

the Break Out Report

Volume # 1, Issue # 18

July 20, 2003

Trend Watch

Competing Devaluations

While the TSX and the Dow made modest advances, weakness started to show up in the tech sector as the NASDAQ dipped 1.47% for the week ending July 18th. Gold gained modestly for the week.

News continues to be a mixture of good and bad. Good news - interest rates drop. Bad news - mutual funds show a thirteenth consecutive month of net redemptions. Good news - the stock market is cool to talk about again, turning up as a subplot in *Sex and the City* (Sarah Jessica Parker rang the opening bell on the NYSE both on her show and for real.) Brokers are reporting increased trading activity. Bad news - IBM fails to meet quarterly expectations, shares fall. Good news - Intel beats the Street, shares rise. Bad news - Lucent forecasts a wider than expected loss next quarter and doesn't expect to achieve profitability this year. Motorola also disappoints. Good news - Yahoo to take over Overture in fourth largest tech deal in history.

The NASDAQ, reflecting the schizophrenia in tech stocks, had a strong Monday, was flat on Tuesday and Wednesday, and tanked 49.95 points on Thursday or 2.86% before staging a modest recovery on Friday. Intraday Friday it tanked a further 20 points before recovering strongly during the rest of the day.

The most interesting analysis of the current economic situation I read this week came once

(continued on page 2)

Quarterly Review

Good Quarter for our Watched List

After a rather dismal first quarter that saw our Watched List decline 4.17%, we were rewarded with a much better Q2. Although we are not advocates of a buy-and-hold approach, we use it to see how our Watched List has done in aggregate. The result? Our portfolio of stocks was up an average of 10.05%. This includes the partial quarter performance for stocks added since our last review.

The best performing stock for the quarter was Stackpole Limited which gained an impressive 61.57%. Stackpole, as you may know, was the subject of a takeover bid by British auto parts giant Tomkins PLC.

Other top performers were Glendale International, up 49.11%. Glendale was featured in our March 16th issue. Home Capital Group also did well, up 41.38% for the quarter and up 241.67% since we first profiled it on our website on Nov. 20, 2000. Rounding out our top five for the month are Calian Technology, up 39.17% and CoolBrands International, up 31.22%. CoolBrands is particularly impressive because we only featured it in our June 15th issue. That means it surged that 31.22% in the two weeks to the end of the month.

Of course not everything came up rosy for our Watched List. Gold miner Agnico-Eagle trailed our list with a loss of 18.59%. Open Text, featured in our April 20th issue, was a big

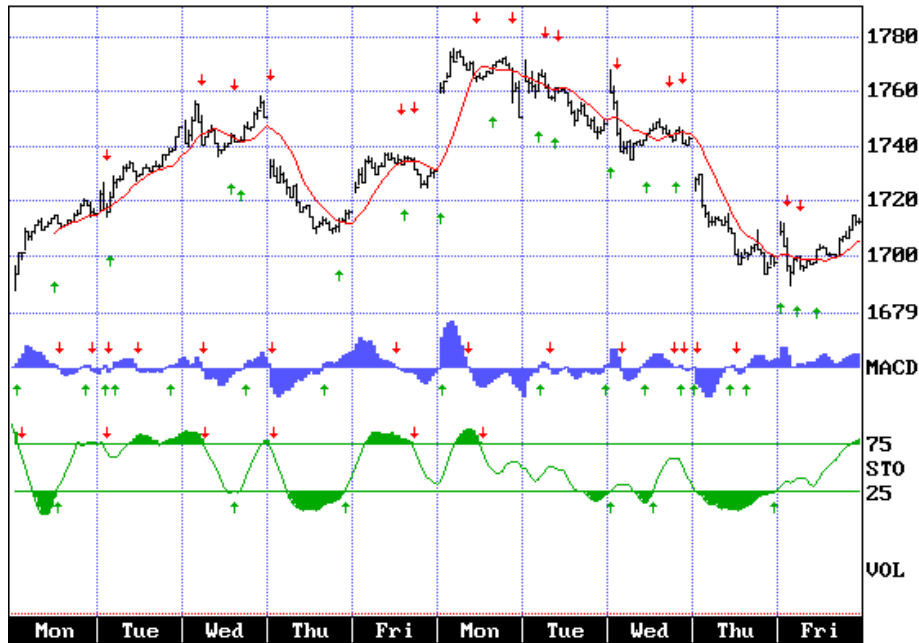
(continued on page 4)

In This Issue: Risky Business? (Page 8)

Trend Watch (from page 1)

again from pundit Michael Campbell who noted that we're in an unprecedented period of competing currency devaluations. Thus the drop in the Canadian prime rate by the Bank of Canada is really just following in the footsteps of the US, the Europeans and Britain. Tax cuts are also big in this competition for investor dollars as Germany and France have announced huge cuts. "The current period of economic slowdown, combined with an unsustainable welfare state and deflationary pressures, is producing the most manipulated capital markets in history as countries jockey for export advantage." says Campbell.

The upshot, he avers, is a continuing "period of intense volatility in all markets as governments try to rescue their debt-ridden welfare states."



NASDAQ Ten Day Chart – Volatile Week!

markets, heaven help us all!

As always, we believe it is important to focus on individual stocks, not on averages. We've done our Quarterly Review (elsewhere in this issue) and dropped five stocks from the list, one that has been delisted after a takeover, and the others because they're not up to snuff. Our up/down ratio on the remaining 50 stocks is 24/10 with 16 going sideways.

Also in this issue, a closer look at our portfolio strategy and some changes.

Where will it end? Well, Japan lowered rates to almost nothing in a failed attempt to get their economy roaring again. Good news for those of us with mortgages! But this is also creating a real estate boom of unprecedented proportions. Housing prices are soaring and worse, consumers are extending their mortgage liability as a result. When that house of cards collapses like the Tech Boom did on the stock

The Break Out Report

is published twice a month by Break Out Publishing.

The report and its writers are not registered investment advisors and the contents of the Break Out Report are not to be construed as investment advice. It is for information only. The material in these pages is derived from sources believed to be reliable but accuracy and completeness are not guaranteed. Readers are advised that past performance of companies featured in these pages is no guarantee of future performance. The Break Out Report and its writers accept no liability for losses incurred as a result of acting on this information.

Copyright © Break Out Publishing. Stock charts copyright © Investools and used by permission.

Editors: Marco den Ouden & Ken Ballard
Website: <http://breakoutreport.com>

Email us: marco@breakoutreport.com
ken@breakoutreport.com

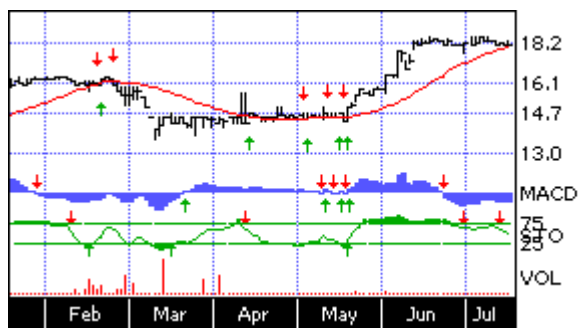
Articles this issue by Marco den Ouden unless otherwise indicated.

Subscription: \$14.95 a month or \$150 a year

Watched List Update

Hitting New Highs

These four stocks from our Watched List all hit 52 week highs in the last two weeks. They weren't the only ones! Also hitting new highs were CCS Income Trust, Calian Technology, CoolBrands, Taiga Forest Products and Peyto Energy Trust. Watch our weekly updates on the website! They're at <http://subscribers.breakoutreport.com/newhighs/currentnewhighs.htm>

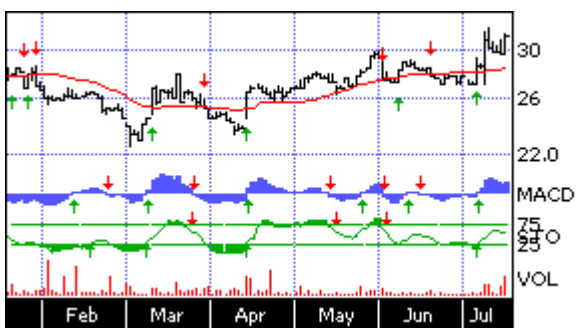
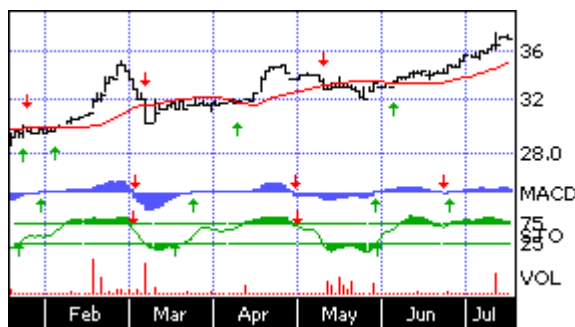


BMTC Group (GBT.A) Profiled: Aug. 20/02
Price then: \$13.95 Price Now: \$18.00

↔ BMTC Group is up 29.03% since we profiled it in August. It's had a nice run recently and has flattened out as the moving average catches up. The Quebec based furniture retailer announced in May that it was buying back up to 10% of its common class "A" shares as well as 5% of its class "B" voting shares.

CML Healthcare (CLC) Profiled: Apr. 12/02
Price then: \$28.10 Price Now: \$37.00

One of Ontario's largest providers of lab services, CML now has a national presence. Its shares are up 31.67% since profiled and it has been on a steady climb since November. It is currently holding steady above the moving average and could come down to test it. Earnings declined slightly in the last quarter.

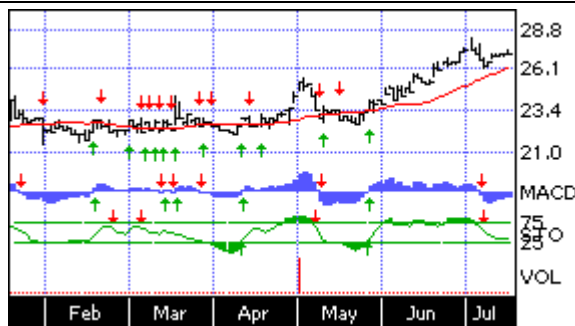


Cott Corp. (BCB) Profiled: July 27/01
Price then: \$20.50 Price Now: \$31.80

↔ Canada's largest manufacturer of house branded soft drinks, Cott recently hit new 52 week highs breaking resistance at \$30.00. The recent surge gave three green arrows and the stock could move further. The stock is up 55.12% since we profiled it two years ago.

Canada Bread (CBY) Profiled: May 18/01
Price then: \$13.00 Price Now: \$27.00

After trading in a wide range between \$21 and \$25 for most of the past year, Canada Bread broke out in May to hit new 52 week highs. It tested the moving average in early July and is now poised for further gains. The stock is up 107.69% since we profiled it two years ago.



Quarterly Review (from page 1)

disappointment, dropping 16.22%. IPL Inc. has been in a funk since we profiled it in December and dipped 14.29% while Cara Operations and Macyro Group slid 12.54% and 12.28% respectively. Seven other stocks came in negative, but dropped less than 10% each. Everything else was in positive territory for the quarter. The tables below show the top ten and bottom ten for the quarter.

Top Ten for Quarter

Name	Symbol	Date Featured	Change Since Profiled	Change Q2
Stackpole Ltd.	SKD	June 14/02	38.77%	61.57%
Glendale International	GIN	Mar. 16/03	39.79%	49.11%
Home Capital Group	HCG.B	Nov. 20/00	241.67%	41.38%
Calian Technology	CTY	Oct. 1/02	116.88%	39.17%
CoolBrands International	COB.A	June 15/03	31.22%	31.22%
Bennett Environmental	BEV	May 25/01	324.29%	29.81%
BMTC Group	GBT.A	Aug. 20/02	29.03%	24.14%
TUSK Energy	TKE	Mar. 16/03	23.08%	23.49%
Paladin Labs Inc	PLB	Oct. 1/02	-23.41%	22.22%
McGraw-Hill Ryerson	MHR	Oct. 12/01	105.13%	21.21%

Bottom Ten for Quarter

Name	Symbol	Date Featured	Change Since Profiled	Change Q2
Agnico-Eagle Mines	AGE	Mar. 9/01	35.57%	-18.59%
Open Text	OTC	Apr. 20/03	-16.22%	-16.22%
IPL Inc.	IPI.A	Dec. 13/02	-23.40%	-14.29%
Cara Operations	CAO.A	Nov. 20/00	14.79%	-12.54%
Macyro Group	MYO	Jan. 8/01	138.10%	-12.28%
BW Technologies	BWT	Feb. 23/01	133.55%	-9.50%
ACD Systems International	ASA	Feb. 16/03	-12.50%	-6.67%
Ridley Inc.	RCL	Mar. 2/01	52.94%	-5.39%
Dalsa Corp.	DSA	Aug. 9/02	29.84%	-5.07%
Aastra Technologies	AAH	Nov. 17/02	-17.07%	-4.76%

Now on to the proverbial meat axe! Time to chop some deadwood from our list. We're always looking for ways to improve our stock selection and culling criteria and you'll find a review of our previous paring jobs on the website. For this effort we followed pretty much the same rules as last quarter, namely, we dropped stocks that met all three of the conditions below:

- It did not make the Top 500 in March or dropped 5 or more RS points
- It is in a three month downtrend
- It has a loss in the most recently reported quarter, its earnings per share have dropped 50% or more, or it has had two consecutive quarters of declining earnings. .

Last month the two consecutive quarters of declining earnings was a stand alone criterion, but we have made it part of our third condition instead this time out. Last time we ended up axing Pason Systems, Akita Drilling and Sleeman Breweries using that criterion and all three went on to post respectable gains for the quarter. So as a standalone criterion, it cuts too deeply.

We're also axing any that have been on our list for over a year and grown less than 25% unless they are in an uptrend or growing earnings. Our summary tables follow. There is a listing of the stocks dropped after the table. You'll also find this table on our website at <http://subscribers.breakoutreport.com/breakout2003q1rvw.htm>

(continued on page 5)

Quarterly Review (from page 4)

Name	Symbol	Date Featured	% Change Since Profiled	% Change YTD	June RS	Trend	QEPS	Status
Bennett Environmental	BEV	May 25/01	324.29%	40.09%	off list	→	-14.3%	Keep
Iamgold Corp.	IMG	Mar. 16/01	306.15%	-14.17%	new	→	-40.0%	Keep
Forzani Group	FGL	Apr. 12/01	300.00%	-4.48%	off list	↑	-55.6%	Keep
Home Capital Group	HCG.B	Nov. 20/00	241.67%	41.38%	-0.78	↑	+29.6%	Keep
Peyto Energy Trust	PEY.UN	Feb. 22/02	199.22%	38.21%	-0.97	↑	+185.7%	Keep
TransForce Income Fund	TIF.UN	Jan. 18/02	155.63%	4.61%	-12.56	↑	+34.8%	Keep
Contrans Income Fund	CSS.UN	Oct. 12/01	154.55%	6.21%	off list	↑	+26.7%	Keep
SNC-Lavalin Group	SNC	Mar. 23/01	146.22%	17.50%	+6.15	↑	+13.2%	Keep
Macyro Group	MYO	Jan. 8/01	138.10%	-7.41%	-6.61	↓	-18.4%	Keep
Alimentation Couche-Tard	ATD.B	Dec. 4/00	134.96%	0.82%	off list	↑	+30.0%	Keep
BW Technologies	BWT	Feb. 23/01	133.55%	-14.62%	off list	↓	+16.7%	Keep
Zargon Oil & Gas	ZAR	Jan. 29/01	128.72%	19.44%	+3.69	↑	+311.1%	Keep
Richelieu Hardware	RCH	Dec. 4/00	128.00%	9.32%	off list	↑	+13.0%	Keep
Calian Technology	CTY	Oct. 1/02	116.88%	72.88%	+1.49	↑	+90.0%	Keep
Stantec Inc.	STN	Apr. 20/01	116.36%	6.89%	off list	↑	+35.0%	Keep
Goldcorp Inc.	G	May 25/01	106.90%	-19.24%	off list	→	0.0%	Keep
McGraw-Hill Ryerson	MHR	Oct. 12/01	105.13%	20.30%	-3.24	↑	L	Keep
Canada Bread Co.	CBY	May 18/01	103.69%	17.69%	new	↑	-53.3%	Keep
Metro Inc.	MRU.A	Jan. 8/01	91.71%	10.70%	off list	↑	+23.3%	Keep
Melcor Developments	MRD	Mar. 2/01	90.89%	3.33%	off list	↑	-30.6%	Keep
Groupe Laperriere & Verreault	GLV.A	July 6/01	86.11%	-2.62%	-2.50	→	0.0%	Keep

(continued on page 6)

Quarterly Review (from page 5)

Name	Symbol	Date Featured	% Change Since Profiled	% Change YTD	June RS Change	Trend	QEPS	Status
Reitmans (Canada)	RET.A	July 6/01	80.65%	-12.44%	off list	↑	-20.0%	Keep
Finning International	FTT	May 11/01	78.35%	14.48%	+5.51	↑	+12.8%	Keep
Winpak Ltd.	WPK	May 4/01	59.46%	-2.48%	+3.28	↑	-11.4%	Keep
Fortis Inc.	FTS	Mar. 16/01	55.26%	12.38%	-1.69	↑	+33.3%	Keep
Ridley Inc.	RCL	Mar. 2/01	52.94%	-2.26%	-3.24	→	T	Keep
Meridian Gold	MNG	Mar. 2/01	49.51%	-44.48%	off list	→	-30.8%	Keep
Glendale International	GIN	Mar. 16/03	39.79%	39.79%	+1.15	↑	+70.0%	Keep
Taiga Forest Products	TFP	July 20/01	39.46%	12.83%	-1.23	↑	+26.3%	Keep
Stackpole Ltd.	SKD	June 14/02	38.77%	61.57%	delisted	↑	n/a	Drop
Cott Corp.	BCB	July 27/01	35.95%	-1.17%	off list	↑	+29.6%	Keep
Agnico-Eagle Mines	AGE	Mar. 9/01	35.57%	-33.35%	off list	→	L	Drop
CoolBrands International	COB.A	June 15/03	31.22%	31.22%	+0.93	↑	+30.8%	Keep
Dalsa Corp.	DSA	Aug. 9/02	29.84%	-11.73%	-0.62	↓	+100.0%	Keep
Cangene Corp.	CNJ	Jan. 11/02	29.83%	14.63%	+1.22	↑	+450.0%	Keep
BMTC Group	GBT.A	Aug. 20/02	29.03%	25.44%	+11.00	↑	+46.7%	Keep
Le Chateau	CTU.A	June 21/02	28.21%	-4.67%	-5.01	→	0.0%	Keep
George Weston Ltd.	WN	Nov. 27/00	24.51%	13.47%	off list	↑	+21.5%	Keep
TUSK Energy	TKE	Mar. 16/03	23.08%	23.08%	-0.63	↑	+500.0%	Keep
CML Healthcare Inc.	CLC	Apr. 12/02	22.78%	13.49%	+2.90	↑	-9.3%	Keep
Niko Resources	NKO	Nov. 17/02	20.59%	3.76%	-2.28	↑	+75.0%	Keep
Cara Operations	CAO.A	Nov. 20/00	14.79%	-21.29%	off list	→	L	Drop
CCS Income Trust	CCR.UN	May 18/03	13.36%	13.36%	-0.74	↑	+52.6%	Keep

(continued on page 7)

Quarterly Review (from page 6)

Name	Symbol	Date Featured	% Change Since Profiled	% Change YTD	June RS Change	Trend	QEPS	Status
CCS Income Trust	CCR.UN	May 18/03	13.36%	13.36%	-0.74	↑	+52.6%	Keep
Tempest Energy Corp	TMY.A	Jan. 19/03	6.80%	6.80%	-2.85	↑	+2457.8%	Keep
Parkland Income Fund	PKI.UN	May 18/03	4.35%	4.35%	-1.93	↑	+257.1%	Keep
Patheon Inc.	PTI	Oct. 18/02	3.09%	-7.41%	-5.52	↑	+17.1%	Keep
Hip Interactive Corp.	HP	June 15/03	-0.61%	-0.61%	+1.38	↑	+90.3%	Keep
Mega Bloks	MB	Dec. 13/02	-4.33%	-10.64%	-7.11	↓	L	Drop
WestJet Airlines	WJA	Jan. 25/02	-8.69%	-1.05%	off list	→	-90.0%	Drop
Brampton Brick	BBL.A	June 27/02	-9.38%	1.75%	off list	↑	-74.2%	Keep
ACD Systems International	ASA	Feb. 16/03	-12.50%	-12.50%	-0.68	↓	T	Keep
Open Text	OTC	Apr. 20/03	-16.22%	-16.22%	-2.67	→	+65.0%	Keep
Aastra Technologies	AAH	Nov. 17/02	-17.07%	-9.57%	off list	↓	-5.4%	Keep
IPL Inc.	IPI.A	Dec. 13/02	-23.40%	-24.97%	off list	→	+5.6%	Keep
Paladin Labs Inc	PLB	Oct. 1/02	-23.41%	27.65%	off list	↑	-54.5%	Keep
Average Gain			73.46%	6.36%				

Dropped (with YTD and Total Gain in brackets) are Stackpole (61.57%, 38.77%), Cara Operations (-21.29%, 14.79%), Agnico-Eagle Mines (-33.35%, 35.57%) Mega Bloks (-10.64%, -4.33%), and Westjet Airlines (-1.05%, -8.69%). Although I'm a big fan of Westjet and think it has the strength to take over as Canada's national airline when Air Canada finally goes bankrupt, it's been on our list too long with no results. The airline industry as a whole is weak, so Westjet is fighting an industry trend as well. Dropping it now doesn't preclude adding it back in again at a later date.

I'm also bullish on gold but Agnico-Eagle is the weaker sister of our gold stocks, all of which advanced for the quarter except AGE. Unfortunately, AGE was up 103.4% at the end of 2002, but of course, dropping it in the face of the raging bull market in gold at the time was not in the cards. We may look for another gold stock to replace it.

I haven't gone back and done a check on how our list would have done following our buy and sell recommendations yet. That is a rather time consuming chore and I didn't start saving my weekly Trend Watch pages until March 7th. It also poses the problem of how you calculate it. Starting with a fixed sum of money equally divided among the buy recommendations and rebalancing each week is probably the most accurate, but also the most painstakingly awkward. Maybe in a future issue!

Insurance Industry Pick

Kingsway Financial Services (KFS –TSX, KFS - NYSE)

(website: www.kingsway-financial.com)

Investors are a varied lot and some look for safety with low return while other embrace risk with the possibility of high return. In fact, the highest returns usually come from high risk investments that are managed to minimize the downside. The same is true in the world of business.

This week, B.C.'s publicly owned auto insurer, the Insurance Corporation of British Columbia, also known as ICBC, announced that it was jacking up comprehensive coverage for its 5000 worst claimants or refusing to serve them at all. The usual howls of protests from the "I want a free lunch" crowd arose, but why shouldn't people pay rates commensurate with their risk?

And where will those lousy drivers who fall out of favour with ICBC go? Chances are some may end up insuring with Kingsway Financial Services, one of North America's fastest growing property and casualty insurers. Kingsway, in fact, specializes in "the insuring of automobiles for drivers who do not meet the criteria for coverage by standard automobile insurers."

The company also provides coverage for the trucking industry, commercial automobiles, motorcycles and other niche markets. Is it profitable? You bet! Just look at Kingsway's track record.

The Mississauga, Ontario company operates thirteen subsidiaries throughout Canada and the United States. These include Kingsway General Insurance, York Fire and Casualty, and Jevco Insurance in Canada, two reinsurers based in the Caribbean, and eight US subsidiaries including Kingsway America, Universal Casualty, Southern United Fire Insurance, American Service Insurance, Lincoln General Insurance, American Country Insurance, Hamilton Risk Management and Avalon Risk Management.

The company doubled revenues in fiscal 2002, topping the \$2 billion mark. Earnings almost doubled to \$79.5 million. Much of its growth came through acquisition, with the addition of York in 1996, Jevco in 1997, five US insurance companies in 1998, Hamilton Risk in 1999 and American Country in 2002.

Kingsway went public in 1995 on the TSX and in 2001, it became the first Canadian property and casualty insurance company listed on the New York Stock Exchange. On July 3rd it raised over \$100 million dollars in a secondary public offering. Since going public, the stock has risen from around \$2.50 to its present level of around \$18, albeit not in a straight line.

Insurance has been the backbone of Warren Buffett's Berkshire Hathaway company for decades. He knows a lucrative business when he sees one. Kingsway looks like it might be cut from the same mold!

Quarterly Earnings per Share

To Dec. 31st	2001	2002	% Change
EPS	\$0.33	\$0.49	+48.5%
Revenues (000s)	\$327,852	\$566,333	+72.7%

Annual Earnings per Share

To Dec. 31st	2000	2001	% Change	2002	% Change
EPS	\$0.81	\$1.21	+49.4%	\$1.63	+34.7%
Revenues (000s)	\$594,989	\$937,462	+57.6%	\$1,818,868	+94.0%

(Continued on page 9)

Kingsway Financial (from page 8)

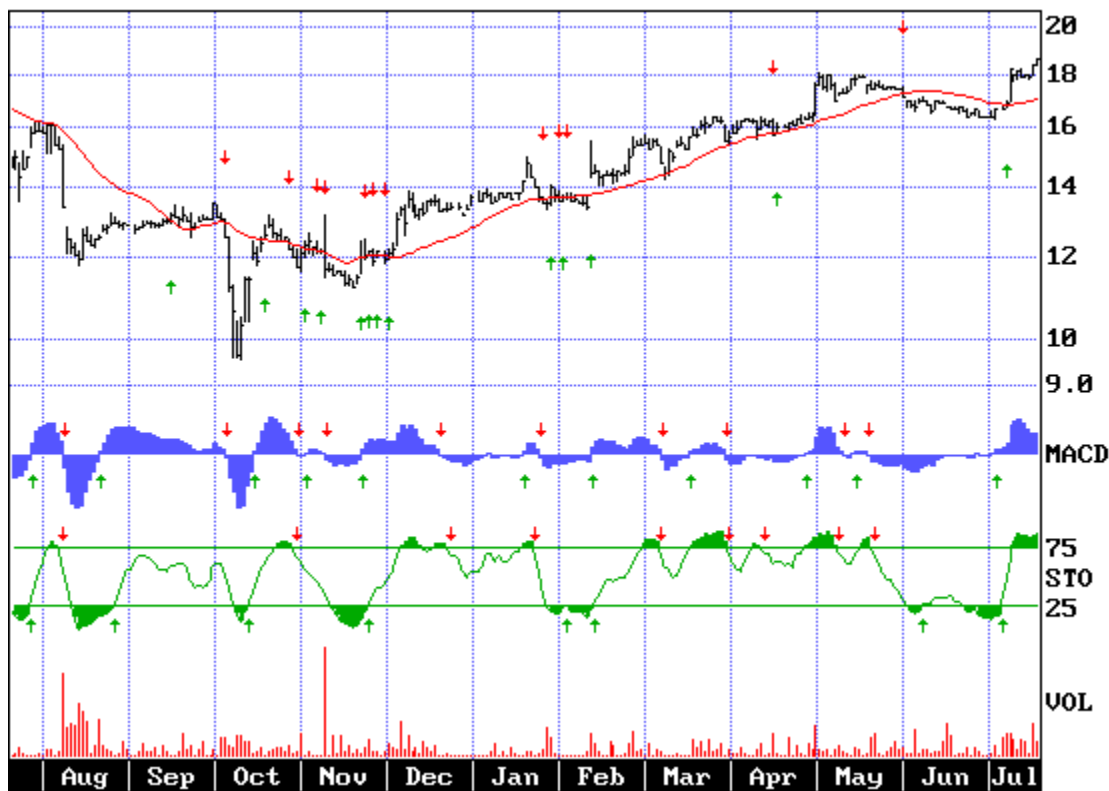


Chart Analysis: Kingsway soared from its IPO price around the \$2.50 level in December 1995 to over \$18.50 in April 1998. Then it plummeted \$7.50 in January 2000. But while the tech wreck took out the high flying dot-coms, Kingsway found its legs again, soaring to around \$20 by January 2002. A correction sent it back to \$9.50 by October as the market bottomed. Since then it has been on a solid uptrend, topping out at \$18.05 in May before correcting moderately to \$16.25. It has just broken out to new highs again, breaking resistance at \$18 and giving us three green arrows to boot..

Stats as of 07/18/03	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.96	▪ Price Pattern: A
▪ RS: 82.3	▪ Volatility: A
▪ Shares: 55,642,299	▪ Estimates: B+
▪ P/E: 10.40	▪ Snapshot: A-
▪ Price: \$18.60	▪ News: A-

Phase 2: We give KFS an A for price pattern and A for volatility as it has been gaining steadily since November 2002 but with only mild swings. Earnings estimates have climbed significantly from a year ago, but have been declining over the last two months, no doubt due to currency exchange concerns. Overall rating is 2.3 or Buy so we give it a B+. The snapshot shows steadily growing revenues for three years. Earnings have also soared. ROE is lower than we like but growing. We give it an A-. News has been excellent with solid quarterlies and successful financing, but on a sour note, its financial rating was downgraded to A- from A. So we'll give it an A- for news as well.

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

Mutual Funds**Marco's Power Performers
(for June 2003)**

We've gone for a three month drought now with not a single Power Performer or even a Performer in Canadian mutual funds. A Power Performer, you'll recall, is a mutual fund that has a better than 20% average annual return in each of the one year, three year and five year time frames. Better than 25% qualifies the fund as a Super Power Performer and better than 15% as a lowly Performer.

With a three month stock market boom behind us, you'd expect some funds to start showing their oats, but no such luck. But there are seven funds that qualify in two of the three time frames with better than 10% in the third time frame. These might qualify in the near future and are the funds to watch. We've listed them in the table below as "Almost Performers". They're listed alphabetically.

Almost Performers			
Fund name	1 yr %	3 yr %	5 yr %
Dominion Equity Resource	11.03	21.36	22.91
Dynamic Global Precious Metals	11.53	29.96	15.24
Front Street Small Cap Canadian	16.67	13.67	15.61
Front Street Special Opportunities Canadian	21.33	10.49	16.43
Mackenzie Universal Precious Metals(US\$)	14.81	41.20	22.51
RBC Precious Metals	11.18	39.63	18.82
Resolute Growth	11.60	20.56	26.38

As you can see, the list includes one of our old favorites, the Resolute Growth Fund. Interestingly, four are precious metals or resource funds. The other two are small caps.

The one with the best one year performance, Front Street's Special Opportunities Canadian Fund, is heavily weighted in the oil and gas sector with its top ten holdings as Cequel Energy, Crescent Point Energy, Wireless Matrix Corporation, Lionore Mining, Compton Petroleum, Forte Oil, Cavell Energy, Altagas Services, Midnight Oil and Gas, and Resolute Energy. Its sister Small Cap Canadian Fund has seven of these in its top ten holdings as well.

Toolbox Tip**Canadian Market Highlights at a Glance**

Canadian Toolbox users can get the end of day Toronto Stock Exchange highlights at a glance with a click of the mouse. Just click on the link in the top menu bar labeled "International". Canada is the default country and the page gives you the daily chart for the TSX, the closing price, change, and percentage change.

Even handier are the links below that. Links to:

- Unusual Volume Stock
- Volume Leaders
- Largest Price Movers Today
- Largest Percentage Change
- Largest Percentage Change for the Past 2, 3 or 4 Days
- Largest Price Gaps
- New 12 Month High Prices
- New 12 Month Low Prices

If you're looking for handy quick searches for Canadian stocks, these links may be your ticket!

Our Model Portfolio**Re-assessing Our Management Criteria**

After six months our managed portfolio has not been doing so well. As of June 27th we were down 1.74% for the year. This is quite a switch from last year when we were way ahead of the indices throughout the year. So naturally, we're looking back and asking "What went wrong?"

Part of the answer is that we are trying to mix considerations of growth and safety. We added criteria at the beginning of the year to mitigate being whipsawed in and out of a stock. These may indeed have reduced the number of trades and reduced the risk and volatility of our portfolio. But these added rules may also have led to giving up gains in favour of safety.

In a fascinating article in the June 19, 2000 Hulbert Financial Digest, Mark Hulbert did an analysis of five newsletters he follows that best protected their customers against market downturns over the last five market corrections at that time. He found that these five newsletters' model portfolios lost no more than one to two percent in each correction whereas the Wilshire 5000 lost an average of more than 15% each time while the NASDAQ lost more than 20%. Now that's safety!

But looking at the long term gains since just before the 1987 crash, he found that these newsletters' portfolios annualized returns for the thirteen year period ranged from 2.3% to 7.2%. That compares to the 14.3% annualized return of the Wilshire and the 17.1% annualized return of the NASDAQ (even with five corrections). Safety comes at a terrible price!

Now I'm not sure if that's the same situation here. Last year I traded my 10% solution exactly – selling off when a stock hit its stop loss and buying back when it was up 10% from an interim low. This year, a 10% gain from an interim low needed confirmation from the moving average to turn as well. Sometimes the stock had risen 20 or 30% or more before the MA confirmed.

I also continued to follow the idea of holding a cash position open to buy back a sold-off stock when it starts moving up again. This worked well last year when we were shaken out of Transforce twice before it finally took off with a better than 100% gain for us. But maybe it's not the best policy as it has left us with large cash positions for much of the time and had us trading in and out of some stocks a few times to our detriment.

At our annual review last year I noted that, while our managed portfolio did extremely well, we would have done better with a buy and hold approach. Looking at our portfolio for this year, we find the same thing. Hanging on to our original holdings, we would have had the following on June 27th:

Stock	Shares	Value at 01/01/03	Value at 6/27/03	Gain/Loss
NKO	180	\$4644.00	\$4941.00	+6.40%
DSA	240	\$4377.60	\$3808.80	-12.99%
IMG	1549	\$11,838.64	\$10,223.40	-13.64%
PEY.UN	825	\$9198.75	\$12,457.50	+35.43%
HCG.B	370	\$5365.00	\$7599.80	+41.66%
G	320	\$6419.20	\$5046.40	-21.39%
MB	225	\$5287.50	\$4776.75	-9.66%
IPI.A	520	\$5037.90	\$4680.00	-7.10%
WJA	300	\$4875.00	\$4860.00	-0.31%
FGL	280	\$5034.40	\$5460.00	+8.45%
Cash		\$259.34	\$259.34	
		\$62,391.33	\$64,112.99	+2.76%

As you can see, only four of our stocks would have been ahead and the portfolio as a whole still underperformed the major indices. The biggest problem was poor stock selections that were not replaced quickly enough with fresh blood, so to speak. For the rest of the year we are eliminating a stock from the portfolio when it gives us a sell signal and replacing it right away with the most recently reviewed stock. We will remain 100% invested at all times with constant turnover of stocks. We'll also rebalance each time. We'll see if that makes a difference.

(continued on page 12)

Our Model Portfolio

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

Current Position: \$61,502.50 (+23.01%) Down -1.42% YTD

As noted in our analysis on page 11, we have decided to replace stocks giving us sell signals rather than hold cash slots open for them. This will resolve the problem of sitting on idle cash for long periods as well as the problem of being whipsawed in and out of a stock, problems that created no end of grief for our Model Portfolio over the first half of the year. So we are filling our three empty slots with this issue's stock selection, Kingsway Financial Services, as well as with our last two selections, CoolBrands and Hip Interactive. We're deeming them bought at Friday's closing price and will adjust next week if there are gaps up.

We added to our cash position as CCS Income Fund and Parkland Income Fund both gave out distributions totaling \$80.60 and leaving us with a cash position of \$143.30.

<p style="text-align: center;">Bennett Environmental (BEV – TSX)</p> <table border="1"> <tr> <td># of Shares: 315</td> <td>Bought on: May 5th</td> </tr> <tr> <td>Price Then: \$14.49</td> <td>Price Now: \$14.95</td> </tr> <tr> <td>Gain: 3.17%</td> <td>Stop: \$13.82</td> </tr> </table> <p>Notes: Bennett has been a stellar performer in the past and we're looking for more of the same.</p>	# of Shares: 315	Bought on: May 5th	Price Then: \$14.49	Price Now: \$14.95	Gain: 3.17%	Stop: \$13.82	<p style="text-align: center;">Calian Technology (CTY – TSX)</p> <table border="1"> <tr> <td># of Shares: 700</td> <td>Bought on: June 2nd</td> </tr> <tr> <td>Price Then: \$7.01</td> <td>Price Now: \$8.62</td> </tr> <tr> <td>Gain: 22.97%</td> <td>Stop: \$7.74</td> </tr> </table> <p>Notes: Calian Technology is one of the year's hottest performers. It's a player in the satellite communications field.</p>	# of Shares: 700	Bought on: June 2nd	Price Then: \$7.01	Price Now: \$8.62	Gain: 22.97%	Stop: \$7.74
# of Shares: 315	Bought on: May 5th												
Price Then: \$14.49	Price Now: \$14.95												
Gain: 3.17%	Stop: \$13.82												
# of Shares: 700	Bought on: June 2nd												
Price Then: \$7.01	Price Now: \$8.62												
Gain: 22.97%	Stop: \$7.74												
<p style="text-align: center;">CCS Income Fund (CCR.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 240</td> <td>Bought on: May 19th</td> </tr> <tr> <td>Price Then: \$20.29</td> <td>Price Now: \$24.10</td> </tr> <tr> <td>Gain: 18.78%</td> <td>Stop: \$21.51</td> </tr> </table> <p>Notes: Formerly Canadian Crude Separators, CCS works on environmental solutions for the oil industry.</p>	# of Shares: 240	Bought on: May 19th	Price Then: \$20.29	Price Now: \$24.10	Gain: 18.78%	Stop: \$21.51	<p style="text-align: center;">CoolBrands International (COB.A – TSX)</p> <table border="1"> <tr> <td># of Shares: 375</td> <td>Bought on: July 21st</td> </tr> <tr> <td>Price Then: \$15.95</td> <td>Price Now: \$15.95</td> </tr> <tr> <td>Gain: 0.0%</td> <td>Stop: \$14.36</td> </tr> </table> <p>Notes: CoolBrands makes Eskimo Pie among other things. A hot stock in a cool business, it's a leader in frozen desserts.</p>	# of Shares: 375	Bought on: July 21st	Price Then: \$15.95	Price Now: \$15.95	Gain: 0.0%	Stop: \$14.36
# of Shares: 240	Bought on: May 19th												
Price Then: \$20.29	Price Now: \$24.10												
Gain: 18.78%	Stop: \$21.51												
# of Shares: 375	Bought on: July 21st												
Price Then: \$15.95	Price Now: \$15.95												
Gain: 0.0%	Stop: \$14.36												
<p style="text-align: center;">Hip Interactive (HP – TSX)</p> <table border="1"> <tr> <td># of Shares: 3600</td> <td>Bought on: July 21st</td> </tr> <tr> <td>Price Then: \$1.65</td> <td>Price Now: \$1.65</td> </tr> <tr> <td>Gain: 0.0%</td> <td>Stop: \$1.49</td> </tr> </table> <p>Notes: Hip is a leader in interactive gaming in Canada, supplying major name brand products to small retailers.</p>	# of Shares: 3600	Bought on: July 21st	Price Then: \$1.65	Price Now: \$1.65	Gain: 0.0%	Stop: \$1.49	<p style="text-align: center;">Home Capital Group (HCG.B – TSX)</p> <table border="1"> <tr> <td># of Shares: 370</td> <td>Bought on: Oct. 16th</td> </tr> <tr> <td>Price Then: \$13.25</td> <td>Price Now: \$19.36</td> </tr> <tr> <td>Gain: 46.11%</td> <td>Stop: \$17.68</td> </tr> </table> <p>Notes: Niche markets in finance seem to be very successful as evidenced by Home Capital's success.</p>	# of Shares: 370	Bought on: Oct. 16 th	Price Then: \$13.25	Price Now: \$19.36	Gain: 46.11%	Stop: \$17.68
# of Shares: 3600	Bought on: July 21st												
Price Then: \$1.65	Price Now: \$1.65												
Gain: 0.0%	Stop: \$1.49												
# of Shares: 370	Bought on: Oct. 16 th												
Price Then: \$13.25	Price Now: \$19.36												
Gain: 46.11%	Stop: \$17.68												
<p style="text-align: center;">Kingsway Financial (KFS – TSX)</p> <table border="1"> <tr> <td># of Shares: 320</td> <td>Bought on: July 21st</td> </tr> <tr> <td>Price Then: \$18.60</td> <td>Price Now: \$18.60</td> </tr> <tr> <td>Gain: 0.0%</td> <td>Stop: \$12.62</td> </tr> </table> <p>Notes: Kingsway provides insurance for drivers other companies won't deal with as well as specialized markets like taxicabs.</p>	# of Shares: 320	Bought on: July 21st	Price Then: \$18.60	Price Now: \$18.60	Gain: 0.0%	Stop: \$12.62	<p style="text-align: center;">Niko Resources (NKO – TSX)</p> <table border="1"> <tr> <td># of Shares: 195</td> <td>Bought on: May 12th</td> </tr> <tr> <td>Price Then: \$25.45</td> <td>Price Now: \$26.90</td> </tr> <tr> <td>Gain: 5.70%</td> <td>Stop: \$25.70</td> </tr> </table> <p>Notes: Niko Resources is an oil and gas exploration company with interests in India including offshore.</p>	# of Shares: 195	Bought on: May 12th	Price Then: \$25.45	Price Now: \$26.90	Gain: 5.70%	Stop: \$25.70
# of Shares: 320	Bought on: July 21st												
Price Then: \$18.60	Price Now: \$18.60												
Gain: 0.0%	Stop: \$12.62												
# of Shares: 195	Bought on: May 12th												
Price Then: \$25.45	Price Now: \$26.90												
Gain: 5.70%	Stop: \$25.70												
<p style="text-align: center;">Parkland Income Fund (PKI.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 310</td> <td>Bought on: May 19th</td> </tr> <tr> <td>Price Then: \$15.62</td> <td>Price Now: \$16.50</td> </tr> <tr> <td>Gain: 5.63%</td> <td>Stop: \$15.17</td> </tr> </table> <p>Notes: Parkland operates a chain of gas stations and convenience stores across Alberta and BC.</p>	# of Shares: 310	Bought on: May 19th	Price Then: \$15.62	Price Now: \$16.50	Gain: 5.63%	Stop: \$15.17	<p style="text-align: center;">Peyto Energy Trust (PEY.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 555</td> <td>Bought on: July 14th</td> </tr> <tr> <td>Price Then: \$17.05</td> <td>Price Now: \$17.00</td> </tr> <tr> <td>Gain: -0.29%</td> <td>Stop: \$15.53</td> </tr> </table> <p>Notes: Peyto recently converted to an income trust. The stock did well before and should continue to do well going forward.</p>	# of Shares: 555	Bought on: July 14th	Price Then: \$17.05	Price Now: \$17.00	Gain: -0.29%	Stop: \$15.53
# of Shares: 310	Bought on: May 19th												
Price Then: \$15.62	Price Now: \$16.50												
Gain: 5.63%	Stop: \$15.17												
# of Shares: 555	Bought on: July 14th												
Price Then: \$17.05	Price Now: \$17.00												
Gain: -0.29%	Stop: \$15.53												