Book Review

The Scuttlebutt on Philip Fisher

Philip Fisher is one of two key influences on the thinking of super-investor Warren Buffett, currently closing in fast to replace Bill Gates as the richest man in the world. The other influence, of course, was the founder of value investing, Benjamin Graham. Buffett biographer Robert Hagstrom says that Buffett is 85% Graham and 15% Fisher.

And Fisher's seminal work is his 1958 classic, *Common Stocks and Uncommon Profits*. Where Graham focused on looking for under-valued stocks, Fisher focused on searching for growth stocks.

The book is relatively short – just over 150 pages, and is available in a recently published compendium from Wiley Investment Classics that includes his later works *Conservative Investors Sleep Well* and *Developing an Investment Philosophy*.

The core of the book is Fisher's "Fifteen Points to Look for in a Common Stock". Fisher looks for two key things – what the company does and the quality of its management. The first three of his fifteen points focus on the company's products and services.

A growth company, says Fisher, must "have products or services with sufficient market potential to make possible a sizable increase in sales for at least several years". An increase in profitability alone as a result of better cost control and more efficient utilization of resources

(continued on page 7)

Quarterly Review

Trimming Time Again

It's that time again – time for a little trim. And we're not talking about the Christmas Tree or getting a haircut!

Every quarter we review our Watched List of stocks to see if some have outlived their welcome, either because they haven't performed as expected or because they have and have now run out of steam.

Our criteria are the same as last time, namely, we're dropping any stock that meets 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.

We're also axing any that have been on our list for over a year and grown less than 25% or over two years and grown less than 50% unless they are in an up trend or growing earnings.

But first we look at the Top Ten and Bottom Ten for the last quarter. Putting together the Top and Bottom lists gave me an interesting idea to explore which you'll find in an extra feature called The Rich Get Richer. It's a whole new approach to using our Watched List which requires less maintenance.

(continued on page 2)

In This Issue: The Rich Get Richer (See Page 12)

Quarterly Review *(from page 1)*

But first, let's check out those lists.

Top Ten for Quarter

Name	Symbol	Date Featured	Change Q1	Change Since Profiled
Open Text	OTC	Apr. 20/03	58.02%	71.43%
Home Capital Group	HCG.B	Nov. 20/00	50.38%	733.33%
QLT Inc.	QLT	Jan. 18/04	47.52%	47.52%
Nortel Networks	NT	Sept. 21/03	40.44%	23.56%
Steepleback Industrial Group	SID	Jan. 18/04	38.31%	38.31%
CoolBrands International	COB.A	June 15/03	34.87%	123.02%
BW Technologies	BWT	Feb. 23/01	23.01%	258.71%
Zargon Oil & Gas	ZAR	Jan. 29/01	22.22%	251.06%
Stantec Inc.	STN	Apr. 20/01	21.95%	226.67%
CML Healthcare Income Fund	CLC.UN	Apr. 12/02	20.40%	106.84%

Bottom Ten for Quarter

Name	Symbol	Date Featured	Change Q1	Change Since Profiled
Extreme CCTV	EXC	Nov. 16/03	-6.45%	-14.96%
Cinram	CRW	Aug. 17/03	-7.65%	1.36%
BMTC Group	GBT.A	Aug. 20/02	-9.54%	69.89%
Cangene Corp.	CNJ	Jan. 11/02	-9.60%	23.87%
Tempest Energy Corp	TMY.A	Jan. 19/03	-10.26%	1.94%
Thunder Energy	THY	Dec. 21/03	-11.12%	-11.76%
Hip Interactive Corp.	HP	June 15/03	-11.88%	86.50%
Strategic Vista	SVI	Dec. 21/03	-14.84%	-12.00%
Westjet Airlines	WJA	Jan. 18/04	-16.53%	-16.53%
Bennett Environmental	BEV	May 25/01	-38.01%	374.29%

As you can see, the Top Ten performers for the quarter were up over 20%. And only six on our list were down over ten percent with the worst performer being Bennett Environmental. Bennett, which remediates contaminated soils with high temperature combustion, announced in late March that two of its major customers would experience delays in shipping contaminated soil to Bennett. The delay is forcing the company to shut down, possibly until May. The stock dropped 27.2% the next day. We had a sell on the stock long before that using our stop loss rules so hopefully you weren't affected by the sudden decline.

In fact, looking back over the last four quarters, it's rare for any stock on our Watched List to suffer a decline of more than 20% in a quarter. In our year end review for 2002 there were just two. The first quarter had three of which two were gold stocks as gold corrected. The second through fourth quarters had none, one and one respectively. On the other hand, the Top Ten had nine or ten doing

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The Break Out Report

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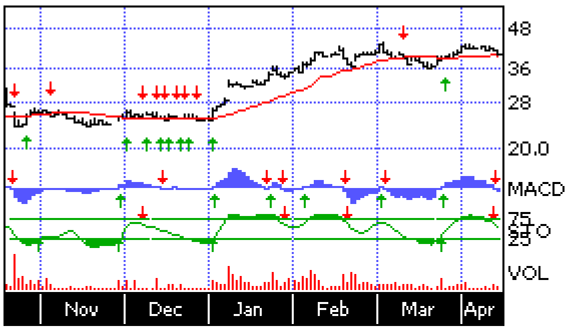
Watched List Update

Top Ten Favorites

Read my article on page 12 – The Rich get Richer – then come back and check out the stocks below. They are among the Top Ten best performing stocks for the last quarter on our Watched List. As we argue in the article, being a Top Ten performer is a good bet for future success. Is that the case with the stocks below? Check back in three months!



Open Text (OTC) Profiled: Apr. 20/03

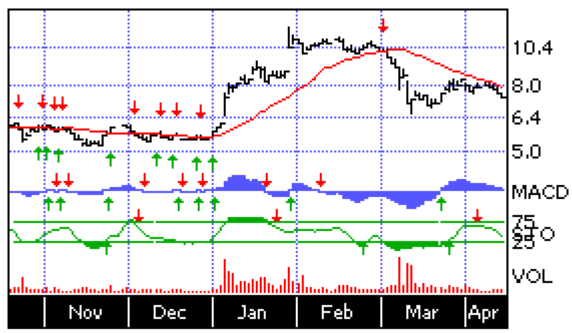
Price then: $22.75 Price Now: $39.80

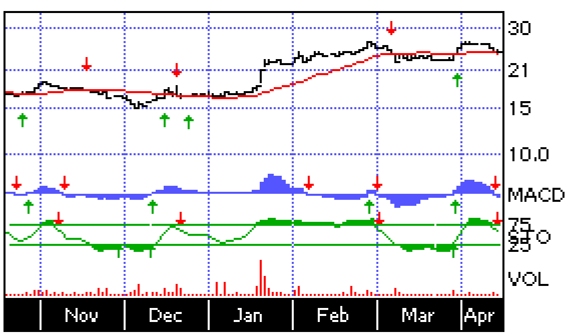
⇦ Open Text was the best performing stock on the watched List in the first quarter with a gain of 58.02%. It is up 74.95% since profiled a year ago. The stock is now consolidating after its strong first quarter showing and has solid support at the $36 level. Revenues and earnings were up 43% and 25% in the last quarter.

Nortel (NT) Profiled: Sept. 21/03

Price then: $6.24 Price Now: $7.30

Nortel Networks was hot off the mark at ⇨ start of 2004 but then settled back after saying it was revising its numbers again. Can't these guys find a good accountant? In any event, Nortel was up 40.44% for the quarter but is up only 16.99% since profiled. Does it have support at $7? if it does, it may be worth a look.





Coolbrands (COB.A) Profiled: June 15/03

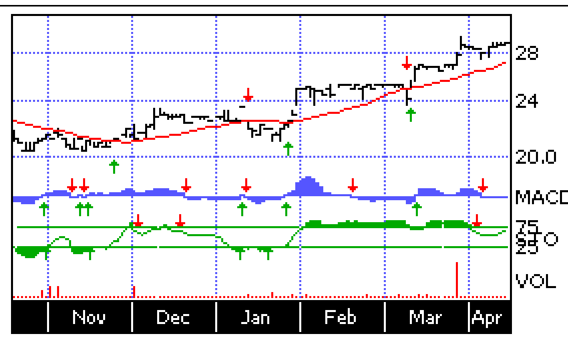
Price then: $10.25 Price Now: $24.65

⇦ Coolbrands makes ice cream but the stock is hot! It made the Top Ten for Q1 with a 34.87% gain. It has now consolidated around $24-$25, setting up for further gains. The stock has risen steadily since IPO in 2001 and is up 140.49% since we profiled it last June. Earnings report is due out April 20th.

BW Tech. (BWT) Profiled: Feb. 23, 2001

Price then: $7.75 Price Now: $29.00

BW Technologies has long been a ⇨ favorite and is up 274.19% since first profiled. After strong gains in 2001 and early 2002, the stock meandered in a wide range for two years. It seems to have found its legs again and soared 23.01% in the first quarter. A strong third quarter showed revenues up 41%, earnings up 39%.



Quarterly Review *(from page 2)*

better than 20% in every quarter except the first of 2003.

Below is our detailed analysis of our Watched List. We ended up dropping six stocks which are noted in the table.

Name	Symbol	Date Featured	Price Then	Change Q1	Change Since Profiled	Mar. RS Change	Recent Trend	QEPS Change	Status
Home Capital Group	HCG.B	Nov. 20/00	$3.00	50.38%	733.33%	+0.52	↑	+56.3%	Keep
Peyto Energy Trust	PEY.UN	Feb. 22/02	$5.15	13.39%	500.00%	+4.28	↑	-41.7%	Keep
Iamgold Corp.	IMG	Mar. 16/01	$1.63	-4.88%	426.38%	off list	→	T	Keep
Bennett Environmental	BEV	May 25/01	$3.50	-38.01%	374.29%	off list	↓	+16.1%	Keep
Alimentation Couche-Tard	ATD.B	Dec. 4/00	$5.75	1.46%	321.74%	-2.79	→	-43.8%	Keep
BW Tech.	BWT	Feb. 23/01	$7.75	23.01%	258.71%	off list	↑	+39.1%	Keep
Calian Technology	CTY	Oct. 1/02	$3.85	13.64%	257.14%	+0.78	↑	+53.8%	Keep
Zargon Oil & Gas	ZAR	Jan. 29/01	$4.70	22.22%	251.06%	+7.67	↑	-8.3%	Keep
TransForce Income Fund	TIF.UN	Jan. 18/02	$3.11	13.19%	247.59%	off list	↑	+9.5%	Keep
Stantec Inc.	STN	Apr. 20/01	$8.25	21.95%	226.67%	+5.06	↑	+12.9%	Keep
Contrans Income Fund	CSS.UN	Oct. 12/01	$3.63	13.53%	219.01%	off list	↑	-61.9%	Keep
SNC-Lavalin Group	SNC	Mar. 23/01	$16.25	-5.88%	195.38%	off list	↓	+8.6%	Keep
Richelieu Hardware	RCH	Dec. 4/00	$7.00	0.89%	174.29%	off list	↑	+5.9%	Keep
Reitmans (Canada)	RET.A	July 6/01	$10.13	5.88%	166.54%	off list	↑	+62.4%	Keep
Goldcorp Inc.	G	May 25/01	$7.83	-5.92%	147.77%	off list	↓	+120.0%	Keep
Melcor Developments	MRD	Mar. 2/01	$20.30	1.08%	131.53%	off list	→	-35.8%	Keep

(continued on page 5)

Quarterly Review *(from page 4)*

Name	Symbol	Date Featured	Price Then	Change Q1	Change Since Profiled	Mar. RS Change	Recent Trend	QEPS Change	Status
CoolBrands	COB.A	Jun. 15/03	$10.25	34.87%	123.02%	-4.00	↑	+180.0%	Keep
Metro Inc.	MRU.A	Jan. 8/01	$10.25	0.23%	114.15%	off list	→	-2.7%	Keep
CML Healthcare Income Fund	CLC.UN	Apr. 12/02	$5.85	20.40%	106.84%	off list	↑	-12.7%	Keep
Canada Bread	CBY	May 18/01	$13.00	0.58%	99.23%	off list	→	-4.2%	Keep
Glendale International	GIN	Mar. 16/03	$3.80	2.86%	89.47%	-1.40	↑	-11.1%	Keep
Cott Corp.	BCB	July 27/01	$20.50	5.58%	87.27%	-3.64	↑	+35.3%	Keep
Hip Interactive	HP	Jun. 15/03	$1.63	-11.88%	86.50%	+1.74	↓	+30.0%	Keep
Finning Int.	FTT	May 11/01	$16.40	-1.00%	81.10%	off list	↓	-10.0%	Keep
AlarmForce	AF	Sept 21/03	$1.92	-2.94%	71.88%	-1.40	→	+24.2%	Keep
Open Text	OTC	Apr. 20/03	$22.75	58.02%	71.43%	-1.68	↑	+20.0%	Keep
BMTC Group	GBT.A	Aug. 20/02	$6.98	-9.54%	69.89%	-0.38	↓	+2.8%	Keep
Fortis Inc.	FTS	Mar. 16/01	$38.00	9.49%	69.71%	off list	↑	+6.3%	Keep
CCS Income Fund	CCR.UN	May 18/03	$20.29	0.00%	50.32%	-0.73	→	+2.5%	Keep
QLT Inc.	QLT	Jan. 18/04	$22.56	47.52%	47.52%	-1.30	↑	T	Keep
Niko Resources	NKO	Nov. 17/02	$22.20	19.93%	46.40%	off list	↑	-28.6%	Keep
Steeplejack Industrial Group	SID	Jan. 18/04	$2.95	38.31%	38.31%	+3.22	↑	+25.0%	Keep
Parkland Income Fund	PKI.UN	May 18/03	$15.62	7.54%	30.60%	off list	↑	+12.5%	Keep
TUSK Energy	TKE	Mar. 16/03	$2.99	1.59%	28.43%	off list	→	L	Drop
Cangene Corp.	CNJ	Jan. 11/02	$9.05	-9.60%	23.87%	off list	↓	-13.3%	Drop
Nortel Networks	NT	Sept 21/03	$6.24	40.44%	23.56%	-4.25	↑	T	Keep

(continued on page 6)

Quarterly Review *(from page 5)*

Name	Symbol	Date Featured	Price Then	Change Q1	Change Since Profiled	Mar. RS Change	Recent Trend	QEPS Change	Status
TSX Group	X	Jan. 18/04	$45.00	17.33%	17.33%	+0.49	↑	+107.9%	Keep
RONA Inc.	RON	Nov. 16/03	$25.55	-6.25%	14.44%	-2.36	→	+85.0%	Keep
Draxis Health	DAX	Feb. 15/04	$6.05	11.57%	11.57%	+3.09	↑	+46.2%	Keep
CIBC	CM	Feb. 15/04	$66.15	3.40%	3.40%	off list	↑	+38.7%	Keep
Tempest Energy Corp.	TMY.A	Jan. 19/03	$5.15	-10.26%	1.94%	off list	↓	L	Drop
Cinram	CRW	Aug. 17/03	$25.83	-7.65%	1.36%	-4.80	↓	+14.0%	Keep
Falconbridge	FL	Mar. 14/04	$34.75	-0.69%	-0.69%	+0.31	↑	+325.0%	Keep
Killam Properties	KMP	Jan. 18/04	$2.36	-1.27%	-1.27%	+0.59	↑	L	Keep
Stratos Global	SGB	Aug. 17/03	$14.00	5.72%	-2.29%	off list	↑	+220.0%	Keep
Zenon Environmental	ZEN	Mar. 14/04	$21.55	-4.87%	-4.87%	-0.57	↑	+31.3%	Keep
Aastra Technologies	AAH	Nov. 17/02	$20.50	6.76%	-11.46%	off list	↑	-38.8%	Keep
Thunder Energy	THY	Dec. 21/03	$8.42	-11.12%	-11.76%	off list	↓	-58.8%	Drop
Strategic Vista	SVI	Dec. 21/03	$1.50	-14.84%	-12.00%	off list	↓	0.0%	Keep
Extreme CCTV	EXC	Nov. 16/03	$3.41	-6.45%	-14.96%	off list	→	-60.0%	Drop
Westjet Airlines	WJA	Jan. 18/04	$31.45	-16.53%	-16.53%	-1.25	↓	+25.0%	Keep
Kingsway Financial	KFS	July 20/03	$18.60	3.42%	-18.82%	off list	↑	-37.3%	Keep
Brooklyn Energy	BN	Oct. 19/03	$2.68	-4.55%	-21.64%	new	→	-60.0%	Drop
				342.03%	5924.65%				
				6.45%	111.79%				

Dropped (with YTD and Total Gain in brackets) are TUSK Energy (+1.59%, +28.43%), Cangene (-9.60%, +23.87%), Tempest Energy (-10.26%, +1.94%), Thunder Energy (-11.12%, -11.76%), Extreme CCTV (-6.45%, -14.96%), Brooklyn Energy (-4.55%, -21.64%).

Brooklyn Energy recently had a strong run-up in value on a takeover bid by a private company and will likely be delisted on completion.

Book Review *(from page 1)*

can lead to short term gains, says Fisher, but this is speculation and not investing. Nor is putting money into the go-go stock of the moment. Such companies may advance sales considerably for a few years and then hit saturation, after which growth stops. What Fisher is looking for is sustained growth. And he avers that this can be accomplished because a company is “fortunate and able” or because it is “fortunate because it is able”. The difference is that the former are beneficiaries of changes in technology whereas the latter instigate changes in technology. Which brings us to Fisher’s second point.

A company’s management, say Fisher, “must have a determination to continue to develop products or processes that will still further increase total sales potentials when the growth potentials of currently attractive product lines have largely been exploited”. In other words, the company must constantly re-invent itself. And this ties in with the third point – research and development must be effective in relation to the company’s size. In fact, Fisher is big on Research and Development and looks for companies that invest heavily in this area. The company’s profitability is sustained and advanced by successful R&D.

Fisher’s other twelve points relate to the management and finances of a company. These include an above-average sales force, worthwhile profit margin, outstanding labor relations, management depth, excellent cost and accounting controls, a long-range outlook, adequate financing and management integrity.

Although he knocks it off in a short three pages, an important element of Fisher’s strategy is his research methodology. He calls it “scuttlebutt”. Scuttlebutt literally means gossip, but Fisher means much more than that. He’s not talking online chat forums like Raging Bull or Silicon Investor which really are just gossip and notoriously unreliable.

By scuttlebutt, Fisher means talking to others than the investment community and the management of a company. He avers that you can learn a lot about a company by talking to employees, customers and competitors. If competitors, for example, fear the company you’re checking out, that speaks volumes. And employees and former employees are often more candid than management would be in revealing problems. Fisher advises, however, that sources must be given strict confidentiality or their reliability will be suspect.

Other elements in this investment classic include a chapter on when to buy. Fisher pooh-poohs market timing as “silly” because our ability to forecast future trends is unreliable at best. He suggests looking over back issues of the *Commercial and Financial Chronicle* to see how ineffective such predictions are.

But he does suggest that one can time an investment based on the company itself. He argues that when a company is developing a new process or product, it takes time to get it off the ground. Investors may bid up the stock at first on speculative hype. When profits fail to materialize during this establishment phase, these same investors bail and send the stock price plummeting. The stock hits bottom just as it is about to turn its investment into profits and that is the time to buy.

The book also includes a chapter on when to sell and when not to. “If the job has been correctly done when a common stock is purchased,” says Fisher, “the time to sell is – almost never”. Shades of Buffett!

The book is chock full of good ideas including ten “Don’ts for Investors” which include don’t worry about high P/E ratios, don’t quibble over price, don’t over-diversify, don’t follow the crowd, and particularly apropos today, don’t be afraid of buying on a war scare.

Almost fifty years later, Fisher’s book still packs a punch. Its ideas are solid and, in the hustle bustle world of instant information on the Internet, all too often forgotten. Everyone wants instant gratification and looks for short-term gain. But investing in companies that have a growing market for their products, strong and forward-looking management, and extensive research and development and holding them is an investment strategy that has proven the test of time. The fact that Warren Buffett is once again contending for top dog in Forbe’s billionaires list is proof of that.

Industrial Pick

Trican Well Service (TCW –TSX)

(website: www.trican.ca)

Trican Well Service was a featured stock in both editions of my 50 Best Science and Technology Stocks for Canadians. An unusual pick as a tech stock, I explained it in the following excerpt.

You may think that an oil services business is out of place in a book on science and technology stocks. And indeed, many of the services provided by Trican seem elementary—pumping, pouring cement, sticking tubing down a well. But the business demands the application of specialized technology to attain results. For example:

- Cementing: Oil and gas wells need cementing treatments from a highly specialized apparatus during the drilling phase to support the production casing inside the wellbore.
- Coiled tubing: Thousands of feet of jointless steel pipe and coiled on a reel is run into a well to allow the introduction of nitrogen, acids, and other materials to remove unwanted fluids or solids. This allows a well to remain in production while impurities are removed.
- Fracturing: Sometimes geological formations do not allow a smooth steady flow of oil, so fluid is pumped into the cased well at high pressure to fracture the formation. A “proppant” is then injected into the fracture to prop it open.

Trican had a modest beginning in 1979—two pumping units and a bulk truck—and it continued its modest ways until going public in 1996. Then, with new management, the company proceeded to expand. First it entered the cementing, coiled tubing, and nitrogen markets, followed by the acquisition of Superior Cementers. It continued to add new gear, including fracturing equipment, spending $61 million on equipment in its first three years as a public company.

In the fall of 2000, Trican opened a 6,000-square-foot research facility in Red Deer, Alta., the second-largest lab of its type in Western Canada. The company has a number of patents pending on proprietary systems including four for fracturing fluids. It has also developed new lightweight “titanium” cements and a variety of specialized equipment. In fact, Trican has presented 5 out of 6 technical papers on cement at industry conferences since 1999. A redesigned liquid CO_2 blender and Canada’s first “one-truck” fracturing unit give the company significant competitive advantages.

Today the pumping business makes up only half of the company’s revenue. The rest comes from fracturing, nitrogen, and coiled tubing. Trican’s revenues have grown over 550 percent since going public, and the stock has outperformed the TSE Oil and Gas index since the first quarter of 2000. Trican’s stated goal is to become the dominant Canadian player in well services. Trican Well Services was added to the TSE 300 index in December 2000. (End of Excerpt)

Since then, Trican has continued to grow with the acquisition of the cementing assets of Vortex Energy Pumping Services and R-Can Services in 2003 and expansion into the US and Russian markets. Russia now contributes 4% of revenues and could be a solid engine of growth in the future.

Quarterly Earnings per Share

To Dec. 31st	2002	2003	% Change
EPS	$0.23	$0.75	+226.09%
Revenues (000s)	$48,900	$85,300	+74.44%

Annual Earnings per Share

To Dec 31st	2001	2002	% Change	2003	% Change
EPS	$1.34	$0.68	-49.25%	$2.03	+198.53%
Revenues (000s)	$182,217	$161,563	-11.33%	$286,342	+77.23%

(Continued on page 9)

Trican Well Services *(from page 8)*

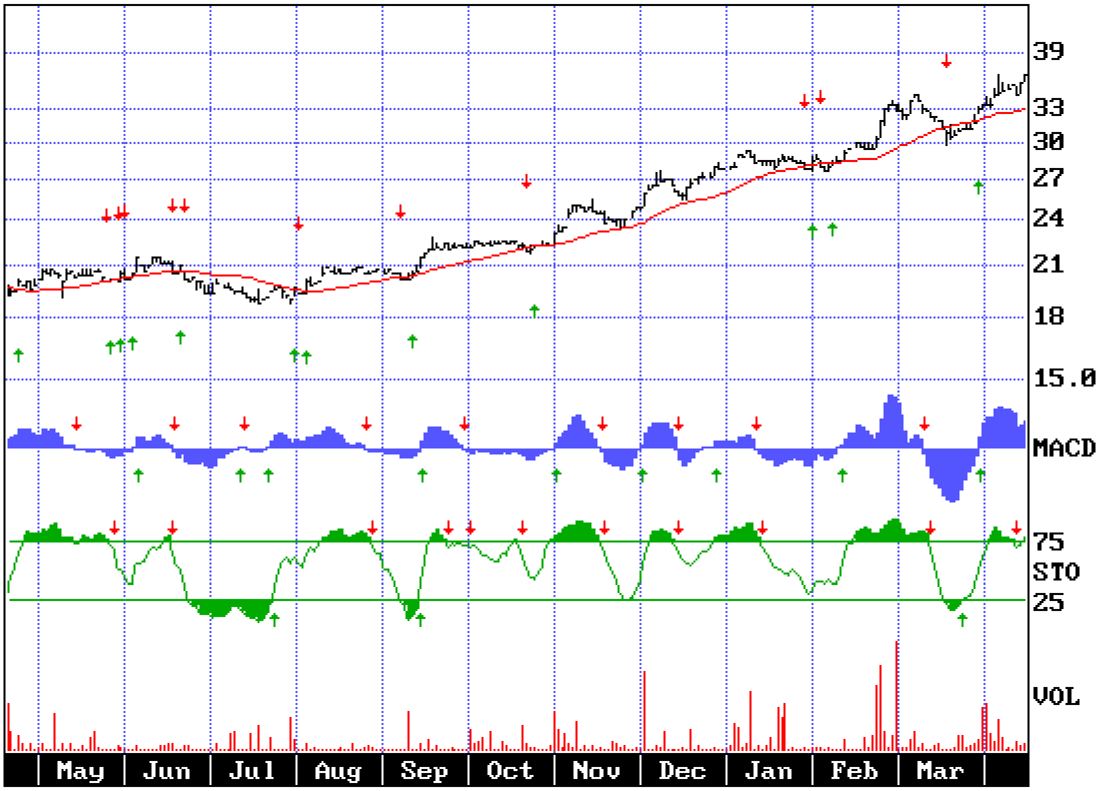


Chart Analysis: Trican has gained 200% since January 2002 and soared almost tenfold in the last five. It hasn't always been smooth and steady with a sharp correction in 2001 but since the fall of 2002 it has been on a fairly steady upswing. Strong volume sent the stock shooting up at the end of February followed by an equally sharp correction to just below the moving average. Renewed volume bounced it back up again where it has now consolidated for continued growth. A strong quarterly should propel the stock ahead again.

Stats as of 04/16/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.95	▪ Price Pattern: A
▪ RS: 82.3	▪ Volatility: A-
▪ Shares: 18,122,636	▪ Estimates: A
▪ P/E: 18.80	▪ Snapshot: A-
▪ Price: $36.49	▪ News: A

Phase 2: We give TCW an A for price pattern and an A- for volatility because of its dip in February. The company is followed by eight analysts and estimates are up sharply with a 1.9 or buy rating. We give it another A. The snapshot is good with strongly growing revenues and earnings after a down year in 2002. Return on equity is a very solid 25.53. We give it an A-. And fq1or news, the company reports record revenues and growth for 2003 including a 43% increase in its payroll. Great news giving us another A.

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 March 2003)

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.

The total number of Performers, Power Performers and Super Power Performers dropped to 71 in March from 76 the month before. This reflects the correcting market we've had and shows up in the mix where we saw the number of Super Power Performers drop from 14 to 9. Performers and Power Performers held steady at 41 and 21 respectively.

And once again small caps and precious metals funds ranked high in our list. Of the nine Super Power Performers, five are precious metal funds and four are small caps. But without looking deeper into the numbers, these figures can be a bit misleading.

Looking at the 3 month returns, we find that eleven of our 71 funds had negative returns for the quarter. The bottom ten were all precious metals funds with losses ranging from 3.10% to 8.65%. And four of those are Super Power Performers. Their strength over the previous year has been such as to keep them at the top.

Now this doesn't mean they should be avoided. It could be that precious metals have just undergone a correction and this represents a superb buying point. But if you can invest in mutual funds exhibiting current as well as long term strength, why mess with funds showing

(continued on page 11)

Super Power Performers

Fund	1 yr	3 yr	5 yr
Sprott Canadian Equity	52.63	39.05	42.89
Mackenzie Universal Precious Metals(US$)	64.27	57.83	34.79
RBC Precious Metals	74.02	70.82	34.46
Front Street Special Opportunities Canadian	102.49	31.45	33.92
Mackenzie Universal Precious Metals	46.51	48.37	31.03
AGF Precious Metal	93.57	60.16	29.96
Mackenzie Universal Cdn Resources (US$)	84.15	37.16	27.60
Bissett Microcap-F	28.65	27.26	27.50
Dynamic Global Precious Metals	106.41	57.58	27.46
Power Performers			
Resolute Growth	35.05	23.49	34.80
Dominion Equity Resource	51.05	21.92	33.86
Norrep Fund	50.67	23.28	31.51
Front Street Small Cap Canadian	67.47	22.80	27.33
BluMont Hirsch Performance	43.48	21.11	26.48
Hillsdale Canadian Performance Equity	69.99	25.66	24.75
Elliott & Page Growth Opportunities	53.33	22.80	24.65
R Small Cap Canadian Equity	53.62	22.66	24.44
Dynamic Canadian Precious Metals	64.68	52.11	24.30
Mackenzie Universal Canadian Resource	64.25	28.94	24.04
London Life Canadian Resource (MF)	62.77	26.20	22.83
TD Precious Metals	44.16	39.64	22.05
Mackenzie Cundill Recovery 'C'(US$)	97.30	31.78	21.62
London Life Precious Metals (MF)	45.18	42.21	21.59
Trimark Canadian Resources	52.66	26.94	21.49
Maritime Life Canadian Growth-R	77.96	29.21	21.40
Altamira Precious & Strategic Metal	75.67	52.55	21.26
Northwest Specialty Equity	54.34	31.75	21.11
CIBC Precious Metals	71.83	48.25	20.53
Dynamic FocusPlus Resource	58.28	28.08	20.52
Mawer New Canada	44.25	27.67	20.06

Marco's Power Performers *(from page 10)*

just long term strength? It could be that precious metals have begun a long term change in trend as has been argued by the McClellan Market Report.

And as we pointed out in a previous report, a very strong current year (usually a year with 100% or more returns) can be misleading.

Our Power Performer system is a useful way of picking candidates for a closer look. But you should also look at the Annual Returns to see how many of the last five years were sub-par and one should also check the three and six month returns to see if a possible change in direction is underway. The Power Performer tables are a useful tool to narrow the field but you shouldn't use them on their own without checking the funds out further.

The best performing funds of the last quarter (aside from hedge funds and currency funds) were Japanese Equity Funds. These 36 funds had three month returns between 10.81% and 21.46%. All had one year return better than 30% but most had negative three year returns. Although it may be tempting to jump into these short term flyers, I believe a combination of both long and short term success entails less risk and more peace of mind. Maybe a small portion of your portfolio invested in recently strong funds is an acceptable risk. Of course, the choice is always yours.

Performers

Fund	1 yr	3 yr	5 yr	Fund	1 yr	3 yr	5 yr
Vertex Fund	60.23	19.46	28.56	ABC American-Value	54.94	23.42	18.30
Sentry Canadian Energy Growth	28.49	15.50	22.70	Mackenzie Cundill Recovery 'C'	75.98	23.89	18.23
AGF China Focus Class (US$)	95.71	19.38	21.96	Renaissance Canadian Income Trust	30.36	18.54	18.17
CI Signature Canadian Resource	47.47	17.23	21.33	Mackenzie Cundill Value 'C' (US$)	73.11	15.64	18.03
North Growth U.S. Equity (US$)	55.67	17.92	20.61	ABC Fundamental Value	46.18	19.39	17.89
McElvaine Investment Trust	29.32	18.60	20.57	IG Beutel Goodman Canadian Small-Cap-C	56.02	20.44	17.86
CIBC Energy	43.47	16.74	20.32	Elliott & Page Monthly High Income	26.15	16.89	17.70
BMO Resource	52.31	23.67	19.71	Saxon Small Cap Fund	65.05	22.46	17.68
Ethical Special Equity	53.28	32.41	19.69	AGF Canadian Resources	58.32	18.96	17.38
CIBC Canadian Emerging Co.	71.02	17.65	19.68	Optima Strategy Canadian Equity Value Pool	36.93	16.78	17.30
BMO Precious Metals	30.40	34.60	19.36	Templeton Global Smaller Co. (US$)	77.06	21.50	17.30
GGOF Monthly High Income Classic	38.05	20.32	19.27	Talvest Millennium High Income	22.24	17.20	17.10
Bissett Income-F	35.10	20.66	19.24	GWL Canadian Resource (A) DSC	56.01	18.99	17.08
Beutel Goodman Small Cap	56.91	22.19	19.17	GWL Canadian Resource (A) NL	55.68	18.74	16.81
Trimark Canadian Small Companies	41.21	20.69	19.16	Acuity Pooled High Income	41.91	20.90	16.60
Clarington Canadian Small-Cap	50.50	31.86	19.15	Empire Small Cap Equity	50.87	18.30	15.97
Sceptre Equity Growth	83.74	31.39	19.01	Concordia Special Growth	51.72	18.49	15.72
TD Resource	47.00	19.17	18.79	Chou RRSP	17.53	20.71	15.61
GGOF Monthly High Income	37.18	19.53	18.65	Keystone Saxon Smaller Companies	53.93	20.72	15.52
National Bank Small Capitalization	55.62	15.30	18.60	Saxon High Income	30.14	17.29	15.52
Mavrix Dividend & Income	40.90	19.20	18.45				

Investment Strategy

The Rich Get Richer

Over the last couple of year's I've noticed an anomaly in our Model Portfolio. It seems that we do just as well and sometimes better with a simple buy and hold strategy than with our active trading approach. On top of that, we have on occasion sold off a strong stock because it has hit a stop loss, only to buy it back later when it regained strength. The sell-off and buy-back sometimes works to our advantage but usually works against us as we end up buying back fewer shares at a higher price.

As noted in our book review (see page 1), such investment masters as Warren Buffett and Philip Fisher do not think one should sell a well-chosen stock hastily. And we pride ourselves on careful selection of stocks we think have strong and sustainable upwards potential.

Terrance Odean and Brad Barber, two professors in the Graduate School of Management at the University of California at Davis, reported in a 1999 study that most investors over-trade their accounts to their detriment. Women, in fact, make better investors because they are less prone to cut and run on a good stock. In the brokerage trade, promoting the over-trading of an account is called churning and is illegal.

In short, we're caught between the proverbial rock and a hard place. On the one hand we like the elegance and simplicity of the buy and hold strategy. On the other, the devastating bear market of 2000-2002 speaks to the value of having an exit strategy. Bernard Baruch, the wealthy financier, is quoted as saying that "Even being right 3 or 4 times out of 10 should yield a person a fortune if he has the sense to cut his losses quickly on the ventures where he has been wrong."

I'm also fascinated by an insight of William O'Neill's in his How to Make Money in Stocks. He observed that stocks making new highs tend to go higher while stocks making new lows tend to go lower. Recently, after compiling my monthly Top 500 Stocks on the TSX report, I wondered whether this even applied to stocks with outrageous advances. What would happen, I wondered, if one were to actually invest in just the Top Ten stocks on the TSX each month? I haven't done a thorough study to back-test it, but I did take a look at the Top Ten for the first three months of 2004.

The results were interesting if inconclusive. The Top Ten Stocks on the TSX on Dec. 31, 2003 and their value a month later were as shown below.

Company	Symbol	1 Year	Dec. 31/03	Jan. 31/04	Change
Weda Bay Minerals	WDA	1641.20%	$1.48	$1.14	-22.97%
Imperial Metals Corp.	III	1325.50%	$6.70	$5.60	-16.42%
ConjuChem Inc.	CJC	1215.00%	$5.26	$8.81	67.49%
Producers Oilfield Services	POS	1020.00%	$2.80	$3.00	7.14%
Ivernia West Inc	IVW	975.00%	$0.22	$0.20	-6.98%
HearUSA Inc	HUX	865.50%	$2.80	$2.64	-5.71%
Jaguar Nickel Inc.	JNI	704.90%	$1.65	$1.70	3.03%
Cedara Software	CDE	663.50%	$5.65	$9.44	67.08%
Hawker Resources Inc	HKR	650.00%	$5.10	$5.75	12.75%
Golden Star Resources	GSC.WT	616.30%	$7.02	$4.95	-29.49%
Average Return					**7.59%**

As you can see, half of the Top Ten at the end of the year gained in the following month and half declined. Conjuchem, which was up 1215% for the year gained another 67.49% in January. Cedara Software had a similar gain. On average the stocks were up 7.59%. The subsequent months weren't as spectacular. February saw four stocks up and six down for an average gain of 2.20%. March saw the Top Ten at the end of February drop an average of 1.95% with four up and six down.

But these stocks are a mish-mash and many are speculative. If one used a narrower field, specifically a field of quality stocks with growing revenues and earnings, the chances are that the results would be improved. Maybe a field of about fifty, like my Watched List!

I've been doing quarterly reviews of my Watched List like the one in this issue for two years. So I

(continued on page 13)

The Rich Get Richer *(from page 12)*

had a handy resource to back-test a new strategy aimed at investing in quality growth stocks while reducing excessive trading. The strategy is this:

What if, I thought, we invested in the Top Ten performing stocks in our Watched List at the end of each quarter. If the stock continued to be in the Top Ten at the end of the quarter, we'd let it ride for another quarter. If not, we'd sell it and use the proceeds towards buying the new entries to the Top Ten. The results were nothing short of amazing.

You'll recall that our Model Portfolio returned 24.78% in 2002, beating the TSX which declined 14.0% by a wide margin. In 2003 we did even better with a return of 35.66%. At the end of 2003 we were up 69.28% and at the end of the first quarter of 2004, we were up 8.21% for the year and 83.18% since inception.

Employing our test strategy, which I call the "Rich Get Richer" strategy, I back-tested over the same time frame starting with the best performing stocks on our Watched List for 2001. I divided $10,000 equally between the ten stocks, recording them as bought at the closing price on the last day of 2001. Checking out our quarterly review for the first quarter of 2002, I held on to the stocks that continued in the Top Ten and sold off the rest, trading the proceeds into the remaining Top Ten stocks. I continued the procedure throughout the year – just four trades a year.

At the end of 2002, our portfolio was up 71.63%, far outstripping the return of 24.78% we got actively trading. Continuing through 2003, we ended up ahead 155.50% on December 31, 2003, far outstripping the aggregate return of 69.28% for our actively traded portfolio. But was this just a carry-over from the spectacular gains of 2002? We tested a second portfolio launched on Dec. 31, 2002. Same deal - $10,000 evenly divided between the Top Ten stocks on our Watched List for the fourth quarter of 2002. At the end of 2003 the portfolio was up 55.70%, considerably ahead of the 35.66% achieved with active trading.

What about downside? The returns quarter by quarter were as shown below:

	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Return	45.00%	14.52%	-1.35%	4.77%	1.77%	13.37%	13.49%	19.11%	8.82%
Up	10	9	4	5	5	8	8	10	7
Down	0	1	6	5	5	2	2	0	3
Max Down	0	-6.04	-18.38	-12.92	-16.76	-12.28	-5.93	0	-11.88
Carry Over	n/a	3	3	2	2	5	3	4	4

As you can see, there was only one negative quarter – a minor drop of 1.35%. We were vastly aided by our initial quarter return of 45.00% which is not typical. But quarterly returns in the teens were not uncommon with four of nine quarters. The maximum draw down for any of our stocks in any quarter was 18.38%. And the maximum number of negative performing stocks was six – in the month we had a loss.

Also of interest is the maximum number of quarters a stock continued in the Top Ten. This record was tied by Bennett Environmental and Repadre Capital. Each was in the Top Ten for four consecutive quarters. Both also were in the Top Ten five times. Calian Technology and Home Capital Group each appeared three consecutive times and a total of four. Peyto Exploration was in the Top Ten two consecutive times twice for a total of four. And McGraw Hill Ryerson made the Top Ten two consecutive times and three in all.

Why did we get these results? First, we have a limited Watched List consisting of stocks screened for growth. Secondly, the O'Neill observation that stocks hitting new highs tend to go higher is in play. Thirdly, we are cutting down on excessive trading by cutting more slack and using a three month buy and hold approach. We should still employ stops for safety, but maybe a very loose stop of 20% or 25% off an interim high is adequate. We'll continue to explore these statistics in future issues.

Our Model Portfolio

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

Current Position: $91,561.35 (+83.12%) Up 8.18% YTD

A lot of trading during the last month leaves us with the positions shown below and a cash position of $97.60. This includes a cash distribution from the income funds in our portfolio. This week saw us sell off longtime stalwart Home Capital Group as it hit our stop. We've bought Zargon Oil and Gas with some of the proceeds and rebalanced with the rest. Be sure to check our Members Only area weekly for our Model Portfolio Update.

Calian Technology (CTY – TSX)

# of Shares: 600	**Bought on:** Dec. 15th
Price Then: $11.68	**Price Now:** $13.45
Gain: 15.15%	**Stop:** $13.11

Notes: Calian Technology is active in the telecommunications infrastructure business with clients in both government and business.

CCS Income Fund (CCR.UN – TSX)

# of Shares: 240	**Bought on:** May 19th
Price Then: $20.29	**Price Now:** $30.08
Gain: 48.25%	**Stop:** $27.20

Notes: Formerly Canadian Crude Separators, CCS works on environmental solutions for the oil industry.

Falconbridge Ltd. (FL – TSX)

# of Shares: 300	**Bought on:** 03/22
Price Then: $34.72	**Price Now:** $33.25
Gain: -4.23%	**Stop:** $31.91

Notes: Falconbridge is one of the world's leading producers of nickel. It is profiting from a worldwide boom in resource prices.

Parkland Income Fund (PKI.UN – TSX)

# of Shares: 420	**Bought on:** 05/19/03
Price Then: $16.55	**Price Now:** $19.62
Gain: 18.55%	**Stop:** $17.95

Notes: Parkland operates a chain of gas stations and convenience stores across Alberta and BC.

Peyto Energy Trust (PEY.UN – TSX)

# of Shares: 300	**Bought on:** 03/29/04
Price Then: $30.30	**Price Now:** $30.00
Gain: -0.99%	**Stop:** $28.08

Notes: Peyto converted to an income trust. The stock did well before and has continued to do well since.

QLT Inc. (QLT – TSX)

# of Shares: 250	**Bought on:** 03/01/04
Price Then: $31.70	**Price Now:** $37.75
Gain: 19.09%	**Stop:** $33.40

Notes: This Vancouver based biotech makes light activated medication to treat macular degeneration of the eye.

Steeplejack Industrial (SID – TSX)

# of Shares: 310	**Bought on:** 02/09/04
Price Then: $2.90	**Price Now:** $4.56
Gain: 57.24%	**Stop:** $3.88

Notes: Steeplejack provides scaffolding services for industry, primarily in Alberta and for the oil patch.

Stantec Inc. (STN – TSX)

# of Shares: 325	**Bought on:** 04/05/04
Price Then: $27.00	**Price Now:** $27.50
Gain: 1.85%	**Stop:** $24.75

Notes: Peyto converted to an income trust. The stock did well before and has continued to do well since.

Zargon Oil & Gas (ZAR – TSX)

# of Shares: 515	**Bought on:** 04/19/04
Price Then: $17.70	**Price Now:** $17.70
Gain: 0.00%	**Stop:** $15.93

Notes: Zargon Oil & Gas is an aggressive junior exploration company with an excellent track record.

Zenon Environmental (ZEN – TSX)

# of Shares: 435	**Bought on:** 03/15/04
Price Then: $21.55	**Price Now:** $20.75
Gain: -3.71%	**Stop:** $19.40

Notes: Zenon Environmental is a leading manufacturer of water purification and waste treatment systems.