

## Déjà Vu.....Once Again

*Déjà vu: A feeling of having experienced the present situation before.*

*Oxford American Dictionary*

The longer I am in the investment business the more I sense déjà vu or the feeling that I have gone through an experience several times earlier in my career. The fact is: investing is remarkably cyclical and, strange as it may sound, many investment situations tend to repeat over the years, albeit, with some minor variations. Let me explain.

Over the last 20-25 years, the financial world has gone through and recovered from a number of major financial crises. They include: the 1980s financial issues of Argentina and Brazil; the collapse of the former Soviet Union; U.S. money centre bank problems in the 1980s and 1990s; the 1999-2001 high tech implosion; Enron; Worldcom; the out-of-control Canadian federal deficit and the meltdown of the Canadian dollar to 65¢ U.S. Of particular significance in the 1980s was the failure of over 1000 American savings and loan institutions due to imprudent lending practices as well as the massive 1984 U.S. government bailout of Continental Illinois National Bank.

In recently describing the Continental Illinois debacle of 23 years ago, Andrew Leckie of Tribune Media Services remarked:

*“That once-mighty bank became insolvent because of bad loans purchased from failed Penn Square Bank of Oklahoma City. Continental executives used poor judgment in an attempt to boost profit. Will banks ever learn that being too speculative to gain a jump on the competition can lead to serious trouble that damages confidence and the bottom line? Subprime loans made to less-than-creditworthy borrowers are the latest example of poor judgment.”*

Today, as we are confronted with the U.S. subprime mortgage meltdown and the \$33 billion Canadian asset-backed commercial paper impasse, it appears that the bitter lessons of 25 years earlier have not been learned. While it is our belief that the worldwide monetary system will recover from the present financial turbulence via new private and public equity infusions and increasing international central bank ease, the fact is that the current investment instability has precipitated a severe global flight to liquidity and risk aversion.

Currently, investment greed and speculation have given way to increasing investor anxiety and hesitation. Not surprisingly, heightened investor fear has historically often led to excellent financial opportunities for those who are patient and of firm conviction. This is particularly true with regard to the present poor performance of deep-value equities.

Interestingly, the present deep-value underperformance is akin to the 1999-2000 period when supercharged high technology stocks such as Nortel, JDS Uniphase, and 360 Networks vastly outperformed value shares. Although that was a painful period for fundamentally undervalued equities, patience and stamina paid off handsomely over the next six years.

In summary, we believe that today's deep-value sector's lagging performance, a sense of déjà vu back to the 1999-2000 period will, in retrospect, present excellent investment opportunities over the next 12-24 months. Accordingly, we remain disciplined, opportunistic, patient, and relatively optimistic for 2008.

**ECONOMIC PERSPECTIVES****Slowing Growth, Low Interest Rates and Future Inflation: Part 2**

While there are persisting concerns relating to the U.S. sub-prime mortgage market as well as the \$33 billion Canadian asset-backed commercial paper impasse, there is a new growing fear of a U.S. economic recession. The recession talk has become all-pervasive and is impacting marketable securities, the media and cocktail party chatter. While not to belittle this spreading recession apprehension the securities markets are already discounting economic slowdown.

The worldwide central banks sensitized by expanding economic and subprime concerns are

becoming very accommodative; an easier global monetary policy is now in place. As a result, over the short run, we expect continued lower interest rates and increased money supply growth eventually leading to rising inflation. Although we expect slowing U.S. economic activity in 2008 toward a range of ½ - 1 ½%, we believe that low interest rates and a devalued US dollar will spur on American economic activity, exports and an improving U.S. balance of trade. These events should enable the U.S. economy to skirt economic recession.

**INVESTMENT PERSPECTIVES****Undervalued Deep Value Stocks**

With the increased media, broker and investor commentaries in regard to a pending economic recession, many already-undervalued equities have been beaten down to extremely low levels. Simply put, in a rush for liquidity, fearful investors, institutions and hedge funds have been indiscriminately selling stocks below net asset value and replacement cost.

As common stocks become deeply discounted to their true valuations, there is an increasing likelihood

of precipitating significant mergers, acquisitions, takeovers and privatizations. The fact is: it is cheaper today for corporations to buy undervalued competitors in the market place than to start a company from scratch. In the event of a pickup of corporate takeover activity, this occurrence could become a major catalyst toward a significant rebound in depressed stock prices.

**PORTFOLIO PERSPECTIVES****Patiently Sticking To Our Disciplines**

Amidst a challenging economic and investment environment, we continue to upgrade our ABC portfolios. We have been shifting toward relatively undervalued, more liquid and dividend-paying stocks as well as discounted deep-value securities which have been severely impacted by thin, volatile markets.

We remain disciplined and selective yet opportunistic. In spite of chaotic market conditions, we are patient and continue to favour a number of our undervalued holdings including: Fortress Paper, Babcock and Brown Air Limited, Seaspac Corp., Saxon Energy, Whitemud Resources, Kansas City Life, Lakeview Hotel REIT and CanWest Global Communications.

## ABC Funds Value Favourites

### LAKEVIEW HOTEL REIT

Established in 2004, Lakeview Hotel REIT is among several junior REITs that have launched over the last couple of years. At the end of Q3 2007, Lakeview owned 16 limited service hotels with a total of 1,197 rooms. Geographically, the REIT's focus is on secondary markets in Alberta, British Columbia and Ontario. Secondary markets, while certainly not as glamorous as city centres, provide many opportunities for Lakeview. The main advantage is higher cap rates: average rates in these markets hover around 10% compared to 7-8% for urban cities such as Toronto, Calgary, or Vancouver. Additionally, secondary markets fall under the radar screen for larger industry participants. As a consequence, limited service hotel ownership is fragmented with many owned and operated by local entrepreneurs.

Unlike a typical hotel REIT, which may own a portfolio of hotels with various brands, Lakeview immediately re-flags purchased hotels with the Lakeview banner. While Lakeview's strategy is essentially the same as all new REITs – growth via acquisition – the Company's brand strategy is a competitive advantage and hidden asset. Each hotel is quickly brought up to the standards of the brand (which is usually accompanied by an increase in room rates). Marketing and brand positioning is vital in the hotel industry; once the number of hotels flagged under a brand reaches a critical mass, travelers begin to associate the brand with certain levels of service, comfort and pricing. As the number of Lakeview-flagged hotels grows, the brand's value grows in lock-step.

On November 28th, Lakeview reported Q3 results. Overall, the Trust's Q3 results were a substantial improvement over Q2 and demonstrate that Lakeview's management team is doing a good job of navigating turbulent markets. Most importantly, the Trust's payout ratio came in below 100%, which should give comfort to investors. Despite impressive top line growth, Lakeview's hotel performance numbers continue to reflect reduced oil & gas activity in Western Canada. Lower occupancy in the quarter offset higher room rates to bring RevPAR (revenue per available room) down to \$78.80 from the \$86.06 achieved during the same period last year.

Like many REITs, Lakeview's stock price declined after the subprime/asset-backed commercial paper turmoil surfaced in August. Additionally, a temporary payout ratio in excess of 100% during Q2 further bothered investors who then went on to seek larger capitalization, well-known names. As a result, Lakeview's unit price now trades at a discount of approximately 50% to our calculation of net asset value. Based on a conservative forecast of accretive acquisitions and licensing revenues, we arrive at a NAV of \$5.50 per unit. Given the management team's conservative approach and extensive experience in the industry, we have confidence that Lakeview will emerge as one of the leaders of the new generation of REITs.

### JO-ANN STORES INC.

Jo-Ann Stores is the largest specialty retailer of fabrics and one of the largest specialty retailers of crafts in the United States. It operates 194 large format stores and 595 small format stores throughout 47 states. Each store features a variety of competitively priced merchandise used in sewing, crafting and home decorating projects. Industry sales were approximately \$30 billion in 2006, representing a 2.6% four-year compound annual growth rate. In addition, it is believed that approximately 57% of all US households engage in some form of sewing or crafting.

After reporting a \$23 million loss in 2005 due to operational and industry issues, Jo-Ann Stores looked to new leadership by hiring Darrell Webb as its CEO in July 2006. Jo-Ann's board hoped that Webb, previously the President of Kroger's Fred Myers division, would use his big box merchandising experience to return Jo-Ann stores to sustained profitability. After embarking on a 100 day plan to assess the business, Webb initiated a "repair plan" to address the operational challenges facing the company including declining sales, inventory control and marketing.

The turnaround plan at Jo-Ann Stores was working. The third and fourth quarter results of 2006 showed steady improvement and it appeared as though the company was on the road to recovery. On May 31st 2006 shares of Jo-Ann Stores reached an all time high of \$33.82 after it was reported that the company was in talks to be acquired by one or more private equity firms. The rumoured price was \$1 billion which implied a per share value for Jo-Ann of \$40. When news of a deal did not materialize, a lot of short term traders who purchased the stock for the takeover lost patience and began selling their shares.

Interestingly, the intense competitive nature of the fabric business seems to be subsiding. Hancock Fabrics, the second largest pure fabric retailer, has been closing stores and Wal-Mart recently decided to exit the category in the majority of its locations. This should result in better sales and improved margins in fabrics for Jo-Ann Stores going forward. However, given the lackluster holiday shopping season and signs of a possible recession in the US, the shares of many US retailers have plummeted to severely depressed levels.

Now trading at a 38% discount to its tangible book value of \$16.78 per share, we believe that Jo-Ann Stores could be one of the cheapest in the sector. Although the company has yet to report fourth quarter results, management believes that earnings for 2007 will finish in the range of \$.55 to \$.60 per share. This implies an EBIT (earnings before interest and taxes) margin of roughly 2% which is below the company's historic average of around 5-6% and below the level of many of its peers. We think that in better times, Jo-Ann Store's margins can eventually improve to 5% and generate earnings of over \$2.00 a share; this implies a target valuation of \$25 to \$30 a share.



**Announcing The Upcoming Re-Launch  
of the Value Investigator Web Site**

Last October we unveiled our new ABC Funds web site design. Our next task is to apply the same kind of upgrade to our Value Investigator (www.valueinvestigator.com) web site. As with our main ABC Funds site, we have spent the past several months garnering client ideas and suggestions for the design of our revitalized web site. The intent again was to make this site more up-to-date and user-friendly.

Later this month, we will be re-launching the Value Investigator site with a bold new design and layout. As with our other efforts, we hope you like the changes that have been made. Over the next several months we will continue to add additional features and functionality and would appreciate any feedback you wish to share with us on either site.

Please visit our site and take a tour. If you have any suggestions or comments about either of the new sites please contact Ian D’Souza at (idsouza@abcfunds.com).

**Ian D’Souza & Neal Gilmore**

**Administrative Updates  
– Lunch & Learn Seminars -**

We wish you a very happy, healthy and prosperous 2008 and hope that you will keep in touch with us throughout the year with any comments or questions. We would like to take this opportunity to invite all clients and prospective investors to attend any of our numerous Lunch & Learn seminars to be held throughout 2008. Due to limited space, all Lunch & Learn Seminars will be capped to the first 50 people who RSVP. In consequence, we request that all interested attendees RSVP in advance of the date you plan on attending. Our meetings take place at our office at 12 noon on the day specified. Please RSVP at least 24 to 48 hours in advance to 416-365-9696 or by email to rsvp@abcfunds.com.

**2008 Lunch & Learn Seminar Schedule**

January 11	January 25	February 15	March 7
April 11	April 18	May 23	June 20
July 11	July 18	August 15	September 12
October 17	October 24	November 14	December 12

Please RSVP to rsvp@abcfunds.com if you would like to attend any of the above meetings.

**REMINDER:** All clients turning 71 this year must roll their RRSPs into RRIFs before December 31, 2008.

**Gabriel Rulli & Neal Gilmore**

I originally wrote this front page editorial for the July 2000 ABC Perspective. Little did I know that the very issues I wrote about then would be so relevant today, in January 2008. The fact is that the stock market is incredibly cyclical and certain investment disciplines become important investment truisms that bear remembrance in the future.

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The following is an excerpt from the July 2000 ABC Perspective

### ***Patience Revisited***

*“It is better to have a hen tomorrow  
than an egg today.”  
- Chinese proverb -*

I've written on this topic many times. In fact, I believe that investor patience, assuming a fundamentally sound security, is probably as important as the in-depth, fundamental analysis employed to select that security.

Value analysis today continues to be very frustrating as the market remains in “high tech momentum mode”. Value stocks continue to languish. These stocks can be purchased at incredibly low multiples and at a discount to net asset/replacement values. I am astounded at the extraordinarily low valuations that the market is placing on value securities. In consequence, there is little wonder that many companies have recently initiated substantial share buybacks (International Forest Products, Canadian National Railway, Stelco, etc.) or are officially looking at ways to maximize shareholder value (MFP Financial, Maxx Petroleum, etc.). The two cheapest value sectors, in our opinion, are forestry and oil and gas.

But value stock performance is happening at a very slow pace in relation to the fast action of the high technology and momentum stocks. The resulting frustration and agony of low relative performance of value compared to growth/momentum portfolios is taking its toll amongst portfolio managers. Yet it seems to me that with the growing trend of mergers and acquisitions of non-performing value companies, substantial opportunities abound. Consider the recent takeover prices of previously out of favour value stocks. When takeover prices are set, the strike price is normally a very generous 25%-35% premium over the pre-announcement valuation. In consequence, the substantial frustration and agony are well worth the end result.

Equally frustrating is the “when to sell dilemma”. The fact is that when value stocks are so out of favour and are trading at remarkably low valuations, the slightest uptick in price encourages one to sell. But quite often the sudden price improvement is but a mere tease as the stock evolves from a value play to a momentum play before soaring upward in price. The risk at that point is that one becomes impatient and sells too early.

Overall, “be patient” is easy for one to say. But to be a patient investor, in reality, is a very different story since investors are clamouring for instant gratification. Webster's Dictionary defines patience as:

*“bearing pain or trials without complaint,  
showing self-control, calm, steadfast  
and persevering”.*

By definition, patience is an extremely difficult yet all-important ingredient to investment success. Clearly the present market is severely testing our patience. I believe this is only temporary. The end result, in my opinion, far outweighs today's frustration.

**Irwin A. Michael, CFA**

## ABC Fully-Managed Fund (ABC FMF)

December 31, 2007

<b>NAVPS</b>	<b>\$ 8.6353</b>
<b>C.G. Dist.</b>	<b>\$ 0.175428</b>
<b>Inc. Dist.</b>	<b>\$ 0.038605</b>

### Objective

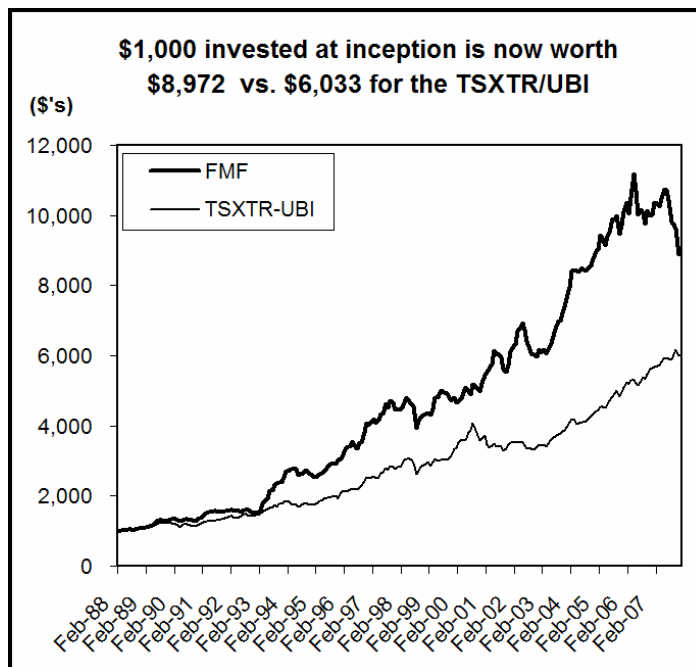
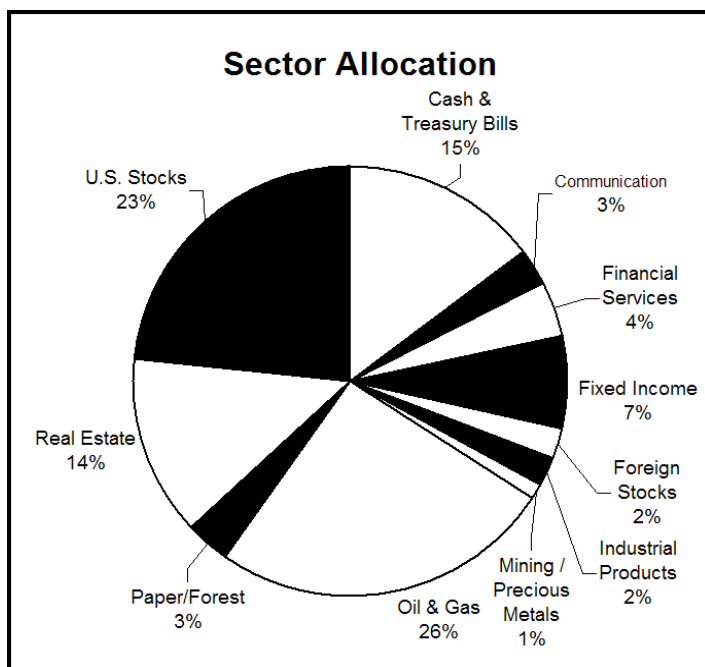
ABC Fully-Managed Fund is a diversified Canadian balanced fund. While our long-term asset mix target is 50% fixed income and 50% Canadian equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.

### Performance of the Fund vs. the Benchmark

	Annualized Compounded Rates of Return		Annual Returns	
	ABC FMF (%)	TSXTR/UBI (%) **	ABC FMF (%)	TSXTR/UBI (%)**
1 Month	1.14	0.76	1989	23.68
Q4 2007	-7.94	0.17	1990	2.17
YTD	-10.55	6.82	1991	14.69
1 Year	-10.55	6.82	1992	-1.48
2 Year	-5.73	8.89	1993	64.35
3 Year	-0.01	10.97	1994	2.82
5 Year	7.78	11.71	1995	17.25
10 Year	7.28	7.93	1996	31.99
15 Year	12.48	9.88	1997	10.56
Since Inception*	11.70	9.48	1998	-2.02
			1999	10.37
			2000	8.31
			2001	17.62
			2002	0.77
			2003	25.52
			2004	15.89
			2005	12.47
			2006	-0.64
			2007	-10.55

\*Inception date for the Fund was February 22nd, 1988

\*\*Benchmark consists of 50% of the S&P/TSX Composite Total Return Index and 50% of the PC-Bond Universe Bond Index (UBI)



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

*December 31st, 2007*

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

*exchange rate used is 0.9869524*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 14.82%</b>			
555,121	C\$ Cash	555	555
456,995	U\$ Cash	451	451
118,742	RT CAP Cash In Action Fund	11,874	11,874
65,765	RT CAP Cash In Action Fund US \$	6,491	6,491
<b><u>TOTAL CASH</u></b>		<b>19,371</b>	<b>19,371</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER/FOREST PRODUCTS -- 3.35%</b>			
550,000	Norbord Inc.	4,893	4,378
<b><u>TOTAL</u></b>		<b>4,893</b>	<b>4,378</b>

<b>FIXED INCOME -- 6.97%</b>			
3,000,000	Blue Note Mining Inc., 11%, 03/31/2012	3,000	3,000
4,000,000	Frontera Copper, 10%, 06/15/2010	3,324	4,100
2,000,000	Nova Chemical Corp., 7.85%, 08/30/2010	1,984	2,008
<b><u>TOTAL</u></b>		<b>8,308</b>	<b>9,108</b>

<b>PRECIOUS METALS &amp; MINERALS -- 1.16%</b>			
100,000	Franco Nevada Corporation	1,520	1,515
<b><u>TOTAL</u></b>		<b>1,520</b>	<b>1,515</b>

<b>COMMON STOCKS -- 78.22%</b>			
<b>FINANCIAL SERVICES -- 4.10%</b>			
9,483	E-L Financial Corp.	2,514	5,358
<b><u>TOTAL</u></b>		<b>2,514</b>	<b>5,358</b>

<b>OIL &amp; GAS -- 25.41%</b>			
350,000	Avenir Diversified Income Trust	2,126	2,709
3,454,500	Endev Energy Inc.	4,817	2,625
500,000	Essential Energy Services Trust Units	3,900	1,540
1,200,000	Grey Wolf Exploration	3,351	2,016
300,000	Nexen Inc.	2,381	9,630
1,000,000	Pearl Exploration & Prod. , common	4,500	2,600
750,000	Saxon Energy Services Inc., common	3,675	3,825
450,000	Talisman Energy Inc.	2,691	8,276
<b><u>TOTAL</u></b>		<b>27,442</b>	<b>33,221</b>

<b>REAL ESTATE -- 13.86%</b>			
2,000,000	Huntingdon Real Estate Inv. Trust	5,230	4,600
750,000	Lanesborough Real Estate Inv. Trust	4,568	3,743
850,000	Lakeview Hotel Real Estate Inv. Trust	3,400	2,941
175,000	Morguard Corp., common shares	3,595	6,843
<b><u>TOTAL</u></b>		<b>16,792</b>	<b>18,127</b>

<b>U.S. STOCKS -- 23.24%</b>			
30,000	Amer. National Ins. Co.	3,244	3,590
150,000	Babcock & Brown Air Limited ADS shrs.	3,450	2,696
158,996	Covenant Transport Inc.	2,495	1,055
250,000	Flagstar Bancorp Inc., common	3,477	1,720
65,000	General Motors Corp.	3,702	1,597
75,000	Kansas City Life Insurance Co., common	4,439	3,227
200,000	Phoenix Companies Inc.	3,583	2,343
75,000	Pioneer Natural Resources Co.	3,454	3,615
175,000	Presidential Life Corp.	4,416	3,024
200,000	Seaspan Corp., common	5,050	4,834
150,000	Superior Industries Intl.	3,760	2,690
<b><u>TOTAL</u></b>		<b>41,069</b>	<b>30,390</b>

<b>INDUSTRIAL PRODUCTS -- 2.06%</b>			
750,000	Terravest Income Fund, units	5,894	2,693
<b><u>TOTAL</u></b>		<b>5,894</b>	<b>2,693</b>

<b>FOREIGN STOCKS -- 2.28%</b>			
600,000	Standard Life PLC, common	3,397	2,980
<b><u>TOTAL</u></b>		<b>3,397</b>	<b>2,980</b>

<b>COMMUNICATION -- 2.75%</b>			
500,000	CanWest Global Communications	4,775	3,600
<b><u>TOTAL</u></b>		<b>4,775</b>	<b>3,600</b>

<b><u>TOTAL COMMON STOCK</u></b>		<b>108,297</b>	<b>102,262</b>
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<b><u>TOTAL PORTFOLIO</u></b>		<b>135,976</b>	<b>130,741</b>
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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, 2007

<b>NAVPS</b>	<b>\$17.7740</b>
<b>C.G. Dist.</b>	<b>\$ 1.883189</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

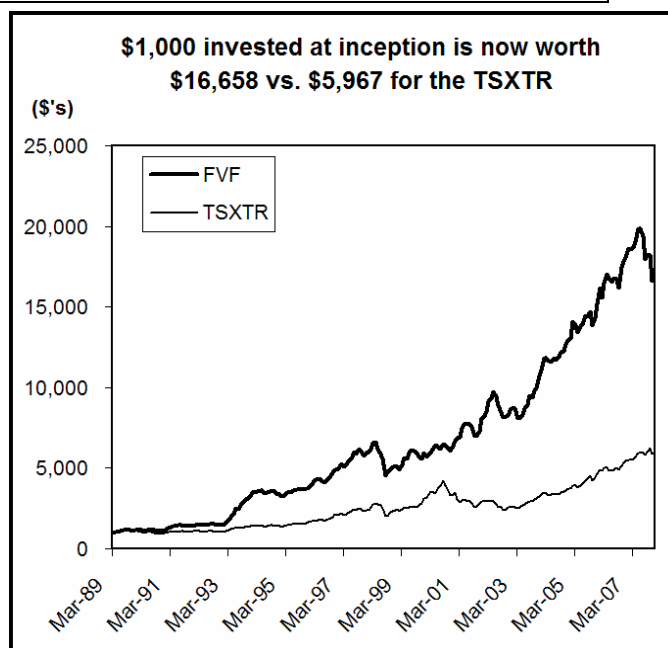
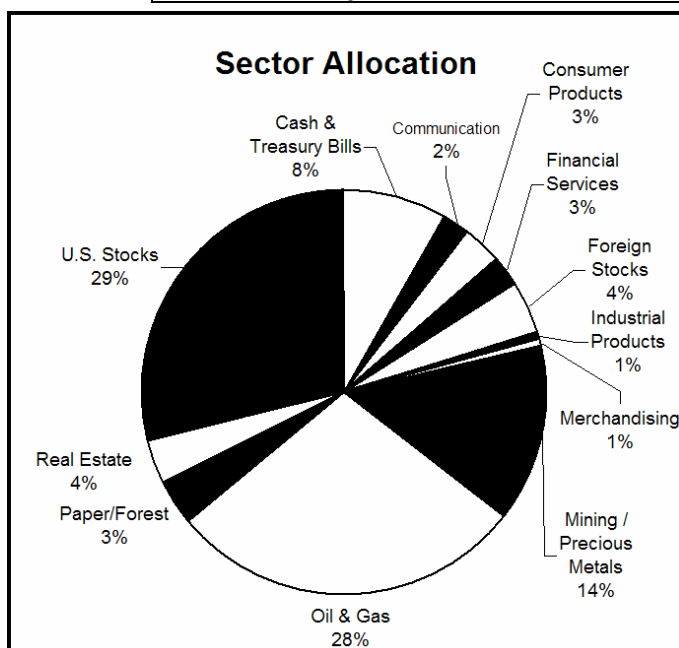
ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian 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 (%)	TSXTR (%)**	ABC FVF (%)	TSXTR (%)**
1 Month	<b>0.48</b>	1.34	1990	<b>-1.98</b>
Q4 2007	<b>-8.90</b>	-1.25	1991	<b>22.92</b>
YTD	<b>-7.86</b>	9.83	1992	<b>4.26</b>
1 Year	<b>-7.86</b>	9.83	1993	<b>121.75</b>
2 Year	<b>4.77</b>	13.49	1994	<b>3.03</b>
3 Year	<b>8.58</b>	16.93	1995	<b>11.08</b>
5 Year	<b>13.94</b>	18.32	1996	<b>31.75</b>
10 Year	<b>10.87</b>	9.47	1997	<b>20.35</b>
15 Year	<b>17.54</b>	12.07	1998	<b>-13.81</b>
Since Inception*	<b>16.19</b>	9.96	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>
			2004	<b>21.42</b>
			2005	<b>16.62</b>
			2006	<b>19.13</b>
			2007	<b>-7.86</b>

\*Inception date for the Fund was March 20, 1989

\*\*S&P/TSX Composite Total Return Index



# ABC FUNDS

## ABC Fundamental-Value Fund, Statement of Investment Portfolio December 31st, 2007

all dollar amounts in thousands (cdn\$)

exchange rate used is 0.9869524

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 8.83%</b>			
1,661,360	C\$ Cash	1,661	1,661
149,449	U\$ Cash	147	147
669,083	RT CAP Cash In Action Fund	66,908	66,908
21,002	RT CAP U\$ Cash Mgmt Fund	2,073	2,073
<b><u>TOTAL CASH</u></b>		<b>70,790</b>	<b>70,790</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>COMMUNICATION -- 2.24%</b>			
2,500,000	CanWest Global Communicator	24,337	18,000
<b><u>TOTAL</u></b>		<b>24,337</b>	<b>18,000</b>

**COMMON STOCKS -- 91.17%**

<b>MINING/PRECIOUS METALS -- 14.05%</b>			
400,000	Franco Nevada Corporation	6,080	6,060
1,250,000	Hudbay Minerals Inc.	3,463	24,375
9,630,100	Ivernia Inc.	15,202	16,660
2,000,000	Polaris Minerals Corp.	9,600	22,820
1,925,000	Richmont Mines	9,433	6,045
6,250,000	Western Goldfield Inc., common	13,668	23,813
1,200,000	Whitemud Resources	9,608	12,900
<b><u>TOTAL</u></b>		<b>67,055</b>	<b>112,673</b>

**REAL ESTATE -- 3.77%**

<b>PAPER &amp; FOREST PRODUCTS -- 3.47%</b>			
3,500,000	Norbord Inc.	31,432	27,860
<b><u>TOTAL</u></b>		<b>31,432</b>	<b>27,860</b>

**INDUSTRIAL PRODUCTS -- 0.55%**

<b>CONSUMER PRODUCTS -- 2.85%</b>			
1,095,000	Andrew Peller Ltd., common	4,497	10,282
400,000	Arbor Memorial Services "B"	5,339	12,600
<b><u>TOTAL</u></b>		<b>9,836</b>	<b>22,882</b>

**FINANCIAL SERVICES -- 2.50%**

**OIL & GAS -- 28.23%**

<b>U.S. STOCKS -- 28.68%</b>			
125,000	Amer. Nat. Ins. Co.	14,057	14,957
1,075,000	Babcock & Brown Air Ltd. ADS	24,646	19,320
725,000	Blackstone Group	17,538	15,835
1,470,111	Flagstar Bancorp Inc., common	20,113	10,113
250,000	General Motors Corp.	14,238	6,141
900,000	Jo-Ann Stores Inc.	17,438	11,618
385,000	Kansas City Life Insurance Co.	21,852	16,563
1,858,990	Meridian Resources Corp.	6,907	3,321
750,000	Pioneer Natural Resources Co.	34,379	36,152
900,000	Presidential Life Corp.	21,231	15,553
1,000,000	Seaspan Corporation	25,212	24,170
750,000	Superior Industries International	17,700	13,450
1,000,000	The Phoenix Companies	17,648	13,440
1,250,000	Unum Provident Corp., common	25,148	29,349
<b><u>TOTAL</u></b>		<b>278,107</b>	<b>229,982</b>

775,000	Addax Petroleum Corp.	20,385	33,286
3,000,000	Anderson Energy Ltd., common	19,268	8,640
1,750,000	Avenir Diversified Income Trust	11,855	13,545
2,500,000	Bow Valley Energy	3,725	15,750
1,750,000	Essential Energy Services Trust	14,452	5,390
4,705,000	Gentry Resources Ltd., common	18,703	10,774
5,050,000	Geocan Energy Inc.	9,343	1,515
2,929,200	Ithaca Energy Inc.	6,940	9,290
4,500,000	Midnight Oil Exploration	16,398	4,860
1,000,000	Nexen Inc.	8,028	32,100
3,280,000	Pearl Exploration	15,835	8,528
1,000,000	Precision Drilling Trust units	27,211	15,090
4,500,000	Saxon Energy Services Inc.	17,317	22,950
22,500,000	Stratic Energy Corp.	27,989	19,800
1,350,000	Talisman Energy	8,136	24,827
<b><u>TOTAL</u></b>		<b>225,583</b>	<b>226,345</b>

**MERCHANDISING -- 0.63%**

<b>FOREIGN STOCKS -- 4.19%</b>			
4,500,000	McGuigan Simeon Wines Ltd.	8,942	8,774
5,000,000	Standard Life PLC, common	28,582	24,833
<b><u>TOTAL</u></b>		<b>37,525</b>	<b>33,607</b>

**TOTAL COMMON STOCK** **718,395** **731,117**

**TOTAL PORTFOLIO** **789,185** **801,907**

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, 2007

<b>NAVPS</b>	<b>\$ 6.0733</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

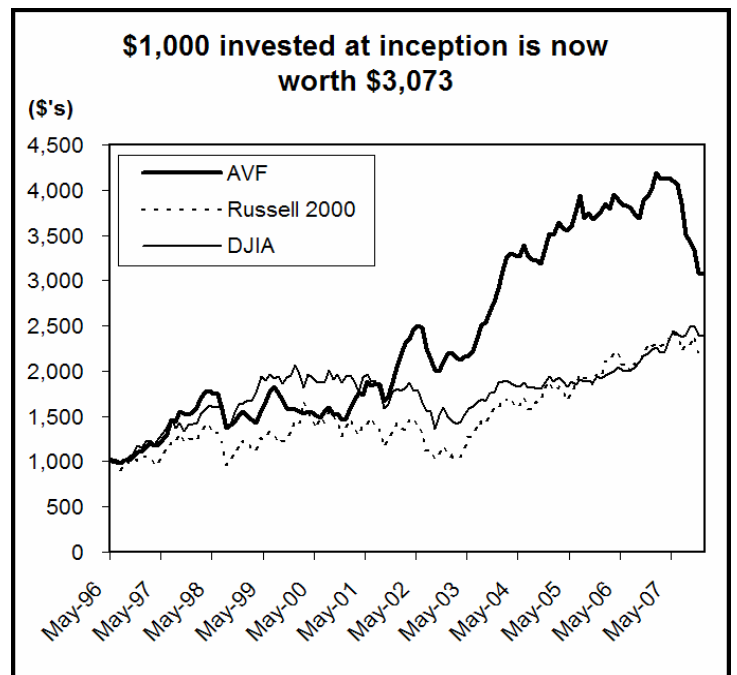
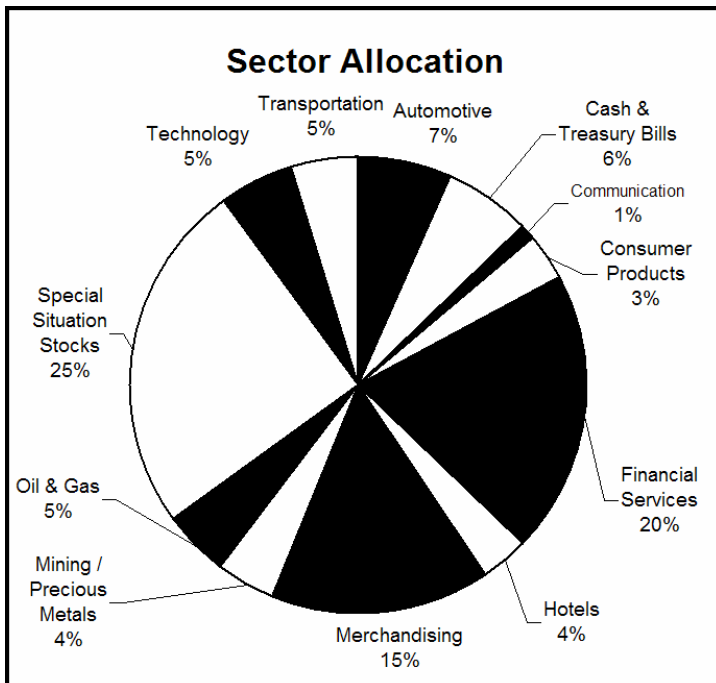
### Objective

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 (%)	Dow Jones Industrials (%)	ABC AVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)	
1 Month	-0.31	-0.23	-0.80	1997	38.76	20.52	22.64
Q4 2007	-10.28	-4.89	-4.54	1998	0.75	-3.45	16.10
YTD	-23.46	-2.75	6.43	1999	1.47	19.62	25.22
1 Year	-23.46	-2.75	6.43	2000	-6.66	-4.20	-6.18
2 Year	-9.65	6.67	11.25	2001	39.52	1.03	-7.10
3 Year	-4.36	5.54	7.15	2002	6.91	-21.58	-16.76
5 Year	7.01	14.87	9.72	2003	32.74	45.37	25.32
10 Year	7.16	5.77	5.31	2004	20.85	17.00	3.15
Since Inception*	10.18	6.99	7.72	2005	7.16	3.32	-0.61
				2006	6.65	17.00	16.29
				2007	-23.46	-2.75	6.43

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



# ABC FUNDS

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

December 31st, 2007

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

*exchange rate used is 0.9869524*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 5.96%</b>			
522,850	Cash	523	523
18	RT CAP Cash In Action Fund	2	2
1,438,762	US\$ Cash	1,420	1,420
30,294	RT CAP US\$ Cash Fund	2,990	2,990
<b><u>TOTAL CASH</u></b>		<b>4,935</b>	<b>4,935</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>MERCHANDISING -- 15.34%</b>			
263,000	Buca Inc.	2,216	234
325,000	Cost Plus Inc., common	3,307	1,392
150,000	Jo-Ann Stores	2,543	1,936
200,000	John B. Sanfilippo & Sons	3,203	1,662
150,000	Tandy Brands Accessories Inc.	2,669	1,443
120,000	Village Super Markets Inc.	2,422	6,027
<b><u>TOTAL</u></b>		<b>16,359</b>	<b>12,694</b>

**COMMON STOCKS -- 94.04%**

**FINANCIAL SERVICES -- 20.07%**

20,000	Amer. Natl. Ins. Co.	2,191	2,393
125,000	Blackstone Group	3,198	2,730
62,500	Kansas City Life Insurance Co.	3,577	2,689
250,000	National Atlantic Holdings Corp.	3,265	1,093
175,000	Phoenix Companies Inc.	3,070	2,050
325,000	PMA Capital Corp.	3,474	2,637
175,000	Presidential Life	3,730	3,024
<b><u>TOTAL</u></b>		<b>22,505</b>	<b>16,616</b>

**TRANSPORTATION -- 4.86%**

150,000	Babcock & Brown Air Ltd. ADS	3,446	2,696
200,000	Covenant Transport Inc.	3,422	1,326
<b><u>TOTAL</u></b>		<b>6,868</b>	<b>4,022</b>

**TECHNOLOGY -- 5.03%**

300,000	Keynote Systems Inc., common	3,747	4,160
<b><u>TOTAL</u></b>		<b>3,747</b>	<b>4,160</b>

**HOTELS -- 3.51%**

300,000	Great Wolf Resorts Inc.	3,545	2,905
<b><u>TOTAL</u></b>		<b>3,545</b>	<b>2,905</b>

**CONSUMER PRODUCTS -- 3.22%**

225,000	Flexsteel Industries, common	3,842	2,665
<b><u>TOTAL</u></b>		<b>3,842</b>	<b>2,665</b>

**MINING/PRECIOUS METALS -- 4.34%**

2,910,000	Phoenix Coal Corp., conv deb	3,638	3,590
<b><u>TOTAL</u></b>		<b>3,638</b>	<b>3,590</b>

**OIL & GAS -- 4.37%**

75,000	Pioneer Natural Resources	3,441	3,615
<b><u>TOTAL</u></b>		<b>3,441</b>	<b>3,615</b>

**AUTOMOTIVE -- 6.71%**

300,000	Coachmen Industries Inc.,	3,644	1,762
45,000	General Motors Corp., common	2,563	1,105
150,000	Superior Industries Intl.	3,787	2,690
<b><u>TOTAL</u></b>		<b>9,994</b>	<b>5,557</b>

**SPECIAL SITUATION STOCKS -- 25.31%**

450,000	Accrete Energy Inc., common	3,072	2,223
950,000	Grey Wolf Exploration	2,658	1,596
100,000	Morguard Corp., common	2,074	3,910
450,000	Norbord Inc.	3,949	3,582
750,000	Pearl Exploration	3,371	1,950
550,000	Terravest Income Fund, units	3,775	1,975
1,500,000	Western Goldfields Inc., commo	3,204	5,715
<b><u>TOTAL</u></b>		<b>22,102</b>	<b>20,951</b>

**COMMUNICATION -- 1.29%**

700,000	Regent Communications Inc.	3,277	1,064
<b><u>TOTAL</u></b>		<b>3,277</b>	<b>1,064</b>

**TOTAL COMMON STOCK**

		<b>99,318</b>	<b>77,839</b>
<b><u>TOTAL PORTFOLIO</u></b>		<b>104,253</b>	<b>82,773</b>

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

<b>NAVPS</b>	<b>\$ 8.6904</b>
<b>C.G. Dist.</b>	<b>\$ 0.464774</b>
<b>Inc. Dist.</b>	<b>\$ 0.066792</b>

*December 31, 2007*

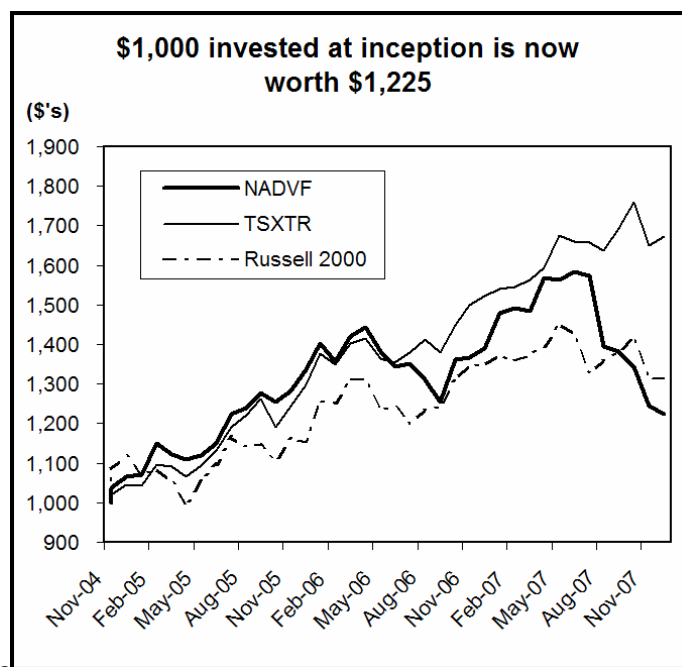
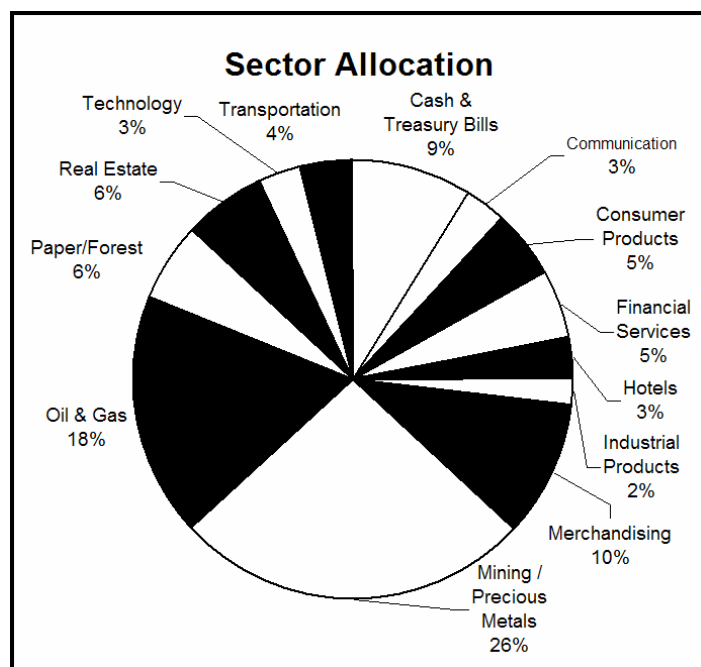
### Objective

*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*

	Annualized Compounded Rates of Return				Annual Returns				
	ABC NADVF	Russell 2000	Dow Jones Industrials	TSXTR**	ABC NADVF	Russell 2000	Dow Jones Industrials	TSXTR**	
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
1 Month	-1.50	-0.23	-0.80	1.34	2005	25.49	3.32	-0.61	24.13
Q4 2007	-11.32	-4.89	-4.54	-1.25	2006	3.92	17.00	16.29	17.26
YTD	-11.81	-2.75	6.43	9.83	2007	-11.81	-2.75	6.43	9.83
1 Year	-11.81	-2.75	6.43	9.83					
2 Year	-4.27	6.67	11.25	13.49					
3 Year	4.77	5.54	7.15	16.93					
Since Inception*	6.80	8.96	9.24	17.64					

\*Inception date for the Fund was November 1, 2004  
 \*\*S&P/TSX Composite Total Return Index



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

December 31st, 2007

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 9.35%</b>			
0	Cash	-	-
51,062	RT CAP Cash In Action Fund	5,106	5,106
40,456	Cash - US \$	40	40
77,984	RT CAP US\$ Cash Fund	7,697	7,697
<b>TOTAL CASH</b>		<b>12,843</b>	<b>12,843</b>
<b>COMMON STOCKS -- 90.65%</b>			
<b>CANADIAN STOCKS -- 53.05%</b>			
<b>OIL &amp; GAS / ENERGY -- 18.29%</b>			
650,000	Accrete Energy Inc., common	5,119	3,211
550,000	Anderson Energy Ltd., common	4,155	1,584
1,896,000	Buffalo Oil & Resources	3,987	2,010
3,675,000	Endev Energy Inc.	5,021	2,793
850,000	Grey Wolf Exploration	2,378	1,428
1,000,000	Pearl Exploration & Prod.	4,500	2,600
1,000,000	Saxon Energy Services, common	4,900	5,100
350,000	Universal Energy	4,380	6,405
<b>TOTAL</b>		<b>34,440</b>	<b>25,131</b>
<b>PAPER &amp; FOREST PRODUCTS -- 5.79%</b>			
567,500	Fortress Paper Ltd., common	4,529	3,973
500,000	Norbord Inc.	4,390	3,980
<b>TOTAL</b>		<b>8,919</b>	<b>7,953</b>
<b>COMMUNICATION -- 2.13%</b>			
407,000	Canwest Global Comm. Corp.	2,627	2,930
<b>TOTAL</b>		<b>2,627</b>	<b>2,930</b>
<b>MINING/PRECIOUS METALS -- 16.34%</b>			
1,390,200	Amerigo Resources Ltd.	3,143	3,197
1,687,500	Avnel Gold Mining Ltd., units	1,594	759
5,000,000	Goldhawk Resources Inc., units	1,704	2,050
925,000	Polaris Minerals	4,440	10,554
1,500,000	Scorpio Mining Corp.	1,725	2,130
350,000	Whitemud Resources	2,800	3,763
<b>TOTAL</b>		<b>15,406</b>	<b>22,453</b>
<b>INDUSTRIAL PRODUCTS -- 1.89%</b>			
725,000	Terravest Income Fund, units	5,098	2,603
<b>TOTAL</b>		<b>5,098</b>	<b>2,603</b>
<b>CONSUMER PRODUCTS -- 1.64%</b>			
1,275,000	Jig-A-Loo World	1,148	1,148
3,025,000	Orbus Pharma Inc.	1,510	1,112
1,500,000	Orbus Pharma Inc., warrants	0	0
<b>TOTAL</b>		<b>2,657</b>	<b>2,259</b>
<b>REAL ESTATE -- 5.71%</b>			
1,750,000	Huntingdon Real Estate Trust	4,576	4,025
925,000	Lakeview Hotel Real Estate Trust	3,737	3,201
609,750	Northampton Group	661	616
<b>TOTAL</b>		<b>8,974</b>	<b>7,842</b>
<b>FINANCIAL SERVICES -- 1.25%</b>			
1,750,000	GC Global Capital	1,898	1,715
655,000	GC Global Capital, warrants	0	0
<b>TOTAL</b>		<b>1,898</b>	<b>1,715</b>

exchange rate used is 0.9869524

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>U.S. STOCKS -- 37.60%</b>			
<b>MINERALS / PRECIOUS METALS -- 9.24%</b>			
2,500,000	Phoenix Coal Corp., conv pref.	3,288	3,084
12,012,500	U.S. Silver Corporation units	3,741	9,610
<b>TOTAL</b>		<b>7,028</b>	<b>12,694</b>
<b>HOTELS -- 2.47%</b>			
350,000	Great Wolf Resorts Inc.	4,137	3,389
<b>TOTAL</b>		<b>4,137</b>	<b>3,389</b>
<b>MERCHANDISING -- 10.40%</b>			
400,000	Cost Plus Inc., common	4,075	1,713
125,000	Frisch Restaurants Inc.	3,510	2,887
325,000	J. Alexander's Corp., common	3,040	3,368
175,000	Jo-Ann Stores, common	3,084	2,259
195,000	John B. Sanfilippo & Sons	3,123	1,620
120,000	S&K Famous Brands	2,383	1,051
143,819	Tandy Brands Accessories Inc.	2,403	1,384
<b>TOTAL</b>		<b>21,618</b>	<b>14,282</b>
<b>CONSUMER PRODUCTS -- 3.53%</b>			
300,000	Chromcraft Revington Inc.	4,032	1,451
325,000	Coachmen Industries Inc.	4,170	1,909
315,000	Cobra Electronics Corp.	3,006	1,486
<b>TOTAL</b>		<b>11,208</b>	<b>4,845</b>
<b>TRANSPORTATION -- 4.16%</b>			
150,000	Babcock & Brown Air Ltd., ADS	3,450	2,696
125,000	Seaspan Corporation, common	3,190	3,021
<b>TOTAL</b>		<b>6,640</b>	<b>5,717</b>
<b>FINANCIAL SERVICES -- 3.78%</b>			
124,900	Flagstar Bancorp Inc.	1,737	859
202,200	National Atlantic Holdings Corp.	2,319	884
200,000	Presidential Life Corp.	4,882	3,456
<b>TOTAL</b>		<b>8,938</b>	<b>5,199</b>
<b>TECHNOLOGY -- 3.28%</b>			
325,000	Keynote Systems Inc., common	3,915	4,507
<b>TOTAL</b>		<b>3,915</b>	<b>4,507</b>
<b>COMMUNICATIONS -- 0.75%</b>			
675,000	Regent Communications Inc.	2,901	1,026
<b>TOTAL</b>		<b>2,901</b>	<b>1,026</b>
<b>TOTAL COMMON STOCK</b>		<b>146,404</b>	<b>124,545</b>
<b>TOTAL PORTFOLIO</b>		<b>159,247</b>	<b>137,388</b>

# ABC FUNDS

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

December 31, 2007

<b>NAVPS</b>	<b>\$ 9.9204</b>
<b>C.G. Dist.</b>	<b>\$ 1.079399</b>
<b>Inc. Dist.</b>	<b>\$ 0.096272</b>

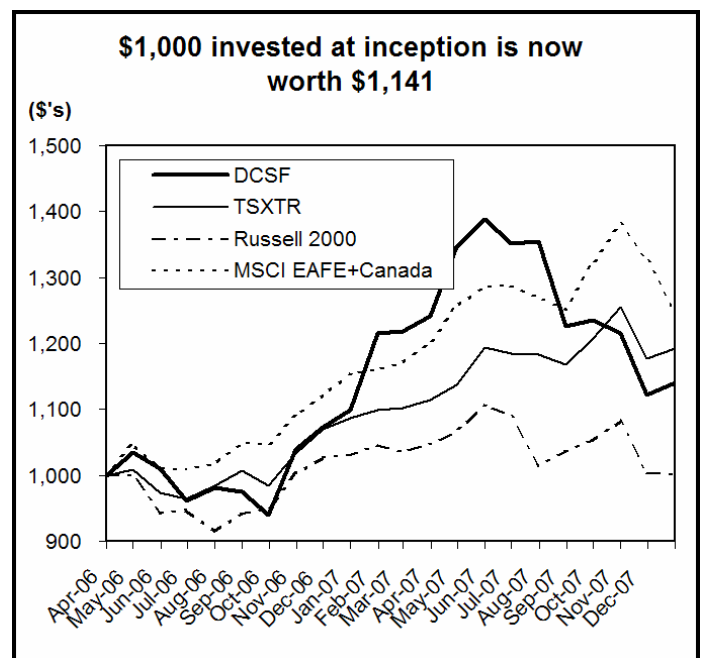
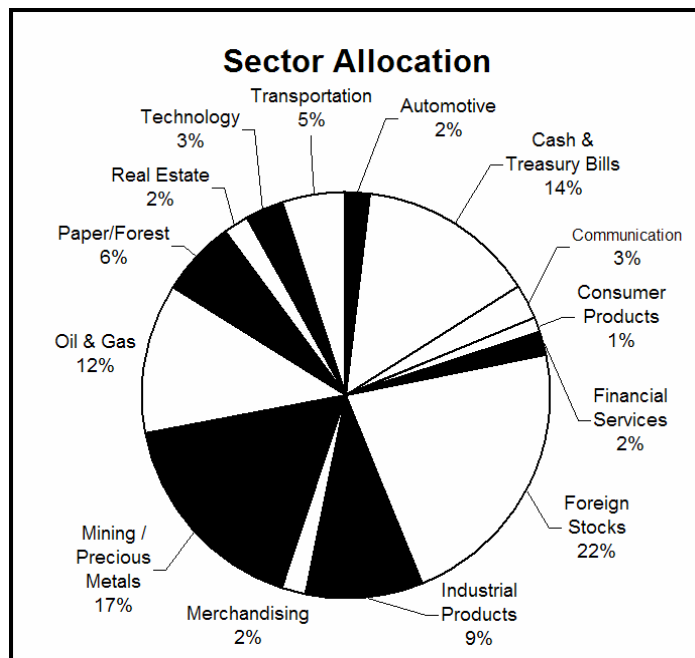
### Objective

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					Annual Returns			
	ABC DCSF	Russell 2000	TSXTR**	MSCI EAFE***		ABC DCSF	Russell 2000	TSXTR**	MSCI EAFE***
	(%)	(%)	(%)	(%)		(%)	(%)	(%)	(%)
1 Month	1.69	-0.23	1.34	-6.08	2007	3.79	-2.75	9.83	8.08
Q4 2007	-7.70	-4.89	-1.25	-5.79					
6 Month	-15.63	-8.12	0.72	-3.18					
YTD	3.79	-2.75	9.83	8.08					
1 Year	3.79	-2.75	9.83	8.08					
Since Inception*	8.21	0.07	10.60	13.44					

\*Inception date for the Fund was April 1, 2006  
 \*\*S&P/TSX Composite Total Return  
 \*\*\*MSCI EAFE + Canada US\$



# ABC FUNDS

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

December 31, 2007

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 13.56%</b>			
12,802,137	Cash	12,802	12,802
94,860	Cash - SGD \$	65	65
50,278	Cash - AUD \$	44	44
550,000	Cash - AUD \$	70	70
3,264,633	Cash - US \$	3,222	3,222
0	RT CAP US\$ Cash Fund	-	-
<b>TOTAL CASH</b>		<b>16,202</b>	<b>16,202</b>
<b>COMMON STOCKS -- 86.44%</b>			
<b>CANADIAN STOCKS -- 39.75%</b>			
<b>OIL &amp; GAS / ENERGY -- 11.63%</b>			
500,000	Accrete Energy Inc., common	3,815	2,470
500,000	Anderson Energy Ltd., common	3,317	1,440
948,000	Buffalo Oil & Resources	1,866	1,005
800,000	Pearl Exploration & Prod.	3,600	2,080
750,000	Saxon Energy Services, common	3,419	3,825
3,500,000	Stratic Energy Corp., common	4,352	3,080
<b>TOTAL</b>		<b>20,369</b>	<b>13,900</b>
<b>REAL ESTATE -- 2.09%</b>			
500,000	Lanesborough Real Estate Trst	3,015	2,495
<b>TOTAL</b>		<b>3,015</b>	<b>2,495</b>
<b>COMMUNICATION -- 1.96%</b>			
325,000	Canwest Global Comm. Corp.	2,094	2,340
<b>TOTAL</b>		<b>2,094</b>	<b>2,340</b>
<b>MINERALS / PRECIOUS METALS -- 6.83%</b>			
1,500,000	Amerigo Resources Ltd.	3,669	3,450
1,783,500	Liberty Mines Inc., units	1,605	2,586
1,500,000	Scorpio Mining Corp.	1,725	2,130
<b>TOTAL</b>		<b>6,999</b>	<b>8,166</b>
<b>INDUSTRIAL PRODUCTS -- 9.12%</b>			
500,000	Migao Corp., common	1,425	5,790
375,000	Migao Corp., warrants	0	2,955
600,000	Terravest Income Fund, units	4,337	2,154
<b>TOTAL</b>		<b>5,762</b>	<b>10,899</b>
<b>PAPER/FOREST PRODUCTS -- 5.97%</b>			
450,000	Fortress Paper	3,574	3,150
500,000	Norbord Inc., common	4,369	3,980
<b>TOTAL</b>		<b>7,943</b>	<b>7,130</b>
<b>MERCHANDISING -- 1.23%</b>			
2,157,900	CY Oriental Holdings	2,411	1,467
799,998	CY Oriental Holdings, warrants	0	0
<b>TOTAL</b>		<b>2,411</b>	<b>1,467</b>
<b>CONSUMER PRODUCTS -- 0.93%</b>			
3,025,000	Orbus Pharma Inc.	1,510	1,112
1,500,000	Orbus Pharma Inc., warrants	0	0
<b>TOTAL</b>		<b>1,510</b>	<b>1,112</b>

exchange rate used is 0.9869524

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>U.S. STOCKS -- 24.77%</b>			
<b>MERCHANDISING -- 1.16%</b>			
325,000	Cost Plus Inc., common	3,329	1,392
<b>TOTAL</b>		<b>3,329</b>	<b>1,392</b>
<b>TRANSPORTATION -- 4.78%</b>			
150,000	Babcock & Brown Air Ltd. ADS	3,450	2,696
125,000	Seaspan Corp., common	3,036	3,021
<b>TOTAL</b>		<b>6,486</b>	<b>5,717</b>
<b>TECHNOLOGY -- 2.90%</b>			
250,000	Keynote Sysytems Inc.	3,156	3,467
<b>TOTAL</b>		<b>3,156</b>	<b>3,467</b>
<b>COMMUNICATION -- 0.79%</b>			
625,000	Regent Communications	3,017	950
<b>TOTAL</b>		<b>3,017</b>	<b>950</b>
<b>AUTOMOTIVE -- 2.25%</b>			
150,000	Superior Industries Inc.	3,048	2,690
<b>TOTAL</b>		<b>3,048</b>	<b>2,690</b>
<b>MINERALS / PRECIOUS METALS -- 10.62%</b>			
2,500,000	Phoenix Coal Corp., conv. Pref.	3,288	3,084
12,012,500	US Silver Corporation, units	3,741	9,610
<b>TOTAL</b>		<b>7,029</b>	<b>12,694</b>
<b>FINANCIAL SERVICES -- 2.25%</b>			
62,500	Kansas City Life Insurance Co.	3,570	2,689
<b>TOTAL</b>		<b>3,570</b>	<b>2,689</b>
<b>FOREIGN STOCKS -- 21.93%</b>			
2,070,305	Challenger Wine Trust	1,349	1,328
1,412,000	Fortune Real Estate Inv. Trust	1,254	931
3,220,000	Fountain Set Holdings Ltd.	1,412	807
4,042,500	Harmony Asset Ltd.	2,830	3,194
1,750,000	McGuigan Simeon Wines Ltd.	3,453	3,412
300,000	Natuzzi SpA	2,374	1,392
27,500,000	Playmates Holdings Ltd.	3,851	2,889
650,000	Standard Life PLC	3,167	3,228
4,978,273	Thakral Holdings Group	3,065	4,487
1,000,000	Western Areas NL units	3,000	4,350
250,000	Western Areas NL units, warr.	0	186
<b>TOTAL</b>		<b>25,755</b>	<b>26,204</b>
<b>TOTAL COMMON STOCK</b>		<b>105,493</b>	<b>103,312</b>
<b>TOTAL PORTFOLIO</b>		<b>121,695</b>	<b>119,514</b>

## Value Investing: ABC Snippets From The Past

This is my 19<sup>th</sup> year editing The ABC Perspective and, quite frankly, despite numerous deadlines, occasional writer's block and self-imposed writing standards, I have enjoyed this experience immensely. Interestingly, I have learned a lot from investment writing and would like to share several of my favourite ABC extracts. All three snippets were taken from the October 2000 ABC Perspective and are quite relevant, I believe, to today's difficult value market.

*“Underperforming value stocks often need a catalyst to stimulate price appreciation. Quite often a poorly followed value stock will drift downward in price and remain cheap for a considerable period of time until a catalyst unlocks its value. While waiting, investors often lose patience. They sell the stock and the share price declines further. The lower the stock falls, the more investors avoid the stock. Even once-curious potential investors assume something is seriously wrong with the company and may back off. But eventually a catalyst does emerge. It could be anything such as a new contract, the sale of a division, the purchase of another company, the invention of an advanced process or even a TSE 300 listing. The catalyst suddenly generates investor interest and with it a whole new investor following is created.”*

It has always been my belief that consistency, discipline and patience are prime prerequisites to financial success. My thoughts of over seven years ago remain unchanged today.

*“Regardless of one's investment management style - growth, momentum or value, one must stay true to*

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

Finally, as a result of my numerous market experiences, I have come to the following two important value investing conclusions:

1. *“The market eventually discovers good value in overlooked companies.*

*and*

2. *While underpriced value stocks often appear to have no sizzle, a timely catalyst can suddenly turn a dull, illiquid shareholding into an exciting, newsy momentum stock.”*

Today, January 2008, we are in the midst of a very frustrating, treacherous and volatile securities market. Nonetheless, I contend that we must rigorously adhere to our valued investment disciplines and reflect upon our past experiences as a guide-post to the future. Difficult as it may be, I firmly believe that the end result is well-worth the short-term discomfort.

**Irwin A. Michael, CFA**

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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

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