12.19	8.60

\*Inception date for the Fund was April 1, 2006



# ABC FUNDS

## ABC Dirt-Cheap Stock Fund, Statement of Investment Portfolio December 31, 2006

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.1636972

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 0.95%</b>			
1,059,352	Cash	1,059	1,059
0	RT CAP Cash In Action Fund	-	-
25,325	Cash - AUD \$	23	23
0	Cash - US \$	-	-
0	RT CAP US\$ Cash Fund	-	-
<b>TOTAL CASH</b>		<b>1,083</b>	<b>1,083</b>
<b>COMMON STOCKS -- 99.05%</b>			
<b>CANADIAN STOCKS -- 55.18%</b>			
<b>OIL &amp; GAS / ENERGY -- 19.83%</b>			
500,000	Accrete Energy Inc., common	3,815	3,050
500,000	Anderson Energy Ltd., common	3,317	1,940
700,000	Caribou Resources Corp.	1,794	546
2,000,000	Choice Resources Corp	1,866	1,240
690,000	Choice Resources Corp, warr	0	0
850,000	Pacific Stratus Energy Ltd.	2,550	5,780
800,000	Pearl Exploration & Prod.	3,600	4,064
850,000	Rockyview Energy Inc.	4,076	2,975
750,000	Saxon Energy Services, commc	3,419	3,068
<b>TOTAL</b>		<b>19,787</b>	<b>22,663</b>
<b>REAL ESTATE -- 2.58%</b>			
500,000	Lanesborough Real Estate Trst	3,015	2,950
<b>TOTAL</b>		<b>3,015</b>	<b>2,950</b>
<b>MINERALS / PRECIOUS METALS -- 19.71%</b>			
2,500,000	African Copper, sub. Receipts	4,000	3,450
1,500,000	Amerigo Resources Ltd.	3,669	3,255
7,819,500	Blue Note Metals Inc.	2,346	3,792
2,250,000	Constellation Copper Corp.	3,879	3,240
2,060,000	First Nickel Inc., common	1,360	1,483
2,765,000	First Nickel Inc., warrants	0	359
1,189,000	Liberty Mines Inc., units	1,011	3,317
594,500	Liberty Mines Inc., warrants	0	1,189
1,500,000	Scorpio Mining Corp.	1,725	2,430
<b>TOTAL</b>		<b>17,990</b>	<b>22,516</b>
<b>INDUSTRIAL PRODUCTS -- 5.81%</b>			
750,000	Migao Corp., common	2,138	2,655
375,000	Migao Corp., sub. Receipts	0	158
600,000	Terravest Income Fund units	4,337	3,828
<b>TOTAL</b>		<b>6,474</b>	<b>6,641</b>
<b>CONSTRUCTION -- 2.82%</b>			
500,000	Aecon Group Inc., common	2,688	3,225
<b>TOTAL</b>		<b>2,688</b>	<b>3,225</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER / FOREST PRODUCTS -- 3.90%</b>			
500,000	Norbord Inc.	4,369	4,455
<b>TOTAL</b>		<b>4,369</b>	<b>4,455</b>
<b>U.S. STOCKS -- 44.82%</b>			
<b>TRANSPORTATION -- 2.94%</b>			
125,000	Seaspan Corp., common	3,036	3,363
<b>TOTAL</b>		<b>3,036</b>	<b>3,363</b>
<b>TECHNOLOGY -- 2.70%</b>			
250,000	Keynote Sysystems Inc.	3,156	3,084
<b>TOTAL</b>		<b>3,156</b>	<b>3,084</b>
<b>COMMUNICATION -- 1.80%</b>			
625,000	Regent Communications	3,017	2,058
<b>TOTAL</b>		<b>3,017</b>	<b>2,058</b>
<b>OIL &amp; GAS -- 6.40%</b>			
750,000	Meridian Resource Corp.	3,256	2,697
100,000	Pioneer Natural Resources	4,645	4,619
<b>TOTAL</b>		<b>7,902</b>	<b>7,316</b>
<b>AUTOMOTIVE -- 2.94%</b>			
150,000	Superior Industries Inc.	3,048	3,364
<b>TOTAL</b>		<b>3,048</b>	<b>3,364</b>
<b>MINERALS / PRECIOUS METALS -- 2.04%</b>			
2,500,000	US Silver Corporation units	2,215	2,327
<b>TOTAL</b>		<b>2,215</b>	<b>2,327</b>
<b>FINANCIAL SERVICES -- 7.42%</b>			
62,500	Kansas City Life Insurance Co.	3,570	3,642
200,000	Unum Provident Corp.	4,038	4,836
<b>TOTAL</b>		<b>7,608</b>	<b>8,479</b>
<b>FOREIGN STOCKS -- 18.15%</b>			
1,560,420	Challenger Wine Trust	1,011	1,288
1,412,000	Fortune Real Estate Inv. Trust	1,254	1,247
3,220,000	Fountain Set Holdings Ltd.	1,412	1,046
4,855,000	FuYu Corp. Ltd., common	1,619	1,178
145,898	Natuzzi Spa	1,218	1,445
17,278,000	Playmate Holdings	2,187	2,094
650,000	Standard Life PLC	3,165	4,378
5,000,000	Thakral Holdings Group.	3,079	4,311
1,000,000	Western Areas NL units	3,000	3,750
<b>TOTAL</b>		<b>17,945</b>	<b>20,737</b>
<b>TOTAL COMMON STOCK</b>		<b>99,213</b>	<b>113,177</b>
<b>TOTAL PORTFOLIO</b>		<b>100,295</b>	<b>114,260</b>

## Success

*The toughest thing about success  
is that you've got to keep on being  
a success.*

**Irving Berlin**

Maintaining top performance is a difficult task in any demanding endeavor. A history of top performance creates a magnified expectation of not only future performance but also of, perhaps unrealistically, consistent top performance. Whether one is a top-tier athlete (e.g. Lance Armstrong) or portfolio manager, the drive to maintain high achievement levels is intense and grows in crescendo.

The fact is that no one person, company or organization can consistently keep up a winning performance without a break. Nonetheless, hope springs eternal and we all try. For instance, it is interesting to note that, Bill Miller, one of the finest investment managers of our generation, just broke his 15-year streak of beating the Standard & Poor's 500 index in 2006. As reported by the National Post on January 5, 2007:

*"Mr. Miller's US \$21-billion Legg Mason Value Trust rose 5.9% last year, trailing all 107 competing "multicap value" mutual funds tracked by Bloomberg that buy stocks managers perceive as being cheap. The Legg Mason fund had beaten the S&P 500 every year since 1991, rising at an average rate of 15.7%, topping the 11.8% advance of the US stock benchmark. ... Mr. Miller wasn't the only well-known value investor to trail the S&P 500 in 2006. Ronald MuhlenKamp's*

*US\$2.9 billion MuhlenKamp Fund returned 4.1%. Manu Daftary, who had the second-longest streak of beating the S&P 500 at eight years, also struggled. His US\$967-million Quaker Strategic Growth Fund increased 5.1%"*

Winning streaks or success are tougher and tougher to maintain as time marches on and the risk of shattering a successful streak becomes greater and greater. However, breaking a streak does not imply that an investment manager, pro football team or high-scoring, talented hockey player has suddenly become stupid or lacking in talent. The fact is that streaks or great runs of success, in real life, are meant to be broken or interrupted.

The challenge to professional athletes, as well as investment managers, is to disregard short-term disappointment and return to performance excellence. While this is not always easy to accomplish, it remains the distinctive standard between the mediocre and extraordinary individual or organization. This point was best highlighted by General George S. Patton when he declared "success is how high you bounce when you hit bottom". This statement, I believe, is well-worth remembering.

**Irwin A. Michael, CFA**

---

This newsletter is published by

I.A. Michael Investment Counsel Ltd. and the ABC Funds  
8 King Street East, Suite 700 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)

Value 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.