#the Break Out Report

Earnings – Leadership - Momentum

**Volume # 1, Issue # 6** **Jan. 19, 2003** **ELM - the Profit Tree**

**Annual Review**

## Pulling the Trigger

The hardest part of stock trading is, contrary to popular belief, not in picking the right stocks but in knowing when to sell them. Everyone writes about buying – look at our fantastic picks, etc. and that is what the newsletter buying public pays for. But in fact, selling is one of the most important elements of a successful investing program. Just ask anyone who bought tech stocks in the first quarter of 2000 who did not have a selling plan!

The principle involved here is simple – preservation of capital. If you sell a stock before it plummets, you live to trade again another day. With a selling plan you can preserve profits and minimize losses.

Those who follow my scribblings know that I have been an active enthusiast for having a selling plan for some time. And the three model portfolios I launched at the beginning of 2002 (now amalgamated as our one model portfolio) were actively managed throughout the year – buying and selling according to the rules of our 10% solution. For newer readers, let me recap our rules briefly:

- A stock is in an uptrend if it is off 10% or more from a recent interim bottom closing price
- A stock is in a downtrend if it is off 10% or more from a recent interim top closing price
- Sell a stock when it drops 10% or more from its recent interim top

*(continued on page 2)*

**Trend Watch**

## Whole Lotta Shakin' Goin' On

We wrote in our December 15th issue that gold was set to spike to $350 by Christmas. This courtesy of gold analyst Jim Sinclair, who is also the chairman and CEO of junior gold miner Tan Range Exploration. Jim was right in spades as gold soared, breaking the $350 mark though not closing above it before Christmas. Since Christmas it has continued to climb, although there is a lot of backing and filling along the way. One day the price will drop sharply. Then a day or two later it will shoot up again. Just last Thursday, January 16th, gold shot up $7 on the day on war jitters.

In spite of the spasmodic movement in gold, it has continued to climb week by week. Where will it end? I asked well-known financial guru Michael Campbell who is pretty savvy about the markets where he saw gold heading. He didn't blink as he replied "$1000 or higher." Campbell correctly called the bear market before it hit in 2000. In his column in the *Vancouver Sun*, Campbell has continued to see stocks as overvalued.

One recent column took an interesting turn on the much ballyhooed argument that there has only been one time in the last hundred years when we've had four consecutive losing years in the market. The argument goes that this means the odds of 2003 being a down year are one in a hundred. Even I thought this was a reasonable argument until Mike stood it on its head.

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In This Issue: A Tempestuous Stock (Page 6)

**Pulling the Trigger** *(from page 1)*

- Exception Rule # 1: If a stock gains more than 10% in a single day and loses more than 10% but less than the original gain the following day, the spike in price is ignored and not considered to be the new interim closing high and the stock is not sold.
- Exception Rule # 2: If a stock has gained more than 10% since we bought it, we increase the downside latitude by 1% for every 10% gain. So if a stock is up 35% for example, it must drop 13% from its interim closing high before we sell it. We capped this at 15% as the absolute maximum deviation we would tolerate from an interim closing high before selling.
- Buy back a stock when it rises 10% from an interim bottom

Now here's the conundrum. Our actively traded model portfolio gained 24.78% in 2002, not too shabby and far outstripping the 14.0% *loss* for the TSX Composite Index. But if we had stuck with the original stocks we first picked and not traded at all, in other words adopted a buy and hold strategy, the portfolio would have gained 37.03%. Active trading cost us over $6000 in profits on our $50,000 original stake. Ouch!!!

So this begs the question – which is better? Buy and hold? Or active trading? And frankly, I'm torn over the issue. As a Warren Buffett fan, I agree with the principle of focusing a lot of effort on stock selection. As William O'Neil puts it in his best-seller *How to Make Money in Stocks*, "buying right solves most of your selling problems". Yet O'Neil includes 28 rules for selling in his book. Donald Cassidy, a sharp mind at Lipper Inc., wrote a whole book on the topic called *It's When You Sell That Counts*. And even Warren Buffett sells occasionally.

As I wrote in my book, *The 50 Best Science & Technology Stocks for Canadians*, half of the components of the Dow Jones Industrial Average itself have changed since 1961. Even the Dow doesn't buy and hold forever.

A buy-and-hold strategy is particularly problematic in the constantly changing world of technology. Consider the seven largest computer companies in 1984, when the industry was in its youth. Only IBM remains intact, though it underwent some painful problems, including a long-running antitrust battle and the transition from large mainframes to PCs. This supposedly unstoppable dynamo of a stock at one point took a 75 percent hit on its share price. The other six—Burroughs, Sperry, NCR, Digital Equipment, Honeywell, and Control Data—either merged, were taken over by other companies, or changed the nature of their business. All are considered minor players today.

While I see the logic in a sound buy and hold strategy, I also see the logic in having a selling plan. So in this issue I am reviewing one of the stocks we traded over the last year and one from our Watched List to see how we might revise our criteria to improve our performance.

The first is Forzani Group, which would have made us a gain of 43.03% if we had just bought it and held but instead ended up making us just 10.02%.

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## The Break Out Report

is published twice a month by Break Out Publishing.



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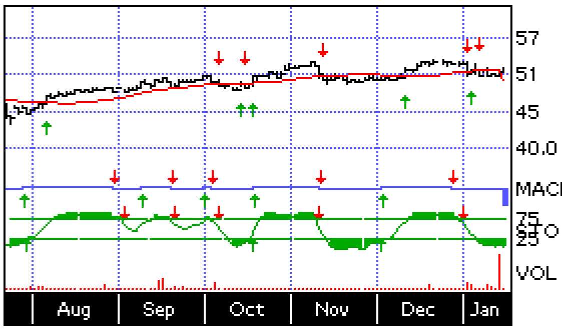
Articles this issue by Marco den Ouden unless otherwise indicated. Subscription: $14.95 a month or $150 a year

## Watched List Update

# Stocks on the Move

The four stocks below are all on the move and worth a closer look if you don't already own them. They've all been on our Watched List for around two years and three have more than doubled in that time with BW Technologies actually tripling. That's what we call a solid track record. Fortis is a bit slower growing, but solid and pays a good dividend. All have further room for growth and all are worthy additions to your portfolio.

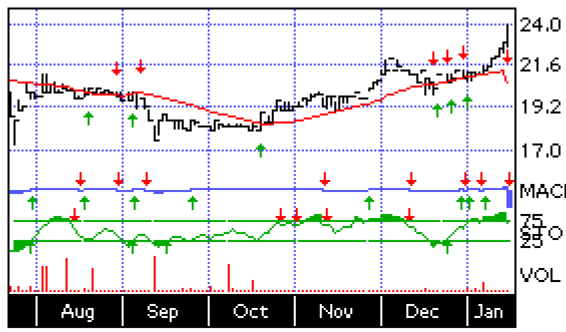


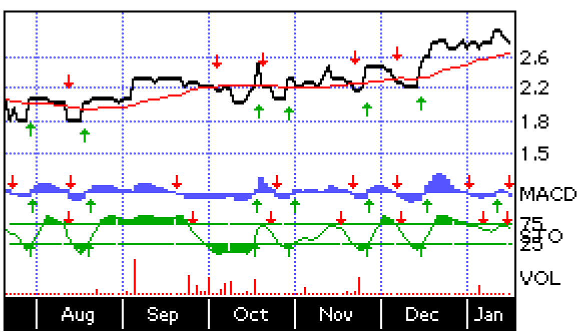

**Fortis Inc. (FTS)** **Profiled: Mar. 16, 2001**
**Price then: $38.00** **Price Now: $51.50**

⇦ Since we first profiled Newfoundland power company Fortis Inc., it has risen 35.5%. In the last three years it has almost doubled rising steadily from a low of $28 on March 15, 2000. Hmm...isn't that when the bear market started? Fortis also pays a solid dividend yielding 4.1% , a winning combination of income and growth.

**BW Technologies** **Profiled: Feb. 23, 2001**
**Price then: $7.75** **Price Now: $23.55**

BW Technologies has risen 203.9% since ⇨ we profiled it in Feb. 2001. This Alberta manufacturer of gas detection meters is also featured in my book, *The 50 Best Science & Technology Stocks for Canadians*. It had been battling resistance at the $21 level for some time and recently broke through to new highs.



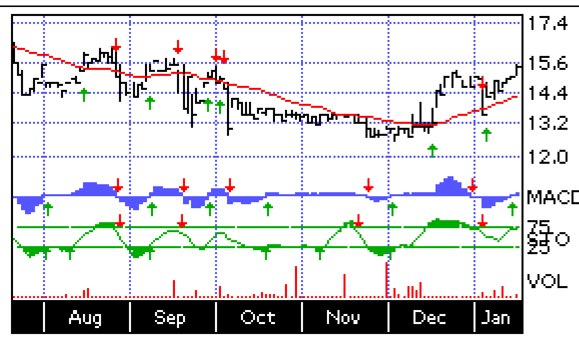




**Macyro Group** **Profiled: Jan. 8, 2001**
**Price then: $1.05** **Price Now: $2.80**

⇦ Macyro Group is a thinly traded stock but a solid grower. It's up 166.7% since we profiled it about two years ago. The company is a commercial construction contractor and a manufacturer of aluminum doors and windows. Watch for this low P/E stock (7.2) to touch its moving average and then climb higher.

**Richelieu Hardware** **Profiled: Dec. 4, 2000**
**Price then: $7.00** **Price Now: $15.45**

This Quebec based supplier of hardware to ⇨ the retail sector has grown 120.7% since we profiled it just over two years ago. After slumping from June through November, it is on its way up again after testing the moving average and bouncing up. There's more growth ahead.



**Whole Lotta Shakin'** *(from page 1)*

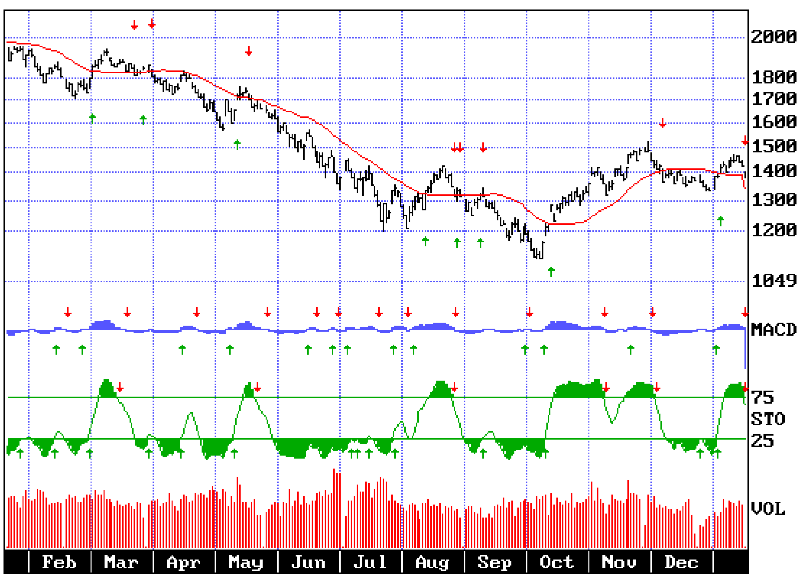
He points out that the argument is wrong on the face of it. There have been three times in history when stocks have fallen three years in a row. On one of those occasions, it went on to a fourth year of falling stocks. So if you want to look at the odds, it's actually one in three that stocks might fall this year, not one in a hundred.

But of course, odds have nothing to do with it. It's market conditions that determines what will happen. And things are still unsettled at best. There is a rampant fear of deflation in the American government and they are pumping money into the economy at an unprecedented rate. And this will have long-term and possibly short-term repercussions. Long-term we're talking inflation. Short-term, a continuing run on the American dollar. And that means a boom in gold prices.

But as I've said many times in my writings, the key to success is to pick your stocks carefully and to have an exit strategy if things go wrong. Below are the market stats for the week.

| Index | Jan. 10, 2003 | Jan. 17, 2003 | Change |
|---|---|---|---|
| TSX Comp | 6801.77 | 6755.92 | -0.67% |
| DJIA | 8784.89 | 8586.74 | -2.26% |
| NASDAQ | 1447.72 | 1376.19 | -4.94% |
| Gold | 354.50 | 356.80 | +0.65% |

As we can see, all the markets fell with the NASDAQ taking a big hit for the week. Gold was up marginally. What's striking is that the broad market rally that began on Oct. 9th and peaked around November 1st has failed to recover to the November 1st levels. The NASDAQ hit 1500 then, but has fallen far short on its more recent attempt to break through that level. (See chart below).




It only got to 1460.99 last Monday before breaking down. It's not a good sign.

Meanwhile, the Dow followed a similar pattern, failing to recapture the 9000 level. On Steve Swanson's Market Forecast charts, the purple intermediate term line has turned down before even reaching half way to the top.

Big giants like Intel, AMD, IBM, Microsoft and General Electric are all lowering their forecasts. What's the saying about football, baseball and bear markets? It ain't over until the fat lady sings!

## Toolbox Tips

Monday, January 20th, Ross Jardine will be conducting a conference call to discuss changes and improvements to the Online Investor Toolbox. Among the changes are some I played a role in creating – the revised Canadian pages. You'll find them at the Toolbox by clicking on Education in the top menu and then clicking on Canadian Resources in the side menu. It includes links to all Canadian stocks listed on American exchanges as well as direct links to Canadian options information from the Bourse de Montréal. Email me with suggestions for further improvements!

**Gold Mining Pick**

# IAMGOLD (IMG – TSX)

**(website: www.iamgold.com)**

Repadre Capital, one of our favorite gold stocks, merged with IAMGOLD effective January 8th. Shareholders received 1.6 shares of IMG to replace each Repadre share shortly after that. Frankly, we're not totally thrilled with the merger. As can be seen from the numbers below, IAMGOLD's stats are not stellar. Repadre was a much more consistently profitable and growing company.

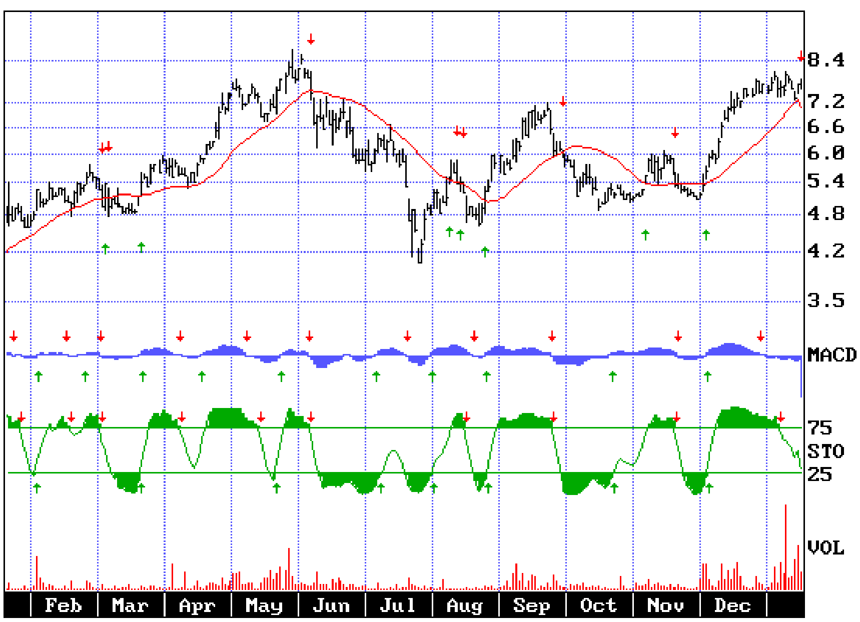
**Quarterly Earnings per Share (in US$)**

| To Sept 30th | 2001 | 2002 | % Change |
|---|---|---|---|
| EPS | $0.04 | $0.03 | -25.0% |
| Revenues (000s) | $21,636 | $24,505 | +13.3% |

**Annual Earnings per Share (in US$)**

| To Dec. 31st | 2000 | 2001 | % Change | Trailing to Sept. 30, 2002 | % Change |
|---|---|---|---|---|---|
| EPS | $0.14 | $0.15 | +7.1% | $0.12 | -20.0% |
| Revenues (000s) | $62,107 | $84,736 | +36.4% | $90,012 | +6.2% |

And if you look at its chart below, it's a roller coaster compared to the less volatile Repadre.




**Will IMG bounce off its moving average to the upside breaking resistance at $8?**

**Stats as of 01/17/03**

- Hi/Lo Ratio: 2.18
- RS: 91.34
- Shares: 141,599,645
- P/E: 30.8
- Price: $7.71

**Phase 2 Analysis**

- Price Pattern: A
- Volatility: B
- Estimates: A
- Snapshot: C
- News: A

That said, there are certain benefits to the arrangement. The deal makes IAMGOLD a larger player in the mid-tier gold lineup. Both companies mine extensively in Africa, so there are synergies to be found there, and perhaps cost savings as well. Also on the plus side is the fact that IAMGOLD is relatively debt free. And as of September, it had cleared its hedge book and has no forward contracts outstanding. This means that it can profit fully from any rise in the price of gold. And IAMGOLD has recently listed on the AMEX Exchange, giving it greater liquidity.

But perhaps the most interesting thing about IAMGOLD is not its numbers but its "Gold Money Policy". Goldbugs will love this one! IAMGOLD's principals subscribe to the philosophy that money should be backed by gold. And so they have adopted a policy of converting a substantial portion of their discretionary funds into gold bullion. As of September 30th, the company had a cash position of $48 million. $30.5 million of this was in bullion. Every increase in the price of gold goes straight to the bottom line. Of course, if gold falters, watch out below!

**Oil & Gas Pick**

# Tempest Energy (TMY.A, TMY.B –TSX)

**(website: www.tempestenergy.com)**

In the realm of junior oils, Tempest is about as junior as you can get. The company was only founded in late 2000 and produced only $34,000 in revenues and no profits for that year.

The company is a gas and oil exploration and production company with two core areas of interest in Alberta. The first is a 98% interest in properties near Chipman, Alberta where the company discovered two oil pools and drilled three wells in 2001. Another pool was discovered in March 2002.

The second core area is in the Red Earth, Alberta region where the company earned a 50% interest in a large block of exploratory shallow gas lands by farming-in in 2001. This is an agreement where the owner of potentially productive oil properties contracts with an exploration company to drill on and explore the property in exchange for an ownership interest. Two further farm-in agreements in 2002 increased the company's holdings.

In 2001 the company sank eight wells at Red Earth of which four came up productive. It also built a gas plant and gathering system in the area. In all, the company drilled 22 wells in 2001 with a 68% success rate. Aggressive drilling continued throughout 2002 with 31 wells in the first nine months of 2002 and an 87% success rate. Eight of those were drilled at a 100% success rate in the third quarter of 2002.

In December 2002, the company announced a significant new pool discovery at Red Earth. It also ramped up its capital expenditure and exploration program. It spent $36 million in 2002.

By the end of the year the company was producing 2800 barrels of oil equivalent a day. Most of this production comes from the Chipman area, but the Red Earth potential is still largely untapped. Conditions there only allow for winter drilling. Tempest owns 30,000 acres in the area and with the successful pool find in December, planned six further exploratory drillings before the Spring of 2003. The company also has two extensive farm-in agreements for adjacent parcels. The debt-free company will be spending about $10 million in drilling over the next few months.

Much of Tempest's success is due to its strong drilling program. It managed to go into full production quickly and with new oil pools in both Chipman and Red Earth yet to be put into production, strong growth going forward seems assured.

To be sure, the Middle East war crisis, the Venezuelan strike and the consequent boom in oil prices have helped, but as the company puts it, growth has come "through the drill bit", not because of price increases.

Tempest moved from the Venture Exchange to the TSX in September 2002. We prefer the more widely traded "A" shares.

**Quarterly Earnings per Share**

| To Sept. 30th | 2001 | 2002 | % Change |
|---|---|---|---|
| EPS | $0.07 | $0.12 | +71.4% |
| Revenues (000s) | $1,421 | $6,445 | +353.6% |

**Annual Earnings per Share**

| To Sept. 30st | 2000 | 2001 | % Change | Trailing to Sept. 30, 2002 | % Change |
|---|---|---|---|---|---|
| EPS | $0.00 | $0.04 | n/a | $0.13 | +225.0% |
| Revenues (000s) | $34 | $3,104 | +9029.4% | $13,184 | +324.7% |

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**Tempest Energy** *(from page 6)*

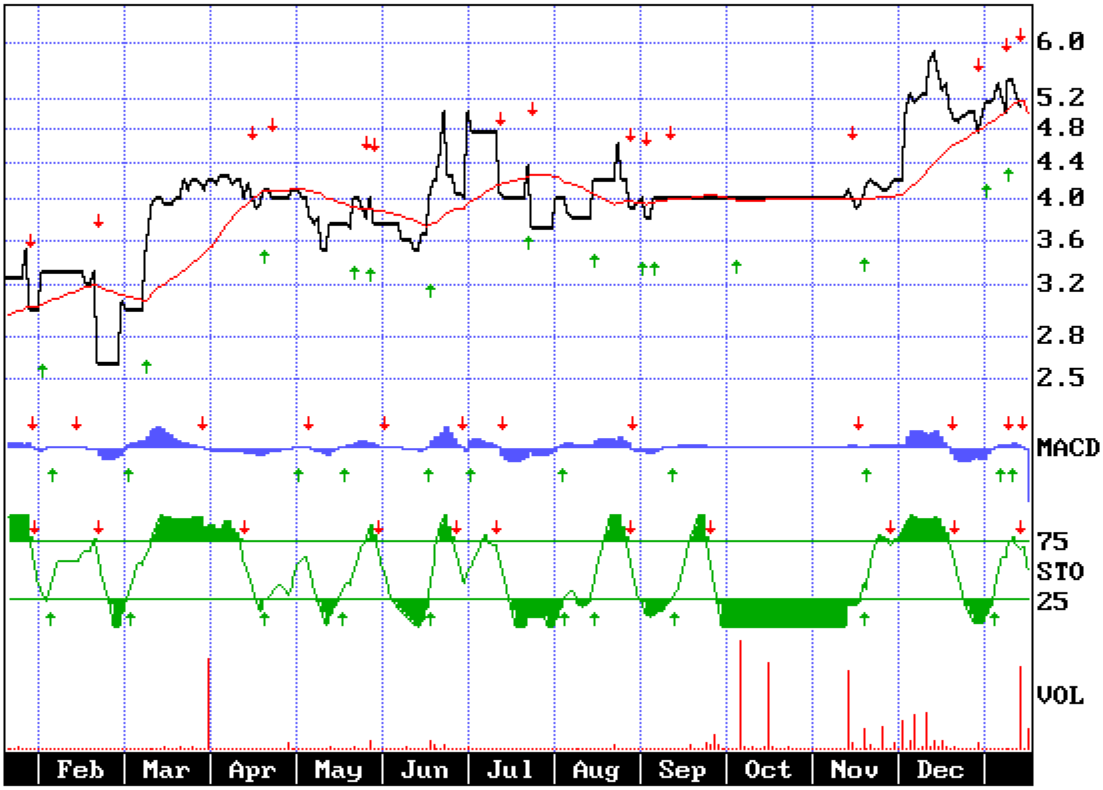



**Chart Analysis:** Some people avoid thinly traded stocks like the plague but I've found that there are many gems to be found there. One of the advantages of buying a solid but thinly traded stock is that if it gets discovered by a wider investing public, the demand can put strong upwards pressure on the price. Tempest Energy is one of those thin traders. Most days less than 10,000 shares are traded. But look at the activity picking up in October, November and December! After trading flat at $4 a share, a volume spike in mid-November was followed by three green arrows and a series of lesser volume spikes pushing the stock to almost $6. It retraced to the moving average and is testing it again. It may consolidate for a while but long term, the direction is up!

| Stats as of 01/17/03 | Phase 2 Analysis |
|---|---|
| ▪ Hi/Lo Ratio: 2.27 | ▪ Price Pattern: A |
| ▪ RS: 88.42 | ▪ Volatility: B |
| ▪ Shares: 14,737,933 | ▪ Estimates: A+ |
| ▪ P/E: 29.8 | ▪ Snapshot: A |
| ▪ Price: $5.15 | ▪ News: A |

**Phase 2:** Price pattern is solid with the stock tripling over the last three years. But the action is somewhat volatile. Give it an A for price pattern and a B for volatility. Only one analyst covers the stock but gives it a Strong Buy rating with estimates up strongly as well. An A+ (first we've given). The company's snapshot shows it to have grown revenues and earnings for three years running with ROI growing. We give it an A again. News is solid with new pool discoveries, TSX listing and solid growth and future exploration prospects. Another A.

*All charts courtesy of Investools. Visit their website at http://me.investortoolbox.com/welcome.html for more information on their courses and online tools.*

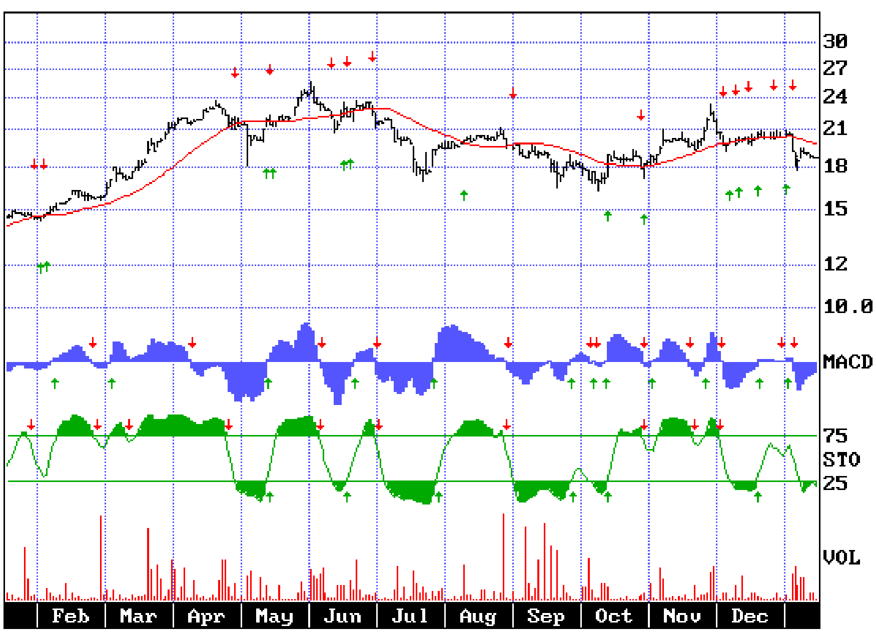
**Pulling the Trigger** *(from page 2)*

## Analysis of our Forzani Group Trades

We bought and sold Forzani Group ten times during the year as noted in the table below:

| Date | Trade | # of Shares | Price | Total | Gain/Loss |
|---|---|---|---|---|---|
| Jan. 11 | Bought | 200 | $14.20 | $2840.00 | n/a |
| May 8 | Sold | 200 | $20.20 | $4020.00 | +$1200.00 |
| May 22 | Bought | 190 | $22.49 | $4235.00 | n/a |
| June 14 | Sold | 190 | $20.96 | $3982.40 | -$252.60 |
| June 26 | Bought | 130 | $23.00 | $2990.00 | n/a |
| July 12 | Sold | 130 | $20.01 | $2601.30 | -$388.70 |
| July 30 | Bought | 140 | $19.25 | $2695.00 | n/a |
| Sept. 20 | Sold | 140 | $18.40 | $2576.00 | -$119.00 |
| Oct. 16 | Bought | 140 | $18.78 | $2629.20 | n/a |
| Dec. 6 | Sold | 140 | $19.60 | $2744.00 | +$114.80 |
| **Total P/L** | **after** | **Transaction** | **Costs of** | **$270** | **+$284.50** |

The first thing to note is that we didn't introduce our exception rules until later in the year. So our first sale on May 8th was because the stock had dipped 10% from the high closing price of $23.21 reached on April 23rd. If we had had Exception Rule # 2 in place, our stop loss would have been $19.73 and we would, in fact, not have done the trades of May 8-June 26 and would have finally sold for the first time on July 12th at $20.01. If we had introduced Exception Rule # 2 at the beginning of the year, we would have made 34.99% with Forzani Group by avoiding the whipsawing we underwent in the summer. In fact, that was one of the reasons we introduced the rule. That return is still below the 43.03% for buy and hold.



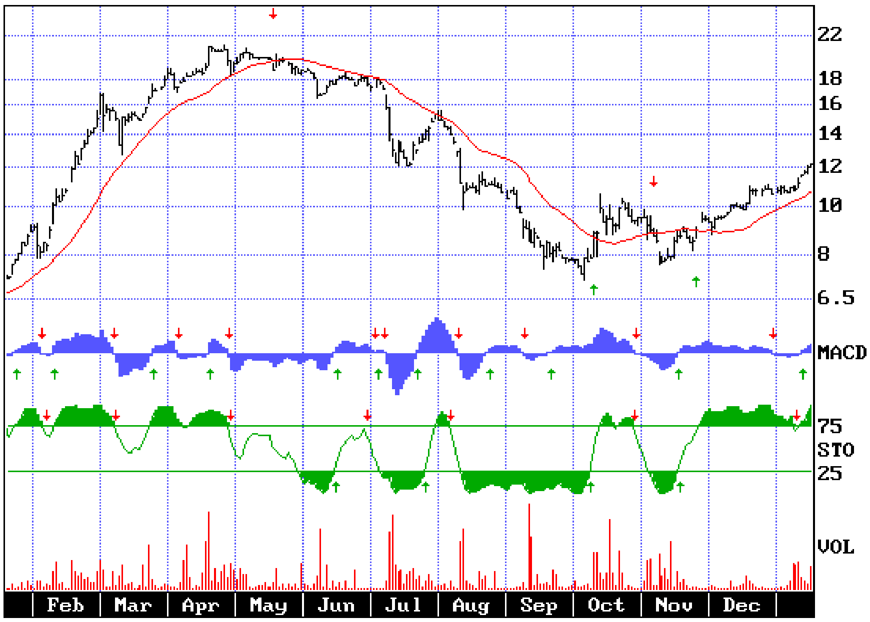

What would have happened if we had traded by technical rules instead, selling when the stock gave us two red arrows (one of which was crossing the 30 day moving average) and buying back on three green arrows?

We possibly would have sold in late April, bought back in mid-May, sold in mid-June, bought back in mid-June, sold in late June, would not have bought back until a clear uptrend was established with the first bounce off the moving average in November and sold again in early December. Most trades would have been a wash. However, if we include volume as a buying indicator (as we should), we would have avoided some of the whipsawing. Either way, it's not clear it would have had an advantage over-all to our formulaic 10% solution. We did a similar look at Repadre Capital with similar results and you'll find that as a bonus on the website. We'll look at one more example here.

*(continued on page 9)*

**Pulling the Trigger** *(from page 8)*

## Analysis of Bennett Environmental




Bennett Environmental had an amazing trading year. The chart below shows it had a roller coaster ride that saw it climb from its Dec. 31, 2001 closing price of $6.26 to a high closing price of $21.00 on April 24th, a gain of 235.46%. It then dropped as low as $7.33 before climbing to close the year at $10.60. A buy and hold strategy here would have netted us an excellent return of 69.33%. But check out our trading table below the chart!

Actively traded per our rules, we would have had the following transactions.

| Date | Trade | # of Shares | Price | Total | Gain/Loss |
|---|---|---|---|---|---|
| Dec. 31/01 | Bought | 800 | $6.26 | $5008.00 | n/a |
| Mar. 13/02 | Sold | 800 | $12.70 | $10,160.00 | +$5152.00 |
| Mar. 14 | Bought | 670 | $15.10 | $10,117.00 | n/a |
| June 10 | Sold | 670 | $18.00 | $12,060.00 | +$1943.00 |
| July 26 | Bought | 860 | $13.99 | $12,031.40 | n/a |
| Aug. 12 | Sold | 860 | $12.85 | $11,051.00 | -$980.40 |
| Oct. 15 | Bought | 1120 | $9.85 | $11,032.00 | n/a |
| Nov. 6 | Sold | 1120 | $9.06 | $10,147.20 | -$884.80 |
| Nov. 19 | Bought | 1185 | $8.55 | $10,131.75 | n/a |
| Dec. 31 | Hold | 1185 | $10.60 | $12,561.00 | +$2429.25 |
| **Total P/L** | **after** | **Transaction** | **Costs of** | **$243** | **+$7416.05** |

We would have made a gain of 148.08% through our active trading model with Bennett Environmental versus 69.33% for buy and hold. If we had used technical trading rules we could have averted the two consecutive trades of March 13th and 14th by the "lake principle" (if the price line and the 30 day moving average form a "lake" above the moving average, we can hold on until the 30 day moving average is broken to the downside). We also would have avoided the stock when it was in a downtrend, not buying again until it broke the MA while in an uptrend on Nov. 28th at $9.25. In that case, we would have had just three trades buying on Dec. 31/01, selling on June 10th and buying back on Nov. 28th. Our gain: 214.90%

**Conclusion:** There's something to be said for both buy and hold and for active trading. The principle of safety speaks to having a selling plan and that is what we will continue to follow here. And in some cases, as we have seen with Bennett, active trading can increase your profits by a considerable sum. Technical analysis can also increase your profits and cut your losses. So we are adding some modifications to our trading strategy in light of this analysis, combining our 10% solution rules with technical analysis to produce, hopefully, a more successful model than our already successful model. You'll find them summarized on page 10.

**Methodology**

# Our Portfolio Trading Rules (Revised)

If you follow our Model Portfolio, it's worth knowing our trading rules so you can follow it if you choose between newsletters. Here are the principles we work from:

- A stock is in an uptrend if it is up 10% or more from a recent interim bottom closing price *and* the 30 day moving average is sloping upwards.
- A stock is in a downtrend if it is off 10% or more from a recent interim top closing price *and* the 30 day moving average is sloping downwards.
- A stock is in either a transition phase or a consolidation phase if a stock is either up 10% from an interim closing bottom or down 10% from an interim closing top and the 30 day moving average is flat. For purposes of trading we shall consider a transition phase as a continuation of the direction of the most recent trend until proven otherwise.
- Sell a stock when it drops 10% or more from its recent interim top with the following exceptions:
- Exception Rule # 1: If a stock gains more than 10% in a single day and loses more than 10% but less than the original gain the following day, the spike in price is ignored and not considered to be the new interim closing high and the stock is not sold.
- Exception Rule # 2: If a stock has gained more than 10% since we bought it, we increase the downside latitude by 1% for every 10% gain. So if a stock is up 35% for example, it must drop 13% from its interim closing high before we sell it. We capped this at 15% as the absolute maximum deviation we would tolerate from an interim closing high before selling.
- Exception Rule # 3: If the stock is in an uptrend and a "lake" has formed between the stock price and the 30 day moving average, we will wait until the stock breaks through the moving average before trading.
- Buy back a stock when it rises 10% from an interim bottom *and* the 30 day moving average is also sloping upwards.

As noted in the rules, we base our decisions on *closing prices*, not on intra-day prices. So you don't necessarily want to put in stop loss orders. We'll be applying the revised rules to our Model Portfolio for 2003. Hopefully this will cut down on some of the whipsawing we saw last year and result in fewer trades. Our past practice of sticking with the same stock requires the patience of Job, something we don't really have. In our example of Bennett Environmental, it would have meant being in cash for 5 months. So we are modifying this somewhat. We will keep a cash position open for a stock that has been sold for three months and then switch to a new stock. We will continue to monitor the dropped stock and if it gives us a buy signal and there is an open position, we will buy back in unless it has been dropped from our Watched List.

# Website Changes

You may have noticed some changes to our website. Further changes are afoot. We have upgraded our status with our hosting service and will soon be creating a few sub-domains. One of course will be subscribers.breakoutreport.com. This will include all the features you have been accustomed to seeing on our website such as the weekly New Highs Report, the monthly Top 500 Stocks on the TSX with their relative strength rankings, and our Model Portfolio weekly updates between issues. We'll also have regular updates on our Watched List. And we'll be archiving back issues of the Report as well. This site will be password protected and accessible to subscribers only. Another sub-domain will be investingcanada.breakoutreport.com which will have all our aggregated net links and articles from our days at About.com. And we may add a fiftybest.breakoutreport.com as well.

**Watched List Review**

# Culling the Herd (Again!)

We started culling our Watched List at the end of 2001, largely because we just had way too many stocks to follow and it was too much work to keep track of them all. But also because we didn't think we should hang on to stocks that had, perhaps, outlived their usefulness for us. And we continued this process each quarter in 2002, cutting away deadwood. Details of each of these reviews are on the website.

Looking back at the stocks we dropped, we found some interesting statistics. The 31 we dropped at the end of 2001 gained an average of 5.05% for 2002, underperforming the stocks we kept which gained 18.27%. But amazingly, our rejects outperformed the TSX Composite Index! And two of them went on to gain 100% or more for the year.

The next quarter we loosened our criteria so we wouldn't throw out as many stocks. We ended up cutting just two which went on to lose an average of 36.75% for the balance of 2002. Clearly the criteria we used, down 5 or more RS points *and* losing money, proved effective.

The second quarter we noticed something we missed before. The worst performers in the previous quarter tended to do poorly in the following quarter. So we also cut the ten worst performing stocks (with one exception) unless they were in a current uptrend for the quarter. That proved to be a good move as well as the ten stocks cut declined an average of 16.07% for the last six months of 2002.

The next month we came a cropper as we used the same criteria to axe 14 stocks. They then went on to have a stellar quarter, gaining an average of 5.05%, just slightly less than the stocks we kept or added which gained an average of 6.82%. Five of the 14 we dropped gained 10% or more. We also added back three stocks we thought were turning around. Two, in fact, were. But Palladin Labs plummeted 39.10% in the fourth quarter.

After considering our previous results, we are using the following criteria to drop stocks from our Watched List. A stock must meet all three to be dropped:

- The stock has lost 5 or more relative strength points or is off the Top 500 list.
- The stock is in a downtrend.
- The stock has a loss in the most recently reported quarter or its EPS is down by 50% or more.

The table of 57 stocks is too large to put in this Report so we refer you to our website for details. Visit our subscriber area for the link. The table below is of the six stocks we're dropping.

| Name | Symbol | Date Featured | Gain YTD | Gain Since Profiled | Dec. RS Change | Recent Trend | QEPS Change | Status |
|---|---|---|---|---|---|---|---|---|
| La Senza | LSZ | Apr. 27/01 | 39.86% | 58.73% | off list | ↓ | L | Drop |
| Shell Canada | SHC | Nov. 27/00 | 7.54% | 27.30% | off list | → | -14.5% | Drop |
| Leading Brands | LBI | May 17/02 | 22.51% | 22.51% | off list | ↓ | L | Drop |
| Saputo Inc. | SAP | Nov. 23/01 | -12.81% | 5.74% | off list | ↓ | 0.0% | Drop |
| Enerchem International | ECH | Mar. 22/02 | 4.44% | 4.44% | -7.40 | ↓ | L | Drop |
| Lassonde Industries | LAS.A | Apr. 19/02 | -18.25% | -18.25% | off list | → | -71.7% | Drop |

# Our Model Portfolio

## Initial Position: $50,000 (Jan. 11, 2002)

## Current Position: $62,717.34 (+25.43%) Up 0.52% YTD

The last month saw the merger of Repadre Capital with IAMGOLD completed. The merged company continues as IMG and shareholders got 1.6 shares of IMG for every share of RPD. We also were forced out of both Dalsa and Mega Bloks by our stop losses. Our cash position is a sizeable $19,156.10 with four positions open.

### Forzani Group (FGL – TSX)

| | |
|---|---|
| **# of Shares:** 0 | **Stopped Out:** +4.3% |
| **Bought on:** Oct. 16th | **Price Then:** $18.78 |
| **Sold on:** Dec. 6th | **At:** $19.60 |

**Notes:** We'll continue to hold this cash position open for when Forzani gives us a buy signal. If it drops below $17 we'll look elsewhere.

### Peyto Exploration (PEY – TSX)

| | |
|---|---|
| **# of Shares:** 825 | **Bought on:** July 16th |
| **Price Then:** $6.16 | **Price Now:** $11.85 |
| **Gain:** 92.4% | **Stop:** $10.07 |

**Notes:** FirstEnergy Capital has given Peyto a target price of $14.50 according to The Growth Report of Oct. 31st.

### Dalsa Corporation (DSA – TSX)

| | |
|---|---|
| **# of Shares:** 0 | **Stopped Out:** -5.4% |
| **Bought on:** Nov. 18th | **Price Then:** $18.50 |
| **Sold on:** Jan. 9th | **At:** $17.50 |

**Notes:** Dalsa, unfortunately, hit our stop but we are hanging onto the cash position for when it recovers ground. Current buy point is $19.14

### IAMGOLD (IMG – TSX)

| | |
|---|---|
| **# of Shares:** 1549 | **Bought on:** Dec. 6th |
| **Price Then:** $5.69 | **Price Now:** $7.71 |
| **Gain:** 35.5% | **Stop:** $6.86 |

**Notes:** Each Repadre Capital share was exchanged for 1.6 shares of IAMGOLD in the recent merger. We're holding.

### Goldcorp (G – TSX)

| | |
|---|---|
| **# of Shares:** 320 | **Bought on:** Dec. 6th |
| **Price Then:** $17.15 | **Price Now:** $19.33 |
| **Gain:** +12.7% | **Stop:** $18.12 |

**Notes:** Goldstocks are lagging the price of gold and may play catch up if the price of gold surges again. War jitters are helping.

### Mega Bloks (MB – TSX)

| | |
|---|---|
| **# of Shares:** 0 | **Stopped Out:** -3.4% |
| **Bought on:** Dec. 16th | **Price Then:** $22.00 |
| **Sold on:** Jan.16th | **At:** $21.25 |

**Notes:** Mega Bloks was stopped out but we are holding the position open in cash for its bounce back. Stock is currently unsettled.

### Home Capital Group (HCG.B – TSX)

| | |
|---|---|
| **# of Shares:** 370 | **Bought on:** Oct. 16th |
| **Price Then:** $13.25 | **Price Now:** $14.51 |
| **Gain:** 9.5% | **Stop:** $13.35 |

**Notes:** It has gone as high as $15.00 and could break out higher in the next little while. There's resistance between $15 and $15.50.

### IPL Inc. (IPI.A – TSX)

| | |
|---|---|
| **# of Shares:** 210 | **Bought on:** Dec. 16th |
| **Price Then:** $23.50 | **Price Now:** $24.99 |
| **Gain:** 6.3% | **Stop:** $22.49 |

**Notes:** This plastics company has just bounced off its moving average with two green arrows. Watch for further gains ahead.

### Niko Resources (NKO – TSX)

| | |
|---|---|
| **# of Shares:** 135 | **Bought on:** Nov. 26th |
| **Price Then:** $22.25 | **Price Now:** $28.00 |
| **Gain:** 25.8% | **Stop:** $24.64 |

**Notes:** Niko has just bounced off its moving average on two green arrows. A good buy point if you didn't get in earlier.

### Westjet Airlines (WJA – TSX)

| | |
|---|---|
| **# of Shares:** 0 | **Stopped Out:** -5.3% |
| **Bought on:** Oct. 18th | **Price Then:** $18.54 |
| **Sold on:** Dec. 10th | **At:** $17.56 |

**Notes:** An earnings warning devastated Westjet on Dec. 9th, forcing us out the next morning. We're holding the cash for now.