

the Break Out Report

Earnings – Leadership - Momentum



Volume # 1, Issue # 2

Nov. 17, 2002

ELM - the Profit Tree

Options Explained

How Options are Priced

In August I started the first part of a series on options. The article, Playing Both Sides of the Market: An Introduction to Options, is now online at <http://breakoutreport.com/articles/options1.htm> in case you missed it. Today we continue with an explanation of options pricing.

Last time, you'll recall, we explained that call options are similar to placing a forfeitable down payment on some furniture. You have until a certain expiry date to buy the furniture at an agreed upon price. Maybe the furniture is on sale on the day you visit the store, but you don't want to buy without consulting your spouse and you don't want the furniture to be sold before you can get back with your spouse to look at it. A put option, we explained, is similar to an insurance policy. It gives you the right to "put" your house that just burned down to the insurance company at the full original value.

With stocks, of course, a call gives you the right but not the obligation to buy a stock at a specified price by a certain date. A put gives you the right but not the obligation to sell the stock at a specified price by a certain date.

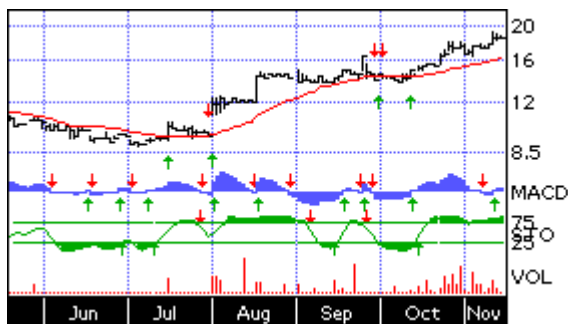
Before getting to pricing, let's discuss terminology. The specified price noted above is called the strike price. The date is called the expiration date and is always the third Friday of the month. So the
(continued on page 2)

Watched List Update

Currently Hot!

Our Watched List of stocks grows with this issue to 55. (See new profiles on pages 4-7) You'll find a summary update on the website at <http://breakoutreport.com/portfolios/trendwatch.htm> Ten of them are included in our Model Portfolio which you'll find reviewed on page 8.

The last few weeks have seen some particular strength in several stocks as noted below:



Dalsa Corp. – Profiled Aug. 9th at \$12.40

After we profiled Dalsa (DSA – TSX) on our website on Aug. 9th it moved up smartly to \$14 and traded flat for two months. It started climbing again in mid-October on anticipation of a great quarterly. And great it was! Revenues up 144.5% and EPS up 177.8%. The stock is now at \$18.60, a gain of 50.0% since profiled.

(continued on page 3)

In This Issue: Giant on the Move? (Page 4)

Brief Comment

Bears Hibernate!

Superbears are fond of citing the Nikkei bear to point out that a protracted long term bear market is not out of the question. They tend to focus on monetary analysis, the manipulation of the money supply by the US Federal Reserve and so on. And they may well have a point.

But even if they're right, Jim Stack at Investech Research has noted that the 13 year Nikkei bear has been punctuated by strong rallies. Projecting the Nikkei onto the Dow going forward, the Dow could be at the start of a rally that will take it to 11,000 before the bear regains control.

Thanks to Kevin D. for that tidbit. And thanks to Francis R. for telling us about Swanson's Market Forecast site. (see page 3)

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 are 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

Options Pricing (from page 1)

date is always indicated as a month in a particular year. Some stocks have options called LEAPS or Long-term Equity Anticipation Securities which can expire a year or two down the road. LEAPS always expire in January so you can, for example, buy leaps for January 2004 and, in some cases, for January 2005 on selected stocks.

You should also know that options are sold in blocks called contracts. Each contract is for 100 shares. So if you buy an options contract that is trading at \$1, it will cost you \$100 for the contract (plus broker commission) as the quoted price is the per share price.

Now for the pricing. An option price is called the premium and has two components – the intrinsic value and the time value. The intrinsic value is the value that the option would have today if you were to exercise it. The time value is the rest of the price.

For example, suppose stock X is selling for \$20 today and a call option at a strike price of \$18 is going for \$3. If you owned the option and were to exercise it today, you would be able to buy the stock for \$18 and turn it around and sell it for \$20. The intrinsic value of the option is \$2. But the option is selling for \$3. The extra dollar is the time value.

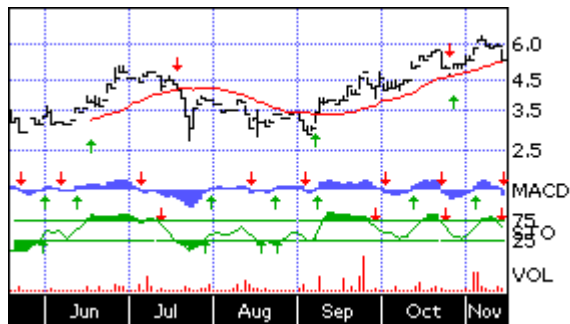
A stock option at a strike price greater than the current stock price has no intrinsic value at all. If you were to exercise the option, you would lose money. The entire price of the option is time value. Similarly, an option at a strike price equal to the current stock price has no intrinsic value.

So what affects these two components of price? Well, the intrinsic value is obviously related directly to the current stock price. The time value, however, is affected by two key factors. One of course is time.

Time value is like ice. The closer to the expiry date you get, the smaller the time value gets until it disappears entirely. Most of it melts away in the final month.

In our example of stock X, suppose the option quoted at \$3 is for an expiry date of February 2003. As we get closer to the expiry date, the time value of the option will melt away. If the stock rises to \$21 at expiry, the option will have a value of \$3, all of it intrinsic. You will make no profit even though the stock rose a dollar in price. To profit, the stock must go higher than \$21 by expiry or it must reach \$21 before the expiry date so you can sell the option and pocket the time value remaining as your profit.

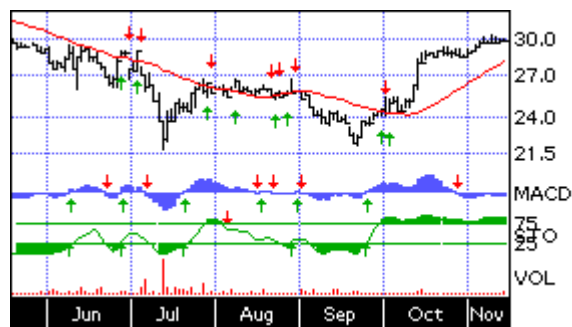
The other key factor affecting the time value component of the option price is volatility. If a stock fluctuates in price a lot, it is said to be volatile. And volatility in options comes at a price. But that is a complex subject so we'll cover that topic next time!

Hot Stocks (from page 1)**Leading Brands – Profiled May 17th at \$3.51**

As shown in the chart at left, Leading Brands (LBI – TSX) is on a roll. It bounced off its moving average in late October and is testing it again. The most recent quarter to Aug. 31st saw revenues at the premium beverage company up 41.5%. EPS were up 16.7%. Early this month it launched distribution in New York, its 38th US market. LBI is at \$5.25, up 49.6% since profiled.

Cott Corp. – Profiled July 26, 2001 at \$20.50

Cott (BCB – TSX), in the chart at right, climbed steadily to \$33.81 in April 2002 before correcting down to \$22.50 this summer. The world's largest bottler of retailer branded soft drinks is now on a steady advance again after reporting a 75% increase in EPS in the 3rd quarter to Sept. 30th. The stock is now at \$29.92, up 46.0%.

**Toolbox Tips****Market Forecast**

The Online Investor's Toolbox has a wealth of useful tools and resources. One of the most interesting is Stephen Swanson's Market Forecast. On the Toolbox you'll find it by clicking on Strategies in the top bar menu and then clicking on Market Forecast in the left hand menu. For non-Toolbox users – keep reading and we'll tell you where you can see exactly what this tool does.

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 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.

On odd occasions, the intermediate, short term and momentum lines converge close to one point. The last time was October 9th, the start of the current rally that saw the most powerful October advance in 15 years. Market Forecast is used but not explained in great detail on the Toolbox. But Swanson provides free online tutorials at his own website at www.themarketforecast.com. Here's where non-Online Investor readers can see what this tool is all about. And Toolbox users can benefit too because the explanations are presented in great detail. Do take a look.

Resource Pick**Niko Resources Ltd. (NKO – TSX)**

Recently BCTV News on Global ran an award-winning series called Giant on the Move. The subject? India! It's the fourth largest industrial producer in the world with a population of over a billion. Business is booming. Among other things, it has the largest motion picture industry in the world, bigger than the United States. The industry is centered in Bombay and so is called Bollywood. And now Indian films are starting to come in vogue in North America. The Oscar-nominated Moulin Rouge has a strong Bollywood influence in its lavish sets and extravagant musical numbers.

But there is one area where India is not self-sufficient. Energy. The country, in fact, imports 70% of its energy needs at great expense. And so the government of India is committed to fostering the development of domestic energy resources. It welcomes foreign investment with tax holidays and reduced royalties in some cases.

Calgary-based Niko Resources has been involved in India since 1994 when it signed five Production Sharing Contracts (PSCs) for five different fields in western India. In 1999 it acquired a 10% interest in twelve offshore exploration blocks. (Ten of which were relinquished in October 2002.) And in 2001 it acquired a 100% interest in yet another block. All told, the company has a net interest in more than 2.3 million acres.

The terms of PSCs vary on a contract by contract basis but there are no up-front fees or rental payments. The revenue sharing formula is geared towards successful development with the Indian government sharing anywhere up to 10% of profits until the company has recovered three times its investment, after which the government share rises to anywhere between 40-70%. Since 1999 the PSCs have been given a seven year tax holiday after they become productive.

Niko Resources drilled five new gas wells last year as well as an offshore appraisal well. Production in fiscal 2002 increased 113% to 20 million cubic feet a day but oil production dropped from 29 to 25 barrels a day. Since the fiscal year end, gas production has risen to 36 mmcf/d and oil back to 29 barrels a day. All that comes from one developed area, the Hazira field.

With only one of its fields in production in India and the rest under different phases of exploration, the potential for Niko is huge. Proven reserves increased 28% in the most recent assessment (April 2002). And on October 31st, the company announced a major new discovery. The offshore consortium in which it has a 10% interest discovered a huge reserve in excess of 7 trillion cubic feet 20 kilometers off the coast of India. It is one of the largest gas fields ever discovered in India and one of the largest discovered in the world this year. It could generate as much as 100 million cubic feet of natural gas a day.

On top of that, only six of India's 27 oil and gas basins have been explored. With such potential, Niko could also become a Giant on the Move!

Quarterly Earnings per Share

To Sept 30th	2001	2002	% Change
EPS	\$0.07	\$0.23	+228.6%
Revenues (000s)	\$6,792	\$21,761	+220.4%

Annual Earnings per Share

To March 31 st	2000	2001	% Change	2002	% Change
EPS	\$0.16	\$0.00	-100.0%	\$0.50	n/a
Revenues (000s)	\$13,842	\$23,973	+73.2%	\$47,890	+99.8%

(continued on page 5)

Niko Resources (from page 4)

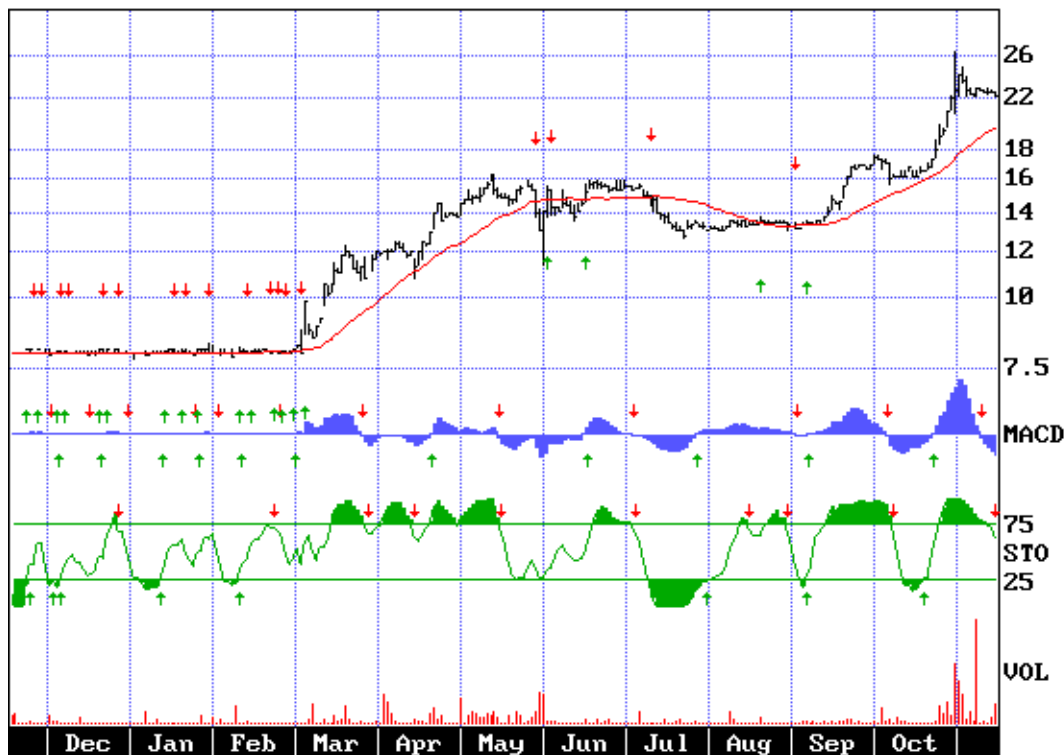


Chart Analysis: Niko Resources has an odd looking graph for the beginning of the last year with the price closing within 20 cents of \$8.00 from October 2001 to March 2002. Then it started to pick up with two green arrows for MACD and Moving Average and a phantom green arrow for Stochastics in early March on moderately increased volume. It topped out around \$16 before the summer market slump dragged it back to \$13 level. Three green arrows in September with negligible change in volume saw the stock climb back to test the \$16 level where it met resistance. But the stock broke resistance in late October with massive increases in volume on October 31st on the announcement of the offshore gas discovery. It seems to have found new support at the \$22 level after the sudden spike to \$26.50 on the 31st. An even larger volume spike on November 8th indicates some strong institutional interest developing. Watch for further advances going forward.

Stats as of 11/17/02	Phase 2 Analysis
▪ Hi/Lo Ratio: 3.42	▪ Price Pattern: A
▪ RS: 96.8	▪ Volatility: A
▪ Shares: 29,797,820	▪ Estimates: A
▪ P/E: 41.9	▪ Snapshot: A -
▪ Price: \$22.20	▪ News: A

Phase 2: Niko ranged around the \$6 mark throughout 2000 before surging to \$9 in mid-2001. It then settled in to \$8 where it traded a very tight range until March this year as noted above. We give Niko an A for price pattern and for volatility. Estimates have soared and the stock is given a Strong Buy rating so we give it an A for Estimates as well. Although the company suffered a minor loss in fiscal 2001, revenues have climbed steadily and earnings soared in fiscal 2002. Return on Equity is a healthy 22.60. We give it an A- for Snapshot. News has been great with the announcement of a normal course issuer bid in August, declaration of a three cent a share dividend in September and, of course, the superb gas find in October. Another A.

Tech Pick**Aastra Technologies (AAH-TSX)**

While companies like Nortel Networks and Lucent Technologies were trying to make waves in the networking arena, they decided to shed their old boring backbone businesses – making telephones. Who was there buying up these assets? Why Aastra Technologies of course!

In late 1999, Aastra picked up a number of Nortel's assets, including over 20 design patents and numerous trademarks such as Vista, PowerTouch, Nomad, Maestro and Symphony. In May 2001 it acquired Nortel's Meridian Business System Centrex and ISDN product portfolio. This was followed in September 2001 with the acquisition of Lucent Digital Video, an MPEG-2 encoding technology for broadcast, cable and video networking. And in December 2001 it bought up Ericsson's cable modem group.

Aastra has done remarkably well following a basic plan – designing and manufacturing home telecom equipment – telephones, handsets, caller ID adjuncts and Internet-enabled phones. Its R&D team developed a number of firsts including the first integrated caller ID phones and the first cordless phone with caller ID. With its latest acquisitions the company is poised to capitalize on the coming video revolution. Management believes that just as the last ten years have seen a transformation of networks from voice to data, the next ten years will make extensive video networks a reality.

Aastra Technologies made the Deloitte & Touche list of the 50 fastest growing companies in Canada for the last four years - 1999, 2000, 2001 and 2002. Its share value has exploded from \$5.25 on Sept. 30, 1999 to over \$20 today – a 300% increase. It grew all through the tech wreck while the companies it was feasting on, Nortel, Lucent, Ericsson, tanked. What's the old saying about sticking to basics!

73% of Aastra's products are exported, primarily south of the border where it holds the hugely valuable exclusive license to market telephones under the Bell trademark. Sales are handled by the telcos as well as through retailers such as Radio Shack and Wal-Mart.

On October 17th the company announced its quarterly results – the 18th consecutive quarter of profitability despite a weak market for telecom equipment. Revenues were up 47% with earnings per share up 25.7% before changes in accounting practice. With the changes, the increase in EPS was 7.7%. Amortization of indefinite life intangibles and goodwill is no longer allowed under the new rules.

Aastra Technologies is one of the featured companies in my book, *The 50 Best Science & Technology Stocks for Canadians*, for the second year running.

Quarterly Earnings per Share

To Sept. 30th	2001	2002	% Change
EPS	\$0.35	\$0.44	+25.7%
Revenues (000s)	\$37,420	\$55,006	+47.0%

Annual Earnings per Share

To Dec. 31 st	1999	2000	% Change	2001	% Change
EPS	\$0.55	\$1.35	+145.5%	\$1.30	-3.7%
Revenues (000s)	\$97,089	\$190,456	+96.2%	\$146,474	-23.1%

(Continued on page 7)

Aastra Technologies (from page 6)

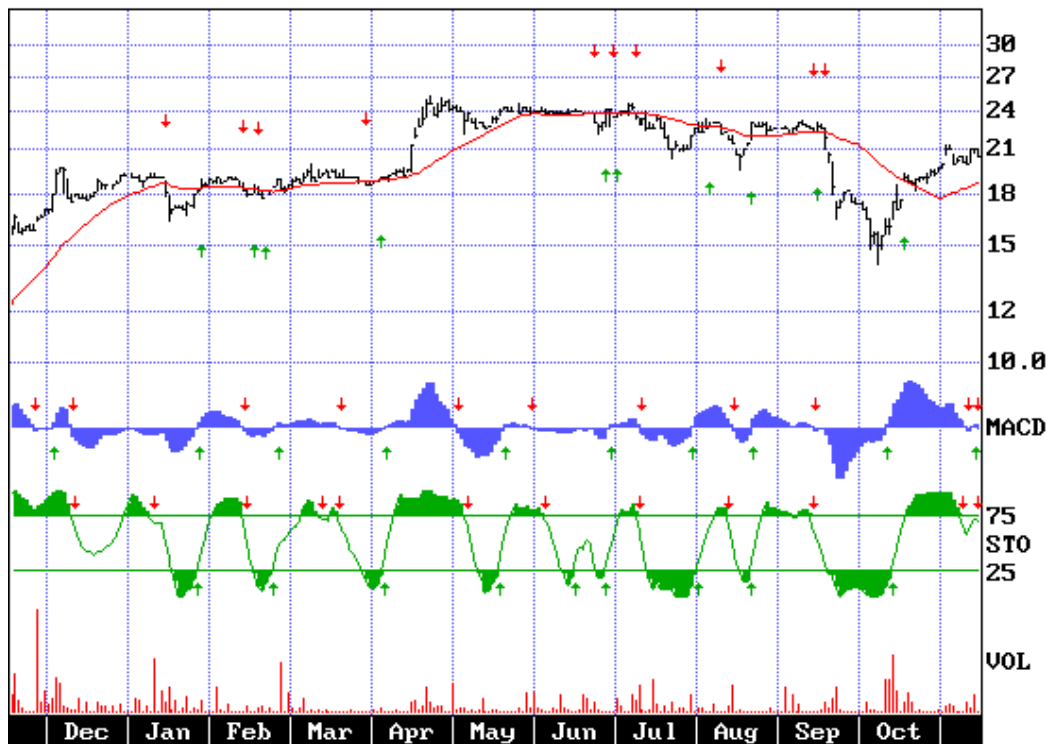


Chart Analysis: The five year chart for Aastra shows a sharp rise from under a dollar to over \$15 at the beginning of 2000. What a sweet investment that would have been!!! The tech wreck pulled the stock down to \$8 again. But post 9/11 it has risen steadily while all around were falling, soaring to over \$24 in late April. The summer doldrums saw it trade in a range between \$21 and \$24 before slumping to the \$15 level again in late September and early October. Strong volume and green arrows on MACD, Stochastics and Moving Average saw it break above its moving average where it is now consolidating. Look for this one to test the \$24 resistance level soon. Another solid quarter should see it break through that level.

Stats as of 11/17/02	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.03	▪ Price Pattern: A
▪ RS: 82.4	▪ Volatility: A
▪ Shares: 14,946,234	▪ Estimates: A-
▪ P/E: 13.2	▪ Snapshot: A -
▪ Price: \$20.50	▪ News: A

Phase 2: Aastra gets a solid A for both Price pattern and Volatility. Earnings estimates are up 20-30% with a 2.0 rating or Buy. That's down from the 1.7 rating only a few weeks ago, so we give it an A- for Estimates. Our Snapshot shows a company with revenues doubling from 1999 to 2000 but falling 23.1% in 2001. However, trailing revenues to September 2002 show a gain of 20.8%, surpassing the 2000 numbers. Ditto on earnings. Return on Equity has fallen from 51.86 in 1999 but remains high at 20.46. We give it an A- for Snapshot. News is solid with a joint venture with Telus, more acquisitions from Nortel and record earnings. Give it an 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.

Our Model Portfolio

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

Current Position: \$59,687.20 (+19.37%)

We're continuing to follow our three model portfolios on our website to the end of the year, but have consolidated them for this newsletter. The consolidation involved pro-rating Portfolios 1 & 2 to match an initial investment of approximately \$5000 a stock. Our pro-rated cash position is \$4783.35 after a dividend from Transforce Income Fund and sale of Couche-Tard both on November 15th.

Forzani Group (FGL – TSX)

of Shares: 280 **Bought on:** Oct. 16th
Price Then: \$18.78 **Price Now:** \$20.15
Gain: 7.3% **Stop:** \$18.50

Notes: Watch for solid growth if the stock breaks through resistance just above the \$20 level.

Alimentation Couche-Tard (ATD.B – TSX)

of Shares: 0 **Stopped Out:** -6.9%
Bought on: Oct. 24th **Price Then:** \$13.70
Sold on: Nov. 15th **At:** \$12.75

Notes: Couche-Tard gave us a sell signal at the Nov. 15th close. We're replacing with Dalsa Corporation (DSA) on the 18th. (See page 1)

Goldcorp (G – TSX)

of Shares: 260 **Bought on:** Nov. 7th
Price Then: \$17.15 **Price Now:** \$17.45
Gain: +1.7% **Stop:** \$15.71

Notes: Goldcorp needs to overcome resistance at \$18 to advance. A strong move in the gold price could be the impetus.

Home Capital Group (HCG.B – TSX)

of Shares: 370 **Bought on:** Oct. 16th
Price Then: \$13.25 **Price Now:** \$13.58
Gain: 2.5% **Stop:** \$12.99

Notes: It has gone as high as \$14.60 recently and is now testing the moving average. We expect a strong bounce to the upside.

La Senza (LSZ – TSX)

of Shares: 350 **Bought on:** Oct. 22th
Price Then: \$12.65 **Price Now:** \$12.75
Gain: 0.8% **Stop:** \$12.29

Notes: We're looking for LSZ to break out of resistance at just above \$14 soon. If our stop takes us out, we'll replace it with Niko.

Peyto Exploration (PEY – TSX)

of Shares: 825 **Bought on:** July 16th
Price Then: \$6.16 **Price Now:** \$9.47
Gain: 53.7% **Stop:** \$8.06

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

Repadre Capital (RPD – TSX)

of Shares: 1095 **Bought on:** Oct. 19th
Price Then: \$8.00 **Price Now:** \$9.20
Gain: 15.0% **Stop:** \$8.19

Notes: Q3 results announced Nov. 11th – revenue up 91.6%, EPS doubled. Planned merger with lamgold hailed by market.

SNC-Lavalin (SNC – TSX)

of Shares: 140 **Bought on:** Oct. 22th
Price Then: \$35.05 **Price Now:** \$34.50
Gain: -1.6% **Stop:** \$32.61

Notes: The stock recently climbed as high as \$36.23 but has fallen back to test the moving average. Look for a bounce to the upside.

Transforce Income Fund TIF.UN – TSX)

of Shares: 1000 **Bought on:** Apr. 12th
Price Then: \$3.75 **Price Now:** \$7.60
Gain: 102.7% **Stop:** \$7.35

Notes: Transforce has been relatively flat since becoming an income fund. First dividend of 9.5 cents a share was paid on Nov. 15th

Westjet Airlines (WJA – TSX)

of Shares: 240 **Bought on:** Oct. 18th
Price Then: \$18.54 **Price Now:** \$21.00
Gain: 13.3% **Stop:** \$18.69

Notes: October revenue passenger miles were up 59.4%. Plans to add service to Halifax in February.