Trading Rules

Cutting Your Losses and Securing Your Winners

Although there is a huge following for the buy and hold approach to investing, I believe prudence demands having safeguards against drastic loss. As noted financier Bernard Baruch put it, "Even being right three or four 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." Anyone who lost large sums of money in the market crash of 2000-2002 can attest to that.

And it's not just a matter of cutting your losses, but also of locking in your winnings. If you're up 50% on a stock and it starts to head south, do you want to ride it all the way down again? This happened to investors who hung on to the hot go-go technology darlings of the late 90s. If they did not have a selling plan, they held their winners until they became losers.

Selling is notoriously hard to do for most investors, primarily for psychological reasons. If the investor just bought a stock and it immediately turns tail and starts falling, he doesn't want to sell because it means he was wrong. Wrong!!! No one wants to admit they made a mistake. He thinks, "I know this stock was a good pick. Why's it doing that? Gotta be an aberration. If I hang on it will come back." The emotion at play is pride and as the proverb says, pride cometh before a fall.

The second psychological factor that inhibits an investor from selling is greed. "My stock was up 50%. It's sure to go higher. This sudden drop is temporary. I'll just hang on and give it time to recover. Don't want to miss out on those juicy profits when it starts flying again!"

Or "My stock was up 50%, now it's up only 30%. Why didn't I sell? Man, I hate to give up those profits. That extra 20% should have been mine. By golly, they will be again. I'll just hang on."

Another factor is fear. Selling a stock incurs commission costs. And if the investor buys back again later, more commission costs. Fear or reluctance to pay broker commissions sometimes impedes selling. "Oh man, if I sell I gotta pay that darn commission. And if it starts going up again and I decide to buy back the stock, more commissions. Maybe it's smarter to just hang on to the stock in the first place."

Of course, there's no guarantee the stock will bounce back again. That just may be wishful thinking.

Another fear is taxes. If your investments are outside your RRSP, selling can trigger a capital gain and a tax liability. Fear of paying taxes cost me big time in 2000. At the time I was freelancing for About.com, managing one of their guided websites called Investing: Canada. About, like many dot-com companies, went public and gave stock options to its employees. And like many dot-coms,
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In This Issue: Extremism in the Pursuit of Option Profits (See Page 3)

Cutting Your Losses and Securing Your Winners *(from page 1)*

the stock soared to over a hundred dollars. My options were worth about US$50,000. But the government was introducing new legislation that would give capital gains more favorable treatment in 2001. So as the stock dropped, I held on because I had made up my mind to cash them in 2001 when I could get more favorable tax treatment. The stock dropped below the option issue price and never recovered. My options expired worthless. A painful lesson – never make an investment decision based exclusively on tax considerations. And never hesitate to sell a stock that should be sold for fear of tax implications.

Pride! Greed! Fear! Three powerful emotions that can negatively impact the selling decision. So when should you sell?

William O'Neill argues that if you pick the right stock and the right entry point, a stock shouldn't drop more than seven percent. He recommends a 7% stop loss on your purchase price. I'm a bit more liberal than O'Neill and will tolerate a 10% loss.

But what about locking in your winners? I adopted the 10% approach at first, tracking a stock's progress daily and as it went up, raising the stop, always leaving it as trailing the most recent high by 10%. So if stock XYZ had moved from $10 to $12, I'd put the stop loss at $10.80. If it moved up to $15 I raised it to $13.50. But from experience I discovered that ten percent was not an uncommon correction, especially for a stock that had made substantial gains. I sometimes sold a stock that quickly recovered to make further gains. So I modified the selling rules to allow greater leeway for stocks in which I had a substantial gain. I decided to allow an additional 1% for each ten percent gain in the stock. So if I was up 23% on a stock, my stop loss was set 12% below its most recent closing high. (I always work from closing prices.) I set 15% as the maximum drop from peak value that I would allow. So any stock that was up 50% or more had a stop loss set at 15% below its most recent closing high.

Further modifications resulted in the final rules shown below:

- Sell a stock when it drops 10% or more from its recent interim top with the following exceptions:
- If a stock gains more than 10% in a single day and loses more than 10% but less than the original gain the following day, the spike in price is ignored and not considered to be the new interim closing high and the stock is not sold.
- If a stock has gained more than 10% since we bought it, we increase the downside latitude by 1% for every 10% gain. So if a stock is up 35% for example, it must drop 13% from its interim closing high before we sell it. We capped this at 15% as the absolute maximum deviation we would tolerate from an interim closing high before selling.
- If the stock is in an uptrend and is above the 30 day moving average, we will wait until the stock breaks through the moving average before trading but 15% remains our maximum allowable downside.

A Note on Stops: I use soft stops based on closing prices. This means that I don't actually place a trailing stop as the stock rises. The stop is based on the closing price and if a stop is triggered, I check to see if it is subject to one of the exceptions noted above before selling. The only hard stops I use is a hard stop of 10% below the purchase price when a stock is bought. I use a hard stop of 15% below the interim high as a back-up in case the stock moves down too fast for us to get out quickly with soft stops if this is higher than 10% below the purchase price.

These are by no means the only rules one can have for selling stocks. Some people set a target price and sell when the target is reached. Others base their selling decisions on technical factors – moving averages, MACD, Stochastics and so on. The important point here is to have some guidelines for selling. If you haven't already, be sure to read my abstract "When to Sell a Stock" for some useful ideas. It's in our archives section in the Subscriber area of the website.

Option Selling Strategies

Extreme Options

In our July issue I wrote about selling covered calls, an article we revisit on page 8. I have been looking for an options strategy that would generate the same strong growth as I've achieved with the Kelowna Boys index writing strategy (See Vol. 1 # 8: Writing for a Living, Vol. 1 # 20: Writing the XAU Spread, and Vol. 2 # 14: 222s – Powerful Medicine). In a year and a half with this strategy we've grown our cash position by 68.98% even though we took out US$500 a month for the last 18 months. Add in the money we've taken out and we've had a 102.4% return in 18 months.

My article on covered calls was a preliminary look at using covered calls to achieve the same gains. But covered calls have two handicaps – one is you actually have to buy the stock which requires a larger outlay than selling naked calls on margin. And secondly, you can't write puts if you are inside an RRSP which is where most of my money is (and most other Canadians' money as well).

I'm in several email chains with other investors and on August 31st I got one about a stock with very high volatility and huge premiums. The stock was Atherogenics (AGIX) and at the time it was trading at $16.50. October $30 calls were fetching $0.80. As my correspondent put it, "The stock has to go up $15 within the next 6 weeks to loose money on this trade – amazing." He sold 20 contracts for a gain of US$1520 after commissions.

Well, that got me wondering what the implied volatility was and if there were other stocks out there fitting the bill. AGIX had an implied volatility of 240% for October contracts as of yesterday. No Canadian options come close – 70-80% is the highest and usually for very expensive stocks like Research in Motion (see page 6).

On Sept. 3rd, I bought 200 shares of AGIX at $17.47 (cost - $4633.62 Canadian) and sold $17.50 calls for $4.00 ($987.10 Canadian). The stock is currently at $18.10. If called out, that's a profit of 21.3% in six weeks.

Yesterday I took it a step further and asked my Kelowna broker the risk factor in selling October $30 calls and $12.50 puts. He said the real risk to the downside would be if the company went bankrupt or something similarly disastrous happened. The risk on the other side would be if another company issued a takeover bid above $30 or some major positive announcement came out. These are risks you won't face selling an index. But he said the premiums looked attractive. The margin requirement was minimal with such a huge spread and I had sufficient funds to sell 5 contracts each way getting $1.80 for the $30 calls and $1.65 for the $12.50 puts for a premium after commission of US$1510. In order to lose money, the stock would have to soar to $33, an 82% gain, or drop below $9, a 50% drop, before October 15th. If it reaches one of the strikes, I could close both positions to break even and sell new ones at different strikes.

The stock is not one I would ordinarily buy. It is losing money and speculative. But with such huge premiums and such a wide spread between the calls and puts, the risk is worth it (for me at least).

I used the volatility table at the Investools website to search for additional stocks with high

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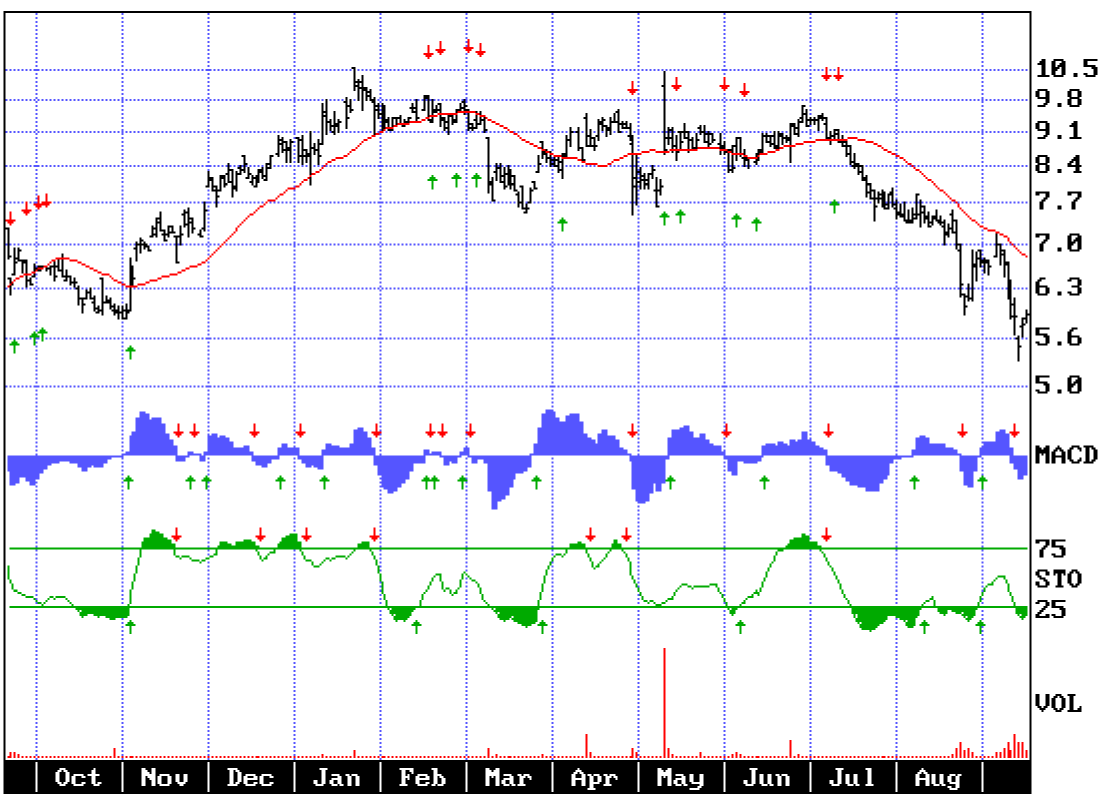
Extreme Options *(from page 3)*

volatility. To find them, click on Strategies in the top menu and then on click on Covered Call Prebuilt and Custom Searches. Enter a low return of 20% and a low open interest of 50. Then click on Run Custom report. As of Friday close the search generated 629 options. This includes options at different strikes on the same stock. Be careful to avoid options reflecting a stock split as the number of shares in the contract is not 100. Here are a few for October expiry:

Stock	Symbol	Price	Strike	Premium	Return if Called	Volatility
Atherogenics	AGIX	$18.10	$20.00	$4.00	32.60%	231.25%
Atherogenics	AGIX	$18.10	$17.50	$5.00	24.31%	242.72%
Maxim Pharmaceuticals	MAXM	$5.94	$7.50	$1.50	51.52%	308.93%
Maxim Pharmaceuticals	MAXM	$5.94	$5.00	$2.20	21.21%	291.56%
Immersion Corp.	IMMR	$5.91	$7.50	$0.90	42.13%	219.34%
Immersion Corp.	IMMR	$5.91	$5.00	$1.65	12.52%	195.28%

Those are the best ones of the bunch.

My preference is for a stock over $5 and under $20 and all of them qualify. The lower priced shares make for an affordable covered call play. I took the plunge with Maxim Pharmaceuticals myself on Sept. 8th, buying 200 shares at $6.75 for an outlay of $1802.28 Canadian. I immediately sold the $7.50 October calls at $2.05 for a premium of $484.50 Canadian. The stock has since dropped to $5.94 but as long as the stock stays above $4.70, I'm still profitable. Maxim's chart is shown below.



It's likely to expire unexercised and I'll be able to repeat the process next month. The stock has not been below $5 in over a year. But the stock is in a downtrend and there certainly is some risk here.

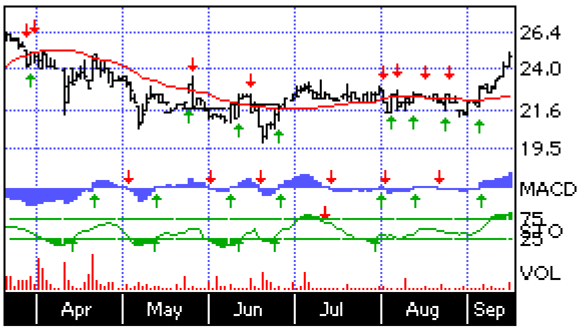
These extreme options as I call them, can be extremely profitable. I managed to generate over $1400 Canadian this month inside my RRSP with a capital risk of under $6500. Five successful months and the initial outlay is covered completely. Be sure to check out my article on page 8 for the new Model Covered Call portfolio I'm putting together.

Watched List Update

On the Move!!!

Our Watched List has been making strong progress with 22 of our 47 stocks in an uptrend. Some stocks that had been flat for a while are now showing signs of life and are shown below, including two in our Model Portfolio that had a strong week and could gain strength in the weeks ahead.

Of the other two, one has been flat and one has faltered since we featured them earlier this year. They are now starting to show strength again.

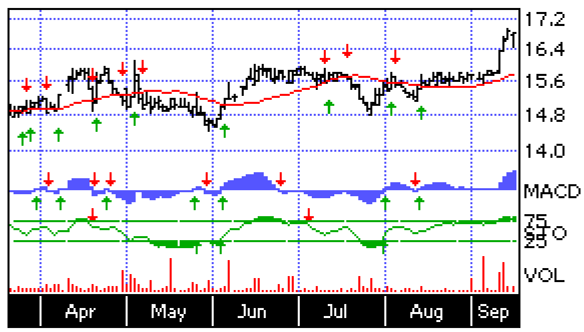


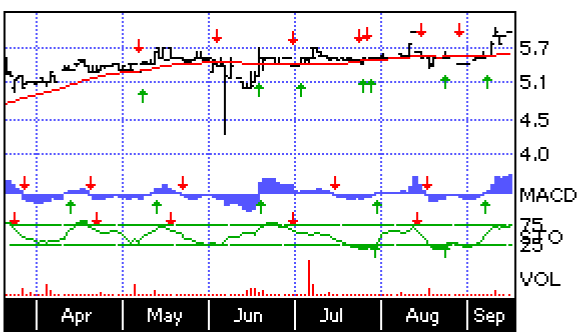
Home Cap. Grp. (HCG)	Profiled: 11/20/00
Price then: $3.00	Price now: $24.75

⇦ One of the first stocks we featured when we launched the Break Out Report as an online feature at About.com, Home Capital has soared 725.0% since then. After two strong years, HCG slumped for the first six months of 2004. We bought back in in August and it's started to take off in September. Last Q saw EPS up 50.0%.

Kingsway Fin. (KFS)	Profiled: 07/20/03
Price then: $18.60	Price Now: $16.82

Kingsway Financial has not done well since ⇨ we featured it, currently down 9.57%. This was due to a restatement of reserves for this alternative insurer. But with the bad news behind it, KFS has climbed steadily for almost a year now. September saw a strong spike with increased volume. A sign of more to come?



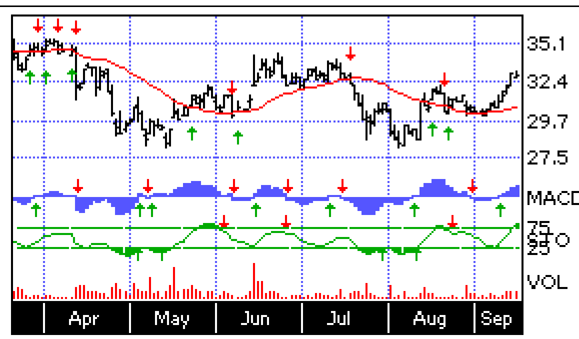


Bear Creek En. (BCK)	Profiled: 07/18/04
Price then: $5.48	Price Now: $6.00

⇦ This stock has traded flat for the most part since we featured it in July. It even dipped enough to give it a sell rating for a while. But now the stock has broken out to new highs again and we expect further gains ahead. Up 9.49% since profiled. Recent quarter showed revenues up 45% though earnings stayed flat.

Falconbridge (FL)	Profiled: 03/14/04
Price then: $34.75	Price Now: $32.90

Another stock that has given us trouble ⇨ since we featured it in our mid-March issue, this nickel producer is off 5.32%. But the last quarter saw revenues up 43.7% and EPS more than triple. The stock has been gaining since early August. The moving average is now trending up.



Technology Pick

Research in Motion (RIM –TSX, RIMM - NASDAQ)

(website: www.rim.net)

The following is excerpted from my book The 50 Best Science & Technology Stocks for Canadians: 2002 Edition.

Waiting at the podium, Al's fingers fly across the tiny keyboard of his Blackberry™ pager as he types, "I'm in the middle of debate prep. Paul (his verbal sparring partner) is talking. They're wondering what I'm doing."

His wife's message comes back quickly: "Oh, I know what I'd like to be doing with you right now. (lascivious comment deleted)".

"I'm losing my concentration now," Al comes back. "We have to stop".

(And they thought I couldn't get sex into a book on stocks!)

The above conversation between Presidential candidate Al Gore and wife Tipper was one of many exchanges between the couple on their Blackberry pagers according to Associated Press reporter Sandra Sobieraj. The Democratic candidate, his wife and a dozen aides used the little device made by Waterloo's Research in Motion extensively during the campaign.

It's won numerous awards as well as the accolades of Business Week, c|net, Forbes, Fortune, Information Week, Internet Week, PC Computing, Wired and others. Comments like "this gizmo is the fulfillment of a dream" or "a pager-on-steroids" are not uncommon.

What is the Blackberry? And why is it so popular? Quite simply, the Blackberry is a wireless pager that lets you send and retrieve email. On the go. In your car. Standing in line at the check-out counter. It's always on, always connected. No dial-up necessary.

Let's go back to awards a sec. And the Oscar goes to....

What? Yes! Research in Motion has even won an Academy Award®. And an Emmy! In 1991, before it made wireless devices, RIM created the DigiSync™ Film KeyKode Reader, a device that reads, decodes, indexes and retrieves the optical information stored on the edge of motion picture film. It's used around the world in motion picture labs, negative film cutting and post-production. And in 1994 it won an Emmy for Technical Innovation.

The film folks were a little slow on the uptake. They didn't give RIM the Academy Award for Technical Achievement until 1999. *(End of Excerpt)*

A tech darling in the late 90s, RIM peaked at a high of over $120. It fell steadily to below $7 in September 2003 as profit turned to loss during a couple of tough years. Since then the profit picture has turned around again and the stock is once again approaching its former highs, one of the tech wreck stocks that has rebounded strongly. Research in Motion expects to have two million subscribers by year end, fully half of the portable email market. Its customer base is growing by 25% every three months. Although competition is increasing, RIM remains the market leader.

Quarterly Earnings per Share (in US$)

To May 29th	2003	2004	% Change
EPS	-$0.05	$0.30	turnaround
Revenues (000s)	$104,461	$269,611	+158.10%

Annual Earnings per Share (in US$)

To Mar. 1st	2002	2003	% Change	2004	% Change
EPS	-$0.18	-$0.96	n/a	$0.30	Turnaround
Revenues (000s)	$319,791	$318,455	-0.42%	$607,378	+90.73%

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Research in Motion *(from page 6)*

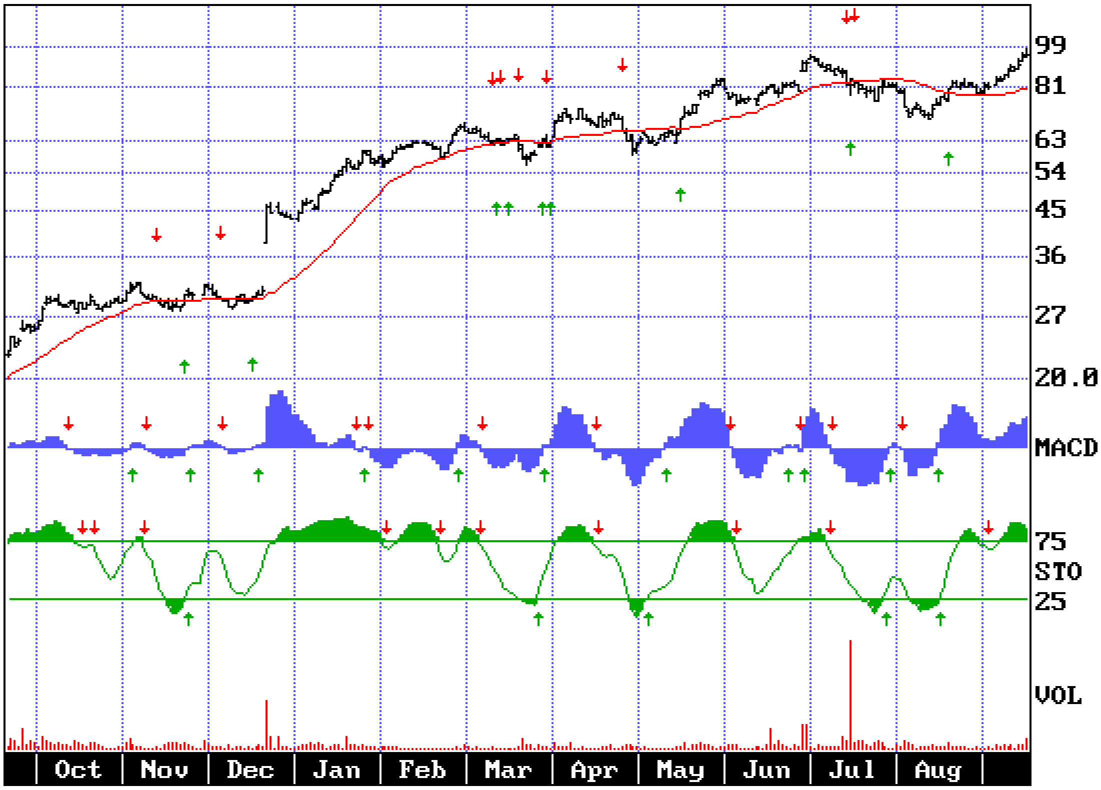

Chart Analysis: Talk about a nice chart! RIM has been on a tear this year and suffered a modest correction in July and August. Since then it has broken out to new 52 week highs and is closing in on its all time high. Earnings are soaring. Blackberries are everywhere. This stock is also optionable on both the Canadian and US markets. October $95 covered calls will net a return of 6.5% if called out. March $100 covered calls will net 17.6% if called out. The NASDAQ traded shares have 2007 LEAPs available. Next quarterly report is due Sept. 30th.

Stats as of 09/17/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 4.42	▪ Price Pattern: A
▪ RS: 99.21	▪ Volatility: B
▪ Shares: 184,830,132	▪ Estimates: A
▪ P/E: 114.20	▪ Snapshot: B
▪ Price: $94.82	▪ News: A

Phase 2: We give RIM an A for price pattern as it has been climbing steadily but there is some volatility which nets it a B. Zack's estimates have a rating of 3.25 which gives us an A. The snapshot shows revenues and earnings dropping in 2003 which is what caused the stock to plummet. But 2004 has seen a return to profitability big time with the trailing EPS more than double the fiscal 2004 EPS. But return on equity is low as the P/E is high. This will improve as earnings grow. We give it a B. News is excellent with technological improvements, new partnerships and new inroads into the European and Australasian markets. An A.

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

Covered Calls

Introducing Our Covered Call Portfolio

In my July issue I wrote about the power of compounding and how you could turn $25,000 into a million dollars in seven years if you could generate a return of 5% a month. But how can you get that sort of a return? As Shakespeare put it, “Ay, there’s the rub!”

If you’ve followed my scribblings for a while, you know that I’ve discovered one in the Kelowna Boys strategy of writing options on indexes, particularly the XAU, which generates large premiums. And in July I speculated on creating strong returns with covered calls.

At the time I argued that a stock with a high volatility that was at or near the bottom of a cycle and starting to recover was a good bet. I included a table with a variety of possible plays and included some stocks that had lower volatility for comparison. Below is that table again with the actual results if it had been played and closed out at expiry.

Stock	Price 07/16/04	Month	Strike	Prem.	Implied Volatility	Expiry Price	Called?	Return
AGE	$18.52	Sept.	$19.00	$0.80	32.96%	$16.88	no	-4.54%
FL	$33.43	Aug.	$34.00	$1.05	31.99%	$31.55	no	-2.48%
IMG	$8.48	Aug.	$8.00	$0.75	37.55%	$9.52	yes	3.18%
IMG	$8.48	Aug.	$9.00	$0.20	37.55%	$9.52	yes	8.49%
NT	$5.71	Aug.	$5.00	$0.90	79.77%	$5.02	yes	3.33%
NT	$5.71	Aug.	$5.50	$0.60	79.77%	$5.02	no	-1.58%
NT	$5.71	Aug.	$6.00	$0.35	79.77%	$5.02	no	-5.95%
NT	$5.71	Sept.	$5.00	$1.10	79.77%	$4.40	no	-3.68%
NT	$5.71	Sept.	$5.50	$0.75	68.07%	$4.40	no	-9.81%
NT	$5.71	Sept.	$6.00	$0.50	67.43%	$4.40	no	-14.19%
OTC	$33.30	Aug.	$32.00	$2.65	47.67%	$29.39	no	-3.78%
OTC	$33.30	Aug.	$34.00	$1.65	47.65%	$29.39	no	-6.79%
OTC	$33.30	Sept.	$32.00	$3.35	47.92%	$23.54	no	-19.25%
OTC	$33.30	Sept.	$34.00	$2.25	46.89%	$23.54	no	-22.55%
PAA	$20.10	Sept.	$20.00	$1.65	47.99%	$18.41	no	-0.20%
QLT	$25.20	Aug.	$25.00	$1.60	47.61%	$21.84	no	-6.98%
QLT	$25.20	Aug.	$27.50	$0.65	47.62%	$21.84	no	-10.75%
RIM	$84.30	Sept.	$85.00	$6.30	46.50%	$94.82	yes	8.30%
SW	$39.46	Sept.	$40.00	$4.20	67.51%	$22.84	no	-31.47%
WJA	$13.70	Aug.	$13.00	$1.05	39.47%	$13.19	yes	2.55%
WJA	$13.70	Aug.	$14.00	$0.55	41.18%	$13.19	no	0.29%
WJA	$13.70	Sept.	$13.00	$1.30	39.80%	$13.54	yes	4.38%
WJA	$13.70	Sept.	$14.00	$0.75	39.12%	$13.54	no	4.31%

In practice, we would not close out a position at expiry but write more calls. If we were in a position to be called out, we would buy back the option and write a new one at the same strike, looking for the difference in time premium as our reward. If the reward was too small, we would let the stock be called out and enter a new position to sell calls on.

But we were wrong in guessing the bottoms on three of the stocks, Nortel, Open Text, and QLT Inc. (We included Sierra Wireless as an example but it is not on our watched List). These could be rolled over selling calls at a lower strike price or closed. Note that two of these had sell recommendations in our Watched List at the time. More conservative players might want to steer clear of such stocks until a clear uptrend has been established.

But even if we had bought one of the stocks that gave us grief, Open Text, for example, selling covered calls would have mitigated our losses. You’ll note from the table above that Open Text took a massive hit, dropping from $33.30 to $23.54 over two months. If we had bought the stock and sold

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Introducing Our Covered Call Portfolio *(from page 8)*

the August $32 or August $34 calls, we would have been down 3.78% or 6.79% respectively if we closed the position at expiry. In practice, we would have sold new calls at lower strikes – either September $28 or September $30 for roughly the same premiums.

Let's follow the $32 strike example through.

Date	Adjusted Stock Price	Strike Price	Premium	Closing Price	Profit/Loss
07/16/04	$33.30	$32	$2.65	$29.39	-3.79%
08/20/04	$30.65	$28	$2.65	$23.54	-13.39%

If we had bought the stock at $33.30 on July 16th and sold the covereds at a $32 strike, we would have been at a 3.79% loss at expiry. Selling the $28 strike at that point for roughly the same premium, we would now be sitting at a 13.39% loss. The stock took a huge hit on August 31st when the quarterly report was released. Even though the revenues were up 97.7%, earnings per share were down 27.3%. This failed to meet street earnings expectations by a penny and the stock nosedived.

So if this were our position today, what should we do? The stock has leveled out after its huge dive and could now have hit bottom. If we make this assumption and sell $24 calls for $1.35, we have reduced our cost base to $26.65 and guarantee we will have a loss of 9.9% if called out. The better option would be to hold the stock and wait for it recover before selling calls again. We would put a 15% stop loss on the original cost of $33.30 less the option premiums received – that's a stop at $23.01. If we hit the stop, we are at a 15% loss and would close the position. But it's better than the 29.3% loss if we had just held the stock.

After considering the results over the last two months and our observations in our Extreme Options article (see page 3), we are creating a covered call portfolio as noted below. We are including fees of $27 for stock trades and $37 for options trades. We're starting with $50,000 and five positions based on Friday's close. Four will be from our Watched List. The other will be an Extreme Option Play. We're using a constant exchange rate of $1.30 for our calculations. We're buying 100 share lots as that is what each option contract covers. And the Model Covered Call Portfolio is:

Stocks					Options			
Company	Symbol	# of Shares	Price	Value	Expiry	Strike	Premium	Gross
Nortel	NT	2200	$4.40	$9680	Oct.	$4.50	$0.30	$660
Open Text	OTC	400	$23.91	$9564	Oct.	$24.00	$1.35	$540
Research in Motion	RIM	100	$94.82	$9482	Oct.	$100	$4.15	$415
Westjet	WJA	700	$13.54	$9478	Oct.	$14	$0.30	$210
Atherogenics	AGIX	400	US$18.10	$9412	Oct.	US$20	US$4.00	$2080
Totals				**$47,616**				**$3526**

Our current position is summarized below:

Initial Cash Position	$50,000
Stock Purchases	$47,616
Cash After Stock Trades	$2384
Add Option Premiums	$3,526
Less Commissions on Stock Purchases	$143.10
Less Commissions on Options	$196.10
Total	$53,186.80

The nature of our covered call portfolio is quite different than a regular portfolio. We will have an initial stop loss at 20% below our purchase price. If that position is hit, we will close out the option and sell the stock. Note that the premiums generated by our Extreme Option Play is greater than that generated by all the others combined. We'll review the mix after a few months.

This is an experiment for me so play along with real money at your own risk!

Mutual Funds

Marco's Power Performers

(for August 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.

Fund	1 yr	3 yr	5 yr
Super Power Performers			
Sprott Canadian Equity	31.53	29.08	39.30
Front Street Special Opportunities Canadian	39.80	35.86	30.86
Power Performers			
Resolute Growth	24.60	24.12	34.54
Front Street Small Cap Canadian	24.98	32.73	22.48
Mackenzie Universal Canadian Resource (US$)	38.74	34.46	21.06

The number of Super Power Performers was cut in half to two from four while the number of Power Performers dropped to three from five. Meanwhile the number of Perfomers dropped by five to 25. That's a total of just 30 funds in our tables. They have been dropping like flies as all the former high flying precious metals funds are now falling by the wayside. A smattering remain but small caps dominate. Some high income funds remain solid performers.

On the next page we take a closer look at the two Super Power Performers.

Performers

Fund	1 yr	3 yr	5 yr	Fund	1 yr	3 yr	5 yr
AGF Precious Metal	17.47	47.27	25.34	GGOF Monthly High Income Classic	18.00	17.30	17.16
Vertex Fund	24.78	15.23	22.70	Clarington Canadian Small-Cap	19.45	23.93	17.06
Dominion Equity Resource	16.46	25.00	22.66	Mavrix Dividend & Income	15.17	16.60	17.01
BluMont Hirsch Performance	16.40	16.07	21.66	CI Signature Canadian Resource	19.89	17.32	16.72
Elliott & Page Growth Opportunities	17.00	17.06	20.13	GGOF Monthly High Income Mutual	17.25	16.58	16.58
R Small Cap Canadian Equity	17.35	17.21	20.02	Northwest Specialty Equity	24.79	30.94	16.43
Hillsdale Canadian Performance Equity	23.61	17.06	19.37	CIBC Canadian Emerging Company	23.44	12.49	15.90
Mawer New Canada	27.71	23.85	18.82	Acuity Pooled High Income	16.38	17.64	15.82
London Life Canadian Resource (MF)	30.66	28.46	18.26	National Bank Small Capitalization	18.49	12.70	15.81
Mackenzie Universal Canadian Resource	31.89	27.40	18.01	Dynamic FocusPlus Resource	29.46	23.77	15.59
Trimark Canadian Resources	28.82	21.96	18.01	Sceptre Equity Growth	16.28	26.12	15.40
Bissett Income-F	18.49	16.67	17.94	Desjardins Financial Pool Bissett Small Cap	19.53	17.21	15.19
Ethical Special Equity	20.31	24.82	17.57	**Power Performers and related terms are copyright Marco den Ouden ©2004**			

(continued on page 11)

Power Performers Update *(from page 11)*

Our Two Super Power Performers

The number of Super Power Performers has been dwindling steadily throughout the year. In December 2003 there were 13. That dropped to ten in January, climbed to 14 in February, and dropped sharply to nine in March. April saw five, May saw a further slide to four, and June held steady at four. July saw four again and now we have August with just two. This surviving pair have been Super Power Performers continuously since October 2003.

The tables below show the top holdings for each fund as well as a chart showing the fund's growth over the last three years.

Sprott Canadian Equity Fund

Top Holdings as of June 30, 2004
Cambior Inc.
Cameco Corp.
Delta Petroleum
Gold Bars – 400 Oz.
High River Gold
Novagold Resources
Petrokazakhstan Inc.
Thunder Energy Inc.
Ultra Petroleum Corp.
The percentage that these holdings make up is not given.

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Front Street Special Opportunities Canadian Fund

Top Holdings as of Mar. 31/04	%
Savanna Energy Services	5.80%
Coretec Inc.	4.50%
Compton Pete	4.20%
Duvernay Oil Corp.	4.20%
Amerigo Res. Ltd.	4.10%
Midnight Oil & Gas	3.90%
Resolute Energy	3.90%
Breakwater Resources	3.60%
America Mineral	2.80%
Northgate Exploration	2.60%

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What sets these funds apart from the herd? Part of the answer is that they are managed by small fund companies. Sprott Asset Management manages just seven funds. Front Street manages just six. As the latter notes on its website, "Front Street Capital stands apart in a world dominated by largely indistinguishable financial services conglomerates." Both companies pride themselves on hands on management and an independent approach to investment.

Sprott Asset Management's John Embry, manager of Sprott's Gold and Precious Minerals Fund, recently made the news with the release of a70 page report that argues that the gold market is heavily manipulated. It's downloadable for free at sprottassetmanagement.com

Our Model Portfolio

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

Current Position: $96,191.85 (+92.38%) Up 13.65% YTD

A strong month saw our portfolio gain over $2000 with only one stock hitting our stop loss and being swapped for another. Six of the stocks in our portfolio are now up over 12% since we added them. Our portfolio as a whole is up 13.65% for the year, considerably ahead of the benchmark TSX which is up just 3.76%. It's way ahead of the US indexes as both the Dow and NASDAQ are still in the red this year. We took in $165.10 in income trust distributions this week boosting our cash position to $193.25. Be sure to check our weekly updates in the Subscriber area of our website.

Ainsworth Lumber (ANS – TSX)

# of Shares: 295	**Bought:** Aug. 30/04
Price Then: $32.25	**Price Now:** $33.00
Gain: +2.33%	**Stop:** $30.51

Notes: Ainsworth Lumber has been making tremendous strides with the building boom as its sales and profits soared.

Alimentation Couche-Tard (ATD.B – TSX)

# of Shares: 260	**Bought:** Aug. 16/04
Price Then: $27.20	**Price Now:** $28.34
Gain: +4.19%	**Stop:** $26.33

Notes: Couche-Tard is Canada's largest convenience store chain with brand names such as Mac's and Winks.

Canada Bread (CBY – TSX)

# of Shares: 245	**Bought:** July 26/04
Price Then: $28.35	**Price Now:** $30.55
Gain: +7.76%	**Stop:** $27.99

Notes: Canada Bread goes through periods of substantial growth making bread for both customers and investors.

CCS Income Fund (CCR.UN – TSX)

# of Shares: 240	**Bought:** May 19/03
Price Then: $20.29	**Price Now:** $31.20
Gain: +53.77%	**Stop:** $27.20

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

GSW Inc. (GSW.B – TSX)

# of Shares: 275	**Bought:** May 17/04
Price Then: $34.73	**Price Now:** $42.00
Gain: +20.93%	**Stop:** $39.60

Notes: GSW Inc. is a leading manufacturer of water heaters for the commercial and residential markets.

Home Capital Group (HCG – TSX)

# of Shares: 450	**Bought:** Aug. 9/04
Price Then: $21.49	**Price Now:** $24.75
Gain: +15.17%	**Stop:** $22.03

Notes: Home Capital Group is a fast growing alternative mortgage provider. One of our best picks ever.

Kingsway Financial (KFS – TSX)

# of Shares: 625	**Bought:** May 24/04
Price Then: $15.00	**Price Now:** $16.82
Gain: +12.13%	**Stop:** $15.03

Notes: Kingsway Financial is a leading supplier of alternative insurance services. After a slump, the stock is on the move again.

Pason Systems(PSI – TSX)

# of Shares: 320	**Bought:** May 17/04
Price Then: $30.00	**Price Now:** $31.96
Gain: +6.53%	**Stop:** $30.81

Notes: Pason Systems makes and leases high tech monitoring equipment for the oil patch. It had a stellar year in 2003.

Peyto Energy Trust (PEY.UN – TSX)

# of Shares: 300	**Bought:** Mar. 29/04
Price Then: $30.30	**Price Now:** $34.07
Gain: +12.44%	**Stop:** $31.08

Notes: 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.

Zargon Energy Trust (ZAR.UN – TSX)

# of Shares: 515	**Bought on:** Apr 19/04
Price Then: $17.70	**Price Now:** $9.95
Gain: +12.71%	**Stop:** $17.76

Notes: Zargon Energy Trust is an aggressive junior exploration company based in Alberta and converted to an energy trust in Aug. 2004.