

the Break Out Report

Volume # 2, Issue # 24

October 17, 2004

Anniversary

Heading into Year Three

Where does the time fly? Two years ago Ken and I launched this newsletter with a six page issue and an Elm Tree logo. That quickly evolved to the twelve pages we regularly feature today and the fantastic view of the snow-covered Golden Ears Mountains in Maple Ridge, B.C. in the header.

Just for fun I went back to that first issue Ken produced to see how his stock picks fared over the last two years. The results are in the table below.

Stock	Symbol	Then	High	Now	Max Change	Current Change
Immucor	BLUD	\$9.90	\$28.22	\$28.05	185.05%	183.33%
Repligen	RGEN	\$3.15	\$8.26	\$1.82	162.22%	-42.22%
Microsoft	MSFT	\$26.50	\$29.96	\$28.03	13.06%	5.77%
Shufflemaster	SHFL	\$15.63	\$39.55	\$35.35	153.04%	134.79%
MTR Gaming	MNTG	\$9.00	\$11.20	\$9.00	24.44%	0.00%

As you can see, three out of five of the stocks Ken featured in that issue eventually more than doubled and two are still close to the highs reached.

If you check my current Watched List, reviewed in detail starting on page 2, you'll see that sixteen have more than doubled. Eight of the stocks have more than tripled since featured with four of them quintupled. Two of those are up seven fold.

All in all, we've had a great two years with some great stock picks. Ken has brought you some super option picks and I introduced you to the Kelowna Boys Index Writing Strategy. Following our lead, you should have made many times the cost of this newsletter in profits. Thanks for your loyalty and support! Ken and I hope we share many more fruitful years with you.

Brief Notes

It's Not Just About Money

This issue is larger than most as I've included a special article as a bonus. Long before Ken and I started this newsletter, I wrote extensively for years on political and social issues for small libertarian newsletters. You, dear reader, may have noticed an occasional editorial pop into these pages, including two I did as Last Word editorials for Global National with Kevin Newman. So on page 13, you'll find a review of a must-see musical that is returning to limited engagements in Canada in November – Les Misérables.

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Quarterly Review

Trimming the Lean!!!

It's an interesting inversion on a theme. In business, if our profit margins are falling, we cut costs. We trim the fat. But in stock trading, that's not good advice. All too often, people make the mistake of taking profits in their winning stocks and hanging on to their losers in the hopes they'll recover. In fact, the opposite is the best strategy. Hang on to your winners and let them run. And by golly, sell those losers!

William O'Neil likens it to the manager of a store selling women's fashions. Red dresses are selling like hotcakes. The yellow ones aren't selling at all. What does a good manager do? Stock up on more yellow dresses? Or stock up on more red dresses? Which ones does the manager cut prices on in order to move them out of the store?

The prudent manager cuts prices on slow moving stock to make room for fast moving stock. She gets rid of her losers, even at a loss, and stocks up on the winners. In terms of stock trading, that means selling your losers and buying more of your winners. That is what we do with our Model Portfolio. When a stock starts to falter, in other words, when it starts to become a yellow dress, get rid of it. Replace it with a stock that is doing well, that is growing. Replace the yellow dress with a red dress. Stocks are sometimes said to go in and out of fashion. Replacing your "stock wardrobe" as circumstances change keeps your portfolio "fashionable". By which we mean profitable and growing.

So once again we review our Watched List with an eye to keeping the fat cats and getting rid of the mangy mutts. Once again we are trimming the lean!

But first we take a look at the top ten gainers and losers for the quarter.

Name	Symbol	Date Featured	Change Q3	Change YTD	Change Since Profiled
Iamgold Corp.	IMG	Mar. 16/01	35.66%	12.20%	520.86%
Zargon Oil & Gas	ZAR	Jan. 29/01	35.50%	71.63%	392.98%
Alimentation Couche-Tard	ATD.B	Dec. 4/00	29.44%	26.57%	426.09%
Peyto Energy Trust	PEY.UN	Feb. 22/02	27.12%	40.00%	640.78%
GSW Inc.	GSW.B	May 16/04	25.00%	18.77%	18.77%
Bear Creek Energy Ltd.	BCK	July 18/04	24.09%	24.09%	24.09%
CCS Income Fund	CCR.UN	May 18/03	20.23%	17.87%	77.18%
RONA Inc.	RON	Nov. 16/03	17.11%	8.18%	32.05%
Trican Well Service	TCW	Apr. 18/04	14.29%	31.54%	31.54%
Goldcorp Inc.	G	May 25/01	12.40%	-15.13%	123.50%

This quarter marked a major shift in direction for our stocks as only one of the top ten from the previous quarter repeated - Trican Well Service. In fact, of the ten top stocks this quarter, two of them, gold stocks Goldcorp and Iamgold, were in the bottom ten the previous quarter. This reflected a strengthening gold market that is now firmly bullish and an equity market that is wavering. Eight of the top ten this quarter, are in fact, commodity stocks or companies serving the commodities industry,
(continued on page 4)

The Break Out Report

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Watched List Update

Moving On Up!

The following four stocks from our Watched List are starting to move up again. One has a buy rating (Melcor) and the others are rated wait. Keep an eye on them. They may be the next big movers!



Cinram (CRW) Profiled: Aug. 17/03
Price then: \$25.83 Price Now: \$22.55

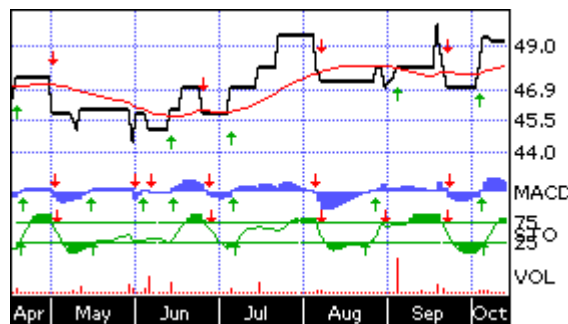
⇐ This leading manufacturer of CDs and DVDs has failed to inspire since we featured it just over a year ago, off 12.70%. But the stock looks like it may have bottomed. We're waiting for a confirming bounce off the moving average to rate it a buy. Revenues were up 58.00% and net earnings up 103.31% last quarter.

Melcor Dev. (MRD) Profiled: Mar. 2/01

Price then: \$20.30 Price Now: \$49.25

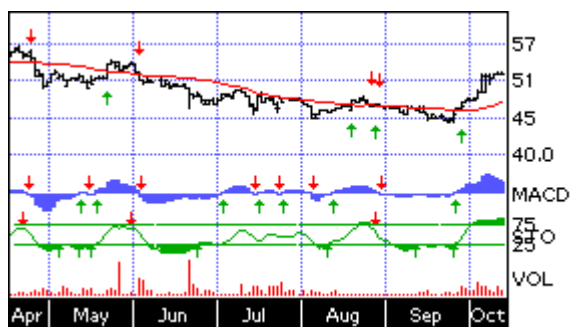
This Alberta developer has grown steadily since we first featured it, now up 142.61%. After a brief dip it may now be starting to rise again. It's been a buy for some time now.

Earnings per share were up 28.77% in the last quarterly report. With Alberta's economy strong, Melcor should continue its growth.



TSX Group (X) Profiled: Jan. 18/04
Price then: \$45.00 Price Now: \$51.90

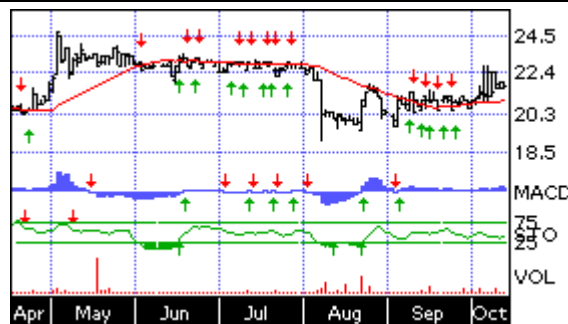
⇐ This was not one of our picks but one by fellow competitor Michael Smedley in the Globe & Mail's One and Only Contest. We added it and a few others we deemed worthy to our Watched List in January and it's now up 15.33%. After a slump since February, it's starting to move again. Waiting for consolidation before rating it a buy.



Zenon Enviro (ZEN) Profiled: Mar. 14/04

Price then: \$21.55 Price Now: \$21.75

This leader in filtration systems for municipal water supplies and sewage treatment centers has stellar long term growth but has been in a slump since we featured it, now up just 0.93%. As shown in the chart at right, it may have bottomed on this correction. Waiting for a bit more confirmation before rating it a buy.



Quarterly Review (from page 2)

including oil and gold.

Now let's look at the bottom ten:

Name	Symbol	Date Featured	Change Q3	Change YTD	Change Since Profiled
Bennett Environmental	BEV	May 25/01	-62.69%	-76.66%	78.57%
CoolBrands International	COB.A	June 15/03	-57.76%	-45.43%	-9.76%
Open Text	OTC	Apr. 20/03	-49.20%	-12.12%	-4.66%
Nortel Networks	NT	Sept. 21/03	-36.02%	-22.04%	-31.41%
Axcan Pharma	AXP	June 20/04	-30.65%	-28.47%	-28.47%
QLT Inc.	QLT	Jan. 18/04	-21.47%	-7.40%	-7.40%
Calian Technology	CTY	Oct. 1/02	-18.67%	-14.30%	169.35%
Cinram	CRW	Aug. 17/03	-15.20%	-25.22%	-17.92%
Cott Corp.	BCB	July 27/01	-14.78%	1.49%	80.00%
Stantec Inc.	STN	Apr. 20/01	-11.95%	6.38%	184.97%

The worst performer for the quarter was Bennett Environmental. Woes kept mounting on woes for this company. First it lost a major customer. Then it came in with a loss in the second quarter. Then disgruntled investors who don't want to take responsibility for their investing decisions launched a class action lawsuit. Actually it's more like greedy lawyers smelling festering wounds going in for the kill! Jackals!

Bennett Environmental was first featured on my website on May 25, 2001 and subsequently soared from \$3.50 to over \$20 ten months later. The tech wreck bear saw it plunge to \$8 a year and a half later. Then it soared once more, topping its previous highs and peaking at over \$28 at the end of 2003. This year has been downhill all the way as it now sits at \$5.27. It just announced restructuring charges in the third quarter that will put it in a loss position for the year. We're still up significantly from when we first featured the stock and if you had played this stock by our rules, using stop losses and buying the stock back on recoveries, a small fortune could have been made.

Will it recover? Probably...but recent history is such that we are dropping it from our Watched List with this review.

Our Quarterly Review

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. Here's the list:

Name	Symbol	Date Featured	Price Then	Change Q3	Change Since Profiled	Sept. RS Change	Recent Trend	QEPS Change	Status
Home Capital Group	HCG.B	Nov. 20/00	\$3.00	7.01%	693.67%	+0.83	↑	+50.0%	Keep
Peyto Energy Trust	PEY.UN	Feb. 22/02	\$5.15	27.12%	640.78%	+1.59	↑	T	Keep

(continued on page 5)

Quarterly Review (from page 4)

Name	Symbol	Date Featured	Price Then	Change Q3	Change Since Profiled	Sept. RS Change	Recent Trend	QEPS Change	Status
Iamgold Corp.	IMG	Mar. 16/01	\$1.63	35.66%	520.86%	-0.63	↑	-96.2%	Keep
Alimentation Couche-Tard	ATD.B	Dec. 4/00	\$5.75	29.44%	426.09%	+0.36	↑	+150.0%	Keep
Zargon En. Trust	ZAR	Jan. 29/01	\$4.70	35.50%	392.98%	+3.80	↑	-42.0%	Keep
TransForce Income Fund	TIF.UN	Jan. 18/02	\$3.11	9.64%	280.39%	-0.42	↑	+70.6%	Keep
Reitmans	RET.A	July 6/01	\$5.07	3.72%	268.61%	+1.31	↑	+36.0%	Keep
Contrans Income Fund	CSS.UN	Oct. 12/01	\$3.63	11.36%	259.23%	-2.19	↑	+30.4%	Keep
SNC-Lavalin	SNC	Mar. 23/01	\$16.25	-1.33%	197.54%	off list	→	+11.1%	Keep
Richelieu Hardware	RCH	Dec. 4/00	\$7.00	8.44%	193.57%	new	↑	+19.2%	Keep
Stantec Inc.	STN	Apr. 20/01	\$8.25	-11.95%	184.97%	off list	↓	-2.9%	Keep
Calian Technology	CTY	Oct. 1/02	\$3.85	-18.67%	169.35%	off list	↓	+150.0%	Keep
Melcor Developments	MRD	Mar. 2/01	\$20.30	2.73%	131.53%	off list	↑	+28.8%	Keep
Goldcorp Inc.	G	May 25/01	\$7.83	12.40%	123.50%	off list	↑	-44.4%	Keep
Canada Bread	CBY	May 18/01	\$13.00	5.41%	118.92%	off list	↑	+74.3%	Keep
CML Healthcare Income Fund	CLC.UN	Apr. 12/02	\$5.85	8.33%	100.00%	off list	↑	+110.0%	Keep
Finning International	FTT	May 11/01	\$16.40	-5.71%	91.16%	off list	↓	-14.6%	Keep
Cott Corp.	BCB	July 27/01	\$20.50	-14.78%	80.00%	off list	↓	+17.1%	Keep
AlarmForce	AF	Sept. 21/03	\$1.92	-2.27%	79.69%	-1.90	↑	+21.1%	Keep
Niko Resources	NKO	Nov. 17/02	\$22.20	2.98%	79.05%	-1.64	↑	-25.0%	Keep
Bennett Environmental	BEV	May 25/01	\$3.50	-62.69%	78.57%	off list	↓	L	Drop

(continued on page 6)

Quarterly Review (from page 5)

Name	Symbol	Date Featured	Price Then	Change Q3	Change Since Profiled	Sept. RS Change	Recent Trend	QEPS Change	Status
CCS Inc. Fund	CCR.UN	May 18/03	\$20.29	20.23%	77.18%	+10.59	↑	+29.4%	Keep
Fortis Inc.	FTS	Mar. 16/01	\$38.00	5.33%	61.18%	off list	↑	+0.0%	Keep
BMTC Group	GBT.A	Aug. 20/02	\$6.98	-2.73%	53.41%	off list	→	+86.4%	Keep
Steepleback Industrial Group	SID	Jan. 18/04	\$2.95	11.53%	50.85%	+0.23	↑	+57.1%	Keep
RONA Inc.	RON	Nov. 16/03	\$25.55	17.11%	32.05%	+0.70	↑	+75.5%	Keep
Trican Well Service	TCW	Apr. 18/04	\$36.49	14.29%	31.54%	+1.19	↑	T	Keep
Bear Creek Energy Ltd.	BCK	July 18/04	\$5.48	24.09%	24.09%	+7.84	↑	+0.0%	Keep
GSW Inc.	GSW.B	May 16/04	\$34.73	25.00%	18.77%	-1.49	↑	+77.3%	Keep
ZCL Composites	ZCL	June 20/04	\$2.05	7.32%	7.32%	+4.90	↑	-69.5%	Keep
Pason Systems	PSI	May 16/04	\$30.00	0.23%	3.57%	-1.92	→	+63.6%	Keep
TSX Group	X	Jan. 18/04	\$45.00	-3.15%	2.44%	-3.71	→	+52.1%	Keep
CIBC	CM	Feb. 15/04	\$66.15	3.79%	2.30%	off list	↑	-20.8%	Keep
Research In Motion	RIM	Sept. 19/04	\$94.82	1.60%	1.60%	-0.04	↑	+3500.0%	Keep
Ainsworth Lumber Co.	ANS	Aug. 15/04	\$30.40	0.33%	0.33%	+0.11	↑	+156.3%	Keep
Draxis Health	DAX	Feb. 15/04	\$6.05	-1.63%	0.00%	+0.44	↑	+51.4%	Keep
Zenon Environmental	ZEN	Mar. 14/04	\$21.55	-9.04%	-2.92%	-2.36	↓	+87.5%	Keep
Falconbridge Ltd.	FL	Mar. 14/04	\$34.75	2.60%	-3.31%	-2.24	↑	+261.9%	Keep
Open Text	OTC	Apr. 20/03	\$22.75	-49.20%	-4.66%	off list	↓	-27.3%	Drop
QLT Inc.	QLT	Jan. 18/04	\$22.56	-21.47%	-7.40%	off list	↓	+25.0%	Keep
CoolBrands Int.	COB.A	June 15/03	\$10.25	-57.76%	-9.76%	off list	↓	+100.0%	Keep

(continued on page 10)

Income Trust Pick

Big Rock Brewery Income Trust (BR.UN –TSX)

(website: www.bigrockbeer.com)

“To create a masterpiece, no compromise may be tolerated!” That is Big Rock Brewery’s motto. This Calgary, Alberta based craft brewery was the brainchild of lawyer Ed McNally who had wanted to be a brewer since boyhood. Somehow he got into law and one day he was hired by a group of disgruntled Alberta barley growers to sue the Canadian Wheat Board. The farmers alleged that the Wheat Board was selling their premium malting barley at premium prices but not paying the farmers a premium price. McNally discovered that Alberta grows some of the finest malting barley in the world. He also discovered that the largest malting company in the world, Canada Malting Company, was based in Calgary. Ed saw the light. He became....a brewer? No! not yet! He became a barley farmer!

After a hard day’s farming, Ed liked to kick back with a brew, but found that local beers just weren’t up to snuff. He had to drink imported beer to find a taste that suited him. So he thought, if Alberta has the best barley and great supply of hard water, why was no one producing a good quality beer? And why was most of his barley being sold for cattle feed?

And so lawyer turned farmer Ed McNally, with the financial backing of friends and the talents of a Swiss brewmaster, got into the brewing business in 1984. He named it after The Big Rock, a geological formation known as a glacial erratic near Okotoks, Alberta.

Business was slow at first but started to take off with the launch of their Pale Ale in 1986 – fortuitously coinciding with a strike at the major breweries. Sales took off as the brewery went into 24 hour operation. Another boost came with the Alelympics during the Calgary Olympics in 1988 and the launch of Cold Cock Winter Porter. They discovered that unusual names and eye-catching labels sold. That led to the introduction of such brands as Buzzard’s Breath, Warthog and Grasshopper. The company started exporting these brands to California. Sales tripled.

In 1993 Big Rock launched its IPO as a public company. By July 1996 it had built a new state-of-the-art facility tripling the company’s production capacity. In January 2003 the company was re-organized into an income trust.

The trust currently pays a distribution of \$0.09 a unit per month for an annual distribution of \$1.08. This works out to 6.73% a year at the current price of \$16.05. Like some of the best income trusts, this one combines a smaller but reasonable distribution with aggressive growth.

Quarterly Earnings per Share

To June 30th	2003	2004	% Change
EPS	\$0.28	\$0.38	+26.32%
Revenues (000s)	\$9,755	\$11,576	+18.67%

Annual Earnings per Share

To Mar. 31st	2002	2003	% Change	2004	% Change
EPS	\$0.24	\$0.43	+79.17%	\$1.06	+146.51%
Revenues (000s)	\$24,909	\$30,463	+22.30%	\$36,790	+20.77%

(continued on page 8)

Big Rock Brewery Income Trust (from page 7)

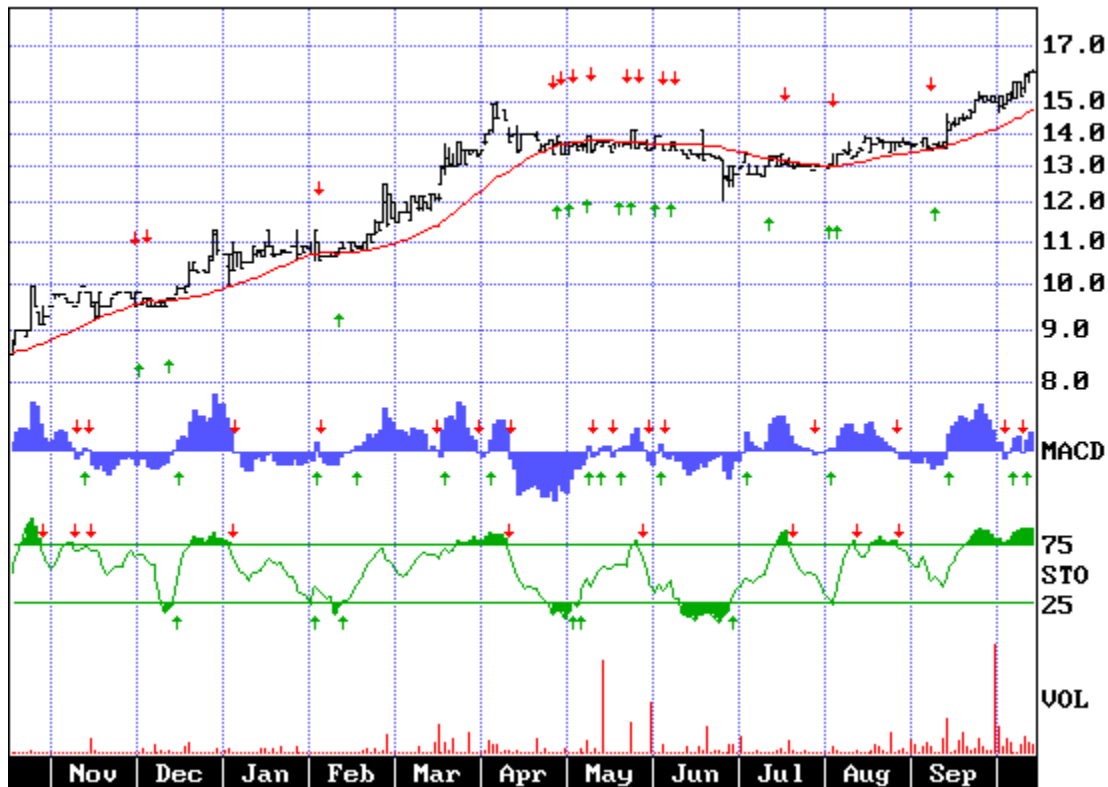


Chart Analysis: After forming a long shallow cup and handle from April through September, Big Rock is starting to take off again. There was a huge volume spurt on Oct. 1st representing considerable institutional interest. The trust units have shown steady continuous growth from the \$6-7 level since conversion in January 2003. A new growth phase may be under way.

Stats as of 10/15/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.89	▪ Price Pattern: A+
▪ RS: 93.93	▪ Volatility: A+
▪ Shares: 5,347,556	▪ Estimates: A-
▪ P/E: 14.00	▪ Snapshot: A
▪ Price: \$16.05	▪ News: A

Phase 2: We give BR.UN an A+ for price pattern an A+ for volatility as it is a solid long term grower with little volatility. Only one analyst is following the stock and estimates have been raised with an overall 2.0 or buy rating. We give it an A-. The snapshot is excellent with solid growth in revenues and strong growth in earnings. Return on equity has been growing as well with a solid 23.96 at the end of the last fiscal year. We give it an A. News is excellent with the introduction of Jack rabbit low carb beer, excellent quarterly reports and an increase in monthly distributions. Great news gives 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 September 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.

Small caps remained strong as the number of Super Power Performers more than doubled to five in September. The number of Power Performers climbed to eight from three. We also saw a swelling in the ranks of the Performers to 35 from 25. Total for all our qualifiers is 48, up sharply from 30 in August.

Super Power Performers

Fund Name	1 yr	3 yr	5 yr
Sprott Canadian Equity	38.12	33.86	41.30
Resolute Growth	42.88	37.04	38.26
Front Street Special Opportunities Canadian	53.76	44.53	31.55
Dominion Equity Resource	34.62	32.29	25.50
Front Street Small Cap Canadian	41.42	44.56	25.23

Power Performers

AGF Precious Metal	21.04	49.55	23.73
Mackenzie Universal Cdn. Resources (US\$)	46.54	44.00	22.85
Norrep Fund	22.35	30.50	22.13
R Small Cap Canadian Equity	24.03	22.11	21.63
Elliott & Page Growth Opportunities	23.36	21.79	21.60
Hillsdale Canadian Performance Equity	30.05	22.41	21.25
Mawer New Canada	32.04	29.95	20.36
London Life Canadian Resource (MF)	35.90	33.52	20.27

Performers

Fund Name	1 yr	3 yr	5 yr	Fund Name	1 yr	3 yr	5 yr
Vertex Fund	33.73	18.15	24.43	CI Global Energy (US\$)	56.73	27.15	17.38
BluMont Hirsch Performance	17.25	18.09	22.49	TD Energy	36.83	21.94	17.22
Bissett Microcap-F	16.98	28.51	20.15	Acuity Pooled High Income	22.95	20.62	17.15
Mackenzie Univ. Cdn. Resource	37.15	33.70	19.19	Acuity Pooled Conserv. Asset Alloc.	19.66	18.76	17.07
Trimark Canadian Resources	37.06	27.44	18.99	Optima Strat. Cdn. Eq. Value Pool	20.88	16.68	16.84
Northwest Specialty Equity	31.73	38.40	18.74	National Bank Small Capitalization	21.87	19.33	16.76
Bissett Income-F	24.84	20.04	18.61	Talvest Millennium High Income	17.28	15.88	16.66
CI Signature Cdn. Resource	31.56	22.15	18.53	CIBC Cdn. Emerging Company	23.45	17.77	16.57
RBC Energy	44.89	23.14	18.49	Elliott & Page Monthly High Income	17.85	16.21	16.55
Ethical Special Equity	25.63	29.27	18.48	CIBC Energy	42.66	28.76	16.33
Sentry Canadian Energy Growth	27.92	22.30	18.20	Desjardins Fin. Pool Bissett Sm.Cap	23.04	23.24	16.23
GGOF Monthly High Inc. Classic	24.04	20.37	18.08	Dynamic FocusPlus Resource	39.27	29.28	15.91
Clarington Canadian Small-Cap	24.63	28.40	17.97	Beutel Goodman Small Cap	16.29	16.93	15.74
Mavrix Dividend & Income	23.37	19.47	17.87	Maritime Life Canadian Growth-R	18.02	26.32	15.59
Trimark Canadian Small Co.	19.40	17.38	17.86	ABC Fundamental Value	29.84	20.42	15.55
Renaissance Cdn. Income Trust	21.68	18.64	17.58	Empire Small Cap Equity	21.78	19.97	15.25
Sceptre Equity Growth	23.73	32.86	17.53	Saxon Small Cap Fund	22.76	23.30	15.20
GGOF Monthly High Inc. Mutual	23.27	19.61	17.51	Power Performers copyright Marco den Ouden ©2004			

Extreme Options**Not for Weak Stomachs!!**

Last issue I introduced you to Extreme Options – that is stocks whose option volatility is such that they generate huge premiums if sold. I mentioned a few with volatilities over 200% including two that I had actually made trades on. Well, I found out very quickly how volatile such stocks can be and thought that two pictures are worth a thousand words.

I had bought two lots of stock, one in Maxim Pharmaceuticals and one in Atherogenics. Then I sold covered calls on them. I also sold a naked strangle on Atherogenics.

(continued on page 11)

Quarterly Review (from page 6)

Name	Symbol	Date Featured	Price Then	Change Q3	Change Since Profiled	Sept. RS Change	Recent Trend	QEPS Change	Status
Kingsway Financial	KFS	July 20/03	\$18.60	4.35%	-10.97%	new	↑	+7.3%	Keep
Cinram	CRW	Aug. 17/03	\$25.83	-15.20%	-17.92%	off list	↓	+0.0%	Keep
Killam Properties	KMP	Jan. 18/04	\$2.36	-8.21%	-19.49%	-4.77	↓	-63.6%	Keep
Axcan Pharma	AXP	June 20/04	\$27.43	-30.65%	-28.47%	off list	↓	+31.6%	Keep
Nortel Networks	NT	Sept. 21/03	\$6.24	-36.02%	-31.41%	off list	↓	n/a	Drop
Stratos Global	SGB	Aug. 17/03	\$14.00	-7.23%	-32.14%	off list	↓	-35.3%	Drop
Westjet Airlines	WJA	Jan. 18/04	\$20.97	-4.15%	-37.29%	off list	→	-53.8%	Keep
Aggregate Change				-26.31%	5271.32%				
Average Change				-0.55%	109.82%				

Dropped (with YTD and Total Gain in brackets) are Bennett Environmental (-76.66%, +78.57%), Open Text (-12.12%, -4.66%), Nortel Networks (-22.04%, -31.41%), and Stratos Global (-26.58%, -32.14%).

The last quarter was a poor one for our Watched List with an average loss of 0.55%. Much of this was due to a few sharp decliners – Bennett off 62.69% for the quarter, Coolbrands off 57.76%, Open Text off 49.20% and Nortel off 36.02%. On the positive side, gainers outnumbered decliners 28 to 20 with twelve stocks gaining ten percent or more.

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. Some of our previous discards went on to make significant gains. But we want to keep our Watched List manageable – around 50 stocks, so we'll continue to do periodic pruning. Our pruning rules help us decide what to discard.

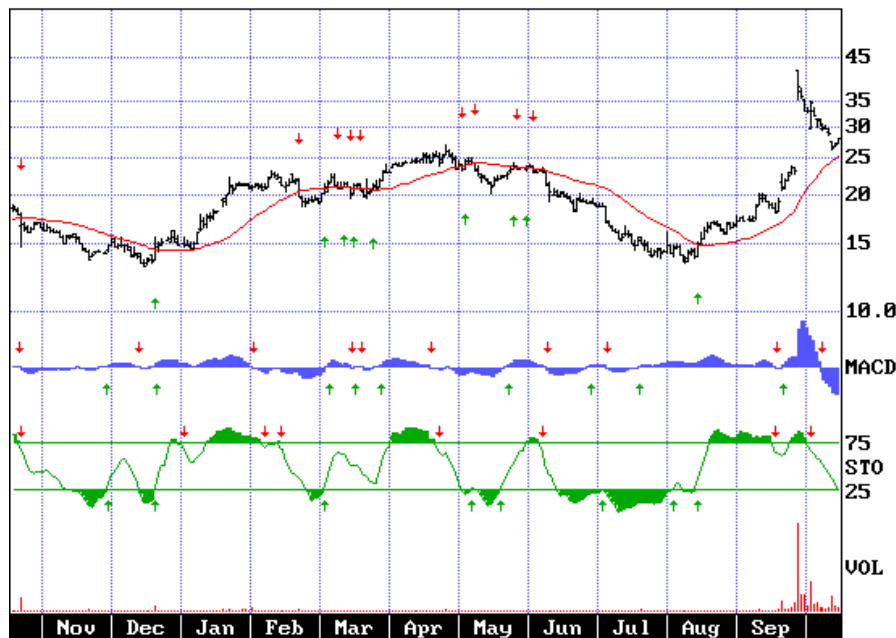
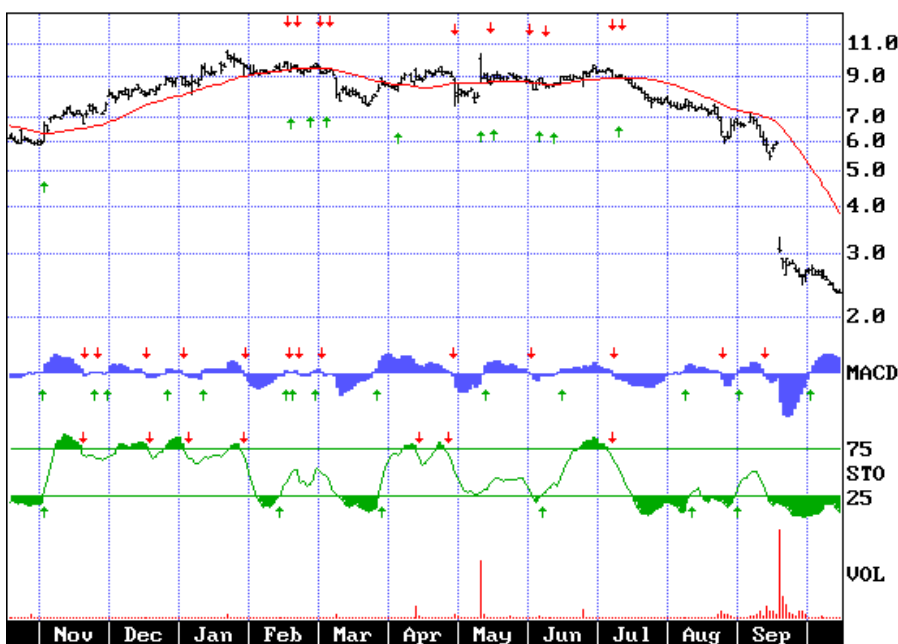
Extreme Options (from page 10)

More specifically, I had bought 200 shares of Maxim at \$6.75 and sold calls at \$2.05 (\$7.50 strike) – what I thought was a pretty good deal at the time. Especially since the stock had not been below \$5 in over a year. I also bought 200 shares of Atherogenics at \$17.47 and sold calls at \$4.00 (\$17.50 strike). Finally I sold naked puts on Atherogenics at \$12.50 strike and naked calls at a \$30 strike. I mean, what were the odds that the stock could fly up over \$30? Really? Well check the two charts below.

The day after the newsletter came out, Maxim Pharma was hit by a negative clinical trial result.

The stock had already fallen to \$5.94 by Sept. 17th. But the bad news on the 20th sent the stock plummeting to \$3.04 on volume of almost 17 and a half million shares. It's been drifting downwards ever since.

My loss was 50% based on Friday's close, not counting commissions. US\$470.



Atherogenics was just the opposite. They were expecting two clinical trial results and the first came out after the closing bell on Sept. 27th. The next day the stock, which had already been rising steadily, shot up 64% to \$38. This was fine for my covered calls, but not so good for the naked calls I had. After some sweating I concluded that this new level was unsustainable in spite of Lehman Brothers

upgrading the stock to a \$50 target. There was still over two weeks to expiry. And slowly it drifted back below \$30. The second clinical trial was negative and caused minor down move earlier this week. Unless there is a takeover bid, the stock should trade in a range. I toyed with playing the naked strangle again, but decided it was too nerve wracking. I did roll up the covered calls.

Our Model Portfolio

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

Current Position: \$100,199.90 (+100.40%) Up 18.38% YTD

Another strong month saw our portfolio soar to double its launch value. That's a 100% gain in two years and nine months. There were a few trades during the month and one stop loss was triggered on Friday. We have entered a new position with Reitman's based on Friday's closing prices. We also took in another \$165.10 in distributions, most of which went to the Reitman's purchase. Our cash position is \$50.40. Be sure to follow our trades as they are updated weekly in the Subscribers Only section of the website.

<p style="text-align: center;">Alimentation Couche-Tard (ATD.B – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 260</td> <td>Bought: Aug. 16/04</td> </tr> <tr> <td>Price Then: \$27.20</td> <td>Price Now: \$30.00</td> </tr> <tr> <td>Gain: +10.29%</td> <td>Stop: \$27.15</td> </tr> </table> <p>Notes: Couche-Tard is Canada's largest convenience store chain with brand names such as Mac's and Winks.</p>	# of Shares: 260	Bought: Aug. 16/04	Price Then: \$27.20	Price Now: \$30.00	Gain: +10.29%	Stop: \$27.15	<p style="text-align: center;">Canada Bread (CBY – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 245</td> <td>Bought: July 26/04</td> </tr> <tr> <td>Price Then: \$28.35</td> <td>Price Now: \$30.05</td> </tr> <tr> <td>Gain: +6.00%</td> <td>Stop: \$28.04</td> </tr> </table> <p>Notes: Canada Bread goes through periods of substantial growth making bread for both customers and investors.</p>	# of Shares: 245	Bought: July 26/04	Price Then: \$28.35	Price Now: \$30.05	Gain: +6.00%	Stop: \$28.04
# of Shares: 260	Bought: Aug. 16/04												
Price Then: \$27.20	Price Now: \$30.00												
Gain: +10.29%	Stop: \$27.15												
# of Shares: 245	Bought: July 26/04												
Price Then: \$28.35	Price Now: \$30.05												
Gain: +6.00%	Stop: \$28.04												
<p style="text-align: center;">CCS Income Fund (CCR.UN – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 240</td> <td>Bought: May 19/03</td> </tr> <tr> <td>Price Then: \$20.29</td> <td>Price Now: \$36.75</td> </tr> <tr> <td>Gain: +81.12%</td> <td>Stop: \$32.94</td> </tr> </table> <p>Notes: Formerly Canadian Crude Separators, CCS works on environmental solutions for the oil industry.</p>	# of Shares: 240	Bought: May 19/03	Price Then: \$20.29	Price Now: \$36.75	Gain: +81.12%	Stop: \$32.94	<p style="text-align: center;">GSW Inc. (GSW.B – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 275</td> <td>Bought: May 17/04</td> </tr> <tr> <td>Price Then: \$34.73</td> <td>Price Now: \$40.00</td> </tr> <tr> <td>Gain: +15.17%</td> <td>Stop: \$39.60</td> </tr> </table> <p>Notes: GSW Inc. is a leading manufacturer of water heaters for the commercial and residential markets.</p>	# of Shares: 275	Bought: May 17/04	Price Then: \$34.73	Price Now: \$40.00	Gain: +15.17%	Stop: \$39.60
# of Shares: 240	Bought: May 19/03												
Price Then: \$20.29	Price Now: \$36.75												
Gain: +81.12%	Stop: \$32.94												
# of Shares: 275	Bought: May 17/04												
Price Then: \$34.73	Price Now: \$40.00												
Gain: +15.17%	Stop: \$39.60												
<p style="text-align: center;">Home Capital Group (HCG – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 450</td> <td>Bought: Aug. 9/04</td> </tr> <tr> <td>Price Then: \$21.49</td> <td>Price Now: \$24.30</td> </tr> <tr> <td>Gain: +15.17%</td> <td>Stop: \$22.43</td> </tr> </table> <p>Notes: Home Capital Group is a fast growing alternative mortgage provider. One of our best picks ever.</p>	# of Shares: 450	Bought: Aug. 9/04	Price Then: \$21.49	Price Now: \$24.30	Gain: +15.17%	Stop: \$22.43	<p style="text-align: center;">Kingsway Financial (KFS – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 625</td> <td>Bought: May 24/04</td> </tr> <tr> <td>Price Then: \$15.00</td> <td>Price Now: \$16.27</td> </tr> <tr> <td>Gain: +8.47%</td> <td>Stop: \$15.13</td> </tr> </table> <p>Notes: Kingsway Financial is a leading supplier of alternative insurance services. After a slump, the stock is on the move again.</p>	# of Shares: 625	Bought: May 24/04	Price Then: \$15.00	Price Now: \$16.27	Gain: +8.47%	Stop: \$15.13
# of Shares: 450	Bought: Aug. 9/04												
Price Then: \$21.49	Price Now: \$24.30												
Gain: +15.17%	Stop: \$22.43												
# of Shares: 625	Bought: May 24/04												
Price Then: \$15.00	Price Now: \$16.27												
Gain: +8.47%	Stop: \$15.13												
<p style="text-align: center;">Peyto Energy Trust (PEY.UN – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 300</td> <td>Bought: Mar. 29/04</td> </tr> <tr> <td>Price Then: \$30.30</td> <td>Price Now: \$41.91</td> </tr> <tr> <td>Gain: +38.32%</td> <td>Stop: \$36.46</td> </tr> </table> <p>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.</p>	# of Shares: 300	Bought: Mar. 29/04	Price Then: \$30.30	Price Now: \$41.91	Gain: +38.32%	Stop: \$36.46	<p style="text-align: center;">Reitman's (RET.A – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 500</td> <td>Bought: Oct. 18/04</td> </tr> <tr> <td>Price Then: \$20.00</td> <td>Price Now: \$20.00</td> </tr> <tr> <td>Gain: +0.00%</td> <td>Stop: \$18.00</td> </tr> </table> <p>Notes: Reitman's is Canada's largest women's fashions retailer with over 800 stores across the country.</p>	# of Shares: 500	Bought: Oct. 18/04	Price Then: \$20.00	Price Now: \$20.00	Gain: +0.00%	Stop: \$18.00
# of Shares: 300	Bought: Mar. 29/04												
Price Then: \$30.30	Price Now: \$41.91												
Gain: +38.32%	Stop: \$36.46												
# of Shares: 500	Bought: Oct. 18/04												
Price Then: \$20.00	Price Now: \$20.00												
Gain: +0.00%	Stop: \$18.00												
<p style="text-align: center;">RONA Inc. (RON – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 280</td> <td>Bought: Sept. 27/04</td> </tr> <tr> <td>Price Then: \$32.10</td> <td>Price Now: \$35.00</td> </tr> <tr> <td>Gain: +9.03%</td> <td>Stop: \$31.50</td> </tr> </table> <p>Notes: RONA is Canada's largest home improvement company – yes – even larger than Home Depot.</p>	# of Shares: 280	Bought: Sept. 27/04	Price Then: \$32.10	Price Now: \$35.00	Gain: +9.03%	Stop: \$31.50	<p style="text-align: center;">Zargon Energy Trust (ZAR.UN – TSX)</p> <table border="1" style="width: 100%;"> <tr> <td># of Shares: 515</td> <td>Bought on: Apr 19/04</td> </tr> <tr> <td>Price Then: \$17.70</td> <td>Price Now: \$22.70</td> </tr> <tr> <td>Gain: +28.25%</td> <td>Stop: \$20.54</td> </tr> </table> <p>Notes: Zargon Energy Trust is an aggressive junior exploration company based in Alberta and converted to an energy trust in Aug. 2004.</p>	# of Shares: 515	Bought on: Apr 19/04	Price Then: \$17.70	Price Now: \$22.70	Gain: +28.25%	Stop: \$20.54
# of Shares: 280	Bought: Sept. 27/04												
Price Then: \$32.10	Price Now: \$35.00												
Gain: +9.03%	Stop: \$31.50												
# of Shares: 515	Bought on: Apr 19/04												
Price Then: \$17.70	Price Now: \$22.70												
Gain: +28.25%	Stop: \$20.54												

Enriching Experiences

Do You Hear the People Sing?

Money and investing are just a part of what makes for a rich life. But there are values that transcend money, essential elements without which all of the money in the world would still leave one a pauper. Such values as love, family, truth, justice, honour, and liberty. So in this article I depart from my usual subjects to recommend a celebration of life, a tour de force that has enthralled audiences around the world because it celebrates these values. I'm speaking of the hit musical, Les Misérables.

The proof of the pudding is in the eating. When Les Misérables first hit the London stage in 1985 it was met with poor reviews from the critics and standing ovations from the audiences. Even in Vancouver a few years ago, the production was panned by theatre critics in the Vancouver Sun and the Georgia Straight as boring, clumsy and banal. One compared it to watching "gerbils on a treadmill". The critics, unfortunately, are often out of touch with the people.

These reviewers are sadly ignorant of the reasons for the production's great appeal, the reason why everyday folks reviewing it at Epinions.com give it an average five star rating with comments like that of the man whose wife "dragged" him to see it, who went expecting to "hate it" and who came away calling the music "fantastic", the staging "brilliant" and "grateful that my wife knows what's best for me". Another was persuaded by a friend to see it and "couldn't believe that he "was going to pay almost \$80 to see grown men and women jumping across the stage in song, when I could see the latest blockbuster at the movie theater for \$8!" He came away "dumbfounded" saying "I enjoyed this show more than any movie or play I have ever seen".

Many of the reviewers at Epinions are young people who saw the production on school outings. This younger generation which is easily bored was very much thrilled by what they had seen.

And the reason is the story and the characters, the magic of the Hugesque world where values matter, where people are purposeful, where even struggle and tragedy end in hope and a celebration of the human spirit.

Norman Denny, in his introduction to his excellent translation of Victor Hugo's novel, notes that the French term is not easily translatable into English. "Hugo's 'misérables' are not merely the poor and the wretched, they are the outcasts, the underdogs, the rejected of society and the rebels against society." The students at the barricades, for example, are idealistic middle class students, visionaries with a fateful vision. They are passionate men for whom ideals are worth fighting for. Some latter day commentators have compared them to the students at Tiananmen Square who one can imagine singing one of the most stirring songs in the musical:

Do you hear the people sing?
Singing the song of angry men?
It is the music of a people
Who will not be slaves again!

Hugo was a romanticist. He was concerned with portraying human values and creating larger than life characters embodying these values. The dramatic high points in Hugo's novels always involve conflict between values and portentous choices.

In Les Misérables, the primary conflict is between Jean Valjean, an ex-convict who is trying hard to lead a good life based on compassion for his fellow man, and Inspector Javert, a rigid police inspector for whom law and authority are the essence of good. Because Valjean changes his name to avoid the stigma of his past, he has violated his parole. He has broken the law. To Javert, the fact that Valjean has become an honest and very successful businessman, indeed, even become the Mayor of his town, is just not good enough.

(continued on page 14)

Do You Hear the People Sing? (from page 13)

The values these men hold lead each to crisis points where crucial choices must be made. Javert tells the Mayor (who he does not recognize as the ex-convict) that they have arrested Jean Valjean. Three former fellow convicts and indeed, Javert himself, are convinced he is the man they knew from years ago even though the man denies it. The Mayor faces a choice. Does he let an innocent man rot in jail in his place or does he reveal who he is to save the man, destroying all he has achieved in his new identity?

Valjean later is put in a situation where he has the power to kill Javert but lets him go. This creates a crisis for Javert when he later has the power to arrest Valjean. Does he show mercy to the man who spared him and so betray his lifelong dedication to upholding the law? How can he live with himself if he shows mercy, yet how can he live with himself if he doesn't?

That is the substance of high drama. That is the source of Hugo's appeal. And these dramatic moments are not lost in the translation of the novel to the musical stage. Great moral conflicts abound. Should Eponine help Marius, the man she loves, to find Cossette, the woman he loves, thus dooming her own chance for happiness or should she betray him? Should Marius fight with his friends on the barricades for the ideals they believe in or should he abandon them and try to find Cossette?

Such profound conflicts make for stirring songs. One of my favorites is Red and Black where Marius and Enjolras, the rebel leader, dramatize the conflict between fighting for one's ideals of justice and freedom and following the longings of one's heart. "Red – the blood of angry men" versus "Red – the colour of desire".

Not only is the story grand and the music inspiring, the staging is brilliant. The musical uses a revolving stage that makes for a fast paced spectacular production. They allow effects that are usually only seen in movies. In the powerful closing scene to the first act, the entire cast is marching in the background while Valjean and Cossette are at a small bench in the foreground. As the cast marches, the set rotates so that Valjean and Cossette move across the stage. The marching cast does a lockstep that keeps them marching in place. The effect is astounding. It is the same as if a camera were panning across the foreground figures while remaining aimed at the background figures. But while this is visually stunning, what moves the audience is the song, "One Day More" as each character sings of the conflicts facing them. A veritable tour de force!

As for that reviewer whose name I won't deign to mention who likens it to gerbils in a treadmill - Some gerbils! Some treadmill!

A review of the Broadway production by neo-romanticist novelist Kay Nolte Smith (Reason Magazine, February 1988) puts it much better than I can. Smith, a keen Hugophile, is not unaware of the musical's limitations, after all, the book is over a thousand pages and the musical just three hours, yet she concludes:

"People love this musical; they weep, cheer, seem to experience a catharsis. The emotions in *Les Misérables* are of a kind contemporary theater and fiction refuse to touch (sometimes even to acknowledge) except with such ten foot poles as irony, mockery, angst, even amusement. Unapologetically and openly, *Les Misérables* celebrates idealism, freedom, love of one's children, dedication to the good. On the brooding scenery, in the often murky light, everyone on stage is ablaze, whether with the agony of choice, the ecstasy of hope, or the pain of loss. For the audience, the experience is as exhilarating as unusual; how splendid, one feels, that things matter so much!"

The fact that this production, which brings tears to the eyes of the audience and people to their feet in standing ovations, only brings yawns to some of the intellectual snobs of the reviewing classes, says more about the souls of those critics than it does about the worth of *Les Misérables*.

The show visits Canada starting November 10th with stops in Vancouver and Saskatoon. Be sure to arrive early enough to read the synopsis in the playbill as it makes the story easier to follow. And bring Kleenex. The show is unabashedly emotional and a three hanky special.

The show is a triumphant spectacle rarely seen in the theatre. It is a celebration of the human spirit. Although my wife and I have seen the show three times already, we can hardly wait to see it again. It really *is* that good.