

# the Break Out Report

Volume # 1, Issue # 16

June 15, 2003

## Trend Watch

### Resistance Levels Broken

The markets were anemic this week with a gain or loss of less than a percent in the Dow, the NASDAQ and the TSX. Nevertheless, the Dow continues to advance and has solidly broken previous resistance at the 9000 level. This resistance was created in August last year and tested in November. Now that it's been broken, the next upside resistance looks to be around the 9500 level.

The NASDAQ meanwhile, has been hitting new 52 week highs, a strong bullish sign and solidly above previous resistance at 1500. The next level could well be 2000 which was tested unsuccessfully in December 2001. But there is weaker resistance at the 1700 level, and considering other factors such as continuing uneasiness over the US economy and deflation worries, as well as Stephen Swanson's Market Forecast indicator, that could be the top for this cycle. We can never really know until the market does its thing, of course. And the market likes to fool us!



What is very interesting is the action of the VXN or volatility index for the NASDAQ shown at left. The saying is when the VXN is high, it's time to buy, when the VXN is low, it's time to go. A low VXN means that people are over-confident and so the market usually proves them wrong.

So the chart would seem to have said "go" in late May. We should have seen a trend reversal. But the NASDAQ powered ahead to new 52 week highs even as the VXN started climbing back up again. This means that news about the economy, business scandals, SARS worries and so on are creating a new wall of worry and so instead of the NASDAQ reversing, the VXN has reversed instead. Fear is replacing greed and the market is continuing to advance. Even Stephen Swanson's Market Forecast indicator has been confounded by the current action. But as we explain in our feature five page article on this indicator (see page 8), a tumble could be days to weeks away. Non-Online Investor Toolbox users should refer to Swanson's website for charts and analysis to refer to when reading the article. It's at <http://www.themarketforecast.com>.

In This Issue: More Bang for Your Buck! (Page 8)

## Our Model Portfolio

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

**Current Position: \$60,997.60 (+22.00%) Down 2.23% YTD**

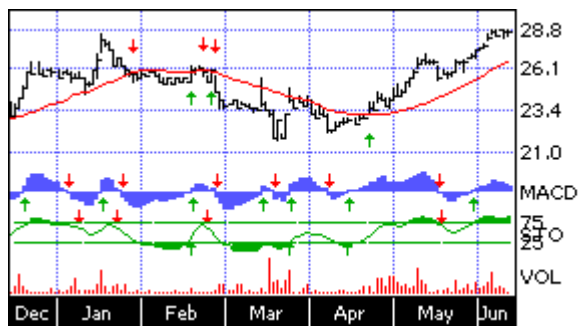
A lot of activity over the last month. All our trades are recorded in the Subscriber Only section of the website. And that includes an income distribution for our two income funds payable Monday which we've added in today. Current cash position is \$18,012.20 with seven stocks still held.

<p style="text-align: center;"><b>Bennett Environmental (BEV – TSX)</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;"><b># of Shares:</b> 315</td> <td style="width: 50%;"><b>Bought on:</b> May 5<sup>th</sup></td> </tr> <tr> <td><b>Price Then:</b> \$14.49</td> <td><b>Price Now:</b> \$14.80</td> </tr> <tr> <td><b>Gain:</b> 2.14%</td> <td><b>Stop:</b> \$13.69</td> </tr> </tbody> </table> <p><b>Notes:</b> Bennett has been on an uptrend since November 2002. We're expecting further growth ahead.</p>	<b># of Shares:</b> 315	<b>Bought on:</b> May 5 <sup>th</sup>	<b>Price Then:</b> \$14.49	<b>Price Now:</b> \$14.80	<b>Gain:</b> 2.14%	<b>Stop:</b> \$13.69	<p style="text-align: center;"><b>Peyto Exploration (PEY – TSX)</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;"><b># of Shares:</b> 635</td> <td style="width: 50%;"><b>Bought on:</b> May 5<sup>th</sup></td> </tr> <tr> <td><b>Price Then:</b> \$14.60</td> <td><b>Price Now:</b> \$15.99</td> </tr> <tr> <td><b>Gain:</b> 9.52%</td> <td><b>Stop:</b> \$15.03</td> </tr> </tbody> </table> <p><b>Notes:</b> Rumours of possible conversion to an income trust were among the reasons Peyto has started to move again!</p>	<b># of Shares:</b> 635	<b>Bought on:</b> May 5 <sup>th</sup>	<b>Price Then:</b> \$14.60	<b>Price Now:</b> \$15.99	<b>Gain:</b> 9.52%	<b>Stop:</b> \$15.03
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<p style="text-align: center;"><b>Niko Resources (NKO – TSX)</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;"><b># of Shares:</b> 195</td> <td style="width: 50%;"><b>Bought on:</b> May 12<sup>th</sup></td> </tr> <tr> <td><b>Price Then:</b> \$25.45</td> <td><b>Price Now:</b> \$28.65</td> </tr> <tr> <td><b>Gain:</b> 12.57%</td> <td><b>Stop:</b> \$25.59</td> </tr> </tbody> </table> <p><b>Notes:</b> Niko is back on the move again after announcing a couple of excellent drilling results in late April and mid-May.</p>	<b># of Shares:</b> 195	<b>Bought on:</b> May 12 <sup>th</sup>	<b>Price Then:</b> \$25.45	<b>Price Now:</b> \$28.65	<b>Gain:</b> 12.57%	<b>Stop:</b> \$25.59	<p style="text-align: center;"><b>Westjet Airlines (WJA – TSX)</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;"><b># of Shares:</b> 0</td> <td style="width: 50%;"><b>Stopped Out:</b> -3.69%</td> </tr> <tr> <td><b>Bought on:</b> Feb. 24<sup>th</sup></td> <td><b>Price Then:</b> \$16.25</td> </tr> <tr> <td><b>Sold on:</b> May 21<sup>st</sup></td> <td><b>At:</b> \$15.65</td> </tr> </tbody> </table> <p><b>Notes:</b> Got stopped out of Westjet, but expect it to take off again as Air Canada gets weaker. We wait patiently.</p>	<b># of Shares:</b> 0	<b>Stopped Out:</b> -3.69%	<b>Bought on:</b> Feb. 24 <sup>th</sup>	<b>Price Then:</b> \$16.25	<b>Sold on:</b> May 21 <sup>st</sup>	<b>At:</b> \$15.65
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**Watched List Update**

**Stocks Recently Reviewed**

The four stocks below were all reviewed since we went to a paid subscription service in November. Three have done well and one has languished. But it still has potential going forward. Sometimes, as in the case of Glendale International, a stock runs flat for a while after we profile it, only to be followed by a strong move to the upside. This has happened frequently with our previous picks reflecting our focus on long term rather than short term growth.

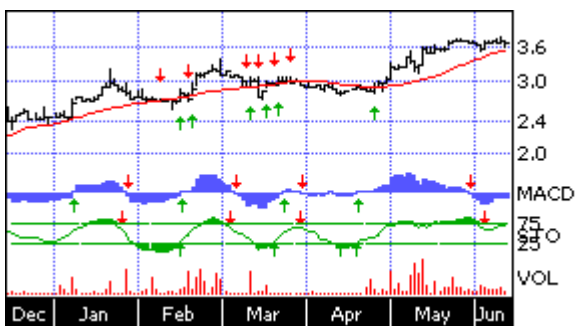
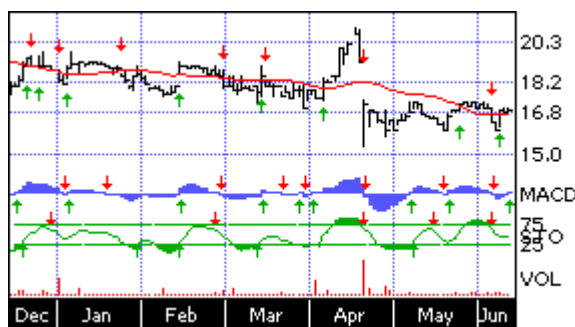


**Niko Resources (NKO) Profiled: Nov. 17/02**  
**Price then: \$22.20 Price Now: \$28.65**

↪ We covered Niko in our very first issue as a subscription newsletter in November and it has done very well indeed, up 29.1%. It has had some ups and downs and we have actively traded it in our model portfolio. It's currently on a very strong uptrend which should continue if oil prices hold. Currently a buy.

**Aastra Tech. (AAH) Profiled: Nov. 17/02**  
**Price then: \$20.50 Price Now: \$16.95**

Also featured in our first issue, Aastra ↪ Technologies has fared poorly and is off 17.3%. The quarter to the end of March showed revenues and earnings both down a bit reflecting weakness in the economy. It had its 20th consecutive profitable quarter and a pick-up in the economy could move it ahead. Wait for now!

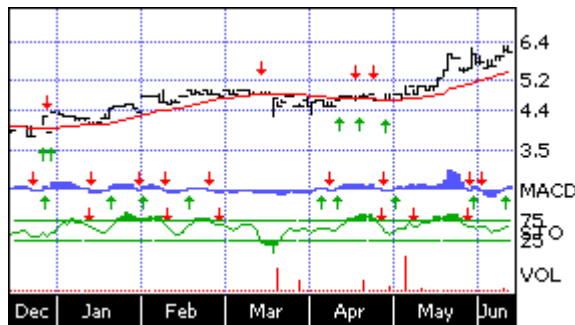


**TUSK Energy (TKE) Profiled: Mar. 16, 2003**  
**Price then: \$2.99 Price Now: \$3.69**

↪ This oil and gas junior exploration company was featured in our March 16th issue and has climbed 23.4% since then. The last quarter reported revenues up 79.6% and EPS up 500% to \$0.18 from \$0.03 a share. The company also moved to take over Sunfire Energy. We see strong growth going forward. Still a buy!

**Glendale Int. Profiled: Mar. 16, 2003**  
**Price then: \$4.80 Price Now: \$6.06**

Glendale ran flat for a while after we profiled ↪ it and then started to pick up in early May. It's up 26.3% since profiled. Its First Quarter report released in April showed revenues up 16.8% and earnings up a very solid 160%. The company also arranged succession with its aging founder. Glendale remains a buy.



**Note: There were no qualifying Power Performer mutual funds for May!**

**Food Manufacturing Pick**

**CoolBrands International (COB.A –TSX)**  
**(website: [www.yogenfruz.com](http://www.yogenfruz.com))**

Not sure whether you should call this a cool stock or a hot stock! It certainly has been a red hot performer with the stock up 91.2% for the year-to-date. But its business is cool – very cool – it's ice cream!

The company started a number of years ago as frozen yogurt purveyor Yogen Früz becoming the world's largest franchisor of frozen yogurt outlets. In fact, it's website URL retains the Yogen Früz name. In the late 90s it embarked on an ambitious expansion plan to become a leading consolidator in the frozen dessert business. By the end of 1997 it had acquired Bresler's Ice Cream, I Can't Believe It's Yogurt, Golden Swirl, Paradise, and Java Coast Fine Coffees giving it a total of 3457 locations in 80 countries worldwide.

A major merger with Integrated Brands was completed in March 1998 giving it further market presence with the acquisition of the Tropicana frozen dessert line, as well as license agreements for frozen desserts under the Betty Crocker, Trix, Lucky Charms, Welch's and Yoplait brand names. Integrated Brands also brought Swenson's Ice Cream into Yogen Früz's stable.

In 2000 the company acquired one of the oldest and most-respected names in frozen desserts with the purchase of the Eskimo Pie company. Eskimo Pie had invented the chocolate covered ice cream bar in 1921. The move also gave it the rights to the PEZ name for frozen desserts. In the Spring of 2000 the company changed its name to CoolBrands International to reflect its growth beyond the frozen yogurt market.

Numerous marketing agreements with companies like Pizza Hut, KLM Airlines, Amway and 7-11 increased its distribution network. The company continued to expand operations in South Africa, Germany, Britain, Mexico, Ireland, Japan and Korea.

And right now the company is awaiting regulatory approval from the Federal Trade Commission in the US for its takeover of certain assets from Nestlé and Dreyer's Ice Cream.

In April 2003, the company released its second quarter report, its tenth consecutive quarter of growing revenues and earnings. Its ambitious growth plans and solid stable of well known brands has made it one of the leading manufacturers of frozen desserts in the world today.

**Quarterly Earnings per Share**

To Feb. 28th	2001	2002	% Change
<b>EPS</b>	\$0.08	\$0.10	+25.0%
<b>Revenues (000s)</b>	\$41,081	\$57,052	+38.9%

**Annual Earnings per Share**

To Aug. 31st	2000	2001	% Change	2002	% Change
<b>EPS</b>	-\$0.61	\$0.24	turnaround	\$0.44	+83.3%
<b>Revenues (000s)</b>	\$97,488	\$177,610	+82.2%	\$242,222	+36.4%

*(Continued on page 5)*

CoolBrands (from page 4)



**Chart Analysis:** CoolBrands has been on a tear, almost doubling since the end of February. With a hot summer looming, it is just entering its busiest season. A solid gap up in the second week of May was accompanied by huge volume. This is what Jesse Livermore called a continuation move, which means continued growth is expected. That lofty height proved sustainable as the stock quickly corrected to the moving average and then bounced off strongly. It has hit new highs in the last week and looks poised to continue its ascent.

Stats as of 06/13/03	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.45	▪ Price Pattern: A
▪ RS: 94.16	▪ Volatility: A
▪ Shares: 38,192,737	▪ Estimates: A
▪ P/E: 22.8	▪ Snapshot: A-
▪ Price: \$10.25	▪ News: A

**Phase 2:** We give COB.A an A for both price pattern and volatility as it has been gaining steadily, especially of late. Analysts have boosted their predictions with \$0.56 a share profits predicted for 2003. The overall rating is Buy and we give it an A. The snapshot is strong with solid revenue and earnings growth. But its return on equity is lower than we'd like at 13.84. But we expect that to improve so we give it an A-. News is solid with strong acquisitions, record growth and a major deal with Dreyer's Ice Cream nearing completion. Another A.

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



**Retailing Pick**

## Hip Interactive Corporation (HP –TSX)

(website: [www.hipinteractive.com](http://www.hipinteractive.com))

Hip Interactive is Canada's leading supplier of interactive video entertainment. This includes such major brands as Nintendo, Sega and X-Box as well as games for the computer and arcade games. The company operates six divisions which include video games, PC games, movies, software publishing, Hip Gear (proprietary line of accessories) and Hip Coin video arcade games.

The bulk of its revenues come from video games. For its fiscal year ending Mar. 31, 2003, video game sales generated \$238.2 million dollars or 65.9% of sales. This includes games as well as related hardware for such manufacturers as Sony, Sega, Nintendo and Microsoft. Hip's success in this area comes from serving a particular niche market. While major video game manufacturers often supply large national retailers directly, Hip supplies all the rest, making Hip the primary video game supplier to most Canadian retailers. The company maintains distribution centers in Toronto, Montreal and Vancouver.

The next largest divisions are PC Games which contributed \$46.4 million and Movies which contributed \$44.8 million. Movie distribution, in fact, was Hip's fastest growing division, up 686% in sales over 2002. Hip has distribution agreements with all the major film studios and is a leading distributor of DVD and VHS movies to Canadian retailers.

And Software Publishing, while still a small contributor to Hip's overall picture, was the second fastest growing segment with sales up 454%. The Publishing division has exclusive licensing and distribution contracts with software publishers such as Broderbund, The Learning Company and Eidos for North America. The company secured exclusive distribution rights for 29 new titles in 2002 including Duke Nukem: Manhattan Project, Divine Divinity, Marine Sharpshooter and American Conquest – games likely to appeal to the American anti-terrorism ethos.

Company President Arindra Singh set out a strategy over the last year and a half to drop underperforming businesses and focus on higher margin operations, cost cutting and improving working capital management. To that end it sold off its Microplay Electronics stores, and other underperformers, and undertook the acquisition of DVD and VHS movie distributor Tevica Inc..

The results have been outstanding with a turnaround from a loss of \$0.06 a share in fiscal 2002 to a profit of \$0.22 a share in fiscal 2003. The company's goal is to become the leading provider of electronic entertainment in North America by providing excellence in service and value. It's certainly headed in that direction!

### Quarterly Earnings per Share

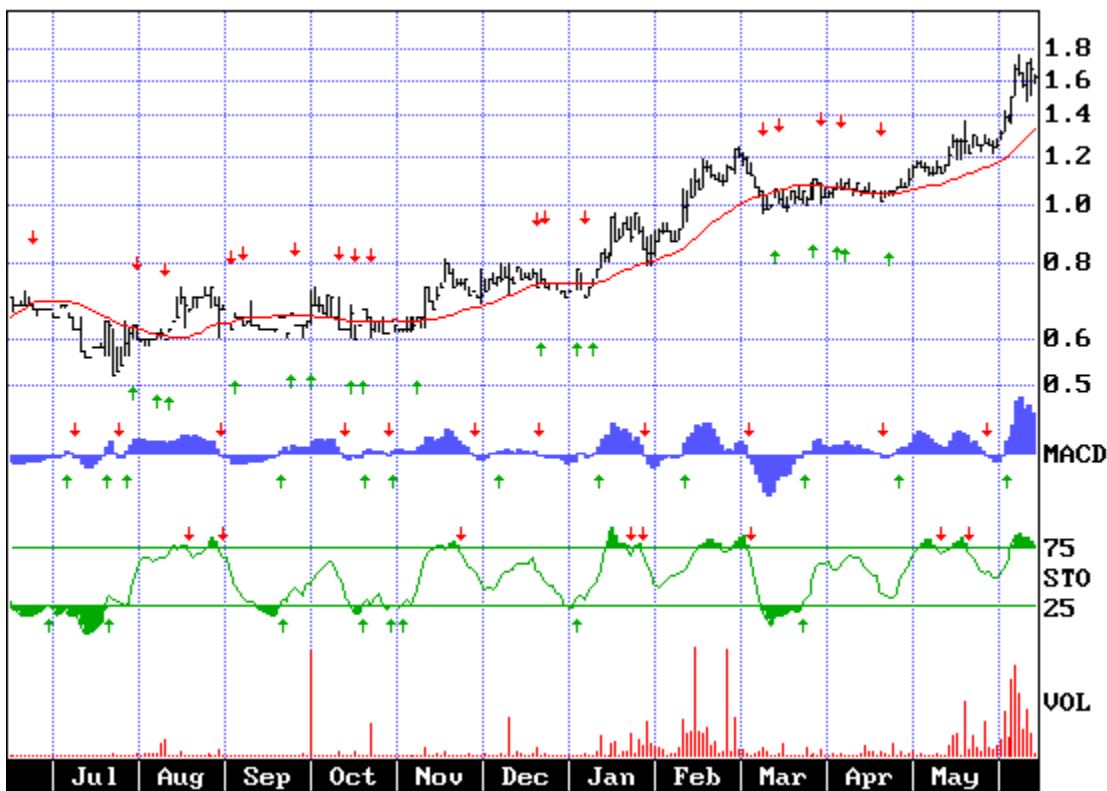
To Mar. 31st	2002	2003	% Change
<b>EPS</b>	\$0.031	\$0.059	+90.3%
<b>Revenues (000s)</b>	\$55,426	\$79,271	+43.0%

### Annual Earnings per Share

To Mar. 31st	2001	2002	% Change	2003	% Change
<b>EPS</b>	-\$0.09	-\$0.04	n/a	\$0.22	turnaround
<b>Revenues (000s)</b>	\$193,956	\$271,326	+39.9%	\$361,271	+33.2%

*(Continued on page 7)*

Hip Interactive (from page 6)



**Chart Analysis:** Hip Interactive was a popular stock in the tech boom climbing to \$3.60 a share in March of 2000. But like most techs, it dropped steadily to a low of 52 cents in June of 2002. Since then, its turnaround strategy has seen it hitting new 52 week highs since February when it spiked up on huge volume. A correction at the end of February brought it back to the moving average and early June saw it soar again on huge volume and it is now consolidating. If the stock's growth seems unsustainable, consider this – its P/E ratio is just 4.70. This stock has a long way to run yet in my opinion.

Stats as of 06/13/03	Phase 2 Analysis
▪ Hi/Lo Ratio: 3.38	▪ Price Pattern: A
▪ RS: 98.45	▪ Volatility: A
▪ Shares: 51,752,900	▪ Estimates: A-
▪ P/E: 4.70	▪ Snapshot: A
▪ Price: \$1.63	▪ News: A

**Phase 2:** We give HP an A for both Price Pattern and Volatility as it has seen steady and solid growth with minor corrections for almost a year now. Estimates are increasing with an overall rating of 2.0 or Buy for which we give it an A-. The Snapshot is superb with solid revenue growth and a turnaround to profitability. Return on Equity for fiscal 2003 was an amazing 30.54 so we give it an A. And the news has been excellent including new licensing deals, an acquisition, a normal course issuer bid and, of course, a superb annual report. Also an A.

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

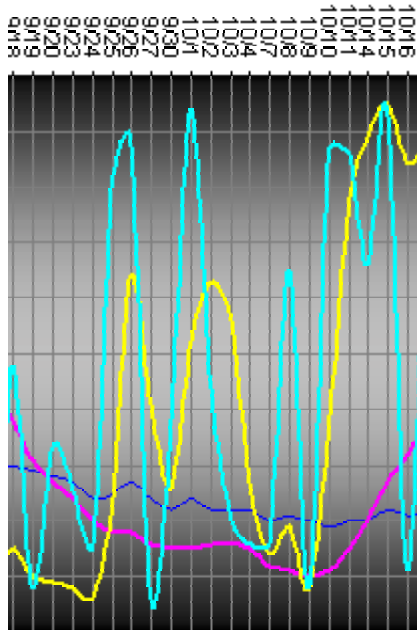
**Toolbox Tip****More Bang for Your Buck**

Usually we run a short one column Toolbox Tip, but this week we are looking in more depth at a particular strategy. For non-users of the Online Investor Toolbox, do read on, as the information will prove insightful all the same.

Perhaps I should explain how this came about. Here in Vancouver, there is a weekly mentoring group for Toolbox users conducted by Ken Marlin, the retired founder of Marlin Travel and Principal Group ([www.marlinvest.com](http://www.marlinvest.com)). If you've never met him, Ken is one amazing person. The fellow's 80 years old and has more energy and enthusiasm than many people half his age. He decided after retiring to learn about the stock market. So he took almost every course Online Investors has to offer. And he has kept an online trading diary in which he paper trades options. Starting with a stake of \$10,000 two years ago, he has parlayed that sum into over \$1.5 million.

Now Ken is first to admit that he doesn't think he could have done as well with real money. With paper trading he is totally objective and takes chances on plays that seem right to him logically but which he would shy away from emotionally with real money. That said, he is a wealth of knowledge and information. And his enthusiastic students add almost as much insight as Ken himself does.

This spring, Online Investors launched its new website with a big gala in Las Vegas. At this do there were over a dozen lectures and workshops. Fourteen such lectures were compiled in a DVD set and offered for sale. Ken bought a set and his mentoring group has been watching these one at a time followed by discussion and analysis. A few weeks ago we watched the first one – a lecture on the Market Forecast chart by its creator, Stephen Swanson. I wrote about this indicator in issue # 2.

**Dow Jones Industrials**

As I wrote at the time: Swanson uses a variety of indicators (which he keeps close to the vest) to create his copyrighted chart. He uses them to plot four color-coded lines on a table that is calibrated from an upper range of +100 to a bottom range of -100. The four lines, navy blue, purple, yellow and light blue, represent the long term, intermediate, short term and momentum movements of the market respectively. Swanson compiles the data to produce charts tracking the Dow and the NASDAQ.

Typically, the intermediate term line vaguely resembles the 30 day moving average. The others bear no resemblance to anything I know of. But as Swanson puts it, the "longer signal lines identify more of the powerful trends at work while the shorter term lines help us see the oscillations around that trend". They fluctuate at different speeds from oversold to overbought positions and their interaction can give some important clues to what the market may do next.

The tops and bottoms of the table represent points where reversals are probable. The periodicity of the different lines varies from months with the long and intermediate lines to days with the short term and sometimes fluctuations from high to low within a single day with the momentum line.

And when the intermediate, short term and momentum lines coincide in a reversal zone, there is likely a reversal imminent. For example, look at the excerpted segment above from October 2002. On October 9th, these three lines all clustered at the -80 level. The next day saw the beginning of a strong rally in the markets that continued through to the end of November. The Dow in that time soared from 7286.27 to 8931.68, a gain of 22.58%. The NASDAQ had an even more powerful move from 1114.11 to 1487.94 or 33.55%. Both peaks were reached on November 27th. The Market Forecast, incidentally, started getting toppy in mid-November, finally

*(continued on page 9)*



**More Bang for Your Buck** (*from page 8*)

crossing the +80 reversal threshold on – you guessed it – November 27th. And both the Short Term and the Momentum indicators clustered there the same day. When the indicators cluster near the top, it is a sign of an imminent decline.

In any event, a savvy investor using Swanson's indicators can use them to time the market. And while some stocks may buck the reversal, the old adage that all ships rise with the tide holds true for the most part. But, of course, I told you all that in the November issue. What was new in Swanson's hour and a half discourse was his specific advice on how to profit from these indicators. In a broad sense, of course, the advice is simply to get in when the Market Forecast predicts an imminent breakout and to get out or short the market when the Forecast predicts a downturn.

And Swanson covered these options, including buying and selling the indexes themselves, or leveraging them through Index options. He also covered the US Rydex Funds. Rydex has two funds, the Titan which is designed to double the performance of the S&P 500 and the Tempest which is a bear fund and designed to double the performance of the inverse of the S&P 500. So the strategy would be to buy the Titan Fund at a breakout and switch to the Tempest Fund when the Forecast says a reversal is at hand.

And then there's stocks! But which stocks? And that is where we got our revelation. Swanson recommended buying stocks with a high beta of at least 2. What's beta? Beta measures a stock's rate of change relative to an index over 60 days. With US stocks the benchmark is the S&P 500. So a stock with a beta of 0.7 will likely follow about 70% of the movement in the S&P, and a stock with a beta of 1.3 will probably move 30% more than the S&P. So a stock with a beta of 2 will move twice as fast as the S&P. If the S&P declines 20%, this stock will likely decline 40%. If the S&P climbs 30%, the high beta stock may climb 60%. The numbers are an estimate based on past performance and not an absolute.

Armed with this advice, the students of the Marlin Mentoring Group went back to the computer to back-test it. We decided to do a search for high beta stocks and then see how they reacted to the market turning point of Oct. 9th. The results were amazing to say the least. Virtually every stock that came up on the search made returns of 50% or better to the end of November. Most, in fact, more than doubled. And some proved to be long term winners and continued to climb right through to today. See, for example, Sohu Inc. (SOHU) which gained over 1000%.

First we'll describe how we did our search. In the top menu of the Toolbox, click on Searches. Then, in the left hand menu, click on Stock Search (in the third block of search options). This brings up a customizable search engine.

In our search for high beta stocks, you need edit only one variable – beta. It's the second line on the menu. Enter 2 in the minimum box and enter 10 in the maximum box. If you want to restrict the search to optionable stocks, change "All Issues" to "Optionable Stocks Only" in the drop-down menu at the top of the page. (There are some dandy non-optionable stocks that came up in our search, so don't neglect this possibility.) Now go to the bottom of the page and click on "Search Now". A list of high beta stocks will come up.

If the market is bottoming and you want bullish picks, click on the Phase 1 heading at the top of the stock list to reorder the stocks by Phase 1 scores. Check out the stocks in that order looking for likely candidates.

I've tried the search on different days and got different stocks in the list each time. So I am not sure whether any of these would have showed up in the search in October. But some certainly would have as their actual action confirmed their beta tendencies. Take a look at the chart on the next page for Niku Corporation.

This stock could have been picked up for a dollar a share on October 10th. Within a month it peaked at \$7.80 for a 680% profit. That's fantastic even without leveraging through options (and it is optionable).

*(continued on page 10)*

**More Bang for Your Buck (from page 9)**



**Chart for Niku Corporation (NIKU)**

as possible” for the Relative Performance 12 Week variable. This brings up a selection of downtrending stocks whose decline should accelerate with a downturn in the general market. Click on the Phase 1 header twice to get the stocks listed with the poorest Phase 1 stocks at the top.

The markets right now are getting topy and the stocks that look like good put candidates with this search include RF Micro Devices (RFMD), Advanced Micro Devices (AMD), and Asyst Technologies (ASYT). All, incidentally,

But what if the market is getting topy as it is now? Then you would want to restrict your search to optionable stocks so you can play the downside by buying put options.

You would also want to add parameters to the search to find weak stocks likely to fall more quickly than the index.

Again we use the customizable search we used for a bottoming market. And again we use a beta between 2 and 10. But this time we add another parameter. We click on “low

had huge increases from Oct. 9 to the end of November. Check the chart at left for RF Micro Devices.

Note that while the stock is on a short term uptrend, it is in a long term downtrend. Its current uptrend is very weak compared with the general market. And it is starting to break below the moving average for another downleg. A perfect candidate for a put.

The remaining question is, how useful is the Market Forecast for predicting a market trend?



**Chart for RF Micro Devices (RFMD)**

Swanson is careful to make the usual disclaimers including the following caution: The forecast is not intended to project future moves, but analyzes current market conditions relative to the timing and amplitude of historical cyclical data.

That said, I did a check since the beginning of 2001 and found some interesting correlations. I  
(continued on page 11)

**More Bang for Your Buck** (from page 10)

checked over a three year Market Forecast chart to note where the Intermediate line entered a reversal zone. I noted the dates when it entered the weak reversal zone (-60 or +60) and the strong reversal zone if it went that far (-80 or +80). I noted the dates when the Intermediate, Short Term and Momentum lines clustered and classified them as loose or tight clusters. A cluster is when the three indicators all hit a peak at the same time. If they are at different amplitudes, it's a loose cluster. If they are close to the same amplitude, it's a tight cluster. Then I went to the Dow three year chart to note the dates of significant turning points. Then I put them together in the table below.

Date	Zone Entered	Subsequent Cluster Date	Cluster Type	Market Turning Point	Dow at That Point
Mar. 21/01	-60	Mar. 21/01	Loose	Mar. 23/01	9504.78
May 5/01 May 16/01	+60 +80	May 21/01 June 5/01	Loose Loose	May 18/01	11,301.74
June 28/01	-60	July 10/01	Tight		
Intermediate Line only climbed half way peaking Aug. 16/01 at -12					
Sept. 6/01	-60	Sept. 21/01	Tight	Sept. 21/01	8235.81
Nov. 13/01 Nov. 26/01	+60 +80	Dec. 6/01 Dec. 19/01 Dec. 26/01 Jan. 4/02	Loose Tight Tight Loose	Jan. 4/02	10,259.74
Intermediate Line never reached lower than -50 bottoming on Feb. 7/02 Dow bottomed on Jan. 29/02 at 9618.24					
Mar. 3/02 Mar. 19/02	+60 +80	Mar. 19/02	Loose	Mar. 19/02	10,635.25
Apr. 25/02	-60	Apr. 26/02	Loose		
Intermediate Line never reached lower than -70 bottoming on Apr. 29/02 Subsequently it never rose above +20 peaking on May 23/02					
June 11/02 July 22/02	-60 -80	June 21/02 July 23/02	Loose Tight	July 25/02	8186.31
Market Forecast never got above +60, peaking on Aug. 27/02. Dow peaked on Aug. 21/02 at 8957.23					
Sept. 24/02 Oct. 9/02	-60 -80	Oct. 9/02	Tight	Oct. 9/02	7286.27
Nov. 1/02 Nov. 27/02	+60 +80	Nov. 21/02 Nov. 27/02	Tight Tight	Dec. 3/02	8742.93
Dec. 27/02	-60	Dec. 27/02	Loose		
Intermediate Line never got below -65, bottoming on Dec. 31/02					
Intermediate Line never got above +20, peaking on Jan. 17/03					
Jan. 29/03 Feb. 7/03	-60 -80	Feb. 7/03 Feb. 12/03 Mar. 4/03 Mar. 6/03 Mar. 10/03	Tight Tight Loose Loose Loose	Mar. 12/03	7552.07
Apr. 22/03 May 6/03	+60 +80	Apr. 23/03 May 12/03 May 28/03 May 30/03 June 4/03 June 12/03	Loose Tight Loose Tight Tight Loose	Imminent	9000+

Comments on this table follow on the next page.

(continued on page 12)

### More Bang for Your Buck (from page 11)

The first thing to notice is the close correlations between cluster points and market turning points. The closeness of many of them is uncanny. Cluster Mar. 21/01 – Turning Point Mar. 23/01; Cluster May 21/01 – Turning Point May 18/01; Cluster Sept. 21/01 – Turning Point Sept. 21/01; Cluster Mar. 19/02 – Turning Point Mar. 19/02; Cluster July 23/02 – Turning Point July 25/02 and so on.

In selecting the market turning points I looked at a three year Dow chart to choose turning points that seemed significant. I ignored small corrections within a larger move. So, for example, there was a short correction from Jan. 9/02 to Feb. 8/02 of around 350 points but then the bullish advance continued. Significantly, such corrections often correlated with points where the Intermediate Line never reached a reversal zone before heading back to the zone it came from. But there were two occasions on which the Intermediate Line reached a reversal zone but the market did not change direction significantly – In April 2002 and in December 2002. On both occasions, the Line never reached the +80 or -80 mark. And there was one time when the market reached a significant turning point – on Aug. 21/02, and the Intermediate Line did not reach a reversal zone.

What is worth noting however, is that every single occasion on which the Intermediate Line reached the +80 or -80 mark and a cluster appeared, the Dow reversed by at least 500 points.

Sometimes the market was able to continue in the same direction for a while before changing – as it did in Feb. 2003 when it took five clusters over a period of a month before the trend changed. The market sank another 300 points over that period.

The current situation is unique over the three years looked at. The Intermediate lined topped 80 on May 6th but subsequently fell back to the +60 level before heading up again. A very powerful underlying blue Long Term line is preventing a reversal for now. But it too is almost above the +60 reversal line. The Dow has advanced another 500 points since hitting the +80 line on May 12th. At some point a powerful reversal is likely to occur. There are continuing weaknesses in the US economy. And I would hazard a guess that the next cluster in the Market Forecast could well be the turning point in the market and the start of a significant correction.

Toolbox users and non-users alike should check out Steve Swanson's website at [www.themarketforecast.com](http://www.themarketforecast.com) for an excellent tutorial and explanation of his charts. Be sure to check out the examples he gives for July 25/02, Aug. 23/02 and Oct. 9/02.

### Major Indicators

Index	Year-to-Date Change			Weekly Change		
	Jan. 1, 2003	June 13, 2003	Change	June 6, 2003	June 13, 2003	Change
TSX Comp	6614.54	7010.55	+5.99%	7046.88	7010.55	-0.51%
DJIA	8341.63	9117.12	+9.30%	9062.79	9117.12	+0.60%
NASDAQ	1335.51	1626.49	+21.79%	1627.42	1626.49	-0.06%
Gold	347.50	357.20	+2.79%	364.50	357.20	-2.00%

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