

## Progress

*Never discourage anyone or anything  
that continues to make progress . . .  
No matter how slow.*

### Plato

The present slow and erratic pace of the economic recovery from its 2008-2009 lows is frustrating economists, investors and politicians. It had been assumed that with the significant monetary and fiscal stimulation over the past 18 months the U.S. economy would have shown far greater economic vibrancy than the estimated +2.7% Q1 2010 GDP growth rate. This statistic was especially disappointing when compared to the previous quarter's expansion of +5.6%. As a result, there are an increasing number of concerned investors who are now becoming more and more fearful of a "double dip" U.S. economic recession.

This swelling negativity, furthermore, was clearly evidenced by the extraordinarily poor combined May and June North American equity performance which showed total declines of -7.5% (TSX), -11.2% (Dow Jones 30) and -14.3% (Nasdaq). But let's put the worldwide 2009-2010 economic recovery in perspective by re-examining the financial and economic events of 2008-2009.

In rolling back the clock to those discouraging days, the global community appeared to be facing the worst economic contraction since the 1929-1933 depression. Major bank and investment dealer failures, a virtual real estate collapse, automobile manufacturers on the verge of bankruptcy combined with extraordinary expanding fears appeared to be setting up our planet for a complete cessation of economic and financial activity. Fortunately, with massive concerted international monetary and fiscal stimulation the world has been able to dodge the unthinkable economic collapse which appeared inevitable only 15 months earlier. But this is not to belittle the formidable challenges that lie ahead.

The point is that the world is anxiously awaiting tangible evidence of a sustained economic recovery without the necessary governmental assistance.

Admittedly, the road toward a self-sustaining global recovery is long and tedious. In fact, more financial healing and repair will be needed over the next 12-24 months. Nonetheless, the world is making economic progress no matter how slow the pace; many of the positive strides are masked by well-publicized debt problems of Greece, et al, Gulf of Mexico oil spill, etc. Moreover, considering the unusually deep 2008-2009 recession which resulted in unforeseen wealth destruction, bankruptcies, and reorganizations we are naturally most eager and impatient to see a return to pre-recession conditions. Unfortunately, the balance sheets of corporations, consumers and governments will have to be rebuilt. In the meantime we will have to weather the incessant financial market volatility as confidence is gradually restored.

In summation, although we are not in the double dip recession camp, we expect the balance of 2010 to test our more optimistic conviction and economic outlook. Furthermore, despite the present trying financial circumstances we anticipate excellent buying and trading opportunities, more mergers and acquisitions, rising dividend payouts and increased corporate share buy backs. In a nutshell, we are heartened by the present economic progress . . . no matter how slow the pace.

*Tau.*

# ABC FUNDS

## ECONOMIC PERSPECTIVES

### The Economy: Sawtoothing Its Way Upward

Over the past several months the global economies have clearly lost some of their recovery momentum. In a way, this fact is not totally surprising given the numerous economic and corporate headwinds that have unexpectedly confronted the business and consumer recovery. They include: the BP/Gulf of Mexico oil spill calamity, sovereign European debt problems and the impending continental austerity measures, slow to recover U.S. consumer and business spending, weak home sales as well as an all-important American unemployment lagging indicator. Unfortunately, the lack of a linear economic recovery has disappointed economists, investors and politicians.

Nonetheless, while deceleration of the U.S. economy is frustrating it is not totally unexpected considering that the recovery has been in place for about 12 months. Moreover, despite slowing U.S. activity, as well as weak and contradictory consumer and business statistics, the recovery is still in place, albeit, at a more subdued pace. At this point we still expect North America to dodge a double-dip economic recession and consider the monetary and fiscal authorities to be well aware of the growth deceleration. By extension, we expect that record low interest rates and additional fiscal stimulation will continue for at least the next 6-12 months.

## INVESTMENT PERSPECTIVES

### Excessively Volatile Market Conditions

Amidst the current extreme stock market weakness and investor confusion, largely a result of “double-dip recession” fears, a number of fundamentally undervalued stocks have been severely punished. In numerous cases these price declines appear to be less a result of a surge in selling but rather a direct result of a general buyer’s boycott. Interestingly, with stock trading volumes considerably lighter due to rising economic fears combined with the expected summertime seasonality it doesn’t take much buying or selling to generate excessive price volatility.

Yet, despite the considerable sidelined cash reserves impatiently waiting to be invested, it appears many investors have decided to bide their time until the financial outlook becomes less murky.

It is our view that the recent momentous market decline is and will continue to offer excellent purchase and stock trading opportunities. Furthermore, from a contrarian stock picker’s perspective, the present uncertain atmosphere is creating an excellent environment in one’s hunt for value.

## PORTFOLIO PERSPECTIVES

### Consolidating Our Holdings

Over the past three months we have carried on with our policy of consolidating and upgrading our five ABC portfolios. In that regard we have liquidated weaker holdings and have taken profits in others while adding several new fundamentally undervalued equity positions. Despite the current market disorder we believe that our selection of small and mid capitalization shares will outperform the market over the next 6-12 months.

During the past quarter we have liquidated Dundee Corporation, Exco Technologies, Great Wolf Resorts, Heroux-Devtek, Midway Energy, Pioneer Natural Resources and Stratic Energy. In turn, we have added Cogeco Cable, Legacy Oil and Gas, Sea Dragon Energy and Tricon Capital Group.

At the midpoint of 2010 equity markets can be described as extremely volatile, treacherous, unforgiving, and yet, quite exciting and profitable. Despite the fact that there is a lot of investor confusion and unnecessary noise, we must diligently research and analyze numerous situations as we sleuth about for the odd diamond in the rough. This task is particularly important in a choppy stock market that will frequently “throw out the odd baby with the bathwater”. We are presently in a stock picker’s market and we believe that fundamental research and face to face company interviews, no matter how tedious, can become quite productive. Five years ago we wrote this piece and, quite frankly, we still believe that the corporate research interview remains a key ingredient to a stock picker’s success.

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The following is an excerpt from the July 2005 ABC Perspective

## Listen

*Nature has given us two ears but only one mouth  
that we may hear from others twice as much as we speak.*

**Benjamin Disraeli**

One of the most important aspects in the process of researching a company is the corporate interview. It can be a one-on-one meeting with a company president or with several members of the team including the president, vp finance, etc. It can be a face-to-face meeting in an office boardroom, a telephone conference call or via a computer/internet presentation.

Well, before such an encounter we prepare a whole list of questions relating to the public company’s present and future prospects, finances, competition, regulation, taxes, non-essential assets, etc. We arrive at the meeting or presentation with a pad of paper, pen and calculator as we attempt to connect the dots of the mystery of whether or not we should purchase a particular company’s common shares.

Ultimately, our investment decision will rely upon a number of important factors of the interview such as a concise company plan of action which will give us a sense of comfort that the company is in good shape with a positive outlook. But more importantly, we want to acquire a confidence with management, its operational style and its ability to weather the day-to-day issues of running a public corporation.

Our principal task to this whole interview process is to listen. We must be attentive. For instance, we will ask questions, prod the executives in certain directions for us to better understand the overall business and let management offer whatever information they may wish to give us. Again, the challenge to us as analysts is to listen, not interrupt, and let management speak their peace. This is all-important; however, it is not an easy task since most analysts have a natural tendency to plow ahead with a rapid fire list of questions. Often, they do not allow management the full opportunity to explain in greater detail their short and longer term corporate plan of action. More often than not, management may offer a simple piece of the investment puzzle which will be key to the decision whether or not to invest.

The research responsibility of listening, I believe, is an “art”. It is an invaluable skill acquired by battle-hardened investor experience. The importance of listening to management, in my opinion, is paramount to the portfolio manager’s ultimate investment decision. In short, it is a simple yet key element to investment success.

**Irwin A. Michael, CFA**

## Flint Energy Services Limited

Flint Energy Services Limited provides a range of integrated products and services for the energy industry. With a history dating back over 100 years, the Company's 10,000 employees cover the full cycle of oil and gas exploration and production from 60 locations in North America.

Flint Energy Services is relatively unusual when compared to traditional energy services companies. Although Flint has significant conventional operations, a much greater proportion of its business is related to oil sands facility construction and ongoing maintenance than its peers. Importantly, oil sands capital spending is expected to rebound 30% in 2010 and 20% in 2011 to \$15 billion, after falling approximately 40% in 2009.

Flint's oilfield services segment includes drill and service rig moving, off road transportation, pressure & vacuum services and fluid hauling. In 2009, this segment generated \$212.4 million of revenue and \$16.3 million of EBITDA. In terms of percentages, oilfield services represented 11.3% of total revenue and 10.9% of total EBITDA at a 7.7% margin. Unfortunately, we believe that the Company's entry into the rig moving business several years ago has never been well received by investors.

The next segment, production services, focuses on conventional oil and gas production in addition to shale gas, heavy oil and oil sands. Capabilities include well tie-ins, pipeline, field & mechanical construction, safety services, equipment manufacturing and tubular management. In the most recent fiscal year, the segment generated \$792.0 million of revenue and \$45.7 million of EBITDA or 42.2% and 30.6% of the respective totals implying a 5.8% margin. This is the weakest segment from a margin perspective but, hopefully, margins will rebound along with drilling activity.

Moving to the facility infrastructure segment, we finally get to the heart of our investment thesis. In 2009, the segment generated \$592.5 of revenue and \$70.8 million of EBITDA. Although facility infrastructure accounted for only 31.6% of revenue, with a company-leading 11.9% margin, the segment produced 47.4% of the Flint's total EBITDA. Looking forward, Flint has a backlog of approximately \$200 million related to various oil sands projects in Fort McMurray including Suncor's Firebag 3, Shell's Albian Sands and Statoil's Leismer projects.

The last segment, maintenance services, could almost be considered "the gravy" on the story. Flint's operates this segment as a 50/50 joint venture with Transfield Services, an Australian-based, infrastructure services provider. As opposed to the other three segments that are cyclical,

the maintenance division is a source of relatively stable cash flow. For the year, the segment generated \$279.6 million of revenue and \$16.5 million of EBITDA or 14.9% and 11.1% of the respective totals. Although the margin was lower than the Company average, at 5.9%, the stable nature of the cash flow should be highly prized by investors. Major contracts include a five-year rolling contract with Suncor Energy covering oil sands projects and the Sarnia refinery, a three year contract with Canadian Natural Resources related to the Horizon Oil Sands Project and a two year contract with Royal Dutch Shell on the Scotford Complex. Thankfully, this stable cash flow stream protected the Company's balance sheet through the downturn.

We were able to purchase our position in Flint Energy Services just slightly above the Company's book value of \$11.32 and at approximately 4x trailing EBITDA. The shares had underperformed both engineering & construction and oil & gas services stocks for a non-fundamental reason. It had become known that Flint's largest shareholder, SCF Partners, had filed to sell its block of stock. Once the shares were placed with fundamental investors, the stock was able to lift quite nicely.

We believe that additional upside could come from three main drivers. First, the ramp up in oil sands capital expenditures could translate into growing cash flow and multiple-expansion. Second, the clean balance sheet with \$160.9 million of cash and cash equivalents (or approximately \$3.60 per share) and the stable cash flow from the maintenance division could be used to initiate an annual dividend in the range of \$0.20 to \$0.24 per share. This would yield 1.4% to 1.7% at current price levels and would open the stock to a new class of investors. Finally, there is the slim possibility that Transfield Services could make a bid for either the maintenance services division or even the entire Company. This outcome may not be as far-fetched as it sounds, since Transfield is publicly listed in Australia and trades at almost twice Flint's valuation.

We believe that we have purchased a misunderstood growth stock at value multiples. Further, if any of the three potential catalysts fails to play out, we believe that the Company could reactivate its normal course issuer bid, which would support the shares. For the year ended December 31, 2009 the Company purchased 688,300 common shares at an average cost of \$7.94 per share. Although the share price is significantly higher today, the normal course issuer bid was renewed on March 2, 2010 for up to a maximum of 2,379,689 common shares, representing 5.0% of the total issued and outstanding common shares. In any event, we believe that patient shareholders will be rewarded through the balance of 2010 and into 2011.

## Genworth MI Canada Incorporated

Genworth MI Canada Incorporated (TSX: MIC) is the leading publicly-traded, residential mortgage insurer in Canada. The Company provides insurance against mortgage default to Canadian residential mortgage lenders that enables low down payment borrowers to own a home. Genworth operates in an industry that is effectively a duopoly, holding a market share of approximately 30% with the Canadian Mortgage and Housing Corporation (CMHC), a crown corporation, controlling the balance.

Genworth MI Canada Incorporated became a public company upon the closing of its IPO on July 7, 2009. Genworth's US parent, Genworth Financial, was forced to float a portion of its Canadian subsidiary to investors in order to repair its own balance sheet. Essentially, the parent sold 39,640,000 shares and the Company issued 5,100,000 shares from Treasury. After completion of the offering at \$19.00, there were 117.1 million common shares outstanding, which created a \$2.2 billion company.

Investors were able to gain some insight into the Canadian housing market by examining the Company's fiscal 2009 operating and financial results. Net premiums written increased from \$461 million in 2005, peaked in 2007 at \$984 million and declined to \$360 million in 2009. However, because 50% of the upfront premium is booked as revenue in years two to four, net premiums earned grew from \$277 million in 2005 and peaked in 2009 at \$610 million.

In terms of profitability, net operating income was \$307 million, operating earnings per diluted share were \$2.67 and the operating return on equity was 13%. Underwriting results were generally in line with expectations, with a loss ratio of 42% and a combined ratio of 57% for the year ended December 31, 2009. Because of higher unemployment and a soft real estate market in 2009, these numbers were slightly weaker than the results reported in 2008. However, we believe that the performance demonstrated the relative stability of the Canadian housing market during the global economic turmoil in 2009.

The solid profitability and clean balance sheet implies that Genworth is extremely well capitalized. The Company is regulated under OSFI and is required to hold capital to meet a minimum capital test ratio of 120%. Genworth's management has a conservative capital test ratio target of 132% to 135% and the actual capital test ratio was 149% at December 31, 2009. Excess capital above the Company's internal target could be used to grow organically, buy back shares or pay dividends. In fact, the Company currently pays a quarterly dividend of \$0.22 per share, implying an attractive 4.6% yield at the IPO price.

Subsequent to the IPO and the release of the fiscal 2009 results, management disclosed their intention to optimize the Company's capital structure. In June of this year, they issued \$275 million of senior unsecured debentures and plan to return up to \$350 million of excess capital to shareholders. The nature, size and timing of any event were not precisely set but will depend on market conditions and final approval from the Company's board of directors. We believe that this reflects management's confidence in the overall health of the Canadian housing market and Genworth's solid prospects going forward.

Despite the improving results and the dramatic plan to return a significant amount of capital to shareholders, Genworth's stock has declined approximately 20% since the beginning of May. We acknowledge that several potentially negative events including changes in mortgage rules, the introduction of a harmonized sales tax and rising interest rates have occurred. However, we believe that fears of a wide-spread housing downturn in Canada are overblown. We would highlight the fact that even if mortgage originations slow, Genworth has over \$2 billion of unearned premiums in reserve. This represents premiums that have already been written and will flow through the income statement as revenue and earnings in coming periods.

Importantly, we believe that index players may have exacerbated the recent decline since Genworth was removed from the MSCI Canada Index during the month of May. After touching \$28.50 in April, the stock is currently trading at approximately \$23.00. We believe that the non-fundamental sell-off represents an excellent buying opportunity.

Financial companies are traditionally valued using a price to book multiple relative to the company's return on equity. Given Genworth's operating ROE, we believe that the stock should trade at a price to book multiple of about 1.3 times. This suggests a target price in the order of \$31.50 per share today and \$34.00 per share in one year's time. Potential positive catalysts include: the return of excess capital in the form of a large share buyback, special dividend and/or base dividend increase, a housing market that proves more resilient than expected and/or the release of improved financial results due to an embedded book of business flowing through the income statement to the Company's bottom line. While waiting, investors should be pleased to hold a stock that yields approximately 4% at current price levels.

## ABC Fully-Managed Fund (ABC FMF)

June 30, 2010

<b>NAVPS</b>	<b>\$ 7.1446</b>
<b>C.G. Dist.</b>	<b>\$ 0.00000</b>
<b>Inc. Dist.</b>	<b>\$ 0.00000</b>

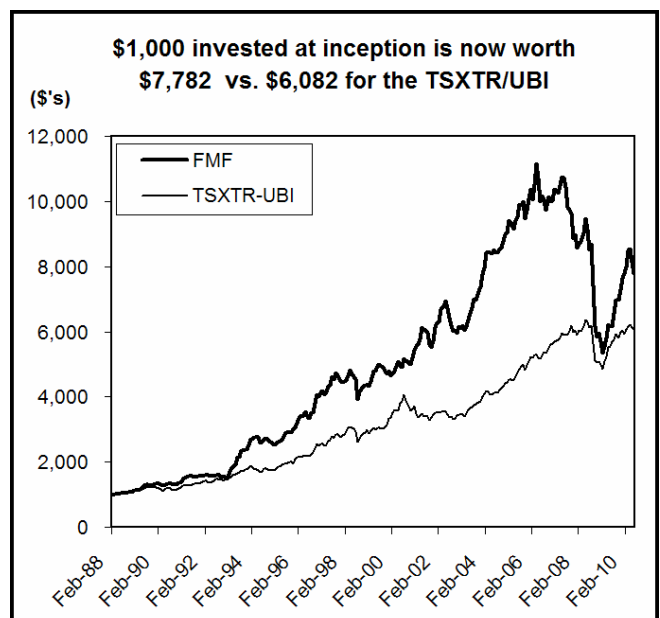
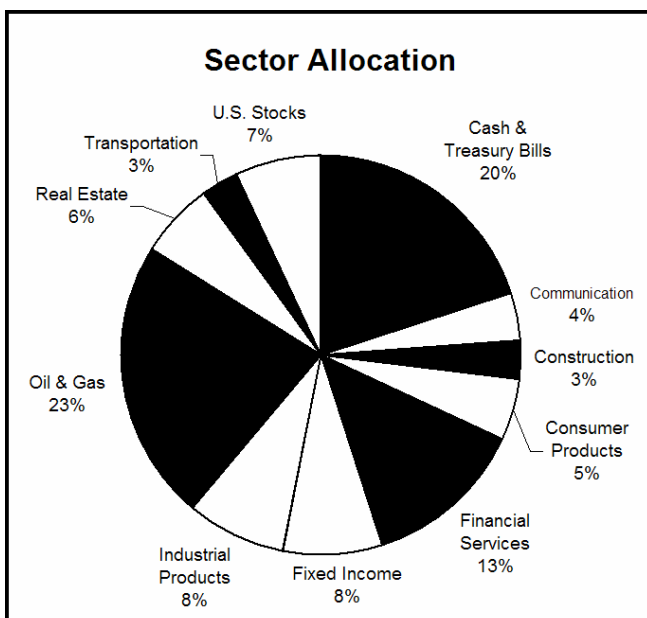
### Objective

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	<b>-4.44</b>	-1.03	1989	<b>23.68</b>	17.20
Q2 2010	<b>-8.12</b>	-1.47	1990	<b>2.17</b>	-4.32
YTD	<b>1.92</b>	0.73	1991	<b>14.69</b>	17.35
1 Year	<b>26.59</b>	9.36	1992	<b>-1.48</b>	4.75
2 Year	<b>-7.61</b>	-1.85	1993	<b>64.35</b>	24.36
3 Year	<b>-10.12</b>	0.95	1994	<b>2.82</b>	-2.64
5 Year	<b>-3.97</b>	5.18	1995	<b>17.25</b>	17.97
10 Year	<b>4.59</b>	4.79	1996	<b>31.99</b>	19.5
15 Year	<b>7.08</b>	7.86	1997	<b>10.56</b>	12.22
20 Year	<b>9.20</b>	8.52	1998	<b>-2.02</b>	3.84
Since Inception*	<b>9.62</b>	8.42	1999	<b>10.37</b>	14.29
			2000	<b>8.31</b>	8.71
			2001	<b>17.62</b>	-2.96
			2002	<b>0.77</b>	-1.47
			2003	<b>25.52</b>	15.27
			2004	<b>15.89</b>	10.42
			2005	<b>12.47</b>	15.25
			2006	<b>-0.64</b>	11.00
			2007	<b>-10.55</b>	6.82
			2008	<b>-33.46</b>	-16.04
			2009	<b>27.90</b>	18.88

\*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*

*June 30th, 2010*

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

*exchange rate used is 1.0627*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 20.06%</b>			
23,198	Cash - CAD	23	23
171,646	UBS Cash In Action Fund - CAD	17,165	17,165
118,482	STIC Liquidity Portfolio - USD	124	126
<b>TOTAL CASH</b>		<b>17,312</b>	<b>17,314</b>

<b>FIXED INCOME -- 8.18%</b>			
2,167,000	Aecon Group Inc. 7.00%, 09/30/2014	2,167	2,229
4,500,000	Russel Metals Inc. 7.75%, 09/30/2016	4,500	4,832
<b>TOTAL</b>		<b>6,667</b>	<b>7,061</b>

**COMMON STOCKS -- 71.76%**

<b>COMMUNICATIONS -- 3.98%</b>			
100,000	Cogeco Cable Inc.	3,368	3,432
<b>TOTAL</b>		<b>3,368</b>	<b>3,432</b>

**CONSTRUCTION -- 3.00%**

250,000	Aecon Group Inc.	2,633	2,585
<b>TOTAL</b>		<b>2,633</b>	<b>2,585</b>

**CONSUMER PRODUCTS -- 4.52%**

350,000	High Liner Foods Inc.	2,644	3,903
<b>TOTAL</b>		<b>2,644</b>	<b>3,903</b>

**FINANCIAL SERVICES -- 12.87%**

200,000	Equitable Group Inc.	3,745	4,362
200,000	Genworth MI Canada Inc.	3,983	4,644
3,500,000	Westaim Corp.	1,750	2,100
<b>TOTAL</b>		<b>9,478</b>	<b>11,106</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>INDUSTRIAL PRODUCTS -- 8.02%</b>			
600,000	ATS Automation Tooling Systems Inc.	2,502	3,414
500,000	Canam Group Inc.	4,910	3,505
<b>TOTAL</b>		<b>7,412</b>	<b>6,919</b>

**OIL & GAS -- 23.05%**

600,000	Daylight Energy Ltd.	5,078	5,358
816,900	Essential Energy Services Trust	4,753	931
275,000	Flint Energy Services Ltd.	3,366	3,284
300,000	Legacy Oil + Gas Inc.	3,540	3,444
450,000	Pengrowth Energy Trust	4,644	4,379
12,500,000	Western Energy Services Corp.	2,500	2,500
<b>TOTAL</b>		<b>23,880</b>	<b>19,895</b>

**REAL ESTATE -- 6.29%**

236,111	Huntingdon Real Estate Inv. Trust	3,854	1,360
900,000	Lakeview Hotel Real Estate Inv. Trust	2,903	279
750,000	Lanesborough Real Estate Inv. Trust	3,319	278
650,000	Tricon Capital Group Inc.	3,900	3,510
<b>TOTAL</b>		<b>13,976</b>	<b>5,426</b>

**TRANSPORTATION -- 3.09%**

225,000	Westjet Airlines Ltd.	2,515	2,669
<b>TOTAL</b>		<b>2,515</b>	<b>2,669</b>

**U.S. STOCKS -- 6.94%**

137,500	Fly Leasing Ltd. ADS	3,168	1,505
75,000	Kansas City Life Insurance Co.	4,439	2,357
200,000	Seaspan Corp.	5,168	2,125
<b>TOTAL</b>		<b>12,774</b>	<b>5,987</b>

<b>TOTAL COMMON STOCK</b>		<b>78,681</b>	<b>61,922</b>
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<b>TOTAL PORTFOLIO</b>		<b>102,659</b>	<b>86,296</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)

June 30, 2010

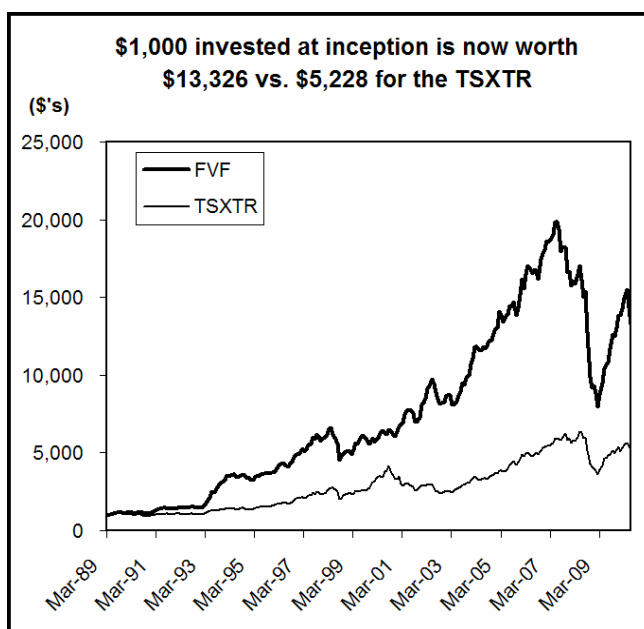
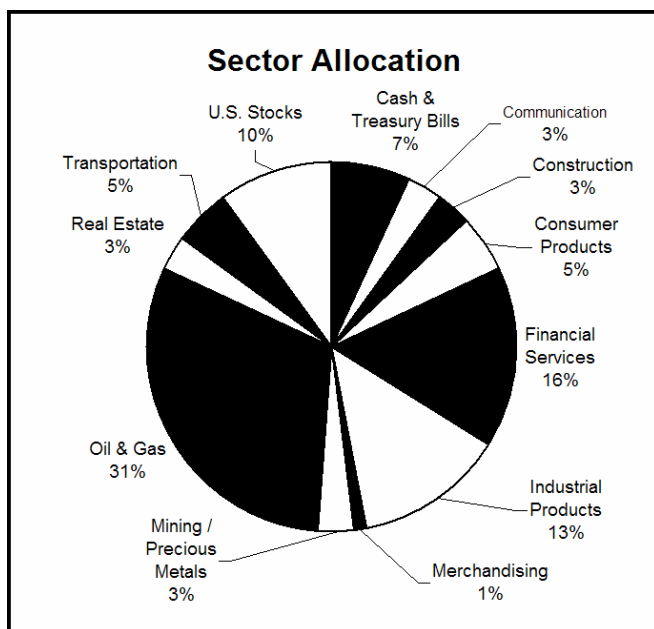
<b>NAVPS</b>	<b>\$14.0735</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

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	-6.96	-3.71	1990	-1.98
Q2 2010	-10.89	-5.51	1991	22.92
YTD	-3.64	-2.55	1992	4.26
1 Year	25.29	11.95	1993	121.75
2 Year	-9.05	-8.79	1994	3.03
3 Year	-12.48	-3.88	1995	11.08
5 Year	-0.86	5.45	1996	31.75
10 Year	7.81	3.27	1997	20.35
15 Year	9.11	8.48	1998	-13.81
20 Year	12.96	8.43	1999	16.25
Since Inception*	12.96	8.10	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
			2009	48.09

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



# ABC FUNDS

## ABC Fundamental-Value Fund, Statement of Investment Portfolio June 30th, 2010

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.0627

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 7.11%</b>			
228,649	Cash - CAD	229	229
343,916	UBS Cash In Action Fund - CAD	34,392	34,392
955,331	STIC Liquidity Portfolio - USD	994	1,015
<b>TOTAL CASH</b>		<b>35,614</b>	<b>35,635</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>INDUSTRIAL PRODUCTS -- 13.37%</b>			
3,000,000	ATS Automation Tooling Systems Inc.	12,837	17,070
3,150,000	Canam Group Inc.	31,740	22,082
5,000,000	Com Dev International Ltd.	14,839	9,500
884,300	Martinrea International Inc.	4,499	6,694
1,879,000	Vector Aerospace Corp.	11,660	11,650
<b>TOTAL</b>		<b>75,575</b>	<b>66,995</b>

**COMMON STOCKS -- 92.89%**

**MINING/PRECIOUS METALS -- 2.89%**

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>COMMUNICATIONS -- 3.10%</b>			
453,260	Cogeco Cable Inc.	15,184	15,556
<b>TOTAL</b>		<b>15,184</b>	<b>15,556</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
3,500,000	Argonaut Gold Inc.	10,500	9,275
1,750,000	Argonaut Gold Inc., warrants	0	766
3,250,000	Polaris Minerals Corp.	15,805	4,453
<b>TOTAL</b>		<b>26,305</b>	<b>14,493</b>

**REAL ESTATE -- 3.08%**

**CONSUMER PRODUCTS -- 5.15%**

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
350,000	Huntingdon Real Estate Inv. Trust	5,903	2,016
344,100	Morguard Corp.	7,575	13,420
<b>TOTAL</b>		<b>13,478</b>	<b>15,436</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
1,095,000	Andrew Peller Ltd., Class A	4,497	8,891
400,000	Arbor Memorial Services Inc., Class B	5,339	9,600
657,700	High Liner Foods, Inc.	4,963	7,333
<b>TOTAL</b>		<b>14,799</b>	<b>25,825</b>

**FINANCIAL SERVICES -- 16.25%**

**MERCHANDISING -- 0.90%**

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
1,100,000	Equitable Group Inc.	22,829	23,991
1,250,000	Genworth MI Canada Inc.	26,509	29,025
546,700	Onex Corp.	13,604	13,990
24,000,000	Westair Corp.	12,000	14,400
<b>TOTAL</b>		<b>74,942</b>	<b>81,406</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
503,500	Danier Leather Inc.	5,044	4,526
<b>TOTAL</b>		<b>5,044</b>	<b>4,526</b>

**OIL & GAS -- 30.51%**

**CONSTRUCTION -- 3.10%**

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
21,029,500	Alange Energy Corp.	10,341	7,360
6,500,000	Anderson Energy Ltd.	22,593	7,670
3,280,000	Blackpearl Resources Inc.	16,728	9,250
3,000,000	Daylight Energy Ltd.	25,895	26,790
3,100,000	Essential Energy Services Trust	18,597	3,534
2,200,000	Flint Energy Services Ltd.	26,542	26,268
10,000,000	Ithaca Energy Inc.	18,743	19,800
2,000,000	Legacy Oil + Gas Inc.	23,600	22,960
4,500,000	Midnight Oil Exploration Ltd.	16,398	4,320
1,500,000	Pengrowth Energy Trust	15,256	14,595
1,465,718	Precision Drilling Corp.	27,937	10,348
<b>TOTAL</b>		<b>222,628</b>	<b>152,895</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
1,500,000	Aecon Group Inc., common	15,878	15,510
<b>TOTAL</b>		<b>15,878</b>	<b>15,510</b>

**U.S. STOCKS -- 10.00%**

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
108,000	American National Insurance Co.	12,214	9,293
980,000	Fly Leasing Ltd. ADS	22,468	10,726
725,000	Blackstone Group LP	17,538	7,365
385,000	Kansas City Life Insurance Co.	21,852	12,098
1,000,000	Seaspan Corp.	25,671	10,627
<b>TOTAL</b>		<b>99,742</b>	<b>50,109</b>

**TRANSPORTATION -- 4.53%**

<b>TOTAL COMMON STOCK</b>		<b>584,821</b>	<b>465,471</b>
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1,915,700	Westjet Airlines Ltd.	21,247	22,720
<b>TOTAL</b>		<b>21,247</b>	<b>22,720</b>

<b>TOTAL PORTFOLIO</b>		<b>620,435</b>	<b>501,107</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 American-Value Fund (ABC AVF)

<b>NAVPS</b>	<b>\$ 5.8916</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

*June 30, 2010*

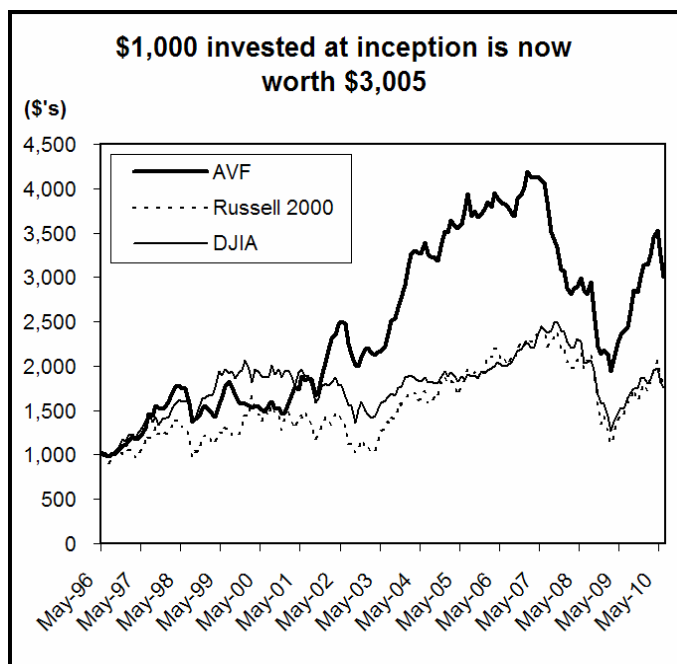
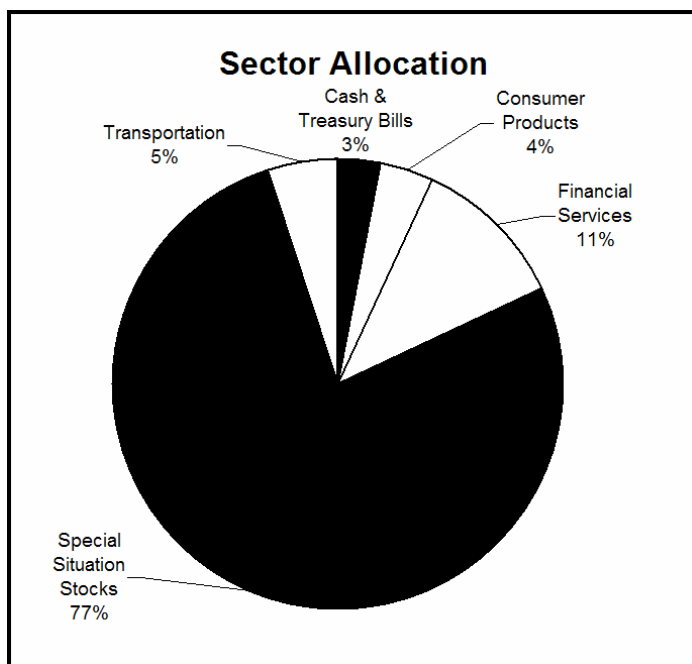
### Objective

*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	-7.22	-7.88	-3.58	1997	38.76	20.52	22.64
Q2 2010	-13.00	-10.19	-9.97	1998	0.75	-3.45	16.10
YTD	-4.47	-2.54	-6.27	1999	1.47	19.62	25.22
1 Year	26.05	19.91	15.71	2000	-6.66	-4.20	-6.18
2 Year	2.66	-5.99	-7.20	2001	39.52	1.03	-7.10
3 Year	-9.61	-9.92	-10.00	2002	6.91	-21.58	-16.76
5 Year	-4.38	-0.96	-0.99	2003	32.74	45.37	25.32
10 Year	7.29	1.65	-0.66	2004	20.85	17.00	3.15
Since Inception*	8.13	4.03	4.05	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
				2009	44.15	25.22	18.82

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



# ABC FUNDS

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

### *June 30th, 2010*

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

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 2.81%</b>			
81,298	Cash - CAD	81	81
14,816	UBS Cash In Action Fund - CAD	1,482	1,482
161,413	STIC Liquidity Portfolio - USD	167	172
<b>TOTAL CASH</b>		<b>1,730</b>	<b>1,734</b>

**COMMON STOCKS -- 97.19%**

**FINANCIAL SERVICES -- 11.01%**

18,720	American National Insurance Co.	2,047	1,611
125,000	Blackstone Group LP	3,077	1,270
52,904	Kansas City Life Insurance Co.	3,030	1,662
325,000	PMA Capital Corp.	3,468	2,262
<b>TOTAL</b>		<b>11,622</b>	<b>6,805</b>

**CONSUMER PRODUCTS -- 4.26%**

225,000	Flexsteel Industries, Inc.	3,842	2,630
<b>TOTAL</b>		<b>3,842</b>	<b>2,630</b>

**TRANSPORTATION -- 4.50%**

137,500	Fly Leasing Ltd. ADS	3,159	1,505
120,000	Seaspan Corp.	3,321	1,275
<b>TOTAL</b>		<b>6,480</b>	<b>2,780</b>

*exchange rate used is 1.0627*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>SPECIAL SITUATION STOCKS -- 77.42%</b>			
200,000	Aecon Group Inc.	2,521	2,068
600,000	Argonaut Gold Inc.	1,800	1,590
300,000	Argonaut Gold Inc., warrants	0	131
550,000	ATS Automation Tooling Systems Inc.	2,424	3,130
750,000	Blackpearl Resources Inc.	3,825	2,115
550,000	Canam Group Inc.	3,902	3,856
350,000	Daylight Energy Ltd.	2,989	3,126
1,000,000	Energold Drilling Corp.	1,958	2,040
7,250,000	Enseco Energy Services Corp.	1,450	1,595
3,625,000	Enseco Energy Services Corp., warrants	0	0
112,500	Equitable Group Inc.	2,283	2,454
225,000	Flint Energy Services Ltd.	2,751	2,687
125,000	Genworth MI Canada Inc.	2,486	2,903
225,000	Legacy Oil + Gas Inc.	2,655	2,583
500,000	March Networks Corp.	1,916	1,660
750,000	Maxim Power Corp.	2,030	2,175
7,000,000	Sea Dragon Energy Inc.	2,800	1,995
450,000	Tricon Capital Group Inc.	2,700	2,430
400,000	Vector Aerospace Corp.	2,514	2,480
3,000,000	Westaim Corp.	1,500	1,800
12,500,000	Western Energy Services Corp.	2,500	2,500
212,500	Westjet Airlines Ltd.	2,378	2,520
<b>TOTAL</b>		<b>49,381</b>	<b>47,836</b>
<b>TOTAL COMMON STOCK</b>		<b>71,324</b>	<b>60,051</b>
<b>TOTAL PORTFOLIO</b>		<b>73,055</b>	<b>61,785</b>

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# ABC FUNDS

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

<b>NAVPS</b>	<b>\$ 5.9566</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

**June 30, 2010**

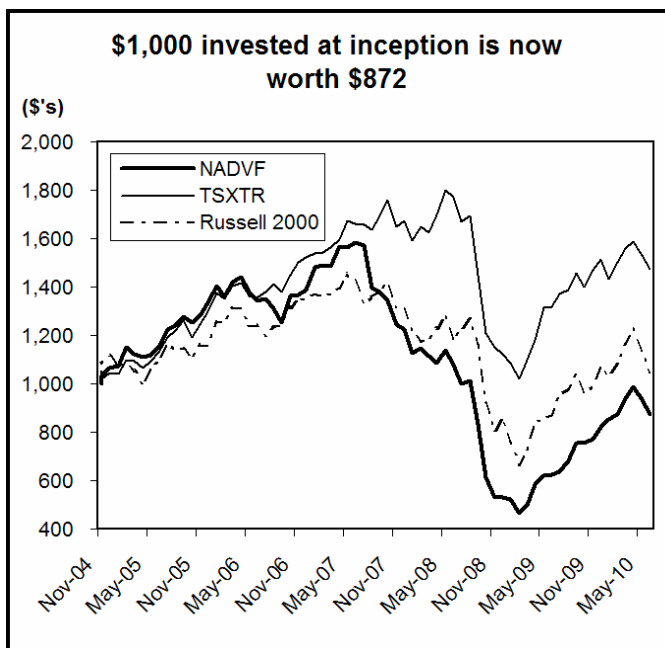
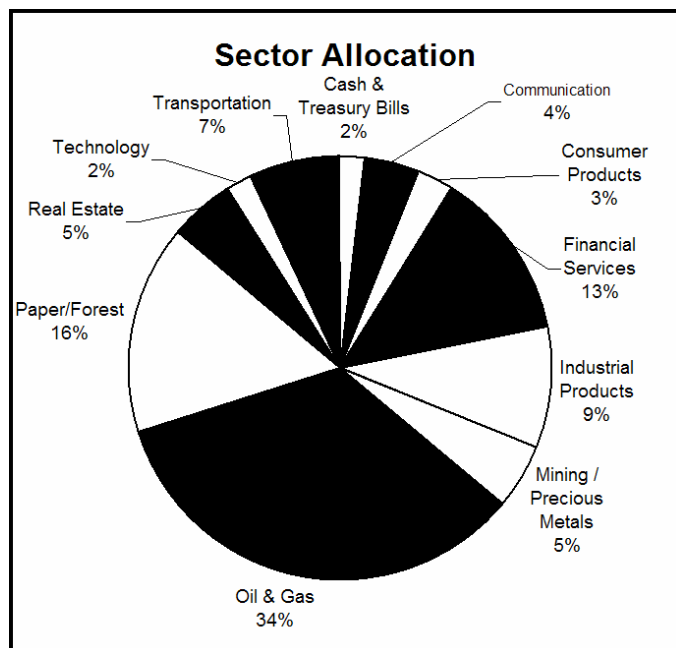
### Objective

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	-6.83	-7.88	-3.58	-3.71	2005	25.49	3.32	-0.61	24.13
Q2 2010	-6.98	-10.19	-9.97	-5.51	2006	3.92	17.00	16.29	17.26
YTD	6.49	-2.54	-6.27	-2.55	2007	-11.81	-2.75	6.43	9.83
1 Year	39.70	19.91	15.71	11.95	2008	-56.62	-34.80	-33.84	-33.00
2 Year	-9.99	-5.99	-7.20	-8.79	2009	54.07	25.22	18.82	35.05
3 Year	-18.04	-9.92	-10.00	-3.88					
5 Year	-5.40	-0.96	-0.99	5.45					
Since Inception*	-2.43	0.76	-0.45	7.10					

\*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 June 30th, 2010*

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

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 2.34%</b>			
102,143	Cash - CAD	102	102
17,947	UBS Cash In Action Fund - CAD	1,795	1,795
74,135	STIC Liquidity Portfolio - USD	78	79
<b>TOTAL CASH</b>		<b>1,975</b>	<b>1,976</b>
<b>COMMON STOCKS -- 97.66%</b>			
<b>CANADIAN STOCKS -- 94.12%</b>			
<b>COMMUNICATIONS -- 4.06%</b>			
100,000	Cogeco Cable Inc.	3,298	3,432
<b>TOTAL</b>		<b>3,298</b>	<b>3,432</b>
<b>OIL &amp; GAS -- 33.51%</b>			
2,602,000	Alange Energy Corp.	1,178	911
1,050,000	Anderson Energy Ltd.	4,630	1,239
1,000,000	Blackpearl Resources Inc.	4,500	2,820
400,000	Daylight Energy Ltd.	3,511	3,572
7,250,000	Enseco Energy Services Corp.	1,450	1,595
3,625,000	Enseco Energy Services Corp., warrants	0	0
250,000	Flint Energy Services Ltd.	3,091	2,985
225,000	Legacy Oil + Gas Inc.	2,655	2,583
1,400,000	Open Range Energy Corp.	2,600	2,044
150,000	Precision Drilling Corp.	2,145	1,059
8,000,000	Sea Dragon Energy Inc.	3,200	2,280
1,327,200	Twin Butte Energy Ltd.	3,987	1,778
2,500,000	Tuscany Int'l. Drilling	2,657	2,938
312,500	Tuscany Int'l. Drilling, warrants	0	0
12,500,000	Western Energy Services Corp.	2,500	2,500
<b>TOTAL</b>		<b>38,105</b>	<b>28,304</b>
<b>MINING/PRECIOUS METALS -- 4.79%</b>			
700,000	Argonaut Gold Inc.	2,100	1,855
350,000	Argonaut Gold Inc., warrants	0	153
1,000,000	Energold Drilling Corp.	1,937	2,040
<b>TOTAL</b>		<b>4,037</b>	<b>4,048</b>
<b>INDUSTRIAL PRODUCTS -- 9.35%</b>			
500,000	ATS Automation Tooling Systems Inc.	2,223	2,845
450,000	Canam Group Inc.	4,556	3,155
1,000,000	Com Dev International Ltd.	2,911	1,900
<b>TOTAL</b>		<b>9,690</b>	<b>7,900</b>

*exchange rate used is 1.0627*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CONSUMER PRODUCTS -- 3.21%</b>			
250,000	High Liner Foods Inc., Class A	1,635	2,500
1,402,500	Jig-A-Loo World Inc.	1,148	210
<b>TOTAL</b>		<b>2,783</b>	<b>2,710</b>
<b>REAL ESTATE -- 5.26%</b>			
207,611	Huntingdon Real Estate Inv. Trust	3,376	1,196
975,000	Lakeview Hotel Real Estate Inv. Trust	3,200	302
831,050	Northampton Group Inc.	888	511
450,000	Tricon Capital Group Inc.	2,700	2,430
<b>TOTAL</b>		<b>10,163</b>	<b>4,439</b>
<b>PAPER &amp; FOREST PRODUCTS -- 15.60%</b>			
625,000	Fortress Paper Ltd.	4,873	13,175
<b>TOTAL</b>		<b>4,873</b>	<b>13,175</b>
<b>TECHNOLOGY -- 2.36%</b>			
600,000	March Networks Corp.	2,579	1,992
<b>TOTAL</b>		<b>2,579</b>	<b>1,992</b>
<b>FINANCIAL SERVICES -- 12.82%</b>			
200,000	Equitable Group Inc.	3,747	4,362
1,750,000	GC Global Capital Corp.	1,898	884
150,000	Genworth MI Canada Inc.	3,307	3,483
3,500,000	Westaim Corp.	1,750	2,100
<b>TOTAL</b>		<b>10,701</b>	<b>10,829</b>
<b>TRANSPORTATION -- 3.16%</b>			
225,000	Westjet Airlines Ltd.	2,515	2,669
<b>TOTAL</b>		<b>2,515</b>	<b>2,669</b>
<b>U.S. STOCKS -- 3.54%</b>			
<b>TRANSPORTATION -- 3.54%</b>			
137,500	Fly Leasing Ltd. ADS	3,168	1,505
140,000	Seaspan Corp.	3,649	1,488
<b>TOTAL</b>		<b>6,817</b>	<b>2,993</b>
<b>TOTAL COMMON STOCK</b>		<b>95,562</b>	<b>82,490</b>
<b>TOTAL PORTFOLIO</b>		<b>97,537</b>	<b>84,465</b>

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# ABC FUNDS

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

<b>NAVPS</b>	<b>\$ 7.3163</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

June 30, 2010

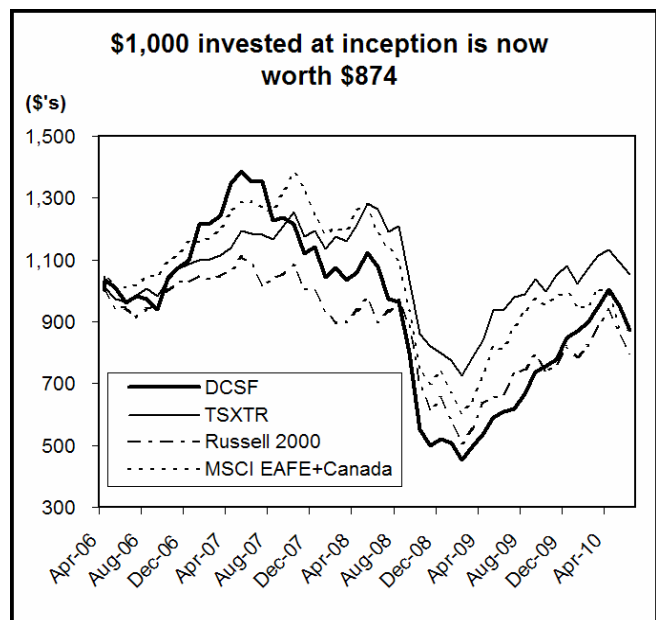
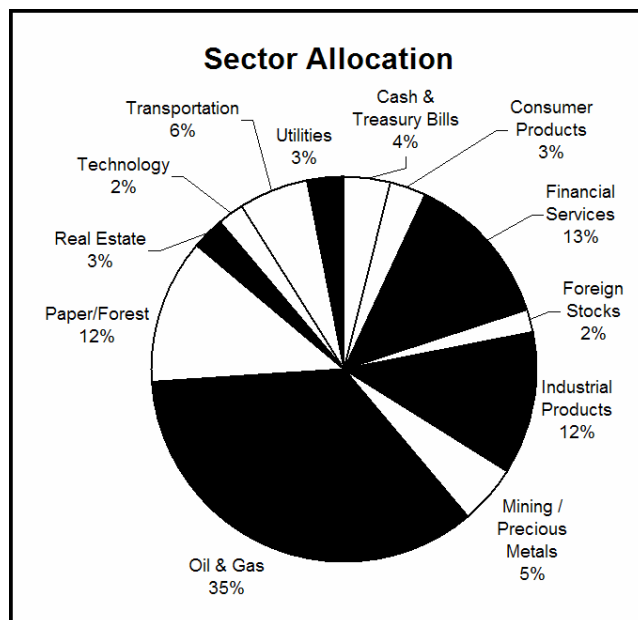
### Objective

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	-8.21	-7.88	-3.71	-1.42	2007	3.79	-2.75	9.83	8.08
Q2 2010	-7.80	-10.19	-5.51	-13.41	2008	-54.34	-34.80	-33.00	-40.69
YTD	3.04	-2.54	-2.55	-12.17	2009	62.87	25.22	35.05	34.39
1 Year	43.58	19.91	11.95	7.51					
2 Year	-9.97	-5.99	-8.79	-14.01					
3 Year	-13.53	-9.92	-3.88	-12.16					
Since Inception*	-3.18	-5.31	1.22	-3.21					

\*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 June 30th, 2010

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 4.02%</b>			
73,765	Cash - CAD	74	74
32,919	UBS Cash in Action Fund - CAD	3,292	3,292
96,690	STIC Liquidity Portfolio - USD	99	103
<b>TOTAL CASH</b>		<b>3,465</b>	<b>3,468</b>
<b>COMMON STOCKS -- 95.98%</b>			
<b>CANADIAN STOCKS -- 87.98%</b>			
<b>OIL &amp; GAS -- 35.12%</b>			
4,500,000	Alange Energy Corp.	2,093	1,575
1,000,000	Anderson Energy Ltd.	3,792	1,180
800,000	Blackpearl Resources Inc.	3,600	2,256
400,000	Daylight Energy Ltd.	3,503	3,572
2,237,500	Ithaca Energy Inc.	4,383	4,430
7,250,000	Enseco Energy Services Corp.	1,450	1,595
3,625,000	Enseco Energy Services Corp., warrants	0	0
250,000	Flint Energy Services Ltd.	2,900	2,985
250,000	Legacy Oil + Gas Inc.	2,950	2,870
1,375,000	Open Range Energy Corp.	2,554	2,008
8,000,000	Sea Dragon Energy Inc.	3,200	2,280
663,600	Twin Butte Energy Ltd.	1,866	889
1,852,000	Tuscany Int'l Drilling	1,961	2,176
312,500	Tuscany Int'l Drilling, warrants	0	0
12,500,000	Western Energy Services Corp.	2,500	2,500
<b>TOTAL</b>		<b>36,751</b>	<b>30,316</b>
<b>REAL ESTATE -- 3.03%</b>			
500,000	Lanesborough Real Estate Inv. Trust	2,198	185
450,000	Tricon Capital Group Inc.	2,700	2,430
<b>TOTAL</b>		<b>4,898</b>	<b>2,615</b>
<b>MINING / PRECIOUS METALS -- 4.69%</b>			
700,000	Argonaut Gold Inc.	2,100	1,855
350,000	Argonaut Gold Inc., warrants	0	153
1,000,000	Energold Drilling Corp.	1,880	2,040
<b>TOTAL</b>		<b>3,980</b>	<b>4,048</b>
<b>INDUSTRIAL PRODUCTS -- 12.03%</b>			
500,000	ATS Automation Tooling Systems Inc.	2,328	2,845
450,000	Canam Group Inc.	4,328	3,155
1,000,000	Com Dev International Ltd.	2,962	1,900
400,000	Vector Aerospace Corp.	2,488	2,480
<b>TOTAL</b>		<b>12,106</b>	<b>10,380</b>
<b>MERCHANDISING -- 0.00%</b>			
2,157,900	CY Oriental Holdings Ltd.	2,411	0
799,998	CY Oriental Holdings Ltd., warrants	0	0
<b>TOTAL</b>		<b>2,411</b>	<b>0</b>

exchange rate used is 1.0627

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CONSUMER PRODUCTS -- 2.90%</b>			
250,000	High Liner Foods Inc., Class A	1,635	2,500
<b>TOTAL</b>		<b>1,635</b>	<b>2,500</b>
<b>PAPER/FOREST PRODUCTS -- 12.21%</b>			
500,000	Fortress Paper Ltd.	3,867	10,540
<b>TOTAL</b>		<b>3,867</b>	<b>10,540</b>
<b>FINANCIAL SERVICES -- 10.26%</b>			
150,000	Equitable Group Inc.	2,478	3,272
150,000	Genworth MI Canada Inc.	3,121	3,483
3,500,000	Westaim Corp.	1,750	2,100
<b>TOTAL</b>		<b>7,349</b>	<b>8,855</b>
<b>UTILITIES -- 2.52%</b>			
750,000	Maxim Power Corp.	1,902	2,175
<b>TOTAL</b>		<b>1,902</b>	<b>2,175</b>
<b>TRANSPORTATION -- 2.92%</b>			
212,500	Westjet Airlines Ltd.	2,378	2,520
<b>TOTAL</b>		<b>2,378</b>	<b>2,520</b>
<b>TECHNOLOGY -- 2.31%</b>			
600,000	March Networks Corp.	2,424	1,992
<b>TOTAL</b>		<b>2,424</b>	<b>1,992</b>
<b>U.S. STOCKS -- 5.50%</b>			
<b>TRANSPORTATION -- 3.22%</b>			
137,500	Fly Leasing Ltd. ADS	3,168	1,505
120,000	Seaspan Corp.	2,984	1,275
<b>TOTAL</b>		<b>6,152</b>	<b>2,780</b>
<b>FINANCIAL SERVICES -- 2.28%</b>			
62,500	Kansas City Life Insurance Co.	3,514	1,964
<b>TOTAL</b>		<b>3,514</b>	<b>1,964</b>
<b>FOREIGN STOCKS -- 2.51%</b>			
4,042,500	Harmony Asset Ltd.	2,830	2,163
<b>TOTAL</b>		<b>2,830</b>	<b>2,163</b>
<b>TOTAL COMMON STOCK</b>		<b>92,197</b>	<b>82,847</b>
<b>TOTAL PORTFOLIO</b>		<b>95,662</b>	<b>86,316</b>

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## Attitude

*The ideal attitude  
is to be physically loose  
and mentally fit.*

**Arthur Ashe**  
**late, great U.S. tennis star**

In all candour, the present securities market is arguably the most difficult, confusing and volatile investment environment that I have faced in over 35 years in the business. Today, for instance, we are confronted with innumerable economic, investment and political issues which appear to be clouding the financial horizon. They include: burgeoning European debt problems, BP/Gulf of Mexico oil spill, pending new U.S. financial/banking regulations, a slowing economic recovery precipitating fears of a double dip economic recession, etc.

Clearly, the present U.S. economic expansion is neither showing linear growth nor a more traditional v-shaped recovery. This fact appears to be bothering investors. Moreover, it appears that any business or consumer rebound has become particularly tenuous with regard to both personal spending and employment growth. Additionally, the catastrophic Gulf of Mexico news and the closely-watched on-goings of BP PLC, continue to garner front page newspaper headlines and media attention. Putting this altogether, it is little wonder that the general investment climate has become exceedingly volatile, disorderly and pessimistic.

While investment managers are facing an incredibly chaotic and stressful investment environment it is our view that this financial confusion will eventually pass. In the meantime, the present period offers unusual opportunity. The fact is this is a stock picker's market whereby judicious short-term selectivity can and will provide for remarkable longer-term investment performance. The key, in our opinion, is attitude. Given the growing investor pessimism and fear of an

impending double-dip economic recession it is becoming the investment norm to refrain from any equity commitments.

But, putting aside the prevalent negativity and remaining mentally alert for excellent opportunistic purchases, portfolio managers can acquire fundamentally undervalued stocks at bargain prices. True, the purchaser might appear temporarily foolish and somewhat reckless, however, deeply discounted securities in a risk adverse environment can be extraordinarily rewarding when investor psychology turns upward due to some unexpected positive catalyst.

It is our belief that today's stock picking and disciplined investment principles (e.g., below book/net asset value, low price earnings and low cash flow multiples, etc.) will produce, as in the past financial cycles, superior long-term results. Granted, by presently committing funds to individual investment bargains, this will test our patience, resolve and probably precipitate client second guessing. Nevertheless, it is our view that the short-term distress will be well worth the longer term rewards.

Accordingly, we continue to adhere to our positive attitude and investment disciplines. We remain patiently committed to our research convictions and expect superior long-term market outperformance from a number of our most-favoured holdings including: Canam Group, Daylight Energy, Equitable Group, Flint Energy Services, Fortress Paper, Genworth MI Canada and the Westaim Corporation.

**Irwin A. Michael, CFA**

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