

the Break Out Report

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Strategies

Are Our Stops Too Tight?

One of my role models as an investment newsletter writer is the legendary Patrick McKeough who writes *The Successful Investor*. My approach is different than his and I don't always agree with his recommendations, otherwise why bother writing this newsletter? But I respect his years of experience, knowledgeability and wisdom, not to mention his superb track record. One of the areas we disagree on is the use of stops. Pat doesn't use them.

Pat is a holistic investor. He looks at the total picture and doesn't like stops because they take the decision making away from the investor and puts it in a machine, your broker's computer. In the June 1999 issue of *The Successful Investor*, he argued against selling rules including ones based on various ratios such as P/E or price to book. One good rule to remember," he argued, "is that stocks can never get so high that they can't go higher."

Selling rules, he argued, may "spur you to sell stocks that are headed much higher. It's about equally effective in helping you sidestep 10% to 20% losses and 300% profits."

That point comes across very clearly when reviewing our Model Portfolio over the last two years. At the beginning of 2003 we had 825 shares of Peyto Exploration that we had bought on July 18, 2002 at \$6.16 a share, an investment of \$5082. On March 13, 2003 we sold them at \$12.11 when our stop loss was hit. At the time, our methodology was to hold the proceeds of a sale and buy back the same stock when it resumed an up trend. That didn't take too long for Peyto and we bought back 635 shares on May 5, 2003 at \$14.60. Our hope, of course, had been that we would buy back at a lower price, but the correction was short lived and not much deeper than our 15% stop loss. Because the price was higher, we could buy back only 635 shares.

On June 27, 2003, another stop loss was triggered and we sold at \$14.90. We bought back only a few weeks later on July 14th at \$17.05. Of course, the higher price meant we could only buy back 555 shares. On Feb. 4, 2004 we again hit our stop loss and sold at \$24.56. We bought back in again on Mar. 27, 2004 at \$30.30 – only 300 shares this time. We still have those shares and they are now at \$47.44 and worth \$14,232. Around \$4500 was diverted to diversification however.

If we had followed McKeough's approach of holding for the long term and not selling based on "signals", we would now have 825 shares at \$47.44 for a value of \$39,138. That's a prime example of what McKeough means by saying a signal based selling plan is "equally effective in helping you sidestep 10% to 20% losses and 300% profits."

Let's look at another example – Home Capital Group. At the start of 2003 we had 370 shares bought at \$13.25 on Oct. 16, 2002 for a cost of \$4902.50. The stock proved remarkably resilient

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In This Issue: Quarterly Review of Our Watched List (see page 2)

Quarterly Review

The State of the Watched List

In late January every year, the President of the United States gives an address to a joint session of Congress and the Senate called the State of the Union address. He talks about the issues facing the country and where it stands.

Now I'm not the President of the United States, but every quarter I give my readers a State of the Watched List address, so to speak. In it I review the stocks on our list noting their recent change in Relative Strength, their most recent quarterly earnings growth, and whether they trended up, down or sideways in the last three months.

Please note that the trend analysis in our Quarterly Review differs from the trend indicator I use in my weekly Trend Watch feature online. In the Quarterly Review, I look at whether the trend in the last three months was generally up down or sideways. With our weekly updates, I look at the leading edge of the thirty day moving average. If it has been sloping down for several months but is now turned up, then I note it as up in the Trend Watch update but down in the Quarterly Review.

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

Name	Symbol	Date Featured	Change Q4	Change YTD	Change Since Profiled
Canada Bread Company	CBY	May 18/01	65.14%	82.52%	261.54%
ZCL Composites	ZCL	June 20/04	55.45%	66.83%	66.83%
Reitmans (Canada)	RET.SV.A	July 6/01	53.19%	124.31%	464.66%
Calian Technology	CTY	Oct. 1/02	44.46%	23.80%	289.09%
Trican Well Service	TCW	Apr. 18/04	38.54%	82.24%	82.24%
Home Capital Group	HCG	Nov. 20/00	31.25%	87.97%	941.67%
TransForce Income Fund	TIF.UN	Jan. 18/02	28.74%	59.48%	389.71%
Niko Resources	NKO	Nov. 17/02	26.97%	86.24%	127.34%
Peyto Energy Trust	PEY.UN	Feb. 22/02	25.37%	75.52%	828.74%
Bear Creek Energy	BCK	July 18/04	24.85%	54.93%	54.93%

Three of our stocks, Trican Well Service, Peyto Energy Trust and Bear Creek Energy, were in the Top Ten last quarter as well. Last quarter, eight of the Top Ten were resource based. This quarter, only four are. And leading the pack is Canada Bread, up a whopping 65.14% in three months. If you tend to pooh pooh nuts and bolts companies like bread makers, truckers, clothing retailers and finance companies as boring and stuffy, note that all are represented in our Top Ten for the quarter.

The Bottom Ten for the Quarter were the only ones to lose ground in the quarter, dropping anywhere from 1.41% to 20.85%. The biggest loser for the quarter was lamgold. Interestingly enough, lamgold was the best performer in the previous quarter. It was not the only stock to run hot and cold in consecutive quarters. Calian Technology was in the Bottom Ten in Q3 and graduated to the Top Ten in Q4. The full table of the Bottom Ten is on page 3.

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Editors: Marco den Ouden & Ken Ballard
Website: <http://breakoutreport.com>

Email us: marco@breakoutreport.com
ken@breakoutreport.com

Articles this issue by Marco den Ouden unless otherwise indicated.

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Quarterly Review (from page 2)

Bottom Ten for Q4 2004

Name	Symbol	Date Featured	Change Q4	Change YTD	Change Since Profiled
Iamgold Corp.	IMG	Mar. 16/01	-20.85%	-11.20%	391.41%
Cott Corp.	BCB	July 27/01	-19.57%	-18.37%	44.78%
Ainsworth Lumber Co.	ANS	Aug. 15/04	-18.69%	-18.42%	-18.42%
Steepleback Industrial Group	SID	Jan. 18/04	-10.34%	35.25%	35.25%
Westjet Airlines	WJA	Jan. 18/04	-8.82%	-42.82%	-42.82%
QLT Inc.	QLT	Jan. 18/04	-7.95%	-14.76%	-14.76%
Falconbridge Ltd.	FL	Mar. 14/04	-7.44%	-10.50%	-10.50%
easyhome	EH	Dec. 17/04	-2.06%	-2.06%	-2.06%
Draxis Health	DAX	Feb. 15/04	-1.49%	-1.49%	-1.49%
CoolBrands International	COB.A	June 15/03	-1.41%	-46.19%	-11.02%

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 December 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 Q4	Change Since Profiled	Dec. RS Change	Recent Trend	QEPS Change	Status
Home Cap. Grp	HCG	Nov. 20/00	\$3.00	31.25%	941.67%	-0.08	↑	+43.5%	Keep
Peyto Energy	PEY.UN	Feb. 22/02	\$5.15	25.37%	828.74%	+0.98	↑	-16.1%	Keep
Alimentation Couche-Tard	ATD.SV.B	Dec. 4/00	\$5.75	17.36%	517.39%	+2.09	↑	+63.3%	Keep
Reitmans	RET.NV.A	July 6/01	\$5.07	53.19%	464.66%	+0.72	↑	+35.1%	Keep
Zargon Energy	ZAR.UN	Jan. 29/01	\$4.70	2.93%	407.45%	-1.25	↑	+12.5%	Keep
Iamgold Corp.	IMG	Mar. 16/01	\$1.63	-20.85%	391.41%	off list	↓	L	Drop
TransForce Income Fund	TIF.UN	Jan. 18/02	\$3.11	28.74%	389.71%	+2.78	↑	+75.0%	Keep
Calian Tech.	CTY	Oct. 1/02	\$3.85	44.46%	289.09%	new	↑	+100.0%	Keep
Contrans Income Fund	CSS.UN	Oct. 12/01	\$3.63	7.59%	286.50%	+0.49	↑	-32.0%	Keep

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Quarterly Review (from page 3)

Name	Symbol	Date Featured	Price Then	Change Q4	Change Since Profiled	Dec. RS Change	Recent Trend	QEPS Change	Status
Canada Bread	CBY	May 18/01	\$13.00	65.14%	261.54%	+5.64	↑	+65.9%	Keep
SNC-Lavalin	SNC	Mar. 23/01	\$16.25	19.96%	256.92%	off list	↑	+16.3%	Keep
Stantec Inc.	STN	Apr. 20/01	\$8.25	12.63%	220.97%	+1.87	↑	+15.8%	Keep
Richelieu Hardware	RCH	Dec. 4/00	\$7.00	6.91%	213.86%	off list	↑	+19.2%	Keep
Melcor Dev.	MRD	Mar. 2/01	\$20.30	8.51%	151.23%	off list	↑	-38.2%	Keep
Goldcorp Inc.	G	May 25/01	\$7.83	3.20%	130.65%	off list	↑	-58.3%	Keep
CML Healthcare	CLC.UN	Apr. 12/02	\$5.85	14.10%	128.21%	off list	↑	+150.0%	Keep
Niko Resources	NKO	Nov. 17/02	\$22.20	26.97%	127.34%	+1.84	↑	0.0%	Keep
CCS Inc. Fund	CCR.UN	May 18/03	\$20.29	22.20%	116.51%	+0.20	↑	+15.0%	Keep
Finning Intl.	FTT	May 11/01	\$16.40	11.61%	113.35%	off list	↑	+17.0%	Keep
AlarmForce	AF	Sept. 21/03	\$1.92	2.90%	84.90%	off list	→	-6.3%	Keep
Fortis Inc.	FTS	Mar. 16/01	\$38.00	13.47%	82.89%	new	↑	+1.0%	Keep
Trican Well Svc.	TCW	Apr. 18/04	\$36.49	38.54%	82.24%	+0.97	↑	-31.7%	Keep
BMTC Group	GBT.SV.A	Aug. 20/02	\$6.98	18.69%	82.08%	off list	↑	+59.3%	Keep
ZCL Composites	ZCL	June 20/04	\$2.05	55.45%	66.83%	+0.38	↑	+600.0%	Keep
RONA Inc.	RON	Nov. 16/03	\$25.55	20.92%	59.69%	-2.85	↑	+78.6%	Keep
Bear Creek Energy Ltd.	BCK	July 18/04	\$5.48	24.85%	54.93%	-0.21	↑	+600.0%	Keep
Cott Corp.	BCB	July 27/01	\$20.50	-19.57%	44.78%	off list	↓	-13.9%	Keep
Steepleback Industrial Group	SID	Jan. 18/04	\$2.95	-10.34%	35.25%	+2.92	↓	L	Keep
GSW Inc.	GSW.SV.B	May 16/04	\$34.73	9.09%	29.57%	+1.31	↑	+33.7%	Keep
Pason Systems	PSI	May 16/04	\$30.00	19.09%	23.33%	-2.52	↑	-4.8%	Keep

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Quarterly Review (from page 4)

Name	Symbol	Date Featured	Price Then	Change Q4	Change Since Profiled	Dec. RS Change	Recent Trend	QEPS Change	Status
Chartwell Tech.	CWH	Dec. 17/04	\$5.60	19.64%	19.64%	+0.12	↑	+250.0%	Keep
TSX Group	X	Jan. 18/04	\$45.00	16.46%	19.31%	-2.39	↑	+3.6%	Keep
Sherritt Int.	S	Nov. 19/04	\$8.66	14.78%	14.78%	-5.81	↑	+90.0%	Keep
Cameco Corp.	CCO	Nov. 19/04	\$36.87	13.78%	13.78%	+0.21	↑	+47.5%	Keep
Big Rock Brewery	BR.UN	Oct. 15/04	\$16.05	12.15%	12.15%	+0.07	↑	0.0%	Keep
CIBC	CM	Feb. 15/04	\$66.15	6.74%	9.19%	off list	↑	-17.2%	Keep
Zenon Enviro.	ZEN	Mar. 14/04	\$21.55	12.09%	8.82%	-0.11	↑	-11.1%	Keep
Research In Motion	RIM	Sept. 19/04	\$94.82	2.53%	4.18%	-1.72	→	+360.0%	Keep
Kingsway Fin. Svc.	KFS	July 20/03	\$18.60	14.73%	2.15%	+7.22	↑	+92.9%	Keep
Draxis Health	DAX	Feb. 15/04	\$6.05	-1.49%	-1.49%	+0.55	→	-68.3%	Keep
easyhome	EH	Dec. 17/04	\$19.40	-2.06%	-2.06%	+1.09	↑	+165.2%	Keep
Falconbridge Ltd.	FL	Mar. 14/04	\$34.75	-7.44%	-10.50%	off list	↓	+750.0%	Keep
CoolBrands Intl.	COB.A	June 15/03	\$10.25	-1.41%	-11.02%	off list	→	-3.7%	Keep
Killam Properties	KMP	Jan. 18/04	\$2.36	7.89%	-13.14%	-10.56	→	+160.0%	Keep
Cinram	CRW	Aug. 17/03	\$25.83	4.39%	-14.32%	off list	→	+29.2%	Keep
QLT Inc.	QLT	Jan. 18/04	\$22.56	-7.95%	-14.76%	off list	↓	+26.3%	Keep
Axcan Pharma	AXP	June 20/04	\$27.43	18.65%	-15.13%	off list	↑	+30.0%	Keep
Ainsworth Lumber	ANS	Aug. 15/04	\$30.40	-18.69%	-18.42%	-0.93	↓	+108.0%	Keep
Westjet Airlines	WJA	Jan. 18/04	\$20.97	-8.82%	-42.82%	off list	↓	-39.3%	Keep
Aggregate Change				650.38%	6844.02%				
Average Change				13.27%	139.67%				

Dropped (with YTD and Total Gain in brackets) is Iamgold (-11.20%, +391.41%)

Our Watched List did fairly well this past quarter, moving up 13.27% on average. Although we are active traders and encourage using stops, our Watched List in aggregate has done quite well on just a buy and hold basis. Including the stocks dropped during the year, our Watched List is up an average of 13.69%. Our actively managed Model Portfolio was up 44.57%.

Oil Sands Pick

BlackRock Ventures (BVI –TSX)

(website: www.blackrock-ven.com)

Usually I go searching for a stock or two to feature in this newsletter but sometimes the stock finds me. In this case, I read about BlackRock Ventures in the January 12th Financial Post in an article called BlackRock Ventures is Not for Sale, a column by Barry Critchley. The article looked at some recent insider trades in the company and the plans and projections of the principals.

Seymour Shulich, the company's largest shareholder, went into the market on two occasions this year to buy a million shares, once on January 6th and a second time on January 10th. With his long-time associate Pierre Lassonde, they control about 20% of the company. Shulich and Lassonde were both formerly principals in Franco Nevada, the fabulously successful precious metals royalty company I featured on my website on Sept. 21, 2001. Franco Nevada stayed on my Watched List until taken over by giant Newmont Mining. Like Franco Nevada, BlackRock Ventures is debt free.

So we have history. Here's some more history – this time more specifically related to BlackRock. The company has been to the well that is the equity markets on two occasions in the last five years. In September 2002 it sold five million shares at \$2.60 each. In April 2004 it sold another nine million shares at \$4.70. Mr. Shulich bought his two blocks this month at \$7.50 and \$8.00. Notice the price pattern?

Moreover, Mr. Shulich told Critchley that I am not in this for an (exit price) of \$10 to \$11. I am in this because I think the stock could be in the \$20-\$40 range within three years." With his substantial stake, Shulich is a director of the company, but not an officer.

After reading the article I looked at the numbers to see if it met my criteria. It was hitting new highs, and it had a track record of growing revenues and earnings. Return on equity is still a bit weak but likely to improve. It was enough for me to say, yes, this could be a winner.

BlackRock Ventures was launched in 1996 and is a junior oil exploration company. Its original interests were in a mining operation and a 65% interest in an oil sands lease in Cold Lake. In 1999 the company sold the mining interest and hired new management to focus on heavy oil development. Today the company produces over 10,000 barrels of heavy oil a day.

The company is focused on growing by the bit rather than by acquisitions, a strategy we have observed in other successful junior oil companies.

The full 2004 numbers are not yet available so I have included the trailing twelve months to Sept. 30th instead. Growth is clearly starting to accelerate.

Quarterly Earnings per Share

To Sept. 30th	2003	2004	% Change
EPS	\$0.01	\$0.04	+300.00%
Revenues (000s)	\$7,201	\$13,375	+85.74%

Annual Earnings per Share

To Dec. 31st	2002	2003	% Change	2004 (TTM to 09/30/04)	% Change
EPS	\$0.06	\$0.05	-16.67%	\$0.08	+60.0%
Revenues (000s)	\$25,925	\$28,849	+11.28%	\$41,630	+44.30%

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BlackRock Ventures (from page 6)

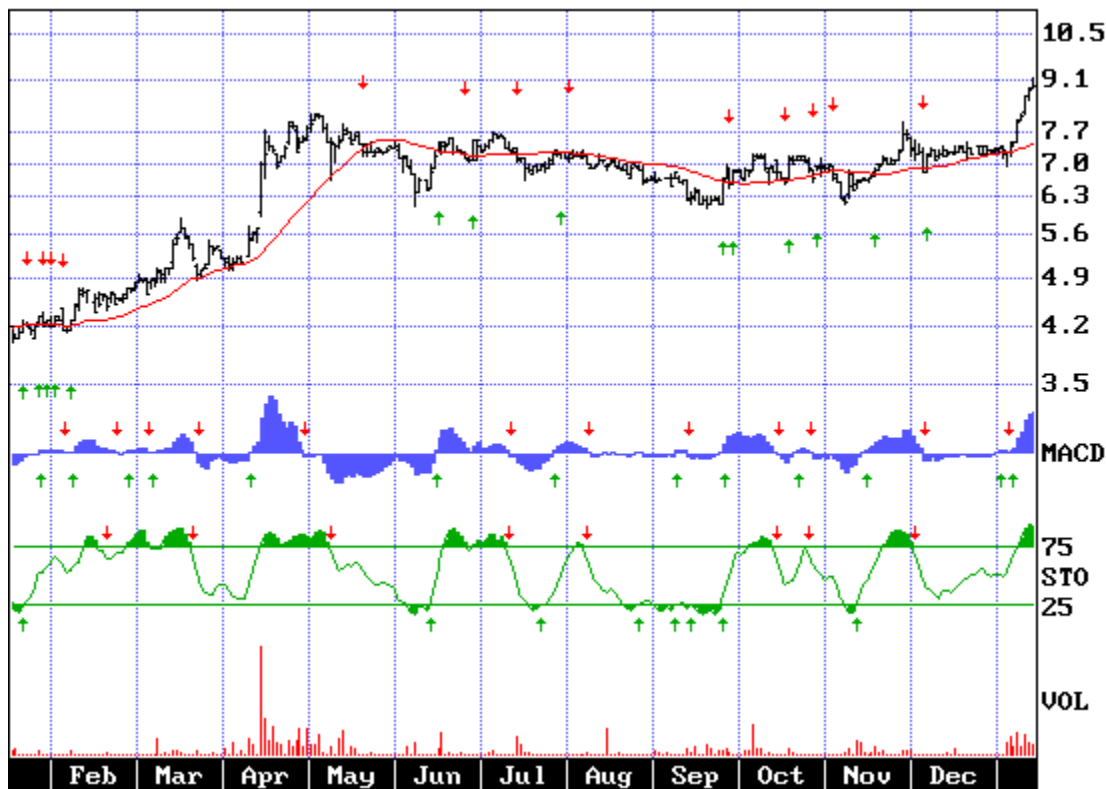


Chart Analysis: BlackRock Ventures traded flat at around 90 cents to a dollar throughout 2000 and 2001. It then soared to \$2.70 in the first half of 2002 and traded in a narrow range through to mid-2003. It then climbed for almost a year to \$8 and has traded in the \$6.30 to \$7.70 range from May through to the end of 2004 as shown above. A flurry of activity has now started the stock on another upleg with a green arrow and two phantom green arrows on increased volume in the last two weeks.

Stats as of 01/14/05	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.22	▪ Price Pattern: A
▪ RS: 97.59	▪ Volatility: A
▪ Shares: 83,756,706	▪ Estimates: B+
▪ P/E: 99.11	▪ Snapshot: B+
▪ Price: \$8.92	▪ News: A+

Phase 2: We give BVI an A for price pattern and an A for volatility as it is a solid long term grower with little volatility on the downside. Estimates are up substantially with an average rating of 2.4 or buy. We give it a B+. The snapshot shows solid growth in revenues and earnings. Return on equity is low but growing. We give it a B+. News is excellent with its major investor increasing his stake recently, regulatory approval for an oil sands project, resumption of operation of a project shut down for repair and the exceeding of targets for 2004. Great news gives us an 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 December 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 our Super Power Performers jumped from four to six for December. But the number of Power Performers dropped from 24 to just 15. The number of Performers climbed from 40 to 44. Grand total: 65 funds compared to 68 for November.

Again Small caps led the way with Precious Metals making a comeback.

The two top funds, Resolute Growth and Sprott Canadian Equity, have been long time top performing mutual funds. Both have also been closed to new investors for a while. But this month, Sprott has re-opened

Super Power Performers

Fund Name	1 yr	3 yr	5 yr
Resolute Growth	38.42	35.03	40.10
Sprott Canadian Equity	37.85	35.67	38.89
Dominion Equity Resource	37.83	34.74	33.23
Adaly Opportunity-A	27.68	28.90	32.34
Norrep Fund	25.03	29.49	31.15
Mackenzie Universal Cdn. Resource (US\$)	30.02	43.02	28.32

Power Performers

Front Street Small Cap Canadian	24.28	35.87	29.92
Mackenzie Universal Canadian Resource	21.08	30.28	23.74
Mawer New Canada	29.53	26.34	23.01
London Life Canadian Resource (MF)	20.01	29.19	22.74
CI Global Energy (US\$)	50.18	29.67	22.53
TD Energy	32.03	22.00	22.32
CIBC Energy	46.81	32.77	22.31
RBC Energy	33.94	22.01	22.29
Bissett Income-F	23.97	20.67	22.19
GGOF Monthly High Income Classic	24.43	21.47	21.72
Vertex Fund	20.20	20.42	21.29
Bissett Microcap-F	25.07	25.95	21.11
GGOF Monthly High Income Mutual	23.95	20.79	21.11
Hillsdale Canadian Performance Equity	26.89	22.41	20.69
Sceptre Equity Growth	25.62	31.89	20.16

the Sprott Canadian Equity Fund. And so we offer this short profile on the fund and its manager.

Profile: Sprott Canadian Equity Fund

In early December, the Sprott Canadian Equity Fund became the number one performing fund in North America based on its five year track record – a staggering annual compounded return of 42%. How good is that? Well, consider that Warren Buffett, the richest investor in the world and one time richest man in the world (before Bill Gates assumed that mantle), had an average return for his Berkshire-Hathaway holding company of just 30% a year. Buffett maintained those returns for over 45 years.

If fund manager Eric Sprott can continue his winning ways, he will surpass Buffett as the world's greatest investor. But his style and his approach are quite different.

Buffett does not care about the market. He agrees entirely with another legend, Peter Lynch, who once said "If you spend more than 12 minutes a year worrying about the economy, you've wasted 10 minutes." Buffett focuses on individual companies, not the broad market. He looks at the bottom line and looks at a company as if he were buying the whole company in order to run it.

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Marco's Power Performers (from page 8)

Eric Sprott, on the other hand, has a reputation as one of the biggest bears on Bay Street. A gold bug, Sprott has been negative on the economy as a whole and on large cap blue chip stocks in particular. But he doesn't just sit on the sidelines. Nor does he put everything into gold. He is known to have an eye for value and to bet big when he finds something he likes. It's not unusual for Sprott to buy more than 10% of a company he likes.

Sprott spotted coal and uranium as big plays in 2004 ahead of the crowd. He has a keen eye for undervalued stocks in the resource sector. And he looks out for unusual stocks such as Taser International, the maker of stun guns. He's also keen on cutting edge medical stocks such as Syneron Medical, an Israeli company that uses infrared light and radio waves to eliminate wrinkles, acne, and even cellulite. Or DiagnoCure, a Quebec based company in the forefront of cancer detection.

Pension funds and conservative investors shun him, but retail investors love him. And now you have the chance to buy again too. Check with your broker!

Performers							
Fund Name	1 yr	3 yr	5 yr	Fund Name	1 yr	3 yr	5 yr
Front Street Special Opportunities Canadian	19.32	44.56	29.59	Saxon High Income	15.15	15.83	18.06
Sentry Canadian Energy Growth	17.56	21.15	22.46	Hillsdale Canadian Aggressive Hedged A	23.55	15.67	17.77
Northwest Specialty Equity	19.72	32.52	22.26	Bissett Small Cap-F	28.17	19.36	17.45
CI Signature Canadian Resource	19.33	21.32	21.60	ABC American-Value	20.85	19.70	17.43
Renaissance Canadian Inc. Trust	22.97	18.75	21.49	Montrusco Bolton Cdn. Sm. Cap 'B'	27.32	22.85	17.27
Trimark Canadian Resources	16.08	23.03	20.97	Acuity Pooled Conservative Asset Allocation	15.08	18.07	17.24
Ethical Special Equity	18.04	26.52	20.85	Empire Small Cap Equity	15.73	17.39	17.03
Mavrix Dividend & Income	20.92	19.00	20.57	ABC Fundamental Value	21.42	17.31	16.95
Clarington Canadian Small-Cap	17.62	25.61	20.56	Acuity High Income	18.98	17.91	16.83
Dynamic FocusPlus Resource	19.42	28.72	20.14	Concordia Special Growth	16.48	17.41	16.80
R Small Cap Canadian Equity	18.60	21.10	19.96	Dynamic FocusPlus Real Estate	22.52	15.68	16.68
Elliott & Page Growth Opportunities	18.29	20.14	19.91	Saxon Small Cap Fund	17.41	19.38	16.59
Acuity Pooled High Income	21.31	20.71	19.55	CI Signature High Income	19.86	16.78	16.51
AGF Canadian Resources	19.51	26.42	19.18	Clarica SF CI Signature Canadian Resource	17.31	21.24	16.50
Desjardins Financial Pool Bissett SmallCap	29.74	21.16	19.15	Altamira Resource	21.92	31.61	16.38
Mackenzie Cundill Recovery 'C'(US\$)	19.53	32.43	19.08	KEYSTONE Saxon Smaller Companies	17.54	17.43	16.24
GWL Cdn. Resource (A) DSC	19.27	26.04	19.05	CI Signature High Income GIF-A	18.08	15.05	16.03
Elliott & Page Monthly High Income	18.88	16.69	19.00	Middlefield Enhanced Yield	22.48	18.36	16.03
GWL Cdn. Resource (A) NL	19.02	25.77	18.79	Mackenzie Cundill Value 'C' (US\$)	20.17	19.61	15.95
Thornmark Dividend & Income	25.51	16.87	18.59	Templeton Global Smaller Companies (US\$)	19.45	24.10	15.69
Talvest Millennium High Income	16.59	15.11	18.46	Canada Life Gens Small Cap Equity (Biss)	25.89	17.37	15.66
CI Global Energy Sector	39.14	18.08	18.07	Trimark Global Balanced (US\$)	18.83	18.64	15.49

Are Our Stops Too Tight? (from page 1)

And we kept the stock for over a year and a half before we got a sell signal on April 12, 2004. The stock had split so we had 740 shares which we sold off at \$23.29 for proceeds of \$17,234.60. By this time we had changed our portfolio strategy and instead of retaining the proceeds to re-invest in the same stock later, we immediately became fully invested again by buying \$9115.50 of Zargon Oil and Gas and increasing our holdings in Falconbridge, Zenon Environmental and Stantec, all of which subsequently triggered sell signals except for Zargon. Only Zenon was profitable on selling it. We still hold Zargon and it is now selling for \$25.15 for a total of \$12,952.25.

We did buy back 450 shares of Home Capital Group at \$21.49 on Aug. 9, 2004, almost \$2 less than what we sold it for. Home Capital Group is now at \$30.70 for a value of \$13,815. If we consider the other trades a wash and add together the current value of our Zargon and Home Capital Group holdings, we have a total of \$26,767.25. If we had kept the Home Capital Group, we would have 740 shares worth \$22,718. In this case, the trading gained us about \$4000.

So in one case, our stop loss rules cost us a potential gain of \$24,906. In the other it gained us \$4049.25. True, our rules changed by the time we were stopped out of Home Capital Group, and there's the possibility that if we had immediately re-invested the proceeds of the Peyto sales instead of holding the proceeds and waiting for a chance to jump back in, we would be ahead.

Below is a list of our holdings and their cost at the beginning of 2003 and where the stocks would be today if we still held them. The Repadre Capital shares each became 1.6 lamgold shares. The Home Capital Group and IPL Inc. are adjusted for 2 for 1 splits.

Stock	Date bought	# of Shares	Price Then	Price Dec. 31 2002	Value Dec. 31 2002	Price Dec. 31 2004	Value Dec. 31 2004
Niko Resources	Nov. 26/02	180	\$22.25	\$25.80	\$4644.00	\$50.47	\$9084.60
Dalsa Corporation	Nov. 18/02	240	\$18.50	\$18.24	\$4377.60	\$20.98	\$5035.20
Repadre Capital	Dec. 6/02	968	\$9.10	\$12.23	\$11,838.64	\$8.01	\$12,407.49
Peyto Exploration	July 18/02	825	\$6.16	\$11.15	\$9198.75	\$47.83	\$39,459.75
Home Capital Group	Oct. 16/02	370	\$13.25	\$14.50	\$5365.00	\$31.25	\$23,125.00
Goldcorp	Dec. 6/02	320	\$17.15	\$20.06	\$6419.20	\$18.06	\$5779.20
Mega Bloks	Dec. 16/02	225	\$22.00	\$23.50	\$5287.50	\$19.05	\$4286.25
IPL Inc.	Dec. 16/02	210	\$23.50	\$23.99	\$5037.90	\$8.75	\$3675.00
Cash					\$10,222.74		\$10,222.74
Total					\$62,391.33		\$113,075.23

Now the above portfolio had two cash positions. As it turned, the positions were later filled by Westjet at \$16.25 and Forzani Group at \$17.98. On Dec. 31st, Westjet was at \$11.99 after a 3/2 split or \$17.99 split adjusted. Forzani Group was at \$12.06. Westjet made a minor gain and Forzani lost considerable ground.

Our actual portfolio on Dec. 31, 2004 was worth \$122,364.95. The increased gains from Peyto and Home Capital Group using a buy and hold approach was more than offset by the gains we made by trading out of Dalsa, Mega Bloks, IPL Inc. and Goldcorp into better performing stocks.

(continued on page 11)

Are Our Stops Too Tight? (from page 10)

Nevertheless, we want to preserve the integrity of our holdings in exceptionally strong stocks like Peyto while retaining the flexibility to bail out of losers like IPL Inc. quickly. Looking back at the Peyto trades, the first sale was prompted by a drop of 18.0%, the second by a drop of 10.3% and the third by a drop of 15.19%. Peyto was up over 95% at its peak when the first stop was triggered. The second and third were triggered because we reset our gains to zero and started over in calculating our stops when we bought back in.

The losses we showed for IPL Inc., Mega Bloks and others along the way continue to sway me to having stop losses in place. But it seems that for high powered stocks, more leeway is needed on the downside. This is particularly so in light of the fact that we were stopped out of two stocks this past week, both at a 15% level. Both were stopped out at intra-day prices, not closing prices, but our hard stops are intra-day. We have been using soft stops or mental stops based on closing prices below 15% with a hard stop or actual standing order with our broker at 15%. So we are now amending our stop loss rules as follows:

- Exception Rule # 2: 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 cap this at 20% as the absolute maximum deviation we would tolerate from an interim closing high before selling.
- Stops: We use soft stops based on closing prices with the following exceptions: we use a hard stop of 10% below the purchase price when we have just bought a stock. We use a hard stop of 20% 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.

I believe this will give us a little more flexibility for strong stocks and result in fewer unnecessary sales. At the same time, we will still have downside protection on the stocks in our portfolio. We still want to have that protection. After all, McKeough continued to recommend Nortel as a buy, albeit for aggressive and risk tolerant investors, as it fell from its peak to \$10. That is something our system would not allow.

Our complete revised trading rules will be re-written and posted in the Members Area shortly.

One and Only Contest

Almost a Winner!

The *Globe and Mail's* annual One and Only Contest for 2004 ended a couple of weeks ago. When the dust settled, yours truly had the winningest stock of the year, Peyto Energy Trust, up 86.45% including distributions. The nearest competitor was Michael Smedley, president and portfolio manager for Canadian General Investments, whose pick of TSX Group was up 28.02%.

Although I had the best performing stock for the full year, York University Finance Professor Moshe Milevsky actually won the contest because he exercised an option to lock in his gains after the first quarter. His pick, Forbes Medi-Tech, was up 179.0% at the time. Within a couple of weeks of locking in, Forbes crashed, never to regain its starry heights of the first quarter. It ended the year down 6.6%. It was Milevsky's third consecutive win.

The 2005 entrants were announced in the *Globe and Mail* of January 6th and as one of the top four in 2004, yours truly is entered again. My pick this year was featured in our Nov. 21st issue – Sherritt International (S – TSX). Smedley picked Centurion Energy (CUX – TSX). Fourth place contestant Veronika Hirsch picked West Energy (WTL – TSX). Milevsky opted to retire undefeated so there are five new contestants this year as well as the usual wild card entry.

Robert Gallander, VP and portfolio manager at Caldwell Securities picked CGI Group (GIB.SV.A – TSX). This company was on our Watched List at on time but was dropped some time ago. Maybe it's set for a comeback. Robert McWhirter, portfolio manager at Northwest Specialty Innovations Fund picked Calian Technology (CTY – TSX). Calian is on our Watched List

(continued on page 12)

One and Only Contest (from page 11)

and has performed very well in the past. It could be a winner in 2005. Benj Gallander and Ben Stadelmann, editors of the *Contra the Heard Investment Letter* and also known as the Contra Guys, picked Cygnal Tehnologies (CYN – TSX). This was a high flyer for a while and was even featured in my book, *The 50 Best Science and Technology Stocks for Canadians* (2003 Edition). The company has been losing money of late and the Contra Guys are betting on a turnaround. Al Budai of the *Buy Low, Sell High* advisory, picked Xceed Mortgage Corporation (XMC – TSX). It's another alternative finance company like Home Capital Group which has done so well for us. Could be a winner. And this year's house player, Michael Vaughan of Report on Business Television, picked Ondine Biopharma (OBP – TSX). Biotechs run hot and cold and like Milevsky's pick in 2004, this one could roar on to success.

As they do every year, this year there is a wild card entry picked by a child of a Globe and Mail staffer. This year Emilia Loewen, daughter of *Report on Business* Deputy Editor Cathryn Motherwell, used her red and pink stuffed dog Sam to pick Shell Canada (SHC – TSX), the giant oil company.

And like last year, just for fun, I've evaluated these selections by my own criteria. Tables comparing revenue and earnings growth are below. Charts of the four best picks (including mine) follow on page 3. Revenue figures are in thousands of dollars. Top table has selections from the three returning players and the wild card pick.

Stock	S	CUX	WTL	SHC
2001 Revenues	\$657,157	\$14,995	n/a	\$7,730,000
2002 Revenues	\$746,500	\$34,488	\$11,943	\$7,314,000
2003 Revenues	\$851,400	\$52,104	\$28,048	\$8,847,000
Trailing or 2004 Rev	\$959,100	\$70,567	\$5,990	\$10,445,000
2000 EPS	\$0.34	\$0.05	n/a	\$3.67
2001 EPS	\$0.38	\$0.10	\$0.09	\$2.03
2002 EPS	\$0.67	\$0.17	-\$0.31	\$2.95
Trailing or 2003 EPS	\$1.13	\$0.17	\$0.07	\$4.71
Latest QEPS Growth	+90.0%	+114.3%	turnaround	+94.0%

Stock	GIB.SV.A	CTY	CYN	XMC	OBP
2001 Revenues	\$1,581,315	\$120,648	\$141,840	n/a	n/a
2002 Revenues	\$2,172,446	\$132,078	\$152,665	\$12,599	n/a
2003 Revenues	\$2,687,910	\$141,404	\$148,125	\$17,865	\$8
Trailing or 2004 Rev	\$3,252,340	\$170,174	\$143,476	\$30,814	\$1
2001 EPS	\$0.21	-\$0.03	\$0.14	n/a	n/a
2002 EPS	\$0.36	\$0.41	\$0.08	\$24.68	n/a
2003 EPS	\$0.45	\$0.60	-\$0.05	\$0.34	-\$0.10
Trailing or 2004 EPS	\$0.52	\$1.24	-\$0.31	\$0.44	-\$0.76
Latest QEPS Growth	+8.3%	+43.6%	Loss	n/a	Loss

Of these contestants, Centurion Energy and Xceed Mortgage are the only ones I am adding to my Watched List. My pick, Sherritt International, and Calian Technology are already on the list. Of the others, Shell has possibilities as does West Energy. CGI Group is growing but not as fast as we'd like. And Cygnal Technologies and Ondine Biopharma are too speculative.

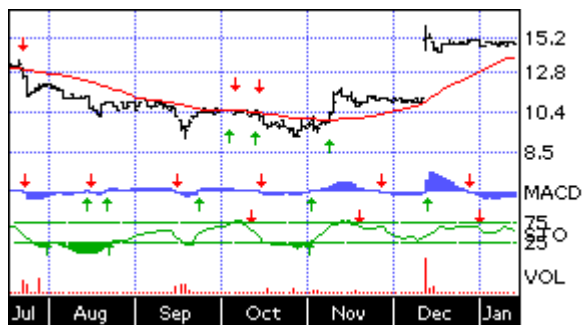
The next page features mini-charts of Centurion and Xceed as well as Calian Technology and Sherritt International.

Best of luck to all the contestants. May they all tie for second place!

Watched List Update

One and Only Best Bets

Two of the entrants in the Globe and Mail's annual One and Only Contest are already on my Watched List – my own pick of Sherritt International and Robert McWhirter's pick of Calian Technology. Naturally I'd like to see them come in first and second! But I am adding two of the other picks to our Watched List as well – Centurion Energy and Xceed Mortgage Corporation. Check out their charts below.

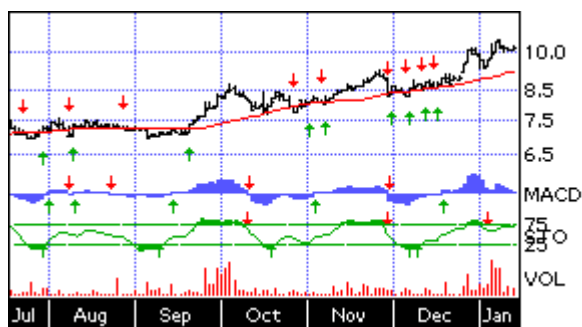
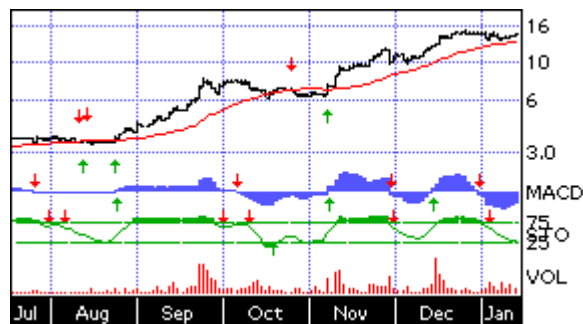


Calian Tech. (CTY)	Picker: R. McWhirter
Price Jan. 1: \$14.98	Price Now: \$14.63

⇐ Calian Technology has been on my Watched List since Oct. 1, 2002 and is up 289.09% since then. The numbers are superb and the stock gapped up in December on news of a major new contract with the Department of National Defense. McWhirter's thinking "Why couldn't they have announced it in January?"

Centurion Ener. (CUX)	Picker: M. Smedley
Price Jan. 1: \$14.70	Price Now: \$14.45

Centurion Energy was the sixth best performing stock on the TSX with a 539.10% return in 2004. Michael Smedley is betting the stock will continue its winning ways and with its superb numbers, it just might, though it's not likely to do over 500% again! Down slightly so far this year.



Sherritt Intl. (S)	Picker: Me!!!
Price Jan. 1: \$9.94	Price Now: \$10.17

⇐ We featured this one in our November issue and it made big gains in December on the announcement of a major new oil discovery off the coast of Cuba. This is my Stock of the Year and I'm expecting it to win me the coveted Globe & Mail coffee mug this year! It's up 17.4% since first profiled here and up 2.3% since Jan. 1st.

Xceed Mort. (ZEN)	Picker: Al Budai
Price then: \$4.56	Price Now: \$5.05

An alternative mortgage company for people who have trouble getting conventional financing, Xceed could prove to be a winner like Home Capital Group, also an alternative to conventional banks. It's already off to a dandy start, up 10.7% in two weeks! Yowser!



Our Model Portfolio

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

Current Position: \$119,039.15 (+138.08%) Down 2.72% YTD

We closed the year 2004 up 44.57%, a solid showing. This past week, however, saw weakness in the markets push two of our stocks down to their stops and we have replaced them with our Stock of the Year, Sherritt International, and our pick for this issue, BlackRock Ventures. Our cash position after distributions is \$162.60.

<p style="text-align: center;">Alimentation Couche-Tard (ATD.B – TSX)</p> <table border="1"> <tr> <td># of Shares: 260</td> <td>Bought: Aug. 16/04</td> </tr> <tr> <td>Price Then: \$27.20</td> <td>Price Now: \$37.61</td> </tr> <tr> <td>Gain: +38.27%</td> <td>Stop: \$32.72</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: \$37.61	Gain: +38.27%	Stop: \$32.72	<p style="text-align: center;">BlackRock Ventures ((BVI – TSX)</p> <table border="1"> <tr> <td># of Shares: 1180</td> <td>Bought: Jan. 17/05</td> </tr> <tr> <td>Price Then: \$8.92</td> <td>Price Now: \$8.92</td> </tr> <tr> <td>Gain: 0.00%</td> <td>Stop: \$8.03</td> </tr> </table> <p>Notes: BlackRock Ventures is a junior exploration and production company focusing on heavy oil and oil sands development.</p>	# of Shares: 1180	Bought: Jan. 17/05	Price Then: \$8.92	Price Now: \$8.92	Gain: 0.00%	Stop: \$8.03
# of Shares: 260	Bought: Aug. 16/04												
Price Then: \$27.20	Price Now: \$37.61												
Gain: +38.27%	Stop: \$32.72												
# of Shares: 1180	Bought: Jan. 17/05												
Price Then: \$8.92	Price Now: \$8.92												
Gain: 0.00%	Stop: \$8.03												
<p style="text-align: center;">CCS Income Fund (CCR.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 240</td> <td>Bought: May 19/03</td> </tr> <tr> <td>Price Then: \$20.29</td> <td>Price Now: \$41.59</td> </tr> <tr> <td>Gain: +104.98%</td> <td>Stop: \$37.66</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: \$41.59	Gain: +104.98%	Stop: \$37.66	<p style="text-align: center;">GSW Inc. (GSW.B – TSX)</p> <table border="1"> <tr> <td># of Shares: 275</td> <td>Bought: May 17/04</td> </tr> <tr> <td>Price Then: \$34.73</td> <td>Price Now: \$45.00</td> </tr> <tr> <td>Gain: +29.57%</td> <td>Stop: \$40.59</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: \$45.00	Gain: +29.57%	Stop: \$40.59
# of Shares: 240	Bought: May 19/03												
Price Then: \$20.29	Price Now: \$41.59												
Gain: +104.98%	Stop: \$37.66												
# of Shares: 275	Bought: May 17/04												
Price Then: \$34.73	Price Now: \$45.00												
Gain: +29.57%	Stop: \$40.59												
<p style="text-align: center;">Home Capital Group (HCG – TSX)</p> <table border="1"> <tr> <td># of Shares: 450</td> <td>Bought: Aug. 9/04</td> </tr> <tr> <td>Price Then: \$21.49</td> <td>Price Now: \$30.70</td> </tr> <tr> <td>Gain: +42.86%</td> <td>Stop: \$27.50</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: \$30.70	Gain: +42.86%	Stop: \$27.50	<p style="text-align: center;">Kingsway Financial (KFS – TSX)</p> <table border="1"> <tr> <td># of Shares: 625</td> <td>Bought: May 24/04</td> </tr> <tr> <td>Price Then: \$15.00</td> <td>Price Now: \$18.85</td> </tr> <tr> <td>Gain: +25.67%</td> <td>Stop: \$16.79</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: \$18.85	Gain: +25.67%	Stop: \$16.79
# of Shares: 450	Bought: Aug. 9/04												
Price Then: \$21.49	Price Now: \$30.70												
Gain: +42.86%	Stop: \$27.50												
# of Shares: 625	Bought: May 24/04												
Price Then: \$15.00	Price Now: \$18.85												
Gain: +25.67%	Stop: \$16.79												
<p style="text-align: center;">Peyto Energy Trust (PEY.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 300</td> <td>Bought: Mar. 29/04</td> </tr> <tr> <td>Price Then: \$30.30</td> <td>Price Now: \$47.44</td> </tr> <tr> <td>Gain: +56.57%</td> <td>Stop: \$40.89</td> </tr> </table> <p>Notes: Peyto Energy Trust has gained over 1000% in the last three years. It was my pick in the Globe's One and Only Contest for 2004.</p>	# of Shares: 300	Bought: Mar. 29/04	Price Then: \$30.30	Price Now: \$47.44	Gain: +56.57%	Stop: \$40.89	<p style="text-align: center;">Sherritt International (S – TSX)</p> <table border="1"> <tr> <td># of Shares: 1125</td> <td>Bought: Jan. 17/05</td> </tr> <tr> <td>Price Then: \$10.17</td> <td>Price Now: \$10.17</td> </tr> <tr> <td>Gain: +0.00%</td> <td>Stop: \$9.15</td> </tr> </table> <p>Notes: Sherritt International has varied interests in energy, oil and strategic minerals and has strong interests in Cuba.</p>	# of Shares: 1125	Bought: Jan. 17/05	Price Then: \$10.17	Price Now: \$10.17	Gain: +0.00%	Stop: \$9.15
# of Shares: 300	Bought: Mar. 29/04												
Price Then: \$30.30	Price Now: \$47.44												
Gain: +56.57%	Stop: \$40.89												
# of Shares: 1125	Bought: Jan. 17/05												
Price Then: \$10.17	Price Now: \$10.17												
Gain: +0.00%	Stop: \$9.15												
<p style="text-align: center;">RONA Inc. (RON – TSX)</p> <table border="1"> <tr> <td># of Shares: 280</td> <td>Bought: Sept. 27/04</td> </tr> <tr> <td>Price Then: \$32.10</td> <td>Price Now: \$39.65</td> </tr> <tr> <td>Gain: +23.52%</td> <td>Stop: \$36.61</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: \$39.65	Gain: +23.52%	Stop: \$36.61	<p style="text-align: center;">Zargon Energy Trust (ZAR.UN – TSX)</p> <table border="1"> <tr> <td># of Shares: 515</td> <td>Bought on: Apr 19/04</td> </tr> <tr> <td>Price Then: \$17.70</td> <td>Price Now: \$25.15</td> </tr> <tr> <td>Gain: +42.09%</td> <td>Stop: \$21.84</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: \$25.15	Gain: +42.09%	Stop: \$21.84
# of Shares: 280	Bought: Sept. 27/04												
Price Then: \$32.10	Price Now: \$39.65												
Gain: +23.52%	Stop: \$36.61												
# of Shares: 515	Bought on: Apr 19/04												
Price Then: \$17.70	Price Now: \$25.15												
Gain: +42.09%	Stop: \$21.84												