

# the Break Out Report

Volume # 2, Issue # 10

Mar. 14, 2004

## Brief Notes

### Hasta la vista, baby!

Since our last newsletter I've made some changes to the management of our Model Portfolio (up 12.4% for the year-to-date). We now had two optionable stocks in the mix, Nortel and QLT. And we used them to write covered calls to generate extra revenue. Details of these trades are in our weekly Portfolio Updates on the website but are not noted in the current summary on page 12. Be sure to check our updates online weekly.

In an unusual departure from form, instead of tooting our own horn and lauding our successes, we take a look at some of our flops on page 5. The four stocks reviewed all tumbled after we featured them. Like Rodney Dangerfield, these stocks got no respect from the stock gods. But that doesn't mean they're bad stocks. We still have them on our watched List and at some point they will turn around and head back up again. Two already have.

One case in point is Steeplejack. Shortly after we featured it in our January issue, it headed south. Double bad luck, we had added it to our Model Portfolio and got stopped out. But two weeks later it bounced back and we added it back in again. After closing at \$2.95 on Feb. 27th, it rose to \$4.16 within two weeks, a jump of 41.0% and one of the fastest gains of any stock in our portfolio to date.

This issue is out a bit early as I'm off to sunny Mexico with the family for a much needed vacation. Hasta la vista, baby!

## CANSLIM Revisited

### A is for... Annual Earnings Increases

The second characteristic that William O'Neil found in common in the top growth stocks he studied over a forty year period was consistent annual earnings increases over the previous five years. He even puts it in bold face - **"Each year's annual earnings per share for the last five years should show an increase over the prior year's earnings."**

O'Neil found that the average annual earnings growth rate for the top performing stocks was 24% a year. In fact, three out of four stocks studied showed a positive annual earnings growth rate. The other one out of four were turnarounds.

He emphasizes consistent growth. A track record of earnings per shares of \$3, \$5, \$7, \$2 and \$3 is not good enough. Though you can tolerate one bad year, says O'Neil, the subsequent year must surpass the previous high, not just the bad year. But the more stable and consistent the growth rate the better.

One pitfall to avoid is that some stocks that are labeled growth stocks by the popular press are, in fact, mature or as O'Neil puts it, "nearly senile" growth stocks. Their growth rate looks attractive, but if you look at the stock more closely, you'll find that it is not growing as fast as it did in its prime.

Another pitfall to avoid is stocks whose annual growth record looks good but whose current earnings in the last two quarters have  
*(continued on page 4)*

In This Issue: What the Charts Tell Us (See Page 2)

## The House Advantage

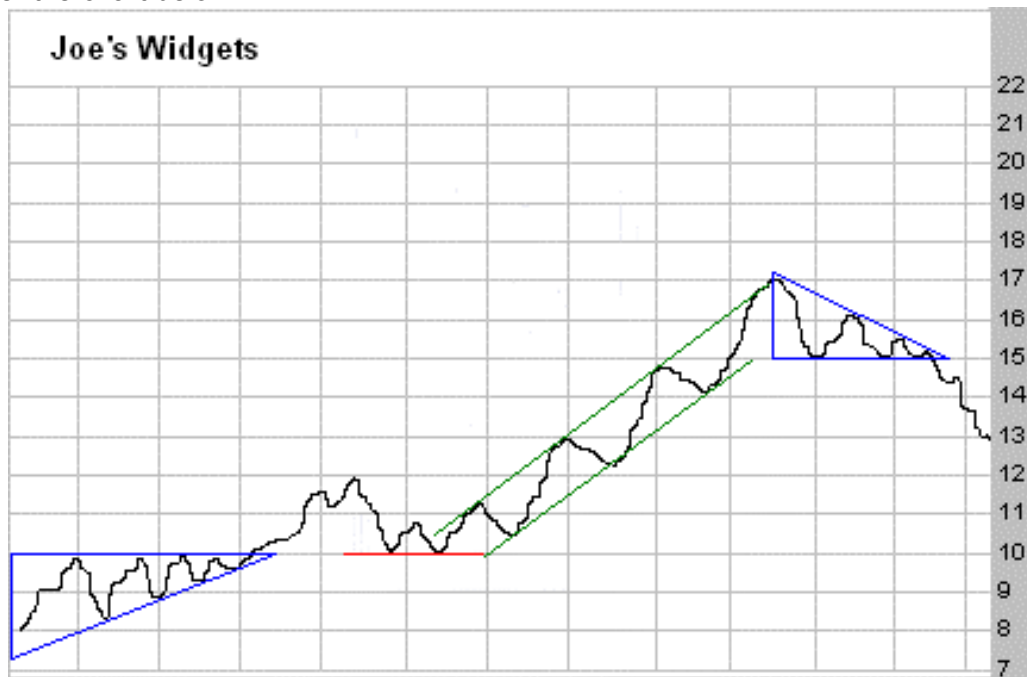
### What the Charts tell Us

*In December and February we presented excerpts from the first chapter of my book in progress – The House Advantage. In this issue we finish up that chapter.*

Stock prices go up and down over time and these fluctuations are captured graphically in stock charts. Sometimes there seems to be no rhyme or reason to the fluctuations but at other times they form recognizable patterns.

As we noted in our February issue, the supply and demand for a particular stock changes as the interested buyers and sellers get satisfied. To induce satisfied buyers and sellers to buy or sell again takes a shift in price or a change in news. If the fundamentals of a stock stay the same, the only thing that changes is the dynamic interactions of buyers and sellers. If a company, for example, keeps growing revenue and earnings at a steady rate, the price will rise over time. But the stock price will fluctuate within this long term trend forming patterns. These patterns can tell us when a stock may change its intermediate short term direction.

Consider the chart below:



*(continued on page 3)*

## The Break Out Report

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**What the Charts Tell Us** *(from page 2)*

The price of Joe's Widgets stock starts out by fluctuating within a pattern called a triangle. Whenever the stock hits \$10, sellers move in to take profits. Perhaps they believe that a rise in price beyond that level is not likely in the short term or they believe the stock is fully valued at that level. Whatever the reason, holders of the stock start selling at \$10 and the price starts to fall. It hits \$8.25 and buyers move in thinking the stock is a bargain. The stock is bid up to the \$10 level again. Once again sellers move in and the price deteriorates, but this time the mood among buyers has become more bullish and they move in sooner, at the \$9.00 level. The stock hits \$10 and sellers move in again. The stock drops again. But this time buyers move in at \$9.25.

Analysing this triangle trend, we see that the mood among sellers is constant – take profits at \$10. The mood among buyers is growing increasingly bullish. More buyers are moving in sooner with each downwards fluctuation.

Although strictly speaking the supply and demand curves are constantly changing as the price fluctuates, we can connect the upper trend line, in other words, the peaks of the fluctuations, to form the top line of the triangle. This line can be called the supply of sellers wanting to take profits at \$10.

The rising lower points of the fluctuations can be joined to form the bottom line of the triangle. This line can be called the demand from buyers.

Demand is rising steadily. Supply is constant. At some point, namely where the two lines intersect, demand overwhelms supply and forces the price up.

The \$10 level was resistance until that point. Now the stock rises to \$12.00 and retraces twice, testing the \$10 level on the downside. Resistance has now become support indicated by the red line. The stock is ready to make its ascent to \$17.

The stock makes its ascent in fluctuations that form a channel defined by the two parallel lines. Here the supply of buyers is optimistic and is willing to pay increasingly higher prices for the stock. Sellers are increasingly reluctant to part with a good thing and demand increasingly higher prices to induce them to sell.

Now the stock starts a new triangle pattern of decreasing supply peaks and steady support at \$15. Buyers deem the stock a bargain at \$15, but sellers are becoming increasingly agitated. With each upswing they are taking profits sooner. The mood is souring on the stock. With this triangle, supply overpowers demand where the lines cross and the stock starts to fall in price.

As this chart shows, the concepts of supply and demand for this stock can be shown visually. This is not always the case, but where patterns emerge, we can look at them as representations of supply and demand.

Triangles are the very simplest and easiest to understand of the many chart patterns. We can see in our chart how demand first overpowers supply, causing the price to rise. We see how former resistance now becomes support. And we see how supply overpowers demand to force prices down again later in the life cycle of the stock. A trend channel indicates steadily rising demand and increasing reluctance of sellers to part with the stock unless they can get a higher price.

Beyond the scope of this book are many other patterns including such esoteric patterns as the cup and handle or the head and shoulders. All are interpretations of the changes in the supply and demand for a stock over time with a look to predicting future trends.

Hard core technical analysts believe that a picture is worth a thousand words, that you don't have to bother researching a stock or finding out anything about it. Just look at the charts and they tell the whole story. I don't agree. The charts provide valuable clues to what is happening and future possibilities. But news affecting the company has an effect as do all the other factors discussed in this chapter. Changes in the company's fundamentals, most importantly profits, are the ultimate foundation for changes depicted by the charts.

That said, the charts do tell a story all other things being equal. They are one more tool in the stock investor's research arsenal. Make them your friends!

**A is for...Annual Earnings Increases (from page 1)**

slowed significantly. Both Annual and Current Quarterly Earnings must be excellent. Such a happy confluence greatly increases your prospects of a successful investment.

**The Price/Earnings Ratio**

Many analysts make a great deal out of the price to earnings ratio or P/E. But in fact, O'Neil points out that the average P/E for the top performing stocks in their early emerging stage between 1953 and 1985 was 20 compared to 15 for the Dow Industrials. While they were advancing, the P/E for these stocks increased to 45. In other words, investors who shied away from higher P/E ratios during those years missed out on the best investments.

Two anecdotes he relates point out the folly of relying on P/E ratios. He tells of a burly and aggressive investor bursting into his friend's brokerage office in June 1962 bellowing that Xerox was overpriced with a P/E of 50. He sold 2000 shares short at \$88. This "obviously overpriced stock" then proceeded to a split adjusted equivalent of \$1300!

The other story is about a mistake O'Neil himself made. As a neophyte investor he bought Northrop because he thought it was cheap with a P/E ratio of 4. He watched in stunned disbelief as the stock declined to a P/E of 2.

**Is Today's Market Different?**

During the technology boom with its emphasis on fast growing dot-coms without any earnings at all, people would have done well to consider carefully O'Neil's advice. There was a great emphasis on growing revenues, but little on earnings. Then the chickens came home to roost. The market crashed. For sustained growth these companies needed to show profits. And not just profits but accelerating profits. Many if not most of the dot-coms that were unable to show a profit have gone under.

Why buy the stock of a company *before* it starts showing a profit when in many cases you can buy stocks that are already showing strong and profitable growth? Companies whose losses per share are declining as its revenues grow are clearly on the path to eventual profitability. But beware of companies whose losses are accelerating in spite of increasing revenues.

Fortunately there are some resources for searching out stocks with strong growth on the Internet.

**Internet Resources for Finding Canadian Growth Stocks****Canada Newswire Earnings Database ([www1.newswire.ca/en/earnings/index.cgi](http://www1.newswire.ca/en/earnings/index.cgi))**

Check for daily earnings reports or look up the earnings for particular companies.

**Deloitte & Touche's Fast Fifty ([www.deloitte.ca](http://www.deloitte.ca))**

Every year D&T publishes its list of the fastest growing companies in Canada. The focus, though, is on revenue growth, not profits, so dig for more information on the companies featured.

**globeinvestor Financials Filter ([www.globeinvestor.com](http://www.globeinvestor.com))**

Use this filter to search out companies whose income has doubled over three years (25% annual compounded growth).

**Profit 100 ([www.profitguide.com/profit100/](http://www.profitguide.com/profit100/))**

Profit Magazine's list of the 100 fastest growing companies in Canada. Again they focus on revenue growth so take a close look at the profitability of these companies as well.

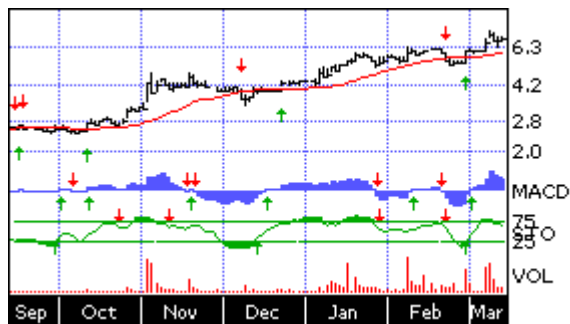
**Report on Business Top 1000 ([www.globeinvestor.com/series/top1000/](http://www.globeinvestor.com/series/top1000/))**

Canada's 1000 largest companies. Site includes separate list of the companies with the best stock market performance and a variety of other parameters as well.

**Watched List Update**

**Losers! (Or are they?)**

Don't you just hate it when you buy a stock and it tanks right away? Everything points to a winner, but the gods of the stock market fail to be impressed. That's happened to a number of our stock picks over the last few months. But in most cases these are temporary reversals, which is why we keep our Watched List with weekly updates on our buy/sell ratings. Below are some recent picks that went south shortly after I recommended them. When they recover, these stocks could take off like gangbusters. They're worth keeping an eye on. Be sure to check our Trend watch page online weekly. The fourth stock below is an example of how quickly a stock can recover after a setback.

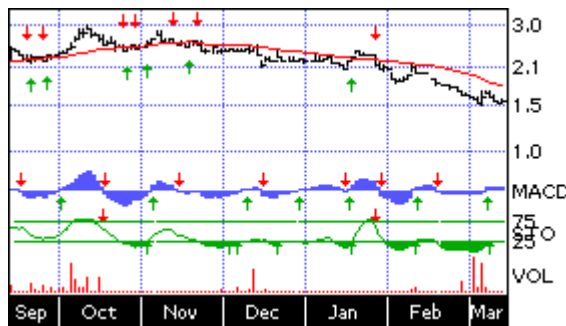


<b>Draxis Healthcare (DAX)</b>	<b>Profiled: 02/15/04</b>
<b>Price then: \$6:05</b>	<b>Price Now: \$6.95</b>

↔ Draxis Healthcare was featured in our last issue and quickly rose to \$6.17 and then nosedived over 15% all the way down to \$5.23 on Feb. 24th, triggering our stop loss. We changed the rating to sell on Feb. 27th. The stock has gained back its losses and we now rate it a buy again.

<b>Brooklyn Energy (BN)</b>	<b>Profiled: 10/19/03</b>
<b>Price then: \$2.68</b>	<b>Price Now: \$1.57</b>

Revenues soared but earnings dropped with ↔ the third quarter of 2003. And profit is where it's at, baby, so the stock has fallen steadily since. This natural gas exploration and development company recently announced proven reserves up 593%. It is trading near its net asset value of \$1.43 a share. Watch for a turnaround soon.

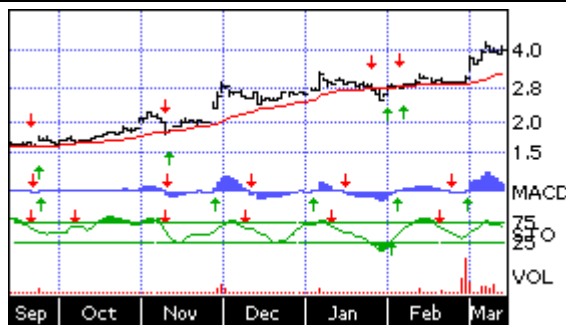


<b>Strategic Vista (SVI)</b>	<b>Profiled: 12/21/03</b>
<b>Price then: \$1.50</b>	<b>Price Now: \$1.41</b>

↔ We profiled this stock with a wait rating and didn't give it a buy rating until Jan. 30th. We changed it to sell on Feb. 13th after hitting our stop loss. Revenues were up 22% but earnings were flat in the most recent quarter. 85% of sales are in the US. The stock needs to re-establish an up trend before we change our rating to buy.

<b>Steeplejack (SID)</b>	<b>Profiled: 01/18/04</b>
<b>Price then: \$2.95</b>	<b>Price Now: \$4.01</b>

Now here's an example of what we mean ↔ by recovery. We added this scaffolding specialist to our Model Portfolio at the same time we featured it in our January issue. We were stopped out 9 days later but had the opportunity to buy back 12 days after that when it recovered. It's soared over 35% since then.



**Technology Pick**

## Zenon Environmental (ZEN –TSX)

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

We turn on the tap and out it comes—clean, fresh water. We flush the toilet and there it goes—not so clean, not so fresh water. We tend to take these things for granted. But water, whether it's coming or going, needs to be treated, and Zenon Environmental is one of the leading companies developing and marketing both water purification and waste-water treatment plants.

Zenon's patented ZeeWeed hollow-fibre membrane technology works by reverse osmosis to separate particulates and contaminants from water. The fibres draw in water under slight suction to produce clear, clean drinking water. Fibre pores vary to as little as 0.01 microns in size, small enough to filter out infectious agents like cryptosporidium and giardia.

The ZeeWeed modules can be adapted to existing treatment facilities, allowing for low-cost retrofitting. But many clients have contracted for complete filtration systems from scratch, including the Olivenhain Municipal Water District in Southern California, which completed the largest ultrafiltration water treatment plant in North America in January 2001 using Zenon technology.

Zenon is international in scope, with operations in Latin America, Asia, Europe, and the Middle East where the company has built the world's largest ultrafiltration waste-water treatment plant. It also makes shipboard filtration systems for cruise ships, the merchant marine, and navies.

The above is my introduction to Zenon Environmental from my book, *The 50 Best Science and Technology Stocks for Canadians*. It remains a solid investment choice today.

With the tragic events at Walkerton, Ontario in 2000 and North Battleford, Saskatchewan a year later, the need for effective water treatment infrastructure became even more urgent. Founded in 1980, Zenon has been able to capitalize on these demands growing at a rate of 20-30% a year with profits plowed back into further research and development.

The company has 17 sales offices in 11 countries worldwide and an independent sales force of over 100. Recent sales include China where two water reuse plants are planned. Late 2003 saw the beginning of work on the world's largest ultrafiltration drinking water plant in Singapore and the world's largest waste treatment plant in Germany. The company currently has a back order log of \$227 million which will take the company eighteen months to fill.

In 2003 Zenon won the prestigious Stockholm Industry Water Award. The company was also named as one of Canada's Top 100 employers and won a Canada Export Award.

While the company has been focused primarily on the municipal and government sectors, it has also developed the Homespring™ ultrafiltration system for home consumers. The company entered an agreement with Maytag Canada in August 2003 to market the units under the Maytag brand. Maytag rolled out the Whole Home Water Filtration System in Ontario and western Canada in late 2003 and is launching sales in Quebec and eastern Canada this year.

### Quarterly Earnings per Share (in US\$)

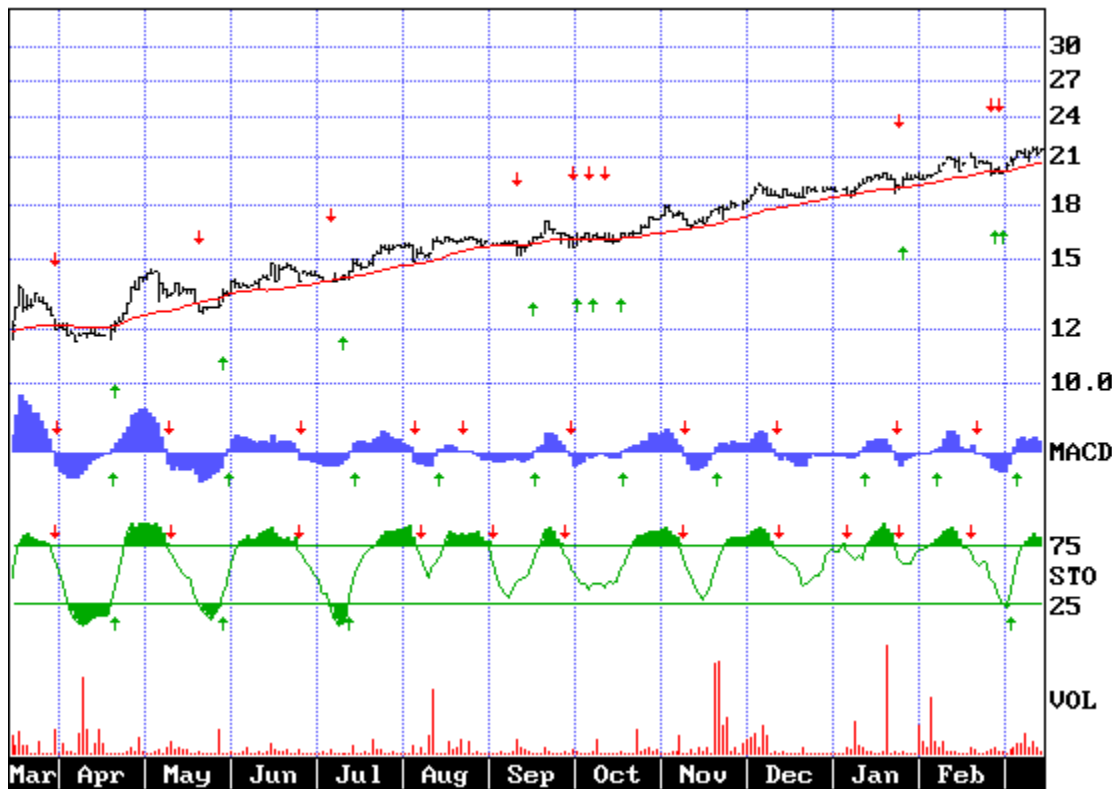
To Dec. 31st	2002	2003	% Change
EPS	\$0.16	\$0.21	+31.25%
Revenues (000s)	\$52,345	\$65,929	+25.95%

### Annual Earnings per Share

To Dec. 31st	2001	2002	% Change	2003	% Change
EPS	\$0.19	\$0.23	+21.05%	\$0.44	+91.30%
Revenues (000s)	\$124,711	\$145,912	+17.00%	\$183,626	+25.85%

*(continued on page 7)*

Zenon Environmental (from page 6)



**Chart Analysis:** Zenon Environmental has been on a steady and sustained up trend for over a year, more than doubling in price. But the ride has not always been smooth. We first profiled Zenon on our website in May 2001. It rose steadily throughout that year but turned tail in 2002 when we dropped it from our Watched List. It has now broken through its previous all time high set in the first quarter of 2002. With upside resistance gone, rising sales and entry into the consumer market, continued growth prospects are solid. The stock bounced off its moving average to the upside at the end of February. And you gotta love that inclined plane trend!

Stats as of 3/12/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.19	▪ Price Pattern: A
▪ RS: 84.75	▪ Volatility: A
▪ Shares: 21,821,030	▪ Estimates: B+
▪ P/E: 55.30	▪ Snapshot: B
▪ Price: \$21.55	▪ News: A

**Phase 2:** We give ZEN an A for price pattern and an A for volatility as it is in a nice inclined plane position. Estimates for the current quarter and year are up sharply with an overall rating of 1.9 or buy. We give it a B+. Snapshot shows growing revenues and earnings but return on equity for 2003 is low at 5.89. We give it a B. News is solid with the agreement for commercial product launch with Maytag as well as growing backlog and record revenues and earnings. We give it an A.

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

**Mining Pick**

**Falconbridge Ltd. (FL –TSX)**  
**(website: [www.falconbridge.com](http://www.falconbridge.com))**

A Canadian mining giant, Falconbridge is the world's third largest producer of refined nickel supplying eight percent of the world's needs in 2002. It is also a major producer of copper as well as zinc, cobalt and platinum group metals. In 2002, 42% of revenues derived from nickel, 41% from copper, 5% from zinc and 9% from other metals. Another Canadian mining giant, Noranda Inc., owns 59.5% of Falconbridge shares.

Founded in 1928, the company has five major operations, two in nickel and three in copper. Nickel operations are centered in Sudbury, Ontario and Raglan, Quebec with additional operations in the Dominican Republic and a refinery in Norway. Copper production is focused in Timmins, Ontario and at Collahuasi and Lomas Bayas, both in Chile.

Falconbridge is an international company with 6400 employees in thirteen countries. Ongoing exploration and development projects include a 49% interest in the Koniambo ferronickel project in New Caledonia in the South Pacific, the Montcalm nickel-copper project near Timmins, a 50% partnership with De Beers in a diamond property in Botswana, and an 85% interest in a nickel/cobalt project in the Ivory Coast. In February the company announced a joint agreement with Barrick Gold to explore and develop the Kabanga nickel deposit in Tanzania. The company also has exploration offices in Australia, Brazil and South Africa.

Mining is a cyclical business and Falconbridge suffered with the downturn in the economy as revenues plummeted from \$2,615 million in 2000 to \$2,138 million in 2001. Earnings per share plunged from \$2.01 to just \$0.02. But the last few years have seen steady recovery with revenues for 2003 at an all-time high and profits growing like gangbusters.

Nearly all of Falconbridge's gains came from higher metal prices as nickel was up 40% in 2003 and copper was up 34%. Nickel production was up moderately while copper production was down. Since commodities are priced in US dollars, some of the price gains were offset by the rise in the Canadian dollar. Copper production at the Kidd Creek Mine in Timmins, Ontario, for example, reported a loss while the two Chilean mines showed profit growth.

With the demand for resources soaring in places like China (see Ken's January feature on the Steel Road to China), continued growth for Falconbridge seems assured. The international scope of its operations should continue to offset currency fluctuations.

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

To Dec. 31st	2002	2003	% Change
<b>EPS</b>	\$0.12	\$0.51	+325.00%
<b>Revenues (000s)</b>	\$442,724	\$636,739	+43.82%

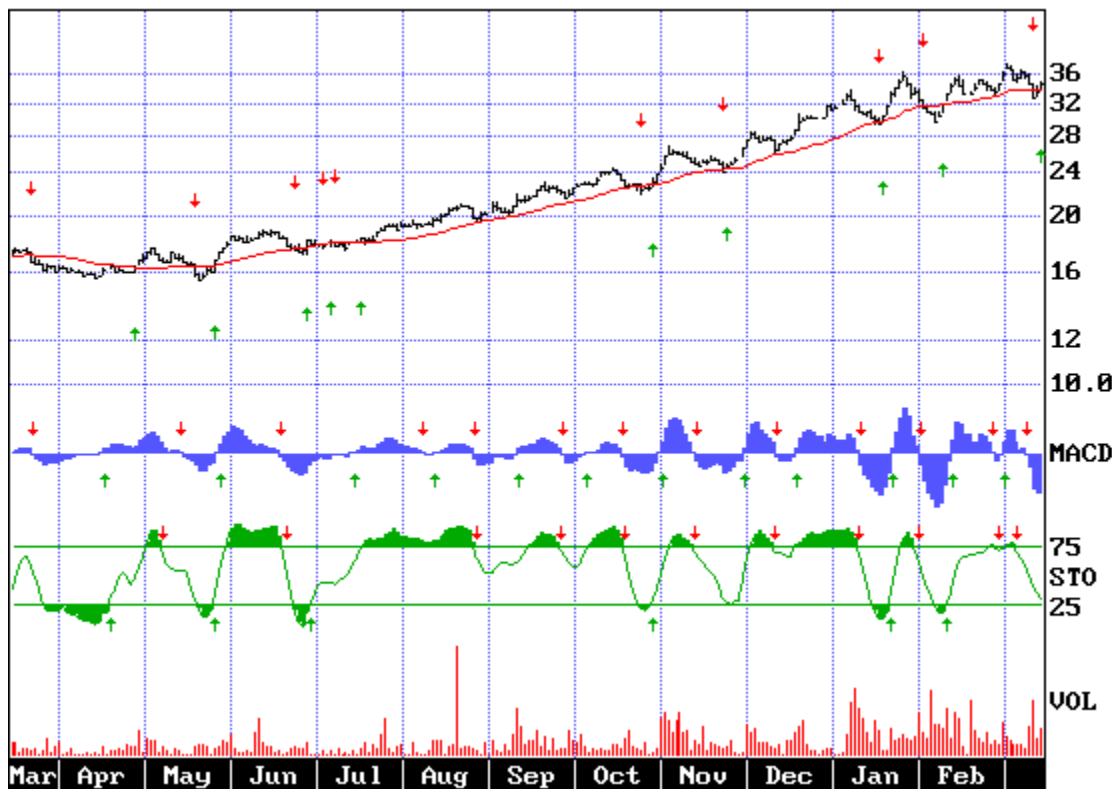
**Annual Earnings per Share**

To Dec. 31st	2001	2002	% Change	2003	% Change
<b>EPS</b>	\$0.02	\$0.34	+1600.00%	\$1.46	+329.41%
<b>Revenues (000s)</b>	\$2,151,974	\$2,420,511	+12.48%	\$2,944,948	+21.67%

*(Continued on page 9)*



Falconbridge Ltd. (from page 6)



**Chart Analysis:** Falconbridge has been on a steady up trend since June 2003 and this year passed its all-time high of around \$32 set in 1997. With no upside resistance and solid fundamentals, continued growth seems assured. The stock showed some volatility in January and February as a strike at the company's Sudbury nickel mine slowed production to 50%. A resolution of the strike has seen those fluctuations tail off and it should soon start climbing again.

Stats as of 3/12/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.46	▪ Price Pattern: A
▪ RS: 86.39	▪ Volatility: A
▪ Shares: 177,145,132	▪ Estimates: B+
▪ P/E: 25.20	▪ Snapshot: A-
▪ Price: \$34.75	▪ News: A

**Phase 2:** We give FL an A for price pattern and an A for volatility as the recent fluctuations were driven by news of a passing nature (a strike since ended). Estimates are up strongly for Falconbridge with a rating of 2.1 or buy. We give it a B+. Snapshot shows growing revenues and earnings. Return on equity for 2003 is 12.46 and growing. We give it an A-. And news includes a joint venture with Barrick, growing profits and an end to a strike. Another A.

**Options:** Falconbridge shares are optionable on the Montreal exchange. Unfortunately you can only get them as far out as May. Best bet would be to sell May \$40 covered calls at \$1.50 for a return of 14.48% if called out. Better yet, sell naked April \$36 puts for \$1.95. This reduces your cost to \$34.05 if assigned. If not, it's a return of 10.83% on your margin requirement.

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 February 2004)

### Definitions

**Power Performers** – Mutual Funds returning better than 20% in each of the one year, three year and five year time periods.

**Super Power Performers** – funds returning better than 25% in the three relevant time periods.

**Performers** – funds returning better than 15% in each of the time periods.

For February the combined number of Performers, Power Performers and Super Power Performers increased to 76 from 66 in January. Of these, fourteen are Super Power Performers, up from 10, and 21 are Power Performers, up from 14, Performers dropped one to 41 as many formerly in this group have moved up.

We re-introduced our Power Performer feature in February 2003. Formerly a website staple, we had dropped the Performers when they dwindled to such a small number during the bear market that we sometimes had no qualifiers at all. For January 2003, there were just eight that qualified. Now that number has swelled over nine fold.

The eight funds back then were Super Power Performers Sprott Canadian Equity and Resolute Growth, Power Performer Dominion Equity Resource and Performers Bissett Microcap-F, BluMont Hirsch Performance, Royal Precious Metals (now RBC), Mackenzie Universal Precious Metals and the US dollar denominated version of the latter.

All are still on the list and in fact, have moved up to a higher rating. If one had bought an equal amount of

<b>Super Power Performers</b>			
Fund Name	1 yr %	3 yr %	5 yr %
Sprott Canadian Equity	41.56	36.02	42.41
Dominion Equity Resource	38.88	25.08	39.86
Norrep Fund	50.94	26.81	37.96
Front Street Special Opportunities Canadian	105.30	36.03	35.87
Resolute Growth	30.21	27.68	35.63
Mackenzie Universal Precious Metals(US\$)	50.09	52.70	33.91
RBC Precious Metals	53.81	68.19	32.93
Mackenzie Universal Cdn. Resources (US\$)	71.13	36.07	31.03
Mackenzie Universal Precious Metals	35.26	46.05	30.80
AGF Precious Metal	74.36	56.94	28.92
Mackenzie Universal Canadian Resource	54.22	30.15	27.98
Dynamic Global Precious Metals	87.10	55.34	27.23
Front Street Small Cap Canadian	50.26	26.32	27.23
Hillsdale Canadian Performance Equity	62.53	25.09	26.32
<b>Power Performers</b>			
BluMont Hirsch Performance	42.19	23.38	28.19
Bissett Microcap-F	24.02	27.00	27.78
Elliott & Page Growth Opportunities	46.21	23.58	25.63
R Small Cap Canadian Equity	46.72	23.59	25.29
London Life Canadian Resource (MF)	52.83	27.59	24.87
AGF China Focus Class (US\$)	103.59	29.15	24.86
Mackenzie Cundill Recovery 'C'(US\$)	94.26	27.67	24.77
Trimark Canadian Resources	45.24	26.86	24.14
Dynamic Canadian Precious Metals	45.99	49.28	23.18
Northwest Specialty Equity	47.37	35.11	22.86
Maritime Life Canadian Growth-R	73.69	29.18	22.21
AGF China Focus Class	83.14	23.53	21.92
Mackenzie Cundill Recovery 'C'	75.06	22.11	21.87
BMO Resource	41.95	24.67	21.52
TD Precious Metals	30.41	37.01	21.48
London Life Precious Metals (MF)	34.02	40.23	21.28
Dynamic FocusPlus Resource	46.64	27.26	21.23
Altamira Precious & Strategic Metal	58.29	48.80	20.98
Mawer New Canada	35.60	28.48	20.91
Beutel Goodman Small Cap	54.30	21.46	20.57
Ethical Special Equity	45.12	32.95	20.41

(continued on page 11)

**Power Performers Update** (from page 11)

each of those eight funds on March 1st last year, you would have been up by 39.5% a year later.

Of course, the fund companies always advertise that past performance is no guarantee of future performance. And some professional mutual fund pundits even recommend against buying last year's winners because of the belief that such performance is cyclical and last year's winners may be this year's duds. But they're talking about one year performance. Our funds also have to qualify on three year and five year performance.

But funds sometimes do head south after a good run, particularly if they're sectoral. If the price of gold peaks and starts to retreat, the precious metals funds will eventually follow suit even if they do manage to coast on their laurels for a while.

The big question is, when do you bail? Because I focus primarily on stocks, I haven't done any back testing on this. The best approach might simply be to select three or four varied funds from the qualifiers – funds that have different approaches – and hang on for a year and then re-evaluate. Or we could establish criteria that would have us sell the funds if met. A form of stop loss, significantly lower than the stop loss for stocks, could be used. Maybe 5% or 7% off peak price.

If you're going to pick four from our tables, it's probably a good idea to diversify by selecting one precious metals, one small cap, one income fund and maybe a China fund. Funds should be chosen according to your personal risk tolerance in consultation with a broker.

Performers							
Vertex Fund	55.67	18.30	30.06	Renaissance Cdn. Income Trust	27.45	19.13	18.74
Sentry Canadian Energy Growth	30.27	18.78	29.97	Mavrix Dividend & Income	34.23	18.60	18.43
CIBC Energy	35.43	17.76	24.78	Saxon Small Cap Fund	56.52	24.02	18.19
CI Signature Canadian Resource	41.01	18.87	24.50	Optima Strategy Canadian Equity Value Pool	31.94	16.75	18.06
McElvaine Investment Trust	27.78	19.53	21.66	Templeton Global Smaller Companies (US\$)	79.22	19.29	18.03
North Growth U.S. Equity (US\$)	56.66	16.41	21.10	Elliott & Page Monthly High Income	23.26	16.92	17.87
TD Resource	38.93	19.27	21.10	Talvest Millennium High Income	20.48	17.23	17.66
CIBC Cdn. Emerging Company	63.46	18.65	20.82	ABC American-Value	51.60	24.87	17.36
National Bank Small Cap	53.84	15.08	20.46	Clarica Alpine Canadian Resources	37.98	16.67	17.07
Clarington Canadian Small-Cap	41.91	32.22	19.88	Altamira Resource	51.43	19.71	17.00
Trimark Cdn. Small Companies	29.03	20.45	19.86	Keystone Saxon Smaller Companies	47.10	23.00	16.71
GGOF Monthly High Income Classic	35.08	20.46	19.78	Clarica SF Alpine Canadian Resource	37.39	16.28	16.68
AGF Canadian Resources	45.98	19.86	19.69	Empire Small Cap Equity	48.11	18.37	16.42
Sceptre Equity Growth	77.02	30.52	19.56	Acuity Pooled High Income	39.30	20.24	16.38
CIBC Precious Metals	55.84	44.89	19.52	Concordia Special Growth	48.94	18.56	16.15
Bissett Income-F	30.12	20.55	19.44	Saxon High Income	27.25	17.81	15.92
GWL Cdn. Resource (A) DSC	43.14	19.73	19.30	Acuity Pooled Canadian Equity	72.50	17.32	15.78
ABC Fundamental Value	36.20	19.96	19.21	Saxon Stock	32.84	15.20	15.56
IG Beutel Goodman Canadian Small-Cap-C	52.43	19.58	19.21	Bissett Small Cap-F	33.82	18.51	15.36
GGOF Monthly High Income	34.22	19.70	19.17	Assumption/MB Cdn. Small Cap	44.67	18.11	15.29
GWL Canadian Resource (A) NL	42.84	19.47	19.03				

## Our Model Portfolio

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

**Current Position: \$95,148.85 (+90.30%) Up 12.42% YTD**

Since our last issue we have made a few trades. We hit a stop loss on BMTC Group on Feb. 24th and replaced it with QLT Inc. And Nortel hit our stop loss on March 9th. We're replacing it with one of this issue's featured stocks, Zenon Environmental. We also added \$98.40 in distributions which actually will be paid on the 15th and we increased our cash position by selling covered calls on Nortel and QLT. Our portfolio is updated weekly in the Subscribers Only area of the website. Buy price shown is the weighted average.

<p style="text-align: center;"><b>Alimentation Couche-Tard (ATD.B – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 345</td> <td><b>Bought:</b> 10/27:02/09</td> </tr> <tr> <td><b>Price Then:</b> \$21.94</td> <td><b>Price Now:</b> \$28.60</td> </tr> <tr> <td><b>Gain:</b> 30.36%</td> <td><b>Stop:</b> \$25.36</td> </tr> </table> <p><b>Notes:</b> Couche-Tard is now North America's second largest convenience store operator after 7-11. It's shooting for number one!</p>	<b># of Shares:</b> 345	<b>Bought:</b> 10/27:02/09	<b>Price Then:</b> \$21.94	<b>Price Now:</b> \$28.60	<b>Gain:</b> 30.36%	<b>Stop:</b> \$25.36	<p style="text-align: center;"><b>Calian Technology (CTY – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 600</td> <td><b>Bought:</b> Dec. 15th</td> </tr> <tr> <td><b>Price Then:</b> \$11.68</td> <td><b>Price Now:</b> \$14.75</td> </tr> <tr> <td><b>Gain:</b> 26.28%</td> <td><b>Stop:</b> \$13.02</td> </tr> </table> <p><b>Notes:</b> Calian Technology is active in the telecommunications infrastructure business with clients in both government and business.</p>	<b># of Shares:</b> 600	<b>Bought:</b> Dec. 15th	<b>Price Then:</b> \$11.68	<b>Price Now:</b> \$14.75	<b>Gain:</b> 26.28%	<b>Stop:</b> \$13.02
<b># of Shares:</b> 345	<b>Bought:</b> 10/27:02/09												
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<p style="text-align: center;"><b>CCS Income Fund (CCR.UN – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 240</td> <td><b>Bought:</b> May 19th</td> </tr> <tr> <td><b>Price Then:</b> \$20.29</td> <td><b>Price Now:</b> \$30.30</td> </tr> <tr> <td><b>Gain:</b> 49.33%</td> <td><b>Stop:</b> \$27.20</td> </tr> </table> <p><b>Notes:</b> Formerly Canadian Crude Separators, CCS works on environmental solutions for the oil industry.</p>	<b># of Shares:</b> 240	<b>Bought:</b> May 19th	<b>Price Then:</b> \$20.29	<b>Price Now:</b> \$30.30	<b>Gain:</b> 49.33%	<b>Stop:</b> \$27.20	<p style="text-align: center;"><b>Glendale International (GIN – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 725</td> <td><b>Bought:</b> Aug. 4th</td> </tr> <tr> <td><b>Price Then:</b> \$5.90</td> <td><b>Price Now:</b> \$7.50</td> </tr> <tr> <td><b>Gain:</b> 26.28%</td> <td><b>Stop:</b> \$6.97</td> </tr> </table> <p><b>Notes:</b> A leading manufacturer of mobile homes and trailers, Glendale recently started climbing after an extended flat period.</p>	<b># of Shares:</b> 725	<b>Bought:</b> Aug. 4th	<b>Price Then:</b> \$5.90	<b>Price Now:</b> \$7.50	<b>Gain:</b> 26.28%	<b>Stop:</b> \$6.97
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<p style="text-align: center;"><b>Home Capital Group (HCG.B – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 740</td> <td><b>Bought:</b> Oct. 16/02</td> </tr> <tr> <td><b>Price Then:</b> \$6.625</td> <td><b>Price Now:</b> \$25.55</td> </tr> <tr> <td><b>Gain:</b> 285.66%</td> <td><b>Stop:</b> \$23.29</td> </tr> </table> <p><b>Notes:</b> This alternative finance company has seen its stock soar by over 50% for the year to date.</p>	<b># of Shares:</b> 740	<b>Bought:</b> Oct. 16/02	<b>Price Then:</b> \$6.625	<b>Price Now:</b> \$25.55	<b>Gain:</b> 285.66%	<b>Stop:</b> \$23.29	<p style="text-align: center;"><b>Parkland Income Fund (PKI.UN – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 420</td> <td><b>Bought:</b> 05/19:02/09</td> </tr> <tr> <td><b>Price Then:</b> \$16.55</td> <td><b>Price Now:</b> \$19.64</td> </tr> <tr> <td><b>Gain:</b> 18.67%</td> <td><b>Stop:</b> \$17.60</td> </tr> </table> <p><b>Notes:</b> Parkland operates a chain of gas stations and convenience stores across Alberta and BC.</p>	<b># of Shares:</b> 420	<b>Bought:</b> 05/19:02/09	<b>Price Then:</b> \$16.55	<b>Price Now:</b> \$19.64	<b>Gain:</b> 18.67%	<b>Stop:</b> \$17.60
<b># of Shares:</b> 740	<b>Bought:</b> Oct. 16/02												
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<b>Gain:</b> 18.67%	<b>Stop:</b> \$17.60												
<p style="text-align: center;"><b>QLT Inc. (QLT – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 250</td> <td><b>Bought:</b> Mar. 1, 2004</td> </tr> <tr> <td><b>Price Then:</b> \$31.70</td> <td><b>Price Now:</b> \$31.70</td> </tr> <tr> <td><b>Gain:</b> 1.89%</td> <td><b>Stop:</b> \$27.92</td> </tr> </table> <p><b>Notes:</b> QLT is a biotech company focused on light activated therapies. We are also selling covered calls on this volatile stock.</p>	<b># of Shares:</b> 250	<b>Bought:</b> Mar. 1, 2004	<b>Price Then:</b> \$31.70	<b>Price Now:</b> \$31.70	<b>Gain:</b> 1.89%	<b>Stop:</b> \$27.92	<p style="text-align: center;"><b>RONA Inc. (RON – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 325</td> <td><b>Bought on:</b> Nov. 17</td> </tr> <tr> <td><b>Price Then:</b> \$25.55</td> <td><b>Price Now:</b> \$31.99</td> </tr> <tr> <td><b>Gain:</b> 25.21%</td> <td><b>Stop:</b> \$30.36</td> </tr> </table> <p><b>Notes:</b> RONA is Canada's largest retailer of hardware and home improvement supplies. It goes toe to toe with Home Depot and wins.</p>	<b># of Shares:</b> 325	<b>Bought on:</b> Nov. 17	<b>Price Then:</b> \$25.55	<b>Price Now:</b> \$31.99	<b>Gain:</b> 25.21%	<b>Stop:</b> \$30.36
<b># of Shares:</b> 250	<b>Bought:</b> Mar. 1, 2004												
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<p style="text-align: center;"><b>Steeplejack Industrial Group (SID – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 2750</td> <td><b>Bought on:</b> Feb. 9th</td> </tr> <tr> <td><b>Price Then:</b> \$2.90</td> <td><b>Price Now:</b> \$4.01</td> </tr> <tr> <td><b>Gain:</b> 38.28%</td> <td><b>Stop:</b> \$3.58</td> </tr> </table> <p><b>Notes:</b> Steeplejack Industrial Group is a leader in scaffolding solutions for industry in western Canada. It's been on a tear lately.</p>	<b># of Shares:</b> 2750	<b>Bought on:</b> Feb. 9th	<b>Price Then:</b> \$2.90	<b>Price Now:</b> \$4.01	<b>Gain:</b> 38.28%	<b>Stop:</b> \$3.58	<p style="text-align: center;"><b>Zenon Environmental (ZEN – TSX)</b></p> <table border="1" style="width: 100%;"> <tr> <td><b># of Shares:</b> 325</td> <td><b>Bought on:</b> Mar. 15th</td> </tr> <tr> <td><b>Price Then:</b> \$21.55</td> <td><b>Price Now:</b> \$21.55</td> </tr> <tr> <td><b>Gain:</b> 0.00%</td> <td><b>Stop:</b> \$19.40</td> </tr> </table> <p><b>Notes:</b> Steeplejack Industrial Group is a leader in scaffolding solutions for industry in western Canada. It's been on a tear lately.</p>	<b># of Shares:</b> 325	<b>Bought on:</b> Mar. 15th	<b>Price Then:</b> \$21.55	<b>Price Now:</b> \$21.55	<b>Gain:</b> 0.00%	<b>Stop:</b> \$19.40
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