

THE

ABC

PERSPECTIVE

Volume 20, No. 1

January 2009

PRESENT

PERSPECTIVES

Focused

We are in the midst of the worst economic downturn and investment environment over the past 50 years. During the previous 12 months we have witnessed the demise and/or opportunistic takeovers of once-proud and independent banks, insurance companies and investment dealers such as Bear Stearns, Lehman Brothers, Merrill Lynch and AIG. Billions of dollars have evaporated and millions of worldwide investors have experienced a huge diminution of their investment portfolios.

Given the extraordinary economic and financial traumas of 2008 many investors are asking themselves: why even bother to invest in common stocks? In the context of today's murky investment outlook this is a fair question and, quite frankly, we are of two views. On one hand, for those investors who are feeling extremely uncomfortable, in need of funds to finance a business, normal family life or have a very short-term investment horizon, it is our belief that the risk/rewards of today's marketplace outweigh staying invested. On the other hand, for those investors who have a longer time horizon of say two to three years, fewer short term business, family and financial commitments we believe that the present investment environment offers excellent investment rewards.

There is no doubt that the past year has been quite cathartic for serious long term stock market investors. Previously incomprehensible financial and investment events have transformed a rather satisfying post-September 11, 2001 investment cycle to a sort of financial purgatory. That being said, a number of positive factors are now manifesting themselves largely due to central bank, government and investor reaction to the financial happenings of 2008. These include a massive reflation of worldwide economies via government and central bank fiscal and monetary policies, corporate bailouts, etc. At the same time with interest rates, particularly in the U.S.,

plummeting to virtually 0%, investor sentiment dropping precipitously, continued fears of falling commodity prices, (especially oil), bankruptcies, etc. common stock valuations have become increasingly attractive. In this regard many stocks have tumbled well below book/break-up and replacement levels and, strangely enough, the market does not really care.

As growing investor fears of earnings declines, weakening balance sheets and sell side analysts downgrades have expanded, share prices have fallen further. In consequence, with declining share price valuation estimates and increasing investor apprehension, the bar has been lowered substantially for the 2009 investment outlook. Few investors are focused on fundamental valuations and, instead, are more concentrated on raising portfolio cash levels and risk avoidance. This situation will provide opportunities for 2009. Accordingly, in terms of our 2009 ABC outlook and investment policy, we remain focused on the present opportunities. We are guiding our portfolios toward undervalued, liquid, larger capitalization securities and have recently added TD Bank, Royal Bank, Bank of Montreal and Manulife Financial to our holdings as well as those that are high yielding with improving balance sheets such as George Weston.

Although we expect the stock market to remain quite volatile over the next 12 months it is our belief that value is still value. In the context of the current indecisive marketplace these values will eventually be uncovered. We believe they offer an excellent tradeoff between risk and reward, today.



The Economy: Searching for A Bottom

There is no question that the present economic recession has come quickly and deeply. Very few industries and companies have been left untouched. Doom and gloom is permeating the consumer and business world and all are expecting the worst. Unemployment, a lagging economic indicator and the most visible economic signpost, continues to increase and has induced further economic pessimism. This, in turn, is impacting both business and consumer spending intentions, corporate earnings and government tax revenues. As a result, a slump in corporate earnings and burgeoning government spending deficits are widely expected.

On the positive side, central banks, governments and investors are well aware of the present worsening economic circumstances. Commodity prices have fallen precipitously, interest rates are trending toward 0%, central banks are providing inordinate monetary liquidity and governments are embarking on meaningful fiscal make-work projects. Overall, it is our view that with added global economic stimuli this serious economic recession is searching for a bottom which should appear in the latter half of 2009.

Falling Interest Rates: Attractive Dividend Yields

With the significant decline in worldwide interest rates and the weakness in common stock prices a meaningful spread has developed between Canadian short-term interest rates and common stock dividends. For instance, short-term interest rates are trading at approximately 1% versus Canadian chartered bank dividend yields which range between 5½% - 8½%.

Admittedly, investor psychology remains quite negative, however, at some point, this expanding

interest rate differential should entice yield hungry investors toward bank equities and other high yielding common shares. But the migration from risk-averse short-term investments to attractive dividend-paying common shares will not happen overnight. Nonetheless, this attractive yield-pickup could be further augmented by potential capital gains once investor confidence returns and the stock market begins to recover.

Large Capitalization Dividend-Paying Opportunities

We entered the last quarter of 2008 holding about \$130 million of cash reserves in our five ABC portfolios. Our intention was to upgrade our portfolios by investing these funds in large capitalization, dividend-paying stocks on significant price weakness. With the market decline in late fall we purchased George Weston Limited. Then, toward the end of the year, a number of large Canadian financial companies raised equity capital to bolster their balance sheets at substantial price discounts. We believed that these financings priced around book

value with dividend yields between 5% - 9% represented excellent fundamental value. Accordingly, we purchased TD Bank, Manulife Financial, Royal Bank of Canada and Bank of Montreal.

It is our view that in addition to upgrading our five ABC portfolios these purchases were consistent with our value philosophy and also provided improved portfolio liquidity and incremental dividend yields.

George Weston Limited

George Weston Limited, founded in 1882, is one of North America's largest food processing and distribution companies. Although the Company reports consolidated results, it really has two distinct segments, Weston Foods and Loblaw. Weston Foods offers fresh-baked sweet goods, frozen baked goods and biscuits (including wafers, ice-cream cones, cookies and crackers). Loblaw is Canada's largest food retailer selling drugstore and general merchandise and financial products and services. Loblaw employs over 140,000 full-time and part-time workers in more than 1,000 corporate and franchised stores.

During the last period of market turmoil, when high technology stocks were imploding, investors who sought safety in stable, easy-to-understand businesses were eventually rewarded. Back then, in the second quarter of 2000, we established a position in Canada Bread. It was a solid consumer staple stock that provided excellent returns for our unit holders. We believe that we have found a similar story in George Weston Limited, a food processor and bakery that also owns approximately 63% or 170 million shares of Loblaw. This stock, with a clean balance sheet and a 2.5% dividend yield should perform well even in a recession. People have to eat no matter how far commodity prices or auto sales decline.

Weston Foods, the bakery division, has fought admirably through several years of rising commodity prices, primarily wheat and fuel. Management astutely hedged their exposure on a rolling six month basis and managed to protect the financial results. They were also able to push through three price increases since the start of the year. When we adjust the Company's EBITDA (earnings before interest, taxes, depreciation and amortization) for unusual charges, including the derivatives used to hedge commodity exposure, margins have shown excellent improvement, rising from 9.5% in the first quarter of 2006 to 12.5% in the third quarter of 2008. With dramatically lower wheat and oil prices, selling price increases and a weaker Canadian dollar, Weston Foods should report solid earnings as the hedges roll off.

Loblaw is currently in the midst of a three to five year turnaround plan necessitated by intense competition and price wars in the food retailing segment. However, recent results demonstrate some positive trends. Same store sales have increased 2.2% over the course of the first nine months of 2008 and 3.0% in the third quarter. EBITDA has increased 12.8% to \$1.18 billion year to date and 16.6% to \$499 million in the third quarter of 2008. Lower restructuring charges and cost reduction initiatives led to the

improvements. On the Company's recent conference call management's outlook was conservative but we are cautiously optimistic that the same store sales growth is sustainable and that margins have stabilized.

From an investment standpoint, we think that George Weston Limited offers the best way to play the story. Essentially, when we back out the implied value of Loblaw from each share of Weston we were able to purchase the Weston Foods operating division at approximately 4 times EBITDA, while comparables trade at 8 times EBITDA. In support of our thesis, management recently announced two transactions that monetized a significant portion of this valuation gap.

On Wednesday October 22nd, Weston announced the sale of its dairy operations that generated \$50 million in EBITDA for \$465 million, or 9 times EBITDA. On Wednesday December 10th, the Company announced that its subsidiary, Dunedin Holdings, had agreed to sell its fresh bread and baked goods business in the United States to Grupo Bimbo, one of the world's leading and largest baking companies. Grupo Bimbo, based in Mexico, paid approximately US\$2.5 billion for operations that generated US\$275 million of twelve month trailing EBITDA, essentially a 9 times EBITDA multiple. Note that Weston Foods retains its baking and distribution operations in Canada and its other US baking divisions, Interbake Foods and Maplehurst Bakeries. After monetizing the dairy and US bakery operations, the implied public market value of the "bread-stub" is less than 2 times EBITDA.

Speculation regarding the use of the cash proceeds quickly turned to talk of privatizing Loblaw. However, we believe that this scenario is unlikely from a value creation perspective since Loblaw already trades at 9 times EBITDA. Privatizing George Weston Limited would actually make more sense given the discounted valuation of the remaining US and Canadian operations. Management was quite clear that they were in no hurry to deploy the cash proceeds. They seem content to sit on almost \$5 billion in cash (including \$1 billion of cash held at Loblaw) and wait for an exceptional opportunity or opportunities to present themselves.

Given the current market turmoil we have to look to the past to find what worked. We believe that, similar to our investment in Canada Bread in 2000, owning George Weston Limited should provide a solid investment return for patient value investors.

I wrote these two commentaries over five years ago. At that time the market was extremely difficult and most challenging for investors. Nonetheless, we were both “determined” and were “glued to our game plan” as we clung to our investment disciplines. Although the present economic and financial turmoil may not be exactly comparable to the 2003 period in that both the magnitude and complexity of our problems, today, appear far more serious, we do believe in the cyclicity of financial markets. It is our view that current equity prices reflect considerable investor negativity and despair and, at some point, a presently unknown catalyst or catalysts will help spark both an economic and investment recovery.

The following is an excerpt from the April 2003 ABC Perspective

Determination

- Firmness of purpose

Oxford American Dictionary

I have always been of the opinion that investment success entails more than good stock analysis. I believe that investor conviction or determination to stick with an evolving story is a necessary ingredient to financial prosperity.

As we explain to prospective ABC clients we are value seekers. We hunt for undervalued, out-of-favour investment securities, which might be held in complete disdain by investment analysts, portfolio managers and the popular media. While we may march to the tune of our own drummer it is never an easy task. There are times when we might zig while the overall markets may be zagging to temporary, extraordinary success.

It is at this time that our value investment focus must be maintained through sheer determination and in spite of any short-term underperformance. This was exactly our experience during the September 1998 to March 2000 period when the high technology mania, led by Nortel et al, produced a massive speculative bubble. Throughout this year and a half long span we were second-guessed and criticized by impatient clients who had been watching many third-rate technology start-ups, with no profits and revenues, double and triple in price. Nonetheless, although painful, we remained determined and faithful to our deep value investment style.

In time, the securities market returned to sanity with the re-emergence of fundamental value analysis and the downfall of the over-extended high technology sector.

In retrospect our determination was severely tested. In all candour, it is my view that this was neither our first time to be “put to the test” nor would it definitely be the last. This is the essence of the cyclicity of the securities market...which brings me to the current investment environment.

I believe the present period of tumultuous financial markets is testing us all over again. The global geopolitical uncertainty involving Iraq and North Korea, the worldwide precarious economic situation, murky corporate profit outlook, growing incidence of underfunded pension funds, etc. is creating incredible share price volatility. It is pushing investors' patience to their limits. In consequence we have witnessed significant mutual fund redemptions and stock market liquidation.

From our ABC Funds' point of view our 1998-2000 experience and our success of weathering that storm have strengthened our backbone. By extension it will only serve to increase our deep value investment conviction, which has served us so well over the years. In addition it will enhance our determination to abide by our value promise, which we offered investors in our original offering memorandum. But more importantly, it will force us as portfolio managers not to deviate from our investment style nor compromise our working principles and disciplines.

Irwin A. Michael, CFA

ABC Launches Tax Free Savings Accounts

We are now offering the Tax Free Savings Account to our menu of products. The preliminary work is being done by RBC Dexia to get the product set up for all clients. We ask that all clients who are interested please email, fax or phone us requesting this so that we may forward you the necessary forms once they are prepared and ready. Once the TFSA product is up and running, the forms will be readily available on our website.

The following is an excerpt from the April 2003 ABC Perspective

Glued To Our Game Plan

“Where there is no vision
the people will perish”

- Proverbs 29:18

We are in the midst of one of the most challenging investment markets in many years. While interest rates are at 45-year lows and should provide a significant bullish boost to common stock performance, this has not happened. Corporate profit warnings, bankruptcies, company reorganizations, etc. abound. Confusion is rampant with many fearful investors sitting on the sidelines on low-yielding treasury bills. It is guesstimated that about \$2-3 trillion of short-term investments are earmarked for common stock purchases. The question is: when will these funds be committed to common stocks.

In spite of this investment confusion and apparent market uncertainty, we are clinging to our “deep value” analytical style. We have adhered to our investment vision, focus and disciplines – the very principles that contributed to our past successes. To be perfectly truthful, it has not been easy. Moreover, fundamentally undervalued stocks are tougher and tougher to uncover today. So we must dig deeper.

Nonetheless, we are dealing with these circumstances and, quite frankly, we remain positive. In fact, we have become more optimistic over the past few months. We have attempted to cobble an upgraded deep-value portfolio by liquidating certain overvalued securities to purchase fresh positions. In a number of instances, we were able to acquire high dividend-paying/undervalued

shares, which not only yielded more than treasury bills but also offered good capital gains potential. While we feel comfortable with our ABC Funds equity selections, we are never quite sure when they will work out. When success does occur, it often happens very unexpectedly. For instance, as I sat down to write this piece, I received a congratulatory phone call from an American stockbroker. Apparently, Garden Fresh, a San Diego-based restaurant chain which we had purchased in February at about \$9.98, is being bought out at \$16.35. To make a long story short we had purchased 85,000 shares for our ABC American-Value Fund because Garden Fresh was simply too cheap relative to our target price of \$15. But this seven-month ride to success was not smooth since we suffered through a couple of quarters of disappointing earnings and a declining share price. Nonetheless, we stuck to our original analysis and our profound conviction. It was worth the wait.

Aside from transforming a mediocre September performance into a pleasant surprise, Garden Fresh has given us added inspiration and renewed patience to persevere with our investment focus. But, more importantly, to our loyal clients, I am pleased to declare that Garden Fresh has re-energized our ABC team. Accordingly, we intend to remain “glued to our game plan.”

Irwin A. Michael, CFA

2009 Lunch & Learn Seminar Schedule

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 2009. Due to limited space, 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.

January 16	February 13	March 6	April 17
May 22	June 19	July 17	August 14
September 18	October 16	November 13	December 11

REMINDER: All clients turning 71 this year must roll their RRSPs into RRIFs before December 31, 2009.

ABC Fully-Managed Fund (ABC FMF)

December 31, 2008

NAVPS	\$ 5.5688
C.G. Dist.	\$ 0.000000
Inc. Dist.	\$ 0.065328

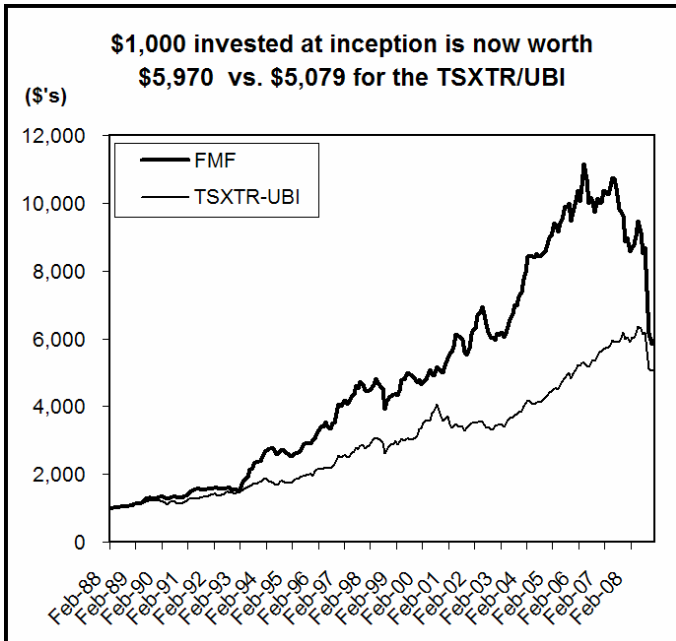
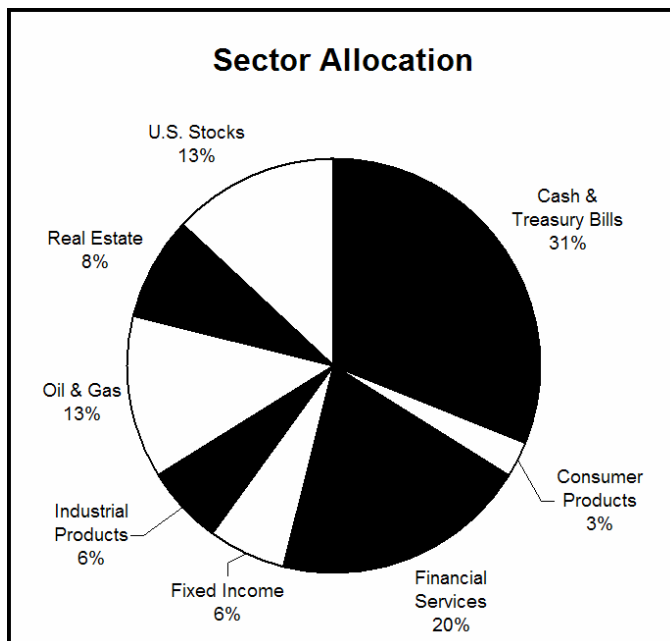
Objective

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	2.31	0.30	1989	23.68
Q4 2008	-19.38	-9.91	1990	2.17
YTD	-33.46	-16.04	1991	14.69
1 Year	-33.46	-16.04	1992	-1.48
2 Year	-22.85	-5.17	1993	64.35
3 Year	-16.06	-0.06	1994	2.82
5 Year	-5.07	4.90	1995	17.25
10 Year	3.21	5.69	1996	31.99
15 Year	5.90	7.06	1997	10.56
20 Year	8.94	8.12	1998	-2.02
Since Inception*	8.95	8.11	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
			2008	-33.46

*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 FUNDS

ABC Fully-Managed Fund, Statement of Investment Portfolio

December 31st, 2008

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.2345069

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)	No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 31.05%				OIL & GAS -- 13.21%			
952,525	Cash - CAD	953	953	350,000	Avenir Diversified Income Trust	2,126	1,782
421,317	Cash - USD	520	520	750,000	Essential Energy Services Trust	4,697	833
8,842,583	RT CAP Cash In Action Fund - CAD	8,843	8,843	100,000	Nexen Inc.	794	2,145
11,147,700	RT CAP Cash In Actrion Fund - USD	13,762	13,762	450,000	Talisman Energy Inc.	2,691	5,481
<u>TOTAL CASH</u>		24,077	24,077	<u>TOTAL</u>		10,308	10,240
FIXED INCOME -- 6.45%				INDUSTRIAL PRODUCTS -- 6.12%			
3,000,000	Blue Note Mining Inc., 11%, 03/31/2012	3,000	1,350	375,000	Canam Group Inc.	4,051	2,494
4,000,000	Frontera Copper, 10%, 06/15/2010	3,324	1,700	750,000	Terravest Income Fund	5,894	2,250
2,000,000	Nova Chemical Corp., 7.85%, 08/30/2010	1,984	1,953	<u>TOTAL</u>		9,946	4,744
<u>TOTAL</u>		8,308	5,003	CONSUMER PRODUCTS -- 2.90%			
COMMON STOCKS -- 62.50%				37,500 George Weston Ltd.			
<u>TOTAL</u>		14,388	15,114	<u>TOTAL</u>		1,989	2,248
FINANCIAL SERVICES -- 19.49%				U.S. STOCKS -- 13.01%			
75,000	Bank of Montreal	2,249	2,343	30,000	American National Insurance Co.	3,244	2,731
10,000	E-L Financial Corp.	2,772	4,500	137,500	Babcock & Brown Air Ltd. ADS	3,163	1,149
150,000	Equitable Group Inc.	3,224	1,763	75,000	Kansas City Life Insurance Co.	4,439	4,014
100,000	Manulife Financial Corp.	1,940	2,080	200,000	Seaspan Corp.	4,486	2,195
62,500	Royal Bank of Canada	2,203	2,256	<u>TOTAL</u>		15,331	10,088
50,000	Toronto-Dominion Bank	2,000	2,173	REAL ESTATE -- 7.77%			
<u>TOTAL</u>		14,388	15,114	<u>TOTAL COMMON STOCK</u>		68,910	48,463
2,000,000	Huntingdon Real Estate Inv. Trust	5,230	400	<u>TOTAL PORTFOLIO</u>			
750,000	Lanesborough Real Estate Inv. Trust	4,568	1,725	<u>TOTAL PORTFOLIO</u>		101,296	77,543
900,000	Lakeview Hotel Real Estate Inv. Trust	3,556	783				
175,000	Morguard Corp.	3,595	3,120				
<u>TOTAL</u>		16,948	6,028				

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, 2008

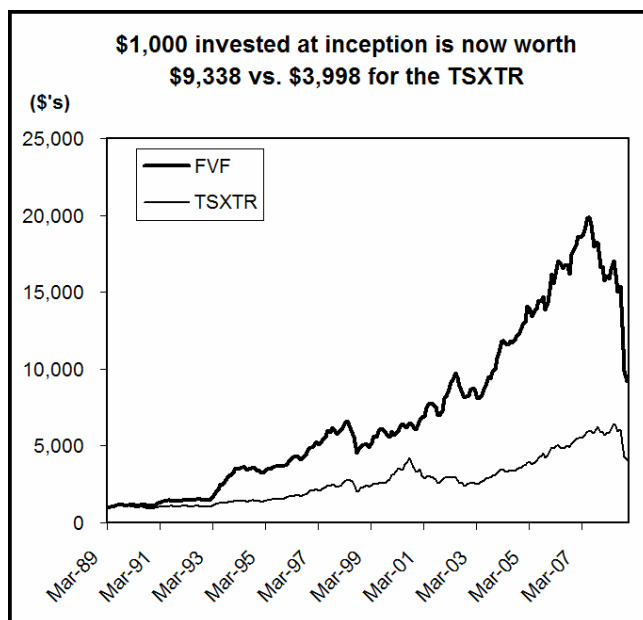
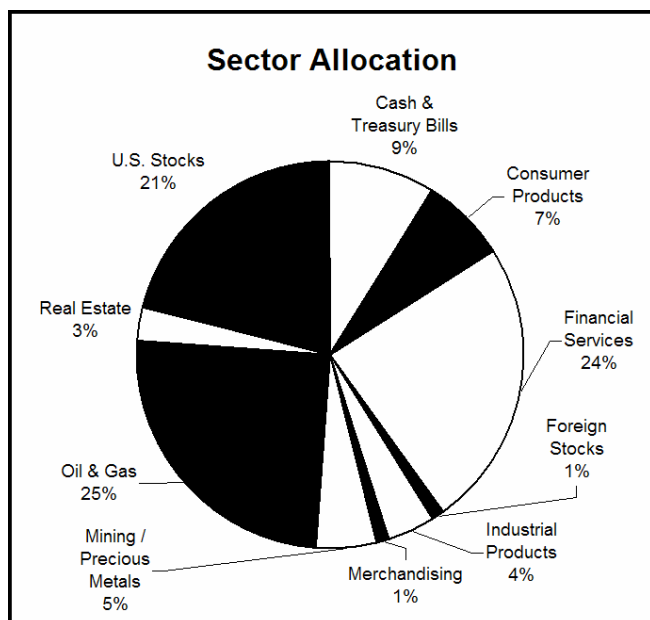
NAVPS	\$ 9.8620
C.G. Dist.	\$ 0.000000
Inc. Dist.	\$ 0.101337

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	1.31	-2.64	1990	-1.98
Q4 2008	-26.61	-22.71	1991	22.92
YTD	-43.94	-33.00	1992	4.26
1 Year	-43.94	-33.00	1993	121.75
2 Year	-28.13	-14.22	1994	3.03
3 Year	-14.95	-4.80	1995	11.08
5 Year	-2.72	4.16	1996	31.75
10 Year	6.20	5.34	1997	20.35
15 Year	7.24	7.08	1998	-13.81
Since Inception*	11.98	7.24	1999	16.25
			2000	7.51
			2001	26.06
			2002	7.62
			2003	23.55
			2004	21.42
			2005	16.62
			2006	19.13
			2007	-7.86
			2008	-43.94

*Inception date for the Fund was March 20, 1989
 **S&P/TSX Composite Total Return Index (TSXTR)



ABC Fundamental-Value Fund, Statement of Investment Portfolio
December 31st, 2008

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.2345069

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 8.71%			
5,876,307	Cash - CAD	5,876	5,876
1,445,865	Cash - USD	1,785	1,785
2,330,132	RT CAP Cash In Action Fund - CAD	2,330	2,330
24,865,076	RT CAP Cash In Actrion Fund - USD	24,865	24,865
<u>TOTAL CASH</u>		34,856	34,856

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
INDUSTRIAL PRODUCTS -- 4.57%			
2,750,000	Canam Group Inc.	28,981	18,288
<u>TOTAL</u>		28,981	18,288

MINING/PRECIOUS METALS -- 5.28%			
2,500,000	Polaris Minerals Corp.	14,604	3,750
1,463,800	Richmont Mines	7,173	3,045
6,650,000	Western Goldfields Inc.	14,533	13,034
1,350,000	Whitemud Resources	10,658	1,310
<u>TOTAL</u>		46,968	21,138

CONSUMER PRODUCTS -- 6.83%			
1,095,000	Andrew Peller Ltd.	4,497	7,939
400,000	Arbor Memorial Services, Class B	5,339	7,400
200,000	George Weston Ltd.	10,752	11,990
<u>TOTAL</u>		20,588	27,329

MERCHANDISING -- 0.29%			
503,500	Danier Leather Inc.	5,044	1,158
<u>TOTAL</u>		5,044	1,158

U.S. STOCKS -- 21.81%			
125,000	American National Insurance Co.	14,057	11,378
980,000	Babcock & Brown Air Ltd. ADS	22,529	8,190
725,000	Blackstone Group	17,538	5,844
728,878	Jo-Ann Stores Inc.	18,134	13,938
385,000	Kansas City Life Insurance Co.	21,852	20,604
150,000	Pioneer Natural Resources Co.	8,811	2,996
900,000	Presidential Life Corp.	21,231	10,988
1,000,000	Seaspan Corp.	22,283	10,975
594,747	The Phoenix Companies Inc.	7,925	2,401
<u>TOTAL</u>		154,360	87,314

FOREIGN STOCKS -- 0.41%			
4,500,000	Australian Vintage Ltd.	8,942	1,646
<u>TOTAL</u>		8,942	1,646

<u>TOTAL COMMON STOCK</u>	610,140	365,492
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<u>TOTAL PORTFOLIO</u>	644,996	400,348
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COMMON STOCKS -- 91.29%

REAL ESTATE -- 3.30%

2,950,000	Huntingdon Real Estate Inv. Trust	7,858	590
708,600	Morguard Corp.	15,599	12,634
<u>TOTAL</u>		23,456	13,224

FINANCIAL SERVICES -- 24.07%

425,000	Bank of Montreal	12,748	13,281
1,306,800	Dundee Corp., Class A	15,972	7,906
36,033	E-L Financial Corp.	9,832	16,215
850,000	Equitable Group Inc.	18,274	9,988
525,000	Manulife Financial Corp.	10,185	10,920
800,000	Onex Corp.	20,424	14,552
350,000	Royal Bank of Canada	12,338	12,635
250,000	Toronto-Dominion Bank	10,096	10,863
<u>TOTAL</u>		109,869	96,359

OIL & GAS -- 24.74%

775,000	Addax Petroleum Corp.	20,385	16,345
3,000,000	Anderson Energy Ltd.	19,268	3,450
1,750,000	Avenir Diversified Income Trust	11,855	8,908
2,500,000	Bow Valley Energy Ltd.	3,725	1,075
1,035,100	Crew Energy Inc.	18,703	5,486
3,000,000	Essential Energy Services Trust	18,627	3,441
7,250,000	Ithaca Energy Inc.	16,299	2,248
4,500,000	Midnight Oil Exploration	16,398	3,375
920,500	Nexen Inc.	7,390	19,745
3,280,000	Pearl Exploration	15,835	2,558
1,250,000	Precision Drilling Trust	27,322	12,588
22,500,000	Stratic Energy Corp.	27,989	3,375
1,350,000	Talisman Energy	8,136	16,443
<u>TOTAL</u>		211,931	99,035

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ABC FUNDS

ABC American-Value Fund (ABC AVF)

December 31, 2008

NAVPS	\$ 4.2782
C.G. Dist.	\$ 0.000000
Inc. Dist.	\$ 0.034776

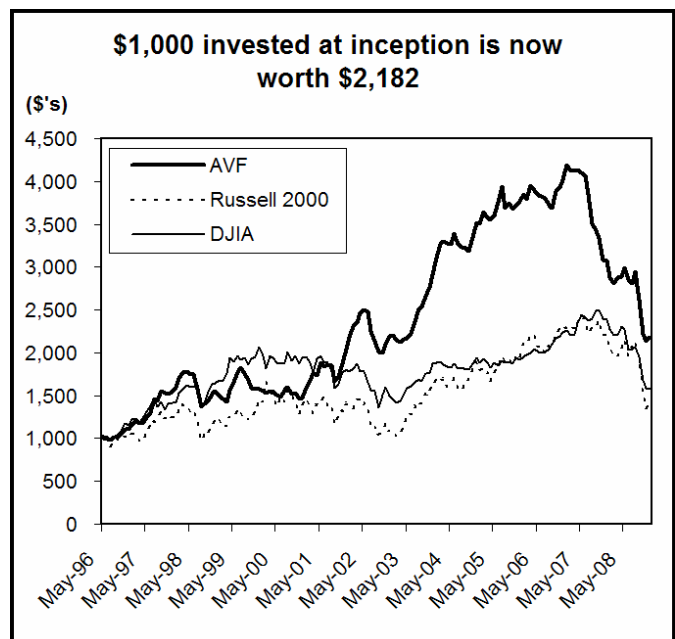
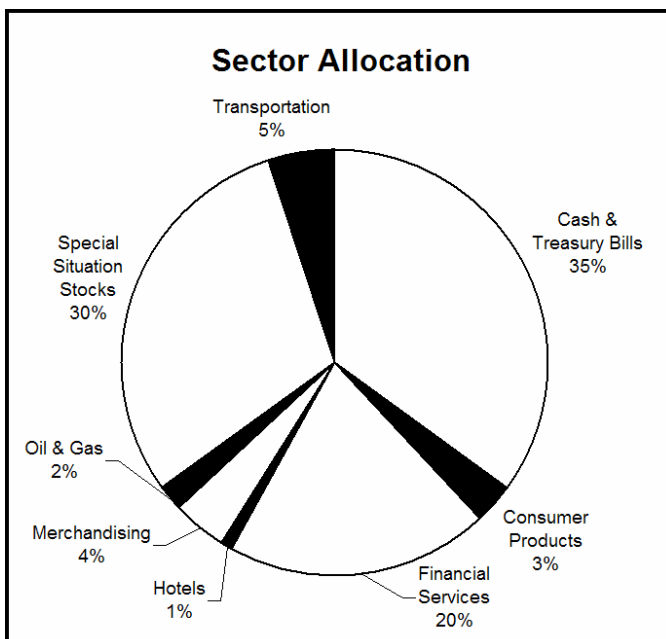
Objective

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	2.37	6.52	-0.60	1997	38.76	20.52	22.64
Q4 2008	-16.43	-26.51	-19.12	1998	0.75	-3.45	16.10
YTD	-29.00	-34.80	-33.84	1999	1.47	19.62	25.22
1 Year	-29.00	-34.80	-33.84	2000	-6.66	-4.20	-6.18
2 Year	-26.28	-20.37	-16.08	2001	39.52	1.03	-7.10
3 Year	-16.63	-9.47	-6.44	2002	6.91	-21.58	-16.76
5 Year	-5.58	-2.15	-3.44	2003	32.74	45.37	25.32
10 Year	3.48	1.70	-0.45	2004	20.85	17.00	3.15
Since Inception*	6.40	2.89	3.66	2005	7.16	3.32	-0.61
				2006	6.65	17.00	16.29
				2007	-23.46	-2.75	6.43
				2008	-29.00	-34.80	-33.84

*Inception date for the Fund was May 2, 1996



ABC FUNDS

ABC American-Value Fund, Statement of Investment Portfolio December 31st, 2008

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.2345069

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 35.44%			
2,814,067	Cash - CAD	2,814	2,814
581,260	Cash - USD	718	718
3,320,396	RT CAP Cash In Action Fund - CAD	3,320	3,320
10,174,300	RT CAP Cash In Actrion Fund - USD	12,560	12,560
<u>TOTAL CASH</u>		19,412	19,412

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
TRANSPORTATION -- 4.50%			
137,500	Babcock & Brown Air Ltd. ADS	3,162	1,149
120,000	Seaspan Corp.	3,318	1,317
<u>TOTAL</u>		6,480	2,466

COMMON STOCKS -- 64.56%

FINANCIAL SERVICES -- 19.84%

22,500	Amer. Natl. Ins. Co.	2,460	2,048
125,000	Blackstone Group	3,076	1,008
52,904	Kansas City Life Insurance Co.	2,443	2,831
325,000	PMA Capital Corp.	3,474	2,841
175,000	Presidential Life	3,728	2,137
<u>TOTAL</u>		15,181	10,864

CONSUMER PRODUCTS -- 3.39%

225,000	Flexsteel Industries	3,842	1,858
<u>TOTAL</u>		3,842	1,858

MERCHANDISING -- 3.57%

325,000	Cost Plus Inc.	3,307	376
200,000	John B. Sanfilippo & Sons	3,203	1,331
150,000	Tandy Brands Accessories Inc.	2,669	249
<u>TOTAL</u>		9,178	1,956

OIL & GAS -- 1.82%

50,000	Pioneer Natural Resources Co.	2,937	999
<u>TOTAL</u>		2,937	999

HOTELS -- 1.04%

300,000	Great Wolf Resorts Inc.	3,545	570
<u>TOTAL</u>		3,545	570

SPECIAL SITUATION STOCKS -- 30.39%

305,000	Canam Group Inc.	2,277	2,028
1,000,000	Centenario Copper Corp.	2,870	710
100,000	Manulife Financial Corp.	1,940	2,080
100,000	Morguard Corp.	2,074	1,783
100,000	Onex Corp.	2,425	1,819
750,000	Pearl Exploration	3,371	585
3,172,049	Phoenix Coal Corp.	3,970	793
62,500	Royal Bank of Canada	2,203	2,256
550,000	Terravest Income Fund	3,775	1,650
1,500,000	Western Goldfields Inc.	3,204	2,940
<u>TOTAL</u>		28,108	16,645

<u>TOTAL COMMON STOCK</u>	69,272	35,358
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<u>TOTAL PORTFOLIO</u>	88,684	54,770
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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 North American Deep-Value Fund (ABC NADVF)

NAVPS	\$ 3.6433
C.G. Dist.	\$ 0.000000
Inc. Dist.	\$ 0.126272

December 31, 2008

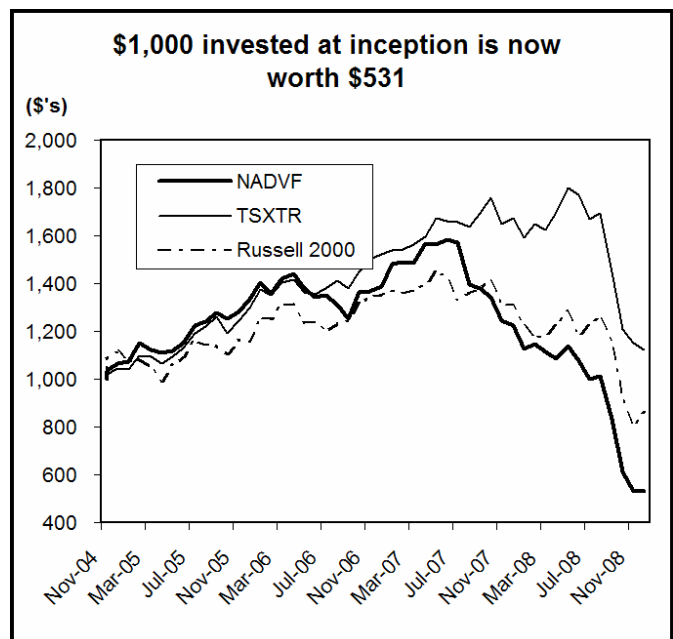
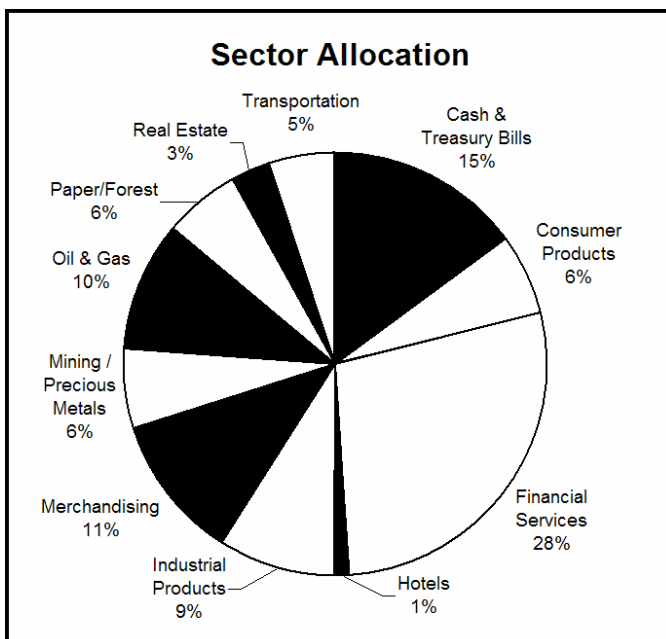
Objective

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	-0.08	6.52	-0.60	-2.64	2005	25.49	3.32	-0.61	24.13
Q4 2008	-36.12	-26.51	-19.12	-22.71	2006	3.92	17.00	16.29	17.26
YTD	-56.62	-34.80	-33.84	-33.00	2007	-11.81	-2.75	6.43	9.83
1 Year	-56.62	-34.80	-33.84	-33.00	2008	-56.62	-34.80	-33.84	-33.00
2 Year	-38.15	-20.37	-16.08	-14.22					
3 Year	-26.47	-9.47	-6.44	-4.80					
Since Inception*	-14.35	-3.68	-3.15	2.77					

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



ABC FUNDS

ABC North American Deep-Value Fund, Statement of Investment Portfolio December 31st, 2008

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 14.39%			
2,585,266	Cash - CAD	2,585	2,585
24,711	Cash - USD	31	31
0	RT CAP Cash In Action Fund - CAD	-	-
4,193,900	RT CAP Cash In Actrion Fund - USD	5,177	5,177
<u>TOTAL CASH</u>		7,793	7,793

COMMON STOCKS -- 85.61%

CANADIAN STOCKS -- 61.30%

OIL & GAS / ENERGY -- 7.19%

550,000	Anderson Energy Ltd.	4,155	633
1,896,000	Buffalo Resources Corp.	3,987	720
1,000,000	Pearl Exploration & Prod.	4,500	780
112,500	Precision Drilling Trust Units	2,035	1,133
114,000	Universal Energy	1,427	629
<u>TOTAL</u>		16,104	3,895

MINING/PRECIOUS METALS -- 6.29%

800,000	Centenario Copper Corp.	3,813	568
2,747,808	Phoenix Coal Corp.	3,288	687
925,000	Polaris Minerals	4,440	1,388
1,500,000	Scorpio Mining Corp.	1,725	353
425,000	Whitemud Resources	3,325	412
<u>TOTAL</u>		16,591	3,407

INDUSTRIAL PRODUCTS -- 8.62%

375,000	Canam Group Inc.	4,051	2,494
725,000	Terravest Income Fund	5,098	2,175
<u>TOTAL</u>		9,149	4,669

CONSUMER PRODUCTS -- 5.80%

30,000	George Weston Ltd.	1,591	1,799
1,402,500	Jig-A-Loo World	1,148	1,262
3,176,000	Orbus Pharma Inc.	1,579	79
1,500,000	Orbus Pharma Inc., warrants	0	0
<u>TOTAL</u>		4,318	3,140

REAL ESTATE -- 3.33%

1,750,000	Huntingdon Real Estate Trust	4,576	350
975,000	Lakeview Hotel Real Estate Trust	3,893	848
831,050	Northampton Group	888	607
<u>TOTAL</u>		9,356	1,805

exchange rate used is 1.2345069

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
PAPER & FOREST PRODUCTS -- 6.39%			
600,000	Fortress Paper Ltd.	4,755	3,462
<u>TOTAL</u>		4,755	3,462

FINANCIAL SERVICES -- 23.69%

300,000	Dundee Corp., Class A	3,785	1,815
150,000	Equitable Group Inc.	3,225	1,763
1,750,000	GC Global Capital	1,898	928
100,000	Manulife Financial Corp.	1,940	2,080
100,000	Onex Corp.	2,553	1,819
62,500	Royal Bank of Canada	2,203	2,256
50,000	Toronto-Dominion Bank	2,000	2,173
<u>TOTAL</u>		17,604	12,833

U.S. STOCKS -- 24.31%

HOTELS -- 1.23%

350,000	Great Wolf Resorts Inc.	4,137	665
<u>TOTAL</u>		4,137	665

MERCHANDISING -- 10.83%

400,000	Cost Plus Inc.	4,075	463
125,000	Frisch Restaurants Inc.	3,510	2,909
325,000	J. Alexander's Corp.	3,040	943
195,000	John B. Sanfilippo & Sons	3,123	1,298
120,000	S&K Famous Brands	2,383	16
143,819	Tandy Brands Accessories Inc.	2,403	240
<u>TOTAL</u>		18,534	5,868

CONSUMER PRODUCTS -- 0.48%

200,979	Cobra Electronics Corp.	1,682	261
<u>TOTAL</u>		1,682	261

TRANSPORTATION -- 4.96%

137,500	Babcock & Brown Air Ltd. ADS	3,163	1,149
140,000	Seaspan Corp.	3,183	1,536
<u>TOTAL</u>		6,345	2,686

FINANCIAL SERVICES -- 4.51%

200,000	Presidential Life Corp.	4,882	2,442
<u>TOTAL</u>		4,882	2,442

OIL & GAS -- 2.30%

62,500	Pioneer Natural Resources	3,620	1,248
<u>TOTAL</u>		3,620	1,248

TOTAL COMMON STOCK 117,077 46,381

TOTAL PORTFOLIO 124,870 54,174

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

ABC FUNDS

ABC Dirt-Cheap Stock Fund (ABC DCSF)

December 31, 2008

NAVPS	\$ 4.3847
C.G. Dist.	\$ 0.000000
Inc. Dist.	\$ 0.144789

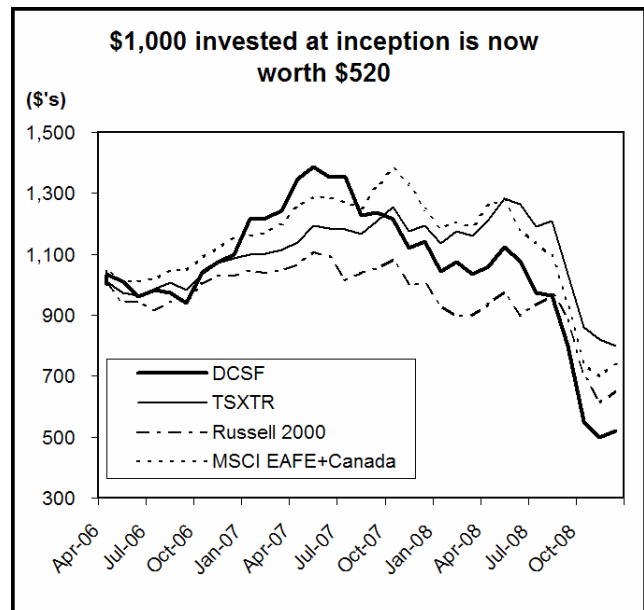
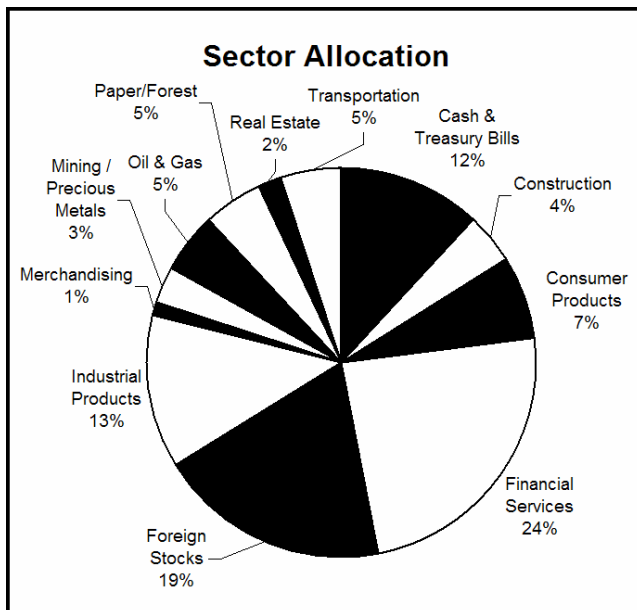
Objective

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	4.67	6.52	-2.64	5.29	2007	3.79	-2.75	9.83	8.08
Q4 2008	-34.79	-26.51	-22.71	-21.09	2008	-54.34	-34.80	-33.00	-40.69
6 Month	-51.70	-27.58	-36.79	-37.35					
YTD	-54.34	-34.80	-33.00	-40.69					
1 Year	-54.34	-34.80	-33.00	-40.69					
2 Year	-31.16	-20.37	-14.22	-19.94					
Since Inception*	-21.71	-14.37	-7.83	-10.39					

*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, 2008

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
CASH -- 12.15%			
3,421,297	Cash - CAD	3,421	3,421
2,422,541	Cash - USD	2,991	2,991
-	RT CAP Cash In Action Fund - CAD	-	-
-	RT CAP Cash In Actrion Fund - USD	-	-
<u>TOTAL CASH</u>		6,412	6,412
COMMON STOCKS -- 87.85%			
CANADIAN STOCKS -- 57.31%			
OIL & GAS / ENERGY -- 4.98%			
500,000	Anderson Energy Ltd.	3,317	575
948,000	Buffalo Resources Corp.	1,866	360
1,500,000	Ithaca Energy Inc.	3,614	543
800,000	Pearl Exploration & Prod.	3,600	624
3,500,000	Stratic Energy Corp.	4,352	525
<u>TOTAL</u>		16,749	2,627
REAL ESTATE -- 2.18%			
500,000	Lanesborough Real Estate Trust	3,015	1,150
<u>TOTAL</u>		3,015	1,150
MINING / PRECIOUS METALS -- 3.05%			
800,000	Centenario Copper Corp.	3,846	568
2,747,808	Phoenix Coal Corp.	3,386	687
1,500,000	Scorpio Mining Corp.	1,725	353
<u>TOTAL</u>		8,957	1,607
CONSTRUCTION -- 4.41%			
350,000	Canam Group Inc.	3,620	2,328
<u>TOTAL</u>		3,620	2,328
INDUSTRIAL PRODUCTS -- 12.86%			
875,000	Migao Corp.	2,831	4,988
600,000	Terravest Income Fund	4,337	1,800
<u>TOTAL</u>		7,168	6,788
MERCHANDISING -- 0.00%			
2,157,900	CY Oriental Holdings	2,411	0
799,998	CY Oriental Holdings, warrants	0	0
<u>TOTAL</u>		2,411	-
CONSUMER PRODUCTS -- 6.64%			
2,500,000	Asia Bio-Chem Group Co.	3,000	1,625
30,000	George Weston Ltd.	1,591	1,799
3,176,000	Orbus Pharma Inc.	1,579	79
1,500,000	Orbus Pharma Inc., warrants	0	0
<u>TOTAL</u>		6,170	3,503

exchange rate used is 1.2345069

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
PAPER/FOREST PRODUCTS -- 5.19%			
475,000	Fortress Paper	3,748	2,741
<u>TOTAL</u>		3,748	2,741
FINANCIAL SERVICES -- 18.01%			
100,000	Equitable Group Inc.	1,956	1,175
100,000	Manulife Financial Corp.	1,940	2,080
100,000	Onex Corp.	2,553	1,819
62,500	Royal Bank of Canada	2,203	2,256
50,000	Toronto-Dominion Bank	2,000	2,173
<u>TOTAL</u>		10,653	9,503
U.S. STOCKS -- 11.72%			
MERCHANDISING -- 0.71%			
325,000	Cost Plus Inc.	3,329	376
<u>TOTAL</u>		3,329	376
TRANSPORTATION -- 4.67%			
137,500	Babcock & Brown Air Ltd. ADS	3,163	1,149
120,000	Seaspan Corp.	2,695	1,317
<u>TOTAL</u>		5,857	2,466
FINANCIAL SERVICES -- 6.34%			
62,500	Kansas City Life Insurance Co.	3,570	3,345
<u>TOTAL</u>		3,570	3,345
FOREIGN STOCKS -- 18.81%			
1,750,000	Australian Vintage Ltd.	3,453	640
2,070,305	Challenger Wine Trust	1,250	535
1,412,000	Fortune Real Estate Inv. Trust	1,254	448
4,042,500	Harmony Asset Ltd.	2,830	2,223
300,000	Natuzzi SpA	2,374	889
2,750,000	Playmates Holdings Ltd.	3,848	425
2,750,000	Playmate Toys Ltd.	0	30
4,978,273	Thakral Holdings Group	3,065	1,789
1,000,000	Western Areas NL	3,000	2,800
250,000	Western Areas NL, warrants	0	150
<u>TOTAL</u>		21,074	9,928
<u>TOTAL COMMON STOCK</u>		96,322	46,361
<u>TOTAL PORTFOLIO</u>		102,734	52,773

Bouncing Off The Bottom

The test of success is not what you do when you are on top. Success is how high you bounce when you hit bottom.

General George S. Patton

2008 was an excruciating year for investors. Moreover, there is no question that the present market conditions remain the toughest that investors have faced over the past 40-50 years. Economic and financial circumstances as well as widespread negative psychology are most challenging and continue to test investor's conviction and staying power. Interestingly, fundamental investment analysis acquired from serious academic study and honed by years of battle-hardened market experience is completely irrelevant today, as fearful investors seek liquidity as they rush to exit the markets.

Presently, there is overwhelming doom and gloom. Newspaper headlines constantly expound the never-ending string of negative data such as unemployment, corporate profit warnings, plummeting commodity prices (especially oil), rising American real estate foreclosures and declining housing starts and the Madoff financial affair. Investor psychology, quite frankly, is terrible. There is little credibility and followthrough. Moreover in light of the constant flow of this negativity and deterioration of investor wealth, it is not surprising that there remains scanty investment optimism. Nonetheless, wearing a contrarian's hat and reviewing the numerous monetary and fiscal stimuli by worldwide central banks and governments as well as the significant decline in commodities, particularly oil and gas, we believe that the seeds of an economic and market bottom are starting to germinate.

Although there remain a number of formidable negatives such as government deficits, further banking and

corporate bailouts, rising unemployment (a lagging economic indicator), serious Mid-East situation as well as growing economic and political pressures placed on the incoming Obama administration, it is our feeling that many of these negatives are already priced in the marketplace. Granted, stock markets will remain extremely volatile, however, our sense is that the extraordinary price variability of last fall is starting to wear off. For instance, certain credit indicators such as the TED spread, 3-month LIBOR rates and the VIX, a measure of market volatility, have all improved. In addition, the spate of successful multibillion dollar equity financings in December including Royal Bank of Canada, Manulife Financial, Great West Life and Bank of Montreal indicate that, at a price, both Bay Street and investors will underwrite and purchase common shares. This is in direct contrast to the very inhospitable market of two or three months ago when no financings could be completed.

As we enter 2009 we believe a firm base for a significant stock market recovery is being built. Although most investors have little appetite for risk, as evidenced by low Treasury bill rates, a number of common stocks are providing dividend yields of 5%-7%+ with longer term capital gains potential. In the meantime, as the stock market attempts to bounce off the bottom, we believe that selective equity purchases, today, ahead of an upturn in economic, corporate and investment sentiment will provide an excellent opportunity for magnified returns in 2009/2010.

Irwin A. Michael, CFA

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