

# the Break Out Report

Volume # 2, Issue # 18

July 18, 2004

## Investment Strategy

### \$25,000 into a Million in 7 Years

#### 1. Notes on the Power of Compounding

What is the greatest secret to wealth creation known to man? Simply this – the power of compounding. When you invest successfully, your money grows. Not only that, but the money that is generated also grows and so on. Just as the world according to religious mythology started with just two people, Adam and Eve, and has grown to several billion today, so a couple of bucks successfully invested can grow to be worth a fortune.

Suppose you were a rock star and you were offered a 28 week gig that pays \$2 million or you could opt for a penny the first week, two cents the second week, four cents the third week and so on, doubling every week, which pay package would you choose? Amazingly enough, the job that starts at a penny a week ends up netting you \$1,342,177.28 in the last week with an accumulated total of \$2,684,354.55. That's compounding at 100% a week which is fun to muse about but not likely to happen in real life.

Here's another interesting fact: If you have accumulated savings of \$10,000 by age thirty and get an annual return of 12% and never invest another penny, you'll have accumulated \$528,000 at retirement. But suppose you were a savvy teen and had accumulated \$10,000 by age 20, got a return of 12% a year and never invested another penny. Same scenario as the  
*(continued on page 11)*

## Quarterly Review

### Wielding the Axe Once More

Lizzie Borden took an axe and gave her mother forty whacks. Well, I'm not as ruthless as Lizzie but every quarter I review my Watched List to sort out the chaff – the stocks that are starting to slow down or haven't lived up to expectations. And this time, seven stocks got whacked. Six actually, as BW Technologies was dropped because it was delisted after a takeover.

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. The first quarter of 2004 was phenomenal with an average gain of 6.45% and gains for the top ten ranging from 20.40% to 58.02%. The second quarter was poor by comparison with an average drop of 3.30%. But our Top Ten still gained anywhere  
*(continued on page 2)*

In This Issue: Bullish on the Bear (See Page 7)

**Quarterly Review (from page 1)**

from 5.10% to 33.33%. The tables below tell the story.

**Top Ten for Quarter**

Name	Symbol	Date Featured	Change Q2	Change Since Profiled
Reitmans (Canada)	RET.A	July 6/01	33.33%	255.38%
BW Technologies	BWT	Feb. 23/01	31.29%	370.97%
Niko Resources	NKO	Nov. 17/02	18.77%	73.87%
Trican Well Service	TCW	Apr. 18/04	15.10%	15.10%
Cott Corp.	BCB	July 27/01	12.79%	111.22%
Zenon Environmental	ZEN	Mar. 14/04	12.20%	6.73%
Finning International	FTT	May 11/01	11.95%	102.74%
Open Text	OTC	Apr. 20/03	9.49%	87.69%
AlarmForce	AF	Sept. 21/03	6.97%	83.85%
Kingsway Financial Services	KFS	July 20/03	5.10%	-14.68%

**Bottom Ten for Quarter**

Name	Symbol	Date Featured	Change Q2	Change Since Profiled
Parkland Income Fund	PKI.UN	May 18/03	-11.76%	15.24%
Iamgold Corp.	IMG	Mar. 16/01	-13.05%	357.67%
Nortel Networks	NT	Sept. 21/03	-13.23%	7.21%
Metro Inc.	MRU.A	Jan. 8/01	-14.35%	83.41%
Goldcorp Inc.	G	May 25/01	-19.74%	98.85%
QLT Inc.	QLT	Jan. 18/04	-20.07%	17.91%
Westjet Airlines	WJA	Jan. 18/04	-21.60%	-34.57%
Stratos Global	SGB	Aug. 17/03	-25.15%	-26.86%
Strategic Vista	SVI	Dec. 21/03	-37.88%	-45.33%
Hip Interactive Corp.	HP	June 15/03	-49.67%	-6.13%

In our last Quarterly Review (see Vol. 2 # 12 – April 18, 2004) we explored a new approach to trading we called the “Rich Get Richer” strategy. By back testing over 2002 and 2003, we discovered that simply buying the Top Ten stocks and trading just once a quarter produced superior results to our active trading approach. Did this strategy hold true in the last quarter, which was a rough one at best?

Our Top Ten for the first quarter were Open Text, Home Capital Group, QLT Inc., Nortel Networks, Steeplejack Industrial Group, Coolbrands International, BW Technologies, Zargon Oil and Gas, Stantec Inc. and CML Healthcare Income Fund. Only two repeated this quarter – Open Text and BW Technologies with gains of 9.49% and 31.29% respectively. The average for the ten was a loss of 1.80%. This is better than the loss sustained by our Watched List as a whole and slightly better than the loss experienced by our Model Portfolio for the quarter. The quarterly downside for this method  
(continued on page 4)

**The Break Out Report**

is published twice a month by Break Out Publishing.

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

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

**Editors:** Marco den Ouden & Ken Ballard **Email us:** marco@breakoutreport.com  
**Website:** http://breakoutreport.com ken@breakoutreport.com

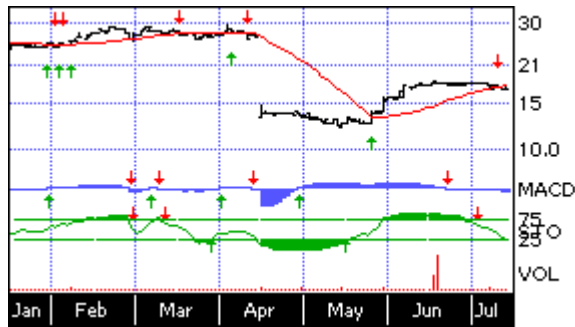
Articles this issue by Marco den Ouden unless otherwise indicated.

Subscription: US \$14.95 a month

**Watched List Update**

**Top Ten Favorites**

Below are four of the top ten performers from our Watched List for the last quarter – see page 2. As we have shown, success breeds success and these may well be winners again in the third quarter of the year. Check them out!

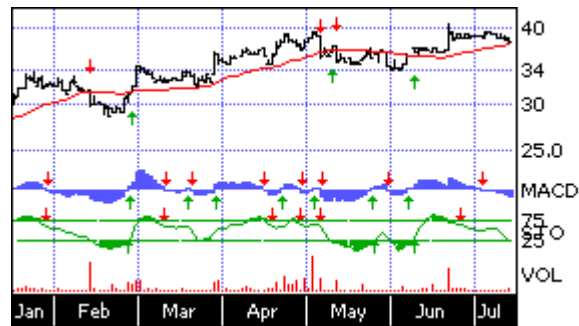


**Reitman's (RET.A) Profiled: July 6/01**  
**Price then: \$5.07 Price Now: \$17.10**

⇐ Reitman's was one of our early picks when we launched the Break Out Report online in November of 2000. Since being featured it has risen 237.28%. The chart at left has not integrated a recent stock split. That plunge is *not* a drop in price. Right now the stock is poised to bounce off its moving average to the upside.

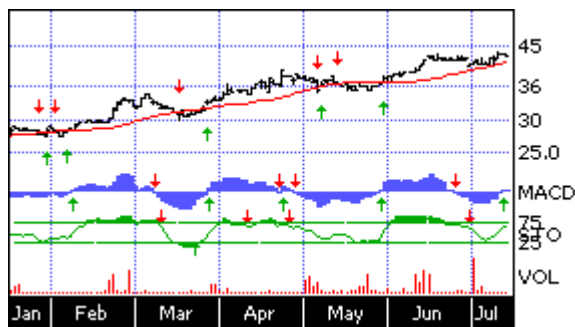
**Niko Res. (NKO) Profiled: Nov. 17/02**  
**Price then: \$22.20 Price Now: \$37.92**

Niko Resources was featured in the very first of my issues of BOR after we became a subscription newsletter. It's now up 70.81%. As our chart shows, it has been on a steady uptrend with some short corrections along the way. Like Reitman's, it is currently poised to bounce off the moving average to the upside.



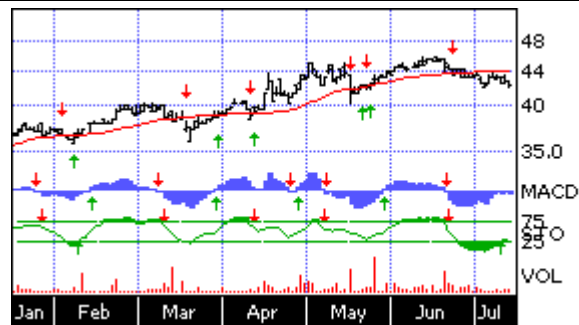
**Trican Well (TCW) Profiled: April 18/04**  
**Price then: \$36.49 Price Now: \$42.75**

⇐ Trican Well Service was featured in our April issue this year and it has done very well indeed, continuing its strong uptrend. It's climbed 17.16% so far. As the chart shows, it has just bounced off its moving average to the upside. Recent quarterly saw revenues up 51.7% and earnings per share up 97.0%.



**Cott Corp. (BCB) Profiled: July 27/01**  
**Price then: \$20.50 Price Now: \$42.20**

Like Reitman's. Cott is another stock we ⇐ profiled in our first year online. This beverage manufacturer has since climbed 105.85%. It has won many plaudits for management excellence. And it is resoundingly successful. Stock is now consolidating after a strong first half.



**Quarterly Review (from page 2)**

remains below two percent for the ten quarters tested so far with eight positive to two negative quarters.

Below is the detailed analysis of our Watched List this quarter. We ended up dropping seven stocks which are noted in the table. Brief discussion follows.

Name	Symbol	Date Featured	Price Then	Change Q2	Change Since Profiled	June RS Change	Recent Trend	QEPS Change	Status
Home Cap. Grp.	HCG	Nov. 20/00	\$3.00	-11.00%	641.67%	-0.37	↓	+61.1%	Keep
Peyto Ener. Trust	PEY.UN	Feb. 22/02	\$5.15	-2.88%	482.72%	+0.35	→	+32.5%	Keep
Bennett Enviro.	BEV	May 25/01	\$3.50	0.90%	378.57%	off list	→	L	Keep
BW Technologies	BWT	Feb. 23/01	\$7.75	31.29%	370.97%	off list	↑	+39.1%	Drop (Takeover)
Iamgold Corp.	IMG	Mar. 16/01	\$1.63	-13.05%	357.67%	off list	↓	+33.3%	Keep
Alimentation Couche-Tard	ATD.B	Dec. 4/00	\$5.75	-3.63%	306.43%	+0.26	→	-43.8%	Keep
Zargon Oil & Gas	ZAR	Jan. 29/01	\$4.70	3.64%	263.83%	-3.13	→	+25.0%	Keep
Reitmans Canada	RET.A	July 6/01	\$5.07	33.33%	255.38%	+6.86	↑	+208.3%	Keep
TransForce Income Fund	TIF.UN	Jan. 18/02	\$3.11	-0.19%	246.95%	+0.82	→	+33.3%	Keep
Calian Tech.	CTY	Oct. 1/02	\$3.85	-7.27%	231.17%	-6.22	↓	+94.7%	Keep
Stantec Inc.	STN	Apr. 20/01	\$8.25	-0.93%	223.64%	-0.01	→	+15.4%	Keep
Contrans Inc Fnd	CSS.UN	Oct. 12/01	\$3.63	1.12%	222.59%	off list	→	+10.5%	Keep
SNC-Lavalin	SNC	Mar. 23/01	\$16.25	2.08%	201.54%	off list	→	+9.3%	Keep
Richelieu Hardware	RCH	Dec. 4/00	\$7.00	-1.30%	170.71%	off list	→	+11.5%	Keep
Melcor Dev.	MRD	Mar. 2/01	\$20.30	-2.66%	125.37%	off list	→	-24.6%	Keep
CoolBrands Intl.	COB.A	June 15/03	\$10.25	-4.20%	113.66%	-9.34	→	+130.0%	Keep
Cott Corp.	BCB	July 27/01	\$20.50	12.79%	111.22%	+3.86	↑	+40.0%	Keep
Canada Bread	CBY	May 18/01	\$13.00	4.25%	107.69%	off list	→	+44.1%	Keep
Finning Intl.	FTT	May 11/01	\$16.40	11.95%	102.74%	off list	↑	+2.8%	Keep

(continued on page 5)

## Quarterly Review (from page 4)

Name	Symbol	Date Featured	Price Then	Change Q2	Change Since Profiled	June RS Change	Recent Trend	QEPS Change	Status
Goldcorp Inc.	G	May 25/01	\$7.83	-19.74%	98.85%	off list	↓	+28.6%	Keep
Open Text	OTC	Apr. 20/03	\$22.75	9.49%	87.69%	+6.78	↑	+56.3%	Keep
CML Healthcare	CLC.UN	Apr. 12/02	\$5.85	-10.74%	84.62%	off list	↓	+26.0%	Keep
AlarmForce	AF	Sep. 21/03	\$1.92	6.97%	83.85%	-0.74	→	+26.6%	Keep
Metro Inc.	MRU.A	Jan. 8/01	\$10.25	-14.35%	83.41%	off list	↓	-2.7%	Drop
Glendale Intl.	GIN	Mar. 16/03	\$3.80	-4.17%	81.58%	off list	↓	-61.5%	Drop
Niko Resources	NKO	Nov. 17/02	\$22.20	18.77%	73.87%	+4.12	↑	-28.6%	Keep
BMTC Group	GBT.A	Aug. 20/02	\$6.98	-7.17%	57.71%	off list	↓	+20.0%	Keep
Fortis Inc.	FTS	Mar. 16/01	\$38.00	-9.83%	53.03%	off list	↓	0.0%	Keep
CCS Inc. Fund	CCR.UN	May 18/03	\$20.29	-1.97%	47.36%	off list	→	+29.8%	Keep
Steepleback Ind.	SID	Jan. 18/04	\$2.95	-2.21%	35.25%	+1.63	→	-55.6%	Keep
QLT Inc.	QLT	Jan. 18/04	\$22.56	-20.07%	17.91%	-2.33	↓	+11.8%	Keep
Parkland Inc Fund	PKI.UN	May 18/03	\$15.62	-11.76%	15.24%	off list	↓	-72.0%	Drop
Trican Well Svc	TCW	Apr. 18/04	\$36.49	15.10%	15.10%	+6.67	↑	+95.3%	Keep
RONA Inc.	RON	Nov. 16/03	\$25.55	-1.47%	12.76%	-2.11	→	+58.3%	Keep
Nortel Networks	NT	Sep. 21/03	\$6.24	-13.23%	7.21%	new	↓	??	Keep
Zenon Enviro.	ZEN	Mar. 14/04	\$21.55	12.20%	6.73%	-0.38	↑	+71.4%	Keep
TSX Group	X	Jan. 18/04	\$45.00	-9.85%	5.78%	-4.86	↓	+76.7%	Keep
Pason Systems	PSI	May 16/04	\$30.00	3.33%	3.33%	+1.22	→	+60.0%	Keep
Axcan Pharma	AXP	June 20/04	\$27.43	3.14%	3.14%	+11.53	→	+20.0%	Keep
Draxis Health	DAX	Feb. 15/04	\$6.05	-8.89%	1.65%	+2.33	↑	+68.2%	Keep
ZCL Composites	ZCL	June 20/04	\$2.05	0.00%	0.00%	+1.36	↑	+12,025%	Keep

(continued on page 6)

**Quarterly Review (from page 5)**

Name	Symbol	Date Featured	Price Then	Change Q2	Change Since Profiled	June RS Change	Recent Trend	QEPS Change	Status
CIBC	CM	Feb. 15/04	\$66.15	-4.68%	-1.44%	off list	↓	+75.0%	Keep
Cinram	CRW	Aug. 17/03	\$25.83	-4.51%	-3.21%	-5.57	↓	+100.0%	Keep
GSW Inc.	GSW.B	May 16/04	\$34.73	-4.98%	-4.98%	-5.97	↑	+89.9%	Keep
Falconbridge Ltd.	FL	Mar. 14/04	\$34.75	-5.10%	-5.76%	+2.12	↓	+381.0%	Keep
Hip Interactive	HP	June 15/03	\$1.63	-49.67%	-6.13%	off list	↓	L	Drop
Aastra Tech.	AAH	Nov. 17/02	\$20.50	0.22%	-11.27%	off list	→	-25.7%	Drop
Killam Properties	KMP	Jan. 18/04	\$2.36	-11.16%	-12.29%	+2.80	↓	L	Keep
Kingsway Financial Services	KFS	July 20/03	\$18.60	5.10%	-14.68%	off list	↑	+12.2%	Keep
Stratos Global	SGB	Aug. 17/03	\$14.00	-25.15%	-26.86%	off list	↓	-7.1%	Keep
Westjet Airlines	WJA	Jan. 18/04	\$20.97	-21.60%	-34.57%	off list	↓	0.0%	Keep
Strategic Vista	SVI	Dec. 21/03	\$1.50	-37.88%	-45.33%	off list	↓	L	Drop
<b>Aggregate Total</b>				<b>-264.41%</b>	<b>5624.07%</b>				
<b>Average Return</b>				<b>-3.30%</b>	<b>108.16%</b>				

Dropped (with YTD and Total Gain in brackets) are BW Technologies (+61.50%, +370.97%), Metro Inc. (-14.16, +83.41%), Glendale International (-1.43%, +81.58%), Parkland Income Fund (-5.11%, +15.24%), Hip Interactive (-55.65%, -6.13%), Aastra Technologies (+7.00%, -11.27%), Strategic Vista (-47.10%, -45.33%) BW Technologies was delisted after takeover by a British company.

As noted, the last quarter was a poor one for our Watched List with an average loss of 3.30%. In fact, of the 52 stocks on the current list, only 18 had a positive return. One was neutral and the rest all lost ground.

Of the stocks dropped this quarter, several have been solid performers for us with BW Technologies up 370.97%, Metro Inc. up 83.41% and Glendale International up 81.58%. Are we being too hasty in dropping stocks from our list? We went back and looked at the 30 stocks we dropped from our Watched List from since Dec. 31, 2002 and found that nineteen of them had, in fact, gone up since we dropped them in amounts ranging from 4.76% to 158.33%. Eleven of these gained more than 25%. The other eleven went down in amounts ranging from 1.80% to 55.60%. On average, these discarded stocks gained 14.56%. They have been off the list anywhere from three months to a year and a half.

We should reiterate that the fact we are dropping a stock from our Watched List does not mean that the stock isn't worth investing in. Eleven of the 30 we discarded certainly were excellent performers since dropped. But we want to keep our Watched List manageable – around 50-60 stocks, so we'll continue to do periodic pruning. Our pruning rules help us decide what to discard.

**Oil & Gas Pick**

**Bear Creek Energy Ltd. (BCK –TSX)**  
**(website: [www.bearcreekenergy.com](http://www.bearcreekenergy.com))**

A junior oil and gas exploration and development company, Bear Creek Energy was formed by reverse takeover of Millennium Energy by Crossfield Gas in July 2003. The company has operations in Central and West Central Alberta as well as South East Saskatchewan.

Bear Creek Energy had a strong record of growth prior to going public with an objective of creating shareholder value through the drillbit. In 2003 the company invested \$21 million in exploration and development with \$13.5 million going to drilling and completions. 33 gross wells were drilled (14.9 net) with a 79% success rate. This increased proved reserves by 37% and replaced 2003 production more than threefold.

Most of the company's production for the year came from its Westeros property, 59,091 acres about 64 kilometres southwest of Edmonton of which about half remains undeveloped. Westeros contributed 94% of the company's 2003 production and 87% of year-end proved reserves. Two major natural gas discoveries highlighted the year.

Other highlights of the year included a light oil pool discovery in the Hazelwood area of Southeastern Saskatchewan. The company has a 40% interest here and four wells were brought on stream by year end. There was also a significant light oil discovery at the Sakwatamau area in West Central Alberta. While the discovery well flowed at 600 barrels per day during the test period, production has been capped at 60 barrels pending further exploration and recovery approval. Secondary drilling started in the second quarter of 2004.

The company ended the year with production of 1900 barrels of oil equivalent per day (boe/day). The company forecasts ending 2004 with production of 3500 boe/day. Production is evenly split between light oil and natural gas.

The capital budget for 2004 was increased to \$31 million. The first quarter of 2003 saw another new discovery well with a flow rate in excess of 600 boe/day. Again production has been capped at 60 bo/day until the size of the pool can be determined and regulatory approvals given.

Cash flow for the quarter increased 44% while earnings soared 117%. Because of successful new financing and subsequent stock dilution, earnings per share were up only 50%. The company managed to increase its netback despite lower oil prices for the quarter and expenses came in 26% lower than Q4 of 2003.

The tables below show significant revenue growth over the last three years. Not shown is the trailing twelve month revenue to March 31<sup>st</sup> which came in at a superb \$31,273,000 with earnings per share of \$0.18. That's 50% higher revenues and double the earnings of 2003.

With its aggressive drilling and development, and some discovered wells producing at just 10% of capacity pending approvals, further growth seems assured.

**Quarterly Earnings per Share**

To Mar. 31st	2003	2004	% Change
<b>EPS</b>	\$0.04	\$0.06	+50.00%
<b>Revenues (000s)</b>	\$6,374	\$7,576	+18.86%

**Annual Earnings per Share**

To Dec 31st	2001	2002	% Change	2003	% Change
<b>EPS</b>	\$0.15	\$0.05	-66.67%	\$0.09	+80.00%
<b>Revenues (000s)</b>	\$3,876	\$12,815	+230.62%	\$20,779	+62.15%

*(continued on page 8)*

**Bear Creek Energy** (from page 7)

**Chart Analysis:** Our Investools chart only shows the action since December but the stock started trading on the TSX in August 2003. It started in around the \$5 level before dropping to \$3.50 in December. It's been on a steady uptrend through May when the stock corrected. It's now consolidating and hit its previous high again July 9<sup>th</sup>. Another strong quarter and another bounce off the moving average could send this puppy on a renewed uptrend.

Stats as of 07/16/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.63	▪ Price Pattern: A-
▪ RS: 61.05	▪ Volatility: A-
▪ Shares: 19,656,005	▪ Estimates: A
▪ P/E: 91.30	▪ Snapshot: A-
▪ Price: \$5.48	▪ News: A

**Phase 2:** We give BCK an A- for price pattern since it is currently going sideways and an A- for volatility because of its dip in June. The company is followed by seven analysts and estimates are up sharply with a 1.9 or buy rating. We give it an A. The snapshot is excellent with strongly growing revenues and earnings but return on equity is low at 3.99. We give it an A-. News is excellent with completed financing, record revenues and profits, new discoveries and a strongly increased capital budget. 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 June 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.

The number of Super Power Performers stayed the same at four while the Power Performers dropped one to six. Performers gained five to 38. Total qualifying funds – 48.

### Super Power Performers

Fund name	1 yr	3 yr	5 yr
Sprott Canadian Equity	50.25	28.50	38.38
RBC Precious Metals	44.06	53.67	31.95
Front Street Special Opportunities Canadian	71.34	27.10	31.02
AGF Precious Metal	55.53	46.70	26.36

### Power Performers

Norrep Fund	34.65	21.70	25.19
Dynamic Global Precious Metals	27.80	35.62	22.60
Mackenzie Universal Cdn Resources (US\$)	54.40	28.39	22.04
Front Street Small Cap Canadian	48.76	24.46	21.71
Bissett Microcap-F	20.23	21.03	20.53
Dynamic Canadian Precious Metals	24.05	32.64	20.44

### Performers

Fund name	1 yr	3 yr	5 yr	Fund name	1 yr	3 yr	5 yr
Resolute Growth	32.15	19.23	32.24	Altamira Precious & Strategic Metal	39.26	36.23	17.67
Mackenzie Univ. Pr. Metals (US\$)	17.45	34.92	28.50	Beutel Goodman Small Cap	37.29	16.49	17.31
Dominion Equity Resource	33.61	18.15	27.72	Northwest Specialty Equity	44.24	27.28	17.24
Mackenzie Univ. Precious Metals	16.16	29.45	26.12	TD Precious Metals	18.45	26.08	17.11
Vertex Fund	34.24	15.52	23.26	Sceptre Equity Growth	53.87	26.29	16.92
BluMont Hirsch Performance	32.62	18.01	23.10	Bissett Income-F	21.18	16.81	16.83
Elliott & Page Growth Opportunities	36.16	17.87	22.19	Mavrix Dividend & Income	22.09	16.71	16.53
R Small Cap Canadian Equity	36.21	17.69	21.95	Maritime Life Canadian Growth-R	45.22	21.01	16.43
Hillsdale Cdn. Performance Equity	44.87	19.15	20.86	Dynamic FocusPlus Resource	39.54	22.46	16.06
Mackenzie Universal Canadian Resource	52.70	23.18	19.78	GGOF Monthly High Income Classic	21.65	17.18	16.06
London Life Cdn. Resource (MF)	51.31	25.28	18.95	CIBC Precious Metals	33.39	31.49	16.00
CI Signature Canadian Resource	38.60	15.38	18.60	Saxon Small Cap Fund	47.12	16.98	15.70
Trimark Canadian Resources	44.68	22.76	18.50	Acuity Pooled High Income	25.52	18.58	15.65
Ethical Special Equity	38.17	25.10	18.44	BMO Resource	43.09	21.39	15.55
Mawer New Canada	33.22	22.79	18.33	Optima Strategy Cdn. Eq. Val. Pool	25.44	15.61	15.51
North Growth U.S. Equity (US\$)	27.09	15.91	18.32	GGOF Monthly High Income	20.88	16.40	15.50
Trimark Canadian Small Companies	32.72	15.77	18.24	Desjardins Financial Pool Bissett SmallCap	31.73	15.79	15.46
Sentry Canadian Energy Growth	19.91	15.47	18.22	CIBC Energy	30.92	17.26	15.32
Clarington Canadian Small-Cap	36.40	24.34	17.95	London Life Precious Metals (MF)	15.06	28.17	15.12

*(continued on page 10)*

### Marco's Power Performers (from page 9)

Our Performers look at the one year, three year and five year returns. Considering the stock market slump of the last quarter, it's worth seeing which mutual funds bucked the trend. Only seven returned better than 10% for the quarter. But 128 returned better than 5% for the quarter. Of the seven top performers, five are technology funds with three of those in health care. One of the others was a US Equity fund with a heavy weighting in technology stocks. The top performer of all for the quarter was the iUnits S&P/TSX Capped IT, an index fund, with a return of 13.55% for the quarter. So this month we're taking a closer look at iUnits.

### iUnits – the Canadian Exchange Traded Funds

iUnits are exchange traded funds managed by Barclay's Global Investors. They're not the only ETFs – TD Canada Trust has four of them – but they're the best known and most versatile. All mirror an index. And although they are "funds", they are quite different from conventional mutual funds.

One key difference is that they are traded on the TSX like stocks. Therefore their price fluctuates throughout the day, unlike mutual funds which are evaluated after the close of the market each day. Because there is a supply and demand factor as well as an underlying value, they can sometimes trade above or below the actual Net Asset Value Per Share. But for all practical purposes, they trade fairly close to the NAVPS. Typically ETFs have a very low management expense ratio. Barclay's manages twelve of them and they're shown in the table below.

Fund	Symbol	July 14	Optionable?	MER
iUnits S&P/TSX 60 ETF	XIU	\$47.06	Yes	0.17
iUnits S&P/TSX 60 Capped ETF	XIC	\$52.15	No	0.17
iUnits S&P/TSX Midcap ETF	XMD	\$59.60	No	0.55
iUnits S&P/TSX Energy ETF	XEG	\$42.83	Yes	0.55
iUnits S&P/TSX Financial ETF	XFN	\$35.42	Yes	0.55
iUnits S&P/TSX Gold ETF	XGD	\$50.75	Yes	0.55
iUnits S&P/TSX Info Tech ETF	XIT	\$8.25	Yes	0.55
iUnits S&P/TSX REIT ETF	XRE	\$10.70	No	0.55
iUnits S&P/TSX Gov. Canada 5 Year Bond ETF	XGV	\$28.27	No	0.25
iUnits S&P/TSX Gov. Canada 10 Year Bond ETF	XGX	\$27.68	No	0.25
iUnits S&P/TSX MSCI Intl. Equity ETF	XIN	\$20.35	No	0.35
iUnits S&P/TSX S&P RSP ETF	XSP	\$15.21	No	0.30

Eight follow Canadian indexes including five sectoral funds, two track Government of Canada bonds, one is tied to the S&P 500 index and the last tries to match the MSCI EAFE Index. This latter is an international index that is a "leading barometer for international equity performance". It follows 21 international indexes including ones from Europe, Australasia and the Far East.

The options on the sectors as well as the XIU affords the investor the opportunity to invest in these indexes at pennies on the dollar. For example, the XGD Gold ETF closed at \$50.75 on July 14. The March 2005 \$51 Call had a bid and asked of \$4.80 and \$5.30 respectively. Splitting the difference you could buy the index for ten cents on the dollar.

The XIU also has LEAPS for both 2006 and 2007. The index closed at \$47.06 on July 14<sup>th</sup> and the January 2006 \$47.50 Calls had a bid and asked of \$3.75 and \$4.40 respectively. Even cheaper than ten cents on the dollar. If you buy these options and the index climbs more than 10% in the next 17 months, you are in a profitable situation. If it climbs substantially more than 10%, your return is leveraged better than ten to one. Of course, if it plunges, you lose your investment, but if you limit your investment to ten percent of what you would have bought if you bought the actual XIU, it's the same as getting stopped out. And if you believe that markets are set up for a fall, you can hedge with the gold index options. Certainly worth a look see.

**\$25,000 into a Million** *(continued from page 1)*

previous example but you have ten extra years. That savvy teen would have an accumulated savings at age 65 of over \$1.5 million. Truly time is money!

In fact, I have calculated that if you invest \$500 in the account of a new-born infant accumulating at 12.5%, the child will be a millionaire on retirement without ever investing a penny. Of course, many people will tell you long term gains of 12.5% a year is not realistic. This may be true.

Of the 393 mutual funds in Canada that have been around at least fifteen years, only 19 have an annual compounded rate of return over 12.5% over fifteen years. And of those, only 16 have topped that rate since the fund started. In fact, mutual funds are notoriously poor performers for the most part. Fewer than 50 have a better than 10% annual compounded return over 15 years. You have to lower the return to 7.25% before you get over half of those 393 funds qualifying. At 7.25% you need to invest \$10,600 for the newborn to retire a millionaire without further savings.

There are four factors in calculating accumulated invested savings after a period of time. They are the original investment, the return on investment and the length of time the investment is held. The final factor is continued addition of new investment. In other words, the savvy teen or the thirty year old in our examples don't rest on their laurels but continue to invest over time.

As our discussion above shows, the relationship between rate of return and the original lump sum invested is not a simple one. We noted that if we invested \$500 over 65 years at 12.5% we would generate over a million dollars. But you can't simply cut the rate in half and double the investment to generate the same return. Cutting it to 7.25% as we noted, requires an additional \$10,100 investment. A single percentage point difference in rate of return can make a huge difference in overall return. If we double our investment on behalf of the newborn to \$1000, we need to generate a return of 11.25% to generate a million dollars in 65 years. A simple 1.25% drop in the rate of return doubled the amount needed to be invested.

So...how can we generate a million dollars fast? (By fast, I mean in less than ten years with a moderate investment.) The best way is to increase your rate of return. We have already shown you one way with our articles on The Kelowna Boys Strategy. (See Vol. 1 # 8: Writing for a Living, Vol. 1 # 20: Writing the XAU Spread, and Vol. 2 # 14: 222s – Powerful Medicine) I launched my wife's account with a modest \$25,000 investment in April 2003. We added \$10,000 in December and even with pulling out US\$500 a month, we now have accumulated over \$50,000. But it is not for the nervous. Writing naked options can be hairy, especially when the underlying index makes a major move. But there is a less nerve wracking method which could generate the same sort of returns. And you can do it inside your RRSP.

**2. Writing Covered Calls**

There are selected optionable stocks that generate significant option premiums. Premiums in excess of 5% a month. If you can generate 5% a month consistently with an initial investment of \$25,000 and reinvesting the premiums, you will have a million dollars in just 76 months or six and a third years. You can achieve the same result if you can generate premiums of 10% every two months in six and a half years.

The big questions are – which stocks and what's the downside. The Online Investor Toolbox notes that "when selecting a covered call, not only is choosing a strong stock important but purchasing it at an appropriate time is as well. In fact, stock selection is normally more important than the amount of premium collected since a decline in the stock price can quickly erase any profits derived from the selling of a call option."

So you want to select a stock with long term upside potential and limited downside. You also want to buy a stock generating a significant premium. The premium varies according to time and volatility. Since we are looking to sell calls one or two months out and generate 5% to 10% in the

*(continued on page 12)*

**\$25,000 into a Million** (continued from page 11)

process, we are looking for implied volatility in the 60% range or higher. The table below lists a few Canadian option possibilities with their return if called out and if not. We are splitting the difference between the bid and asked prices as our premium.

Stock	Sym	Price 07/16/04	Month	Strike	Premium	Return if called	Return if not	Implied Volatility
Agnico Eagle	AGE	\$18.52	Sept.	\$19.00	\$0.80	6.91%	4.32%	32.96%
Falconbridge	FL	\$33.43	Aug.	\$34.00	\$1.05	4.85%	3.14%	31.99%
Iamgold	IMG	\$8.48	Aug.	\$8.00	\$0.75	3.18%	8.84%	37.55%
Iamgold	IMG	\$8.48	Aug.	\$9.00	\$0.20	8.49%	2.36%	37.55%
Nortel	NT	\$5.71	Aug.	\$5.00	\$0.90	3.33%	15.76%	79.77%
Nortel	NT	\$5.71	Aug.	\$5.50	\$0.60	6.83%	10.51%	79.77%
Nortel	NT	\$5.71	Aug.	\$6.00	\$0.35	11.21%	6.13%	79.77%
Nortel	NT	\$5.71	Sept.	\$5.00	\$1.10	6.83%	19.26%	79.77%
Nortel	NT	\$5.71	Sept.	\$5.50	\$0.75	9.46%	13.13%	68.07%
Nortel	NT	\$5.71	Sept.	\$6.00	\$0.50	13.84%	8.76%	67.43%
Open Text	OTC	\$33.30	Aug.	\$32.00	\$2.65	4.05%	7.96%	47.67%
Open Text	OTC	\$33.30	Aug.	\$34.00	\$1.65	7.06%	4.95%	47.65%
Open Text	OTC	\$33.30	Sept.	\$32.00	\$3.35	6.16%	10.06%	47.92%
Open Text	OTC	\$33.30	Sept.	\$34.00	\$2.25	8.86%	6.76%	46.89%
Pan Am. Silver	PAA	\$20.10	Sept.	\$20.00	\$1.65	7.71%	8.21%	47.99%
QLT Inc.	QLT	\$25.20	Aug.	\$25.00	\$1.60	5.56%	6.35%	47.61%
QLT Inc.	QLT	\$25.20	Aug.	\$27.50	\$0.65	11.71%	2.58%	47.62%
QLT Inc.	QLT	\$25.20	Oct.	\$25.00	\$2.55	9.33%	10.12%	47.90%
QLT Inc.	QLT	\$25.20	Oct.	\$27.50	\$1.55	15.28%	6.15%	48.06%
Res. in Motion	RIM	\$84.30	Sept.	\$85.00	\$6.30	8.30%	7.47%	46.50%
Sierra Wireless	SW	\$39.46	Sept.	\$40.00	\$4.20	12.01%	10.64%	67.51%
Westjet	WJA	\$13.70	Aug.	\$13.00	\$1.05	2.55%	7.66%	39.47%
Westjet	WJA	\$13.70	Aug.	\$14.00	\$0.55	6.20%	4.01%	41.18%
Westjet	WJA	\$13.70	Sept.	\$13.00	\$1.30	4.38%	9.49%	39.80%
Westjet	WJA	\$13.70	Sept.	\$14.00	\$0.75	7.66%	5.47%	39.12%

We have shown various possibilities for some of the stocks in our Watched List, namely Iamgold, Nortel, Open Text, QLT Inc. and Westjet. These are all stocks whose long term potential we believe to be on the upside.

Ideally we would want to buy the stock at a support point after a decline. Open Text, for example, has support at \$32 and may be at a good buy point. QLT has taken a huge dive in the last quarter and has just bounced off support at \$24. Westjet has just bounced off long term support at \$12. And then there's Nortel. This puppy is extremely volatile and has support at \$5.40. It too may be at an opportune buying point.

Because of Nortel's volatility and because it's loosey goosey accounting practices are still causing concern, the stock could still drop. An interesting possibility would be to buy the stock and sell September covered calls at a \$5.50 strike. If the stock is called out, you get a 9.46% return. If not, you get a 13.13% return on the original price. Your net purchase price is reduced to \$4.96. If you're a bit bearish on the stock to begin with, a \$5 strike reduces your net cost to \$4.61 if the price falls below \$5.00.

To achieve our goal of 5% return a month or 10% every two months will take active management. You'll have to buy stock back if called out or you could just buy back the calls on the last day before expiry and sell them forward again. This is the strategy we are doing with the XAU, only we are selling both calls and puts.

We're toying with putting together a Model Covered Call Portfolio. I want to play around with it a bit more first. Maybe we'll have one for next issue. Watch for it!

## Our Model Portfolio

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

Current Position: \$91,159.75 (+82.32%) Up 7.70% YTD

We received distributions of \$148 this week increasing our cash position to \$152.20. The portfolio since our last report has been fairly stable with just one stock sold and one replacement bought since. Current stock position is in the table below. Be sure to check our Members Only area weekly for our Model Portfolio Update.

<p style="text-align: center;"><b>CCS Income Fund (CCR.UN – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 240</td> <td><b>Bought:</b> May 19/03</td> </tr> <tr> <td><b>Price Then:</b> \$20.29</td> <td><b>Price Now:</b> \$30.15</td> </tr> <tr> <td><b>Gain:</b> 48.60%</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 19/03	<b>Price Then:</b> \$20.29	<b>Price Now:</b> \$30.15	<b>Gain:</b> 48.60%	<b>Stop:</b> \$27.20	<p style="text-align: center;"><b>Cott Corporation (BCB – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 170</td> <td><b>Bought:</b> May 10th</td> </tr> <tr> <td><b>Price Then:</b> \$43.35</td> <td><b>Price Now:</b> \$42.20</td> </tr> <tr> <td><b>Gain:</b> -2.65%</td> <td><b>Stop:</b> \$41.03</td> </tr> </table> <p><b>Notes:</b> Cott Corporation is one of the largest manufacturers of private branded soft drinks in the world.</p>	<b># of Shares:</b> 170	<b>Bought:</b> May 10th	<b>Price Then:</b> \$43.35	<b>Price Now:</b> \$42.20	<b>Gain:</b> -2.65%	<b>Stop:</b> \$41.03
<b># of Shares:</b> 240	<b>Bought:</b> May 19/03												
<b>Price Then:</b> \$20.29	<b>Price Now:</b> \$30.15												
<b>Gain:</b> 48.60%	<b>Stop:</b> \$27.20												
<b># of Shares:</b> 170	<b>Bought:</b> May 10th												
<b>Price Then:</b> \$43.35	<b>Price Now:</b> \$42.20												
<b>Gain:</b> -2.65%	<b>Stop:</b> \$41.03												
<p style="text-align: center;"><b>GSW Inc. (GSW.B – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 275</td> <td><b>Bought:</b> May 17/04</td> </tr> <tr> <td><b>Price Then:</b> \$34.73</td> <td><b>Price Now:</b> \$33.25</td> </tr> <tr> <td><b>Gain:</b> -4.26%</td> <td><b>Stop:</b> \$31.50</td> </tr> </table> <p><b>Notes:</b> GSW Inc. is a leading manufacturer of water heaters for the commercial and residential markets.</p>	<b># of Shares:</b> 275	<b>Bought:</b> May 17/04	<b>Price Then:</b> \$34.73	<b>Price Now:</b> \$33.25	<b>Gain:</b> -4.26%	<b>Stop:</b> \$31.50	<p style="text-align: center;"><b>Kingsway Financial (KFS – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 625</td> <td><b>Bought:</b> May 24/04</td> </tr> <tr> <td><b>Price Then:</b> \$15.00</td> <td><b>Price Now:</b> \$15.80</td> </tr> <tr> <td><b>Gain:</b> +5.33%</td> <td><b>Stop:</b> \$14.36</td> </tr> </table> <p><b>Notes:</b> Kingsway Financial is a leading supplier of alternative insurance services. After a slump, the stock is on the move again.</p>	<b># of Shares:</b> 625	<b>Bought:</b> May 24/04	<b>Price Then:</b> \$15.00	<b>Price Now:</b> \$15.80	<b>Gain:</b> +5.33%	<b>Stop:</b> \$14.36
<b># of Shares:</b> 275	<b>Bought:</b> May 17/04												
<b>Price Then:</b> \$34.73	<b>Price Now:</b> \$33.25												
<b>Gain:</b> -4.26%	<b>Stop:</b> \$31.50												
<b># of Shares:</b> 625	<b>Bought:</b> May 24/04												
<b>Price Then:</b> \$15.00	<b>Price Now:</b> \$15.80												
<b>Gain:</b> +5.33%	<b>Stop:</b> \$14.36												
<p style="text-align: center;"><b>Peyto Energy Trust (PEY.UN – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 300</td> <td><b>Bought:</b> Mar. 29/04</td> </tr> <tr> <td><b>Price Then:</b> \$30.30</td> <td><b>Price Now:</b> \$32.89</td> </tr> <tr> <td><b>Gain:</b> +8.55%</td> <td><b>Stop:</b> \$29.60</td> </tr> </table> <p><b>Notes:</b> Peyto Energy Trust has gained over 1000% in the last three years. It's my featured stock in the Globe's One and Only Contest.</p>	<b># of Shares:</b> 300	<b>Bought:</b> Mar. 29/04	<b>Price Then:</b> \$30.30	<b>Price Now:</b> \$32.89	<b>Gain:</b> +8.55%	<b>Stop:</b> \$29.60	<p style="text-align: center;"><b>Pason Systems (PSI – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 320</td> <td><b>Bought:</b> May 17/04</td> </tr> <tr> <td><b>Price Then:</b> \$30.00</td> <td><b>Price Now:</b> \$32.00</td> </tr> <tr> <td><b>Gain:</b> +6.67%</td> <td><b>Stop:</b> \$29.72</td> </tr> </table> <p><b>Notes:</b> Pason Systems makes and leases high tech monitoring equipment for the oil patch. It had a stellar year in 2003.</p>	<b># of Shares:</b> 320	<b>Bought:</b> May 17/04	<b>Price Then:</b> \$30.00	<b>Price Now:</b> \$32.00	<b>Gain:</b> +6.67%	<b>Stop:</b> \$29.72
<b># of Shares:</b> 300	<b>Bought:</b> Mar. 29/04												
<b>Price Then:</b> \$30.30	<b>Price Now:</b> \$32.89												
<b>Gain:</b> +8.55%	<b>Stop:</b> \$29.60												
<b># of Shares:</b> 320	<b>Bought:</b> May 17/04												
<b>Price Then:</b> \$30.00	<b>Price Now:</b> \$32.00												
<b>Gain:</b> +6.67%	<b>Stop:</b> \$29.72												
<p style="text-align: center;"><b>Trican Well Service (TCW – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 250</td> <td><b>Bought on:</b> May 3/04</td> </tr> <tr> <td><b>Price Then:</b> \$37.50</td> <td><b>Price Now:</b> \$42.75</td> </tr> <tr> <td><b>Gain:</b> +14.00%</td> <td><b>Stop:</b> \$38.27</td> </tr> </table> <p><b>Notes:</b> Trican Well Service supplies specialized services to the oil industry including such things as cementing and fracturing.</p>	<b># of Shares:</b> 250	<b>Bought on:</b> May 3/04	<b>Price Then:</b> \$37.50	<b>Price Now:</b> \$42.75	<b>Gain:</b> +14.00%	<b>Stop:</b> \$38.27	<p style="text-align: center;"><b>Zargon Oil &amp; Gas (ZAR – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 515</td> <td><b>Bought on:</b> Apr 19/04</td> </tr> <tr> <td><b>Price Then:</b> \$17.70</td> <td><b>Price Now:</b> \$18.00</td> </tr> <tr> <td><b>Gain:</b> +1.69%</td> <td><b>Stop:</b> \$16.34</td> </tr> </table> <p><b>Notes:</b> Zargon Oil and Gas is an aggressive junior exploration company based in Alberta.</p>	<b># of Shares:</b> 515	<b>Bought on:</b> Apr 19/04	<b>Price Then:</b> \$17.70	<b>Price Now:</b> \$18.00	<b>Gain:</b> +1.69%	<b>Stop:</b> \$16.34
<b># of Shares:</b> 250	<b>Bought on:</b> May 3/04												
<b>Price Then:</b> \$37.50	<b>Price Now:</b> \$42.75												
<b>Gain:</b> +14.00%	<b>Stop:</b> \$38.27												
<b># of Shares:</b> 515	<b>Bought on:</b> Apr 19/04												
<b>Price Then:</b> \$17.70	<b>Price Now:</b> \$18.00												
<b>Gain:</b> +1.69%	<b>Stop:</b> \$16.34												
<p style="text-align: center;"><b>ZCL Composites (ZCL – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 3745</td> <td><b>Bought on:</b> July 5/04</td> </tr> <tr> <td><b>Price Then:</b> \$2.14</td> <td><b>Price Now:</b> \$2.04</td> </tr> <tr> <td><b>Gain:</b> -4.67%</td> <td><b>Stop:</b> \$1.98</td> </tr> </table> <p><b>Notes:</b> ZCL Composites makes storage containers for the oil industry. Stops can be loosened to 15% if uptrend remains intact.</p>	<b># of Shares:</b> 3745	<b>Bought on:</b> July 5/04	<b>Price Then:</b> \$2.14	<b>Price Now:</b> \$2.04	<b>Gain:</b> -4.67%	<b>Stop:</b> \$1.98	<p style="text-align: center;"><b>Zenon Environmental (ZEN – TSX)</b></p> <table border="1"> <tr> <td><b># of Shares:</b> 435</td> <td><b>Bought on:</b> Mar. 15th</td> </tr> <tr> <td><b>Price Then:</b> \$21.35</td> <td><b>Price Now:</b> \$22.70</td> </tr> <tr> <td><b>Gain:</b> +6.32%</td> <td><b>Stop:</b> \$21.94</td> </tr> </table> <p><b>Notes:</b> Zenon Environmental is a leader in systems for treating waste water as well as drinking water.</p>	<b># of Shares:</b> 435	<b>Bought on:</b> Mar. 15th	<b>Price Then:</b> \$21.35	<b>Price Now:</b> \$22.70	<b>Gain:</b> +6.32%	<b>Stop:</b> \$21.94
<b># of Shares:</b> 3745	<b>Bought on:</b> July 5/04												
<b>Price Then:</b> \$2.14	<b>Price Now:</b> \$2.04												
<b>Gain:</b> -4.67%	<b>Stop:</b> \$1.98												
<b># of Shares:</b> 435	<b>Bought on:</b> Mar. 15th												
<b>Price Then:</b> \$21.35	<b>Price Now:</b> \$22.70												
<b>Gain:</b> +6.32%	<b>Stop:</b> \$21.94												