Stop Losses

Simplifying Stop Losses

In our January 16th issue I looked at stop losses in an article called “Are Our Stops Too Tight?” The conclusion was that, yes, they were, particularly for stocks that ended up being big gainers. I showed how we were stopped out of Peyto a couple of times over the last few years to our detriment. A looser stop would have kept us in and able to participate in the huge gains fully. So I amended the rules to allow more leeway for stocks that had made substantial gains.

Today I am re-examining our stop loss rules again because some readers have complained they are too complicated. How complicated? Well try reading the next sentence (which wraps all the rules into one) in one breath and you’ll see why people have said “Enough with the furshluginer stop loss rules!” Current rules: Stops are placed 10% below the most recent closing high, incremented by 1% for each 10% gain unless the stock is in an up trend in which case the stop is 15% unless the stock has grown by 50% or more in which case the increments increase by 1% for each 10% gain up to a maximum draw-down of 20% from the most recent interim closing high.

Okay, that’s a mouthful! It needs to be simplified. Also, we suggested readers create their own stop losses based on when they bought the stock so your stop loss and the one we publish each week might not be the same. That’s even more confusing!

So we hemmed and hawed, scratched the noggin, fretted and fussed and after some deliberation came up with a simple two step stop loss rule. First we introduce a new concept – the pivot point. When our rating on a stock changes from buy to sell or sell to buy, that is a pivot point. The price at which the change is made is the pivot price. Such changes are always made in our weekend Trend Watch update on the website.

Here are our new simplified rules – just two of them.

1. We place a stop loss at 15% below the highest close since the last pivot point.
2. After a stock has gained 50% or more from its pivot price, the stop loss latitude increases to 20% below the highest close since the pivot point.

How does that affect our Watched List and stops? Well we checked out the stocks rated sell by our old rules and found, for example, that SNC-Lavalin would not have been a sell with a 15% leeway. So we changed it to buy this week. We also checked back and discovered that it had incurred sell ratings a couple of times over the last few years. By the new rules, it would not have incurred a sell since a pivot point on Sept. 6, 2001. It is up 210.10% since then.

This pushes us closer to a buy and hold strategy with stops to lock in gains and prevent a total wipeout if the stock heads south in a big way. This week’s Trend Watch reflects these changes. See the details online in the Subscribers Area.

In This Issue: Home Made Butter! (See Page 2)

Investment Strategies

Home Made Butter:

How people decrease their returns by churning their accounts

"The investor's chief problem, and even his worst enemy, is likely to be himself."

- Benjamin Graham

Unscrupulous brokers are sometimes charged with betraying their clients with a practice known as churning. Simply put, it is when a broker who is given discretionary management of an account trades his client in and out of stocks excessively. The trades generate handsome commissions for the broker, but they often leave the portfolio flat. Either the trades made are poor or much of the profit (if there is any) is eaten up by commissions.

Churning is generally considered to be an action that is abusive to the client, and sometimes it is actionable and results in law suits and even criminal charges.

But studies have shown that the advent of online trading and the popularity of day trading has led to what might be called home-made churning. Terrance Odean and Brad Barber, two professors in the Graduate School of Management at the University of California at Davis published a study in 1999 showing that investors generally trade too much to the detriment of their portfolios and the ease of trading online has only exacerbated the problem.

In *Do Investors Trade Too Much?* they analyzed trading records for 10,000 accounts at a large discount brokerage, almost 100,000 transactions altogether. They discovered that, on average, stocks purchased underperformed stocks sold to finance those purchases. In other words, the investor would have been better off holding on to his stock rather than trading into a different one.

Looking further into the nature of this excessive trading, they discovered that investors tend to sell their winners and hold onto their losers. They use the proceeds of these sales to buy into the tail-end of a momentum stock then hang on for the ride down. (It's happened to me, so I know what they're talking about.)

Even when eliminating trades that might be motivated by liquidity demands, tax loss selling, risk reduction or portfolio rebalancing, the results remain. Trading lowers returns.

Odean and Barber also note that men tend to trade more often than women in their study *Boys Will be Boys*, and as a result, women outperform men with their portfolios. Men trade 45% more than women and earn annual risk-adjusted net returns that are 1.4% less annually. The difference is even more pronounced comparing single men and single women. Single men trade 67% more and earn 2.3% less than single women. The difference, they note, is not that women are better stock pickers but that they trade less often.

In *Trading is Hazardous to Your Wealth* they studied the activities of over 65,000 households with accounts at a major brokerage between 1991 and 1996. They discovered that those who traded the

(continued on page 13)

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Portfolios

The Really Big Portfolio

I've been toying for a while with the idea of developing a big portfolio, not necessarily in dollars, but in terms of the number of stocks in it. More specifically I've been thinking of putting together a portfolio encompassing our entire Watched List.

There are a couple of reasons for this, one being that I have no idea how our Watched List performs as a whole applying our buy and sell rules. We do a quarterly review but we consider performance for the list on a buy and hold basis. The average performance for our Watched List has stayed over 100% since the last quarter of 2003. At the end of first quarter of 2005 the average return was 132.57%. The complete quarter by quarter average return for 2003 and 2004 is shown in the table below.

Year	Q1	Q2	Q3	Q4
2004	111.79%	108.16%	109.82%	139.67%
2003	59.99%	73.46%	87.94%	116.37%

But what does this mean? The numbers tell us that the average return for all the stocks in the Watched List at the time of review, if bought when first featured and held to the end of the quarter in question, would have appreciated by the amount noted. This includes some that may have been there since we started profiling stocks in December 2000 as well as some that were only profiled a few weeks before the review. The later additions usually lowered the average as they had not had time to grow. Not included in the reviews are the stocks dropped from our Watched List previously. Some of these were dropped because they performed poorly and some because they had been taken over after huge gains and were no longer listed.

In any event, our approach is not a buy and hold one, so the review does not give an indication of how our Watched List might have fared using our buy and sell criteria.

On page one I noted changes to our stop loss calculations designed to make it simpler and less confusing to you, our reader. These rules will now apply to our new "Big Portfolio" going forward.

Our Watched List has 56 stocks including the ones we are adding in this issue of the Report. Of these, after making changes to the buy/sell ratings according to our new stop loss rules, we have 44 rated buy, 7 rated sell and 5 rated wait (meaning some but not all criteria for rating the stock a buy have been met and we anticipate a change in the coming weeks).

We now are faced with a conundrum. Do we become fully invested and stay fully invested as we have been doing with our Model Portfolio? What happens then if ratings change? Do we rebalance the portfolio every week? Or should we leave part of the portfolio in cash so we can add new stocks to the portfolio as ratings change? We decided to opt for the latter. So with 44 of 56 stocks rated buy, we would have be 78.6% invested with a 21.4% cash balance.

With our new stop loss rules, we anticipate a relatively stable portfolio mix with relatively infrequent trading. At the same time, we expect to make larger gains in the stocks in which we are invested as they are not traded as much. See the Home Made Butter article on page 2 for the reasons why this is so. As the article points out, over-trading is the biggest hazard to portfolio growth.

We start out with $50,000 and are buying as close to $900 of each of the 44 stocks rated buy based on Friday's closing prices. We are assessing a charge of $27 a trade for brokerage fees so initially we'll get stung for $1188 in setting up the portfolio. Proceeds of stocks sold will be added to our cash position and the amount of new purchases will be determined by dividing the cash position by the number of stocks not yet purchased. Distributions will be added to the cash position as they occur.

Our initial portfolio is summarized in the table on the next page.

(continued on page 4)

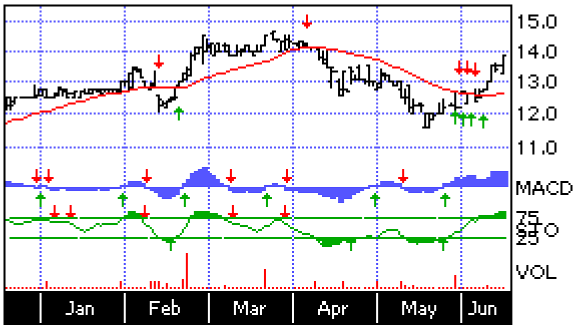
The Really Big Portfolio *(from page 3)*

Name	Symbol	# Shares	Price	Value
Ainsworth Lumber Co.	ANS	29	$30.20	$875.80
AlarmForce Industries	AF	190	$4.56	$866.40
Alimentation Couche-Tard	ATD.SV.B	47	$18.56	$872.32
BMTC Group	GBT.SV.A	63	$13.80	$869.40
Big Rock Brewery Income Trust	BR.UN	45	$19.24	$865.80
CCS Income Trust	CCR.UN	30	$29.49	$884.70
CIBC	CM	11	$75.40	$829.40
CML Healthcare Income Fund	CLC.UN	66	$13.15	$867.90
Cameco Corp.	CCO	16	$54.58	$873.28
Centurion Energy International	CUX	60	$14.60	$876.00
Cinram International	CRW	36	$24.08	$866.88
CryptoLogic	CRY	20	$42.76	$855.20
Finning International	FTT	25	$35.00	$875.00
Fortis Inc.	FTS	11	$77.05	$847.55
GSW Inc.	GSW.SV.B	14	$59.00	$826.00
Goldcorp Inc.	G	45	$18.84	$847.80
Great Canadian Gaming	GCD	41	$21.30	$873.30
Home Capital Group	HCG	24	$36.40	$873.60
Killam Properties Inc.	KMP	340	$2.56	$870.40
Kingsway Financial Services	KFS	42	$20.56	$863.52
La Senza	LSZ.SV	50	$17.35	$867.50
Le Chateau	CTU.SV.A	22	$39.06	$859.32
McCoy Brothers	MCB	165	$5.25	$866.25
Melcor Developments	MRD	12	$69.91	$838.92
Niko Resources	NKO	14	$61.50	$861.00
Pason Systems	PSI	38	$22.80	$866.40
Peyto Energy Trust	PEY.UN	29	$29.90	$867.10
Potash Corp. of Saskatchewan	POT	7	$119.85	$838.95
RONA Inc.	RON	36	$24.25	$873.00
Reitmans (Canada)	RET.NV.A	49	$17.80	$872.20
Research In Motion	RIM	9	$90.93	$818.37
Richelieu Hardware	RCH	37	$23.39	$865.43
SNC-Lavalin Group	SNC	13	$67.90	$882.70
Savanna Energy Services	SVY	43	$19.90	$855.70
Sherritt International	S	87	$9.96	$866.52
Stantec Inc.	STN	26	$32.70	$850.20
Steeplejack Industrial Group	SID	160	$5.44	$870.40
TSX Group	X	25	$34.20	$855.00
TransForce Income Fund	TIF.UN	50	$17.15	$857.50
Trican Well Service	TCW	26	$32.67	$849.42
WestJet Airlines	WJA	58	$14.90	$864.20
Xceed Mortgage Corp.	XMC	165	$5.30	$874.50
ZCL Composites	ZCL	265	$3.25	$861.25
Zargon Energy Trust	ZAR.UN	35	$24.90	$871.50
Total C$ Stocks				**$37,933.58**
Cash				**$10,878.42**
Portfolio Total				**$48,812.00**
Profit/Loss				**-2.38%**

Watched List Update

Energy Sector Stocks on the Move!!!

We had nine stocks move back into up trends this week, four of which are profiled briefly below. Three of them, not surprisingly, are in the energy sector. Recently the OSX or Philadelphia Oil Services Index has gone through the roof. Oil prices are hitting new highs. And the results for energy stocks have been positive. The other one profiled below is a furniture retailer in Quebec. All the charts look somewhat similar too.

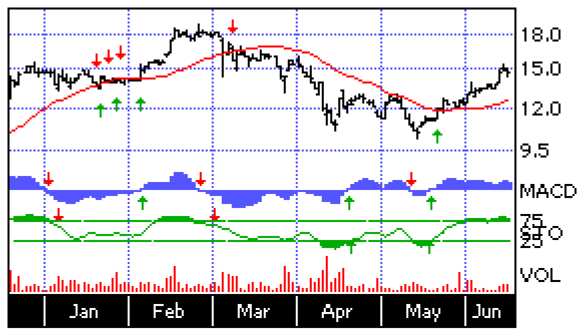


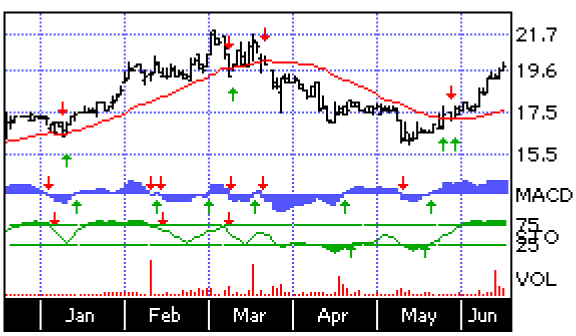
BMTC Group (GBT.SV.A)	**Profiled: 08/20/02**
Price then: $6.98	**Now: $13.80**

⇦ BMTC Group is the furniture retailer we mentioned in the introduction above. It's up 97.71% since profiled and has now broken solidly out of the March-May market slump. Although profits were down in the most recent quarterly report, the stock seems to be recovering anyway.

Centurion En. (CUX)	**Profiled: 01/16/05**
Price then: $14.45	**Price Now: $14.60**

While Centurion may have one of the best ⇨ performing stocks of 2004, so far this year it has been rather lack luster. It too suffered the March-May slump and seems to be on the road to recovery, aided by high oil prices. The most recent financial statements showed quarterly earnings up 166.67%.



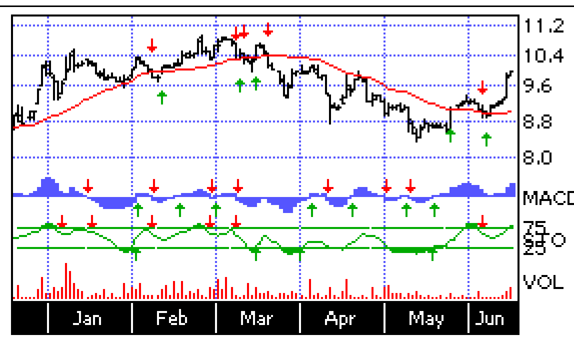


Savannah En. Sv. (SVY)	**Profiled: 02/20/05**
Price then: $19.35	**Price Now: $19.90**

⇦ Profiled in February, Savannah gained modestly and then suffered the March through May correction. Now it is back slightly above the price we recommended it at. The most recent quarterly report saw earnings per share up 50% with revenues up 65.86%. Watch for continued growth.

Sherritt Int. (S)	**Profiled: 11/19/04**
Price then: $8.66	**Price Now: $9.96**

Sherritt International, of course, was my pick ⇨ for this year's Globe & Mail One and Only contest. It hasn't done too well but managed to stay in the top four most of the time. Stock is up 15.01% since profiled and now that this slump is over, maybe it'll rocket to #1 in the G&M contest. Here's hoping!



Retail Pick

Le Chateau (CTU.SV.A - TSX)

(website: www.lechateau.com)

Founded over 45 years ago in fashion conscious Montreal, Le Chateau has grown from a trendy boutique to a nation-wide chain of over 170 stores. They also have four in the United States, all in the New York City area.

The company has always focused on presenting fashionable avant-garde apparel at reasonable prices and the formula has worked. I used to buy clothes there when I was in my twenties. Now my 18 year old daughter shops there. Over the last three years, the company has successfully repositioned itself to be timeless and appeal to women 35-45 as well as the younger set.

Vertically integrated, the company manufactures over two and a half million pieces of its own designer label fashions every year. Le Chateau also offers accessories and footwear. The company caters to both men and women and has a junior girls line for 8-14 year olds.

Continually expanding, the company opened four new stores in the first quarter of 2005 with renovations to twenty existing stores for a capital expenditure of $12.1 million.

We featured Le Chateau as one of our picks on our website on June 21, 2002 at a price of $7.80. By the end of that year the stock had climbed to $10.49, a 34.49% gain. But 2003 saw the stock drift downwards and we dropped it at the end of Q3 2003. That quarter we added a new criterion for dropping a stock from our list, namely if the stock was down for the year-to-date after three quarters, we dropped it unless it was in an up trend. It was down 6.58% for the year-to-date though up 25.64% since featured. It was this added criterion that caused us to drop it and it was a big, big mistake. Right after we dropped it, Le Chateau climbed steadily from the then price of $9.80 to today's price of $32.00. Needless to say, we no longer have that as a criterion for dropping a stock.

Looking at the five year chart, we see that the stock's price has grown steadily in what we like to call an inclined plane pattern, the best of all possible chart patterns (with apologies to Francis Bacon).

The four New York stores contributed 3.16% of revenues in the last quarter and ran at a loss that sapped 2.13% of the Canadian store profits. On a volume basis, the New York stores sell more than their Canadian counterparts. But higher costs cut into that volume creating losses. Canadian fashion retailers seem to have a hard time making it in the US market. One of our previous picks, La Senza, also had problems there as have others. It remains to be seen whether Le Chateau will continue to struggle there and turn the stores around or eventually close them.

The third and fourth quarters are traditionally Le Chateau's strongest seasons with back-to-school and Christmas shopping. A stellar first quarter bodes well for a continued strong year ahead.

Quarterly Earnings per Share

To April 30th	2004	2005	% Change
EPS	$0.40	$0.76	+90.00%
Revenues (000s)	$50,677	$60,601	+19.58%

Annual Earnings per Share

To Jan.31st	2003	2004	% Change	2005	% Change
EPS	$1.52	$2.07	+36.18%	$2.96	+43.00%
Revenues (000s)	$217,660	$226,766	+4.18%	$241,131	+6.33%

(continued on page 7)

Le Chateau *(from page 6)*

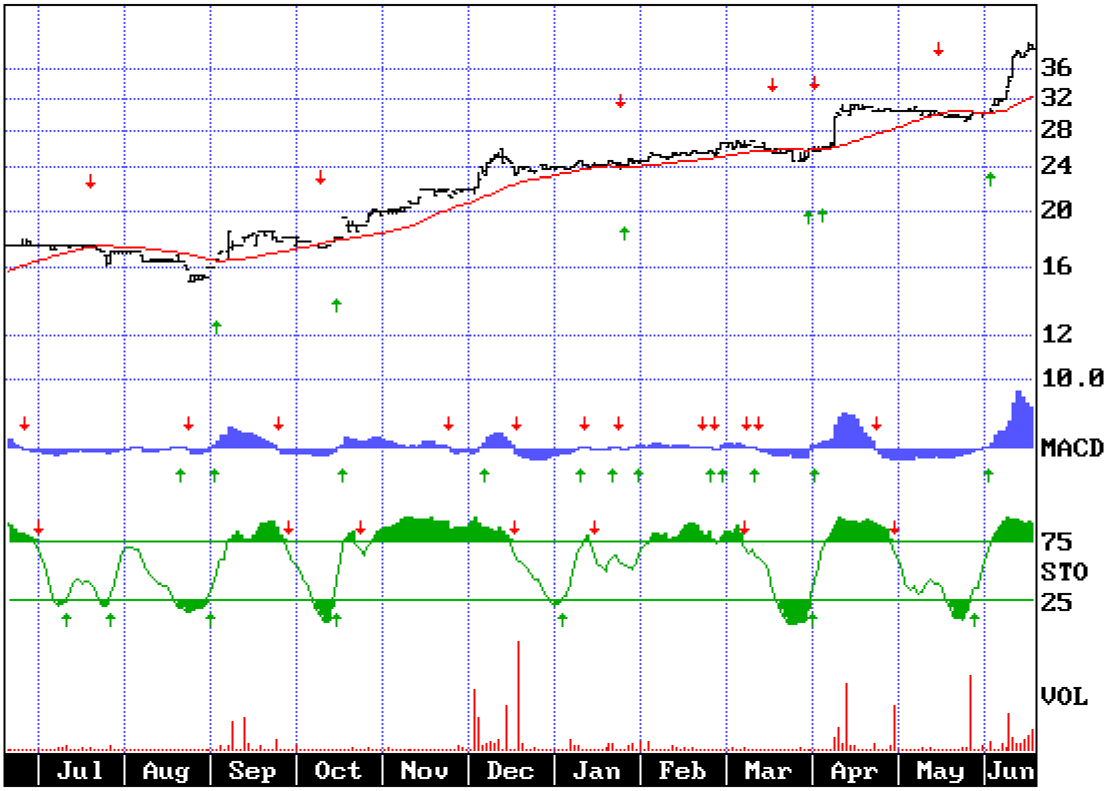


Chart Analysis: Le Chateau has been on a steady up trend since September, more than doubling in that time. This steady ascent is punctuated by several jogs to the upside, notably in September, December, April and this past month. (Oh how I wish I had featured it last month!!!) Following this stairstep pattern, the stock could consolidate and remain relatively flat for a couple of months before climbing some more. Or it could advance steadily as it did in October through November and January through February. In any event, there seems to be little downside risk.

Stats as of 06/17/05	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.67	▪ Price Pattern: A+
▪ RS: 96.18	▪ Volatility: A+
▪ Shares: 3,415,951	▪ Estimates: A-
▪ P/E: 12.10	▪ Snapshot: A
▪ Price: $39.06	▪ News: A.

Phase 2: We give Le Chateau an A+ for price pattern and an A+ for volatility as it is has shown solid growth with little downside since September. Estimates are up with a rating of 2.0 or buy. We give it a A-. The company snapshot is solid with growing revenues and earnings year over year and a rising return on equity which hit 21.70 for fiscal 2005. We give it an A+. News is solid as well with a strong Christmas season, record annual and quarterly reports, and a recent 16.7% increase to its quarterly dividend. Again we give it an A.

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

Resource Pick

Potash Corporation of Saskatchewan (POT –TSX)

(website: www.potashcorp.com)

One thinks of Saskatchewan primarily as an agricultural province, not a resource province. Oh sure, it has a few oil wells here and there but nothing like Alberta. But there is one resource that Saskatchewan is the world's largest supplier of, and that is potash. And the Potash Corporation of Saskatchewan is the largest producer.

What is potash? It is potassium chloride, the leading material used to produce fertilizers for agriculture.

The Potash Corporation was a Saskatchewan government Crown Corporation until it was privatized in 1989. Today it is the world's largest producer with a capacity 50% larger than its nearest competitor. It also has the world's largest reserves and the largest untapped potential.

But the company also is the world's third largest producer of nitrogen, also a prime fertilizer ingredient, and the fourth largest producer of phosphates, also widely used for fertilizers.

With the increasing prosperity of the third world, notably India and China, demand for fertilizers for agriculture has sky-rocketed. . In the quarter to March 31, 2005, exports to India increased by 268% while exports to China grew by 58% with total exports up 20% setting a first quarter record for offshore sales. And the price of potash has jumped 50% in the last year This has turned the company around from a loss in 2003 to huge profits in 2004. And the profit picture is still improving as added demand and volume of production has led to economies of scale as well. Gross margin has improved to 58% from 37% the year before.

The company has also expanded outward through offshore acquisitions. While most of its potash production is based in Saskatchewan, its phosphate and nitrogen facilities are largely in the United States and South America. Early this month the Potash Corporation announced it had reached an agreement to buy a 9.99% interest in Sinochem Corporation, the largest importer of fertilizer products into the People's Republic of China. Potash Corporation will have an option to buy an additional 10.1%. This deal coincides with the planned listing of Sinochem as a publicly traded company on the Hong Kong Stock Exchange.

With the surging Chinese economy and a key partnership in the leading fertilizer importer in the world's largest fertilizer importing country, further growth for Potash Corporation seems assured. In fact, just this week, the company revised its earnings estimates upwards resulting in an 8% surge in the stock price.

Quarterly Earnings per Share (in US$)

To Mar. 31st	2004	2005	% Change
EPS	$0.47	$1.15	+144.68%
Revenues (000s)	$728,400	$921,400	+26.50%

Annual Earnings per Share (in US$)

To Dec. 31st	2002	2003	% Change	2004	% Change
EPS	$0.52	-$1.21	-332.69%	$2.77	+116.67%
Revenues (000s)	$1,953,500	$2,832,200	+13.51%	$3,328,200	+70.14%

(Continued on page 9)

Potash Corporation *(from page 8)*

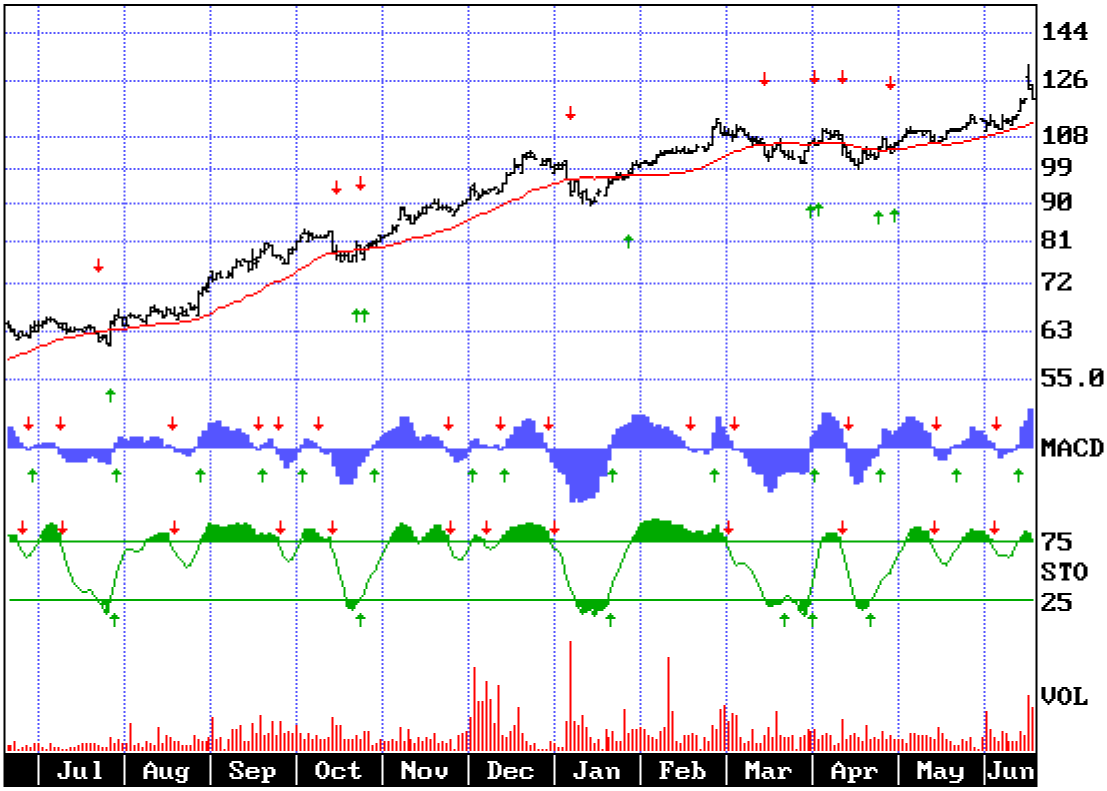


Chart Analysis: After trading a wide range from $40 to $60 throughout 2001, 2002 and 2003, the stock started to break out in the Spring of 2004 and has more than doubled in the last year. Looking at the chart above we see that it retraced in January and traded in a range from $99 to $110 throughout March, April and half of May. Now it has broken out again with the Sinochem deal and its strong quarterly report. A strong volume spike sent the stock up $10.05 or 8% on Thursday. It has now come back down again, the surge proving premature as the stock continues to advance at a more measured pace. Not a bad buying opportunity!

Stats as of 06/17/05	Phase 2 Analysis
▪ Hi/Lo Ratio: 2.27	▪ Price Pattern: A+
▪ RS: 93.88	▪ Volatility: A+
▪ Shares: 108,764,510	▪ Estimates: B+
▪ P/E: 28.30	▪ Snapshot: B
▪ Price: $119.85	▪ News: A+

Phase 2: We give PotashCorp an A+ for price pattern and an A+ for volatility as growth has been measured and continuous with minor corrections along the way. Estimates are up across the board with a rating of 2.6 or Hold. Well, we beg to differ but that rating does lower our Estimate rating to B+. Our snapshot shows solid revenue growth but the company ran a loss in 2003 largely due to streamlining and the shutdown of four plants. Return on equity is improving but was just 13.70 for fiscal 2004. We give it a B. News is superior with surging prices, sales volumes, an upgrade to projections and a huge trade deal with China. We give it 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 May 2005)

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 name	1 yr	3 yr	5 yr
Super Power Performers			
Resolute Growth	71.15	34.79	31.41
Norrep Fund	46.26	25.97	28.18
Mackenzie Universal Canadian Resource (US$)	29.54	27.66	27.87
Adaly Opportunity-A	28.61	25.46	25.44
Front Street Special Opportunities Canadian	30.18	37.83	25.05
Power Performers			
Dominion Equity Resource	27.83	24.32	26.06
Front Street Small Cap Canadian	24.47	25.99	21.86
CI Global Energy Corp Class (US$)	65.39	29.98	21.49
Bissett Income-F	27.99	20.04	21.40
GGOF Monthly High Income Classic	31.05	20.88	21.40
GGOF Monthly High Income Mutual	30.82	20.30	20.78
Mackenzie Cundill Recovery 'C'(US$)	20.59	20.29	20.29

The number of Super Power Performers stayed steady at 5 in May while the number of Power Performers dropped to 7 from 9.

Meanwhile the number of Performers jumped to 37 from 31 giving us a total of 49, up from 45 in April.

The makeup of the five funds in our Super Power Performer list remains unchanged so this month we profile another in this elite group, the Adaly Opportunity-A Fund.

Profile: Adaly Opportunity-A Fund

The Adaly Opportunity-A Fund is one of two funds managed by Strategic Advisors Corporation of Toronto. The other is the Adaly Opportunity-B Fund. The latter is a new fund with only just over a year of track record, but it is similar to the A fund. Both funds are only available in Ontario, BC, Alberta, Quebec and Nova Scotia. And the funds are for the well-heeled as they require a minimum of $150,000 invested. While that probably leaves out many of our subscribers, it's still worth looking at what they do to create such stellar returns.

The fund is classified by Globeinvestor as an alternative "strategies" fund. Their methodology is "opportunistic investing with the aim of generating positive returns in most market environments". And that includes what they call "event-driven" and "special situations".

Event driven investments consist primarily of "risk arbitrage", sometimes called deal or merger arbitrage. The fund looks to invest in companies that are takeover targets. Other event driven investment includes companies that are restructuring, recapitalizing or spinning off subsidiaries.

Special situations are opportunities such as unusual growth or value, short sales, IPOs and companies in trouble. An example of the latter (though not necessarily one of the companies they invested in) would be Air Canada which was on the brink of bankruptcy. It plunged mightily last October and has since gained well over 50%.

The fund is actively managed and does not use leverage.

The fund sends out a statement quarterly of the fund's activities and the fourth quarter of 2004 saw it increase in value by 14.4% after fees and expenses. It achieved this primarily by investing in coal and in oil and gas. Its largest holding, Grande Cache Coal, tripled in value. Its holdings in Western Canadian Coal, NEMI Northern Energy and Westshore Terminals also performed well.

(continued on page 11)

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

Its largest oil and gas holdings were Canoro Resources and Centurion Energy. The Canoro shares doubled in the quarter but the fund also held Canoro Warrants which quintupled. Centurion also more than doubled. And its other oil and gas holdings, True Energy, Midnight Oil and Gas, Ketch Resources and Delphi Energy, all did well. And energy service stocks Western Lakota and Saxon Energy Services gained more than 50%.

Other stellar performers for the fund in the quarter were special situations such as ceramic Protection, Mosaid, Gerdau Ameristeel, Creo and Shore Gold.

The fund had a 30% cash position going into the quarter.

The fund's letter for the first quarter of 2005 is not yet posted on their website (www.strategic-ac.com), but for the year-to-date as of June 14th, the fund had returned only 1.92%.

One of the interesting things about this fund is its fee arrangement. It charges a moderate 2.0% MER off the top payable quarterly, but also charges a rather hefty performance fee. Each quarter the fund assesses a fee of 20% of the appreciation in the net asset value per unit of the fund from the high water mark for such unit in excess of an annualized return of 4%. In other words, if the fund gives a better than 4% return, one dollar out of five of the excess gain goes to management as a bonus. While this may seem hefty, it is also an incredible incentive for management to be on the ball and perform. If the fund declines, no bonus.

An interesting fund. Now if I only could come up with a spare $150,000!!!

Below are this month's Performers.

Performers							
Fund name	**1 yr**	**3 yr**	**5 yr**	**Fund name**	**1 yr**	**3 yr**	**5 yr**
Sprott Canadian Equity	20.26	16.44	31.16	Sceptre Equity Growth	21.09	22.87	17.67
Northwest Specialty Equity	18.34	21.34	23.84	CI Global Energy Corporate Class	52.26	21.74	17.30
Mackenzie Universal Cdn. Res.	18.86	19.44	23.35	North Growth U.S. Equity (US$)	20.94	21.12	17.26
Mawer New Canada	24.32	18.88	22.80	Hillsdale Cdn. Performance Equity	17.29	17.34	17.10
Dynamic FocusPlus Resource	16.49	21.15	21.81	Vertex Fund - A	25.12	19.29	16.94
London Life Cdn. Resource (MF)	17.85	18.07	21.36	CI Global Energy RSP	51.74	21.32	16.85
Renaissance Cdn. Income Trust	34.07	18.84	21.00	Acuity High Income	18.04	16.87	16.78
Ethical Special Equity	18.30	17.32	20.67	CI Signature High Income	22.36	16.06	16.50
Bissett Microcap-F	33.22	17.94	20.10	Dynamic FocusPlus Real Estate	22.48	15.38	16.38
Clarington Canadian Small-Cap	17.80	16.28	20.05	Acuity Pooled Conservative Asset Allocation	23.77	19.83	16.37
Desjardins Financial Pool Bissett SmallCap	26.70	16.76	19.66	Montrusco Bolton Canadian Small Cap 'B'	25.63	18.71	16.25
Sentry Canadian Energy Growth	30.78	20.20	19.49	Dynamic Global Resource	19.07	23.94	16.07
RBC Energy	47.84	22.65	19.43	AGF Canadian Resources	26.00	19.03	15.72
CIBC Energy	44.13	31.07	19.33	Middlefield Enhanced Yield	28.68	18.73	15.66
Acuity Pooled High Income	20.19	19.46	19.31	GWL Canadian Resources (A) DSC	24.68	18.18	15.60
Mavrix Dividend & Income	17.86	16.45	18.87	Altamira Resource	25.25	22.70	15.37
TD Energy	41.56	22.63	18.30	GWL Canadian Resources (A) NL	24.41	17.93	15.35
Sentry Canadian Resource	26.38	22.51	18.12	AGF Global Resources Class (US$)	24.43	21.72	15.22
Bissett Small Cap-F	25.20	15.07	18.00	**Power Performers © Marco den Ouden**			

Our Model Portfolio

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

Current Position: $135,210.50 (Up 170.42%) Up 10.50% YTD

Our portfolio surged since last issue, up $9118.45 and pushing us to our high point for the year and a return of 10.50% for the year-to-date. The last month was fairly stable for portfolio makeup as we only had to sell one stock, Chartwell Technologies, which we replaced with McCoy Brothers. Distributions this week pushed our cash position to $331.80.

Stop loss points noted reflect our rule changes as discussed on page 1 and match those published in our weekly Trend Watch on the website.

Big Rock Brewery Inc. Fund (BR.UN – TSX)

# of Shares: 490	**Bought:** May 16/05
Price Then: $19.14	**Price Now:** $19.24
Gain: +0.52%	**Stop:** $16.35

Notes: Big Rock Brewery is a craft brewery based in Alberta. It has been a solid growth stock as well as distributing income.

CCS Income Fund (CCR.UN – TSX)

# of Shares: 480	**Bought:** May 19/03
Price Then: $10.15	**Price Now:** $29.49
Gain: +190.69%	**Stop:** $23.59

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:** $59.00
Gain: +69.88%	**Stop:** $47.20

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:** $36.40
Gain: +69.38%	**Stop:** $29.88

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:** $20.56
Gain: +37.07%	**Stop:** $18.19

Notes: Kingsway Financial is a leading supplier of alternative insurance services. After a slump in early 2004, the stock is on the move again.

McCoy Brothers (MCB – TSX)

# of Shares: 2100	**Bought:** May 30/05
Price Then: $5.05	**Price Now:** $5.25
Gain: +3.96%	**Stop:** $4.60

Notes: McCoy Brothers is an Alberta based manufacturer of trucks for industry as well as a truck fleet maintenance specialist.

Peyto Energy Trust (PEY.UN – TSX)

# of Shares: 300	**Bought:** Mar. 29/04
Price Then: $15.15	**Price Now:** $29.90
Gain: +97.36%	**Stop:** $23.92

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.

Reitmans (RET.NV.A – TSX)

# of Shares: 770	**Bought:** May 9/05
Price Then: $15.05	**Price Now:** $17.80
Gain: +18.27%	**Stop:** $15.15

Notes: Reitman's is a leading Canadian women's fashions retailer. The stock has been a solid performer in the last year.

Richelieu Hardware (RCH – TSX)

# of Shares: 410	**Bought:** May 2/05
Price Then: $24.92	**Price Now:** $23.39
Gain: -6.14%	**Stop:** $20.80

Notes: Richelieu Hardware has been a solid stock since first profiled. Too bad we didn't add it to the portfolio sooner!

RONA Inc. (RON – TSX)

# of Shares: 560	**Bought:** Sept. 27/04
Price Then: $16.05	**Price Now:** $24.25
Gain: +51.09%	**Stop:** $21.50

Notes: RONA is Canada's largest home improvement company – yes – even larger than Home Depot.

Home Made Butter *(from page 2)*

most had an average annual return of 11.4% against an average return for all households of 16.4%. The market returned 17.9%. The average household turns over 75% of its common stock portfolio annually.

The families, on average, actually did do better than the market return of 17.9% before transaction costs are considered - 18.7%. But the transaction costs, brokerage fees and bid-ask spreads, ate into those returns reducing them to 16.4%.

Critics of the Barber-Odean studies have argued that, because the period of the studies was between 1991 and 1996, it doesn't take into account today's razor-thin online commissions. But clearly, commissions can't account for the fact that the return for the most active investors was only 11.4%.

In 2002, another of their studies, *Online Investors: Do the Slow Die First?*, looked at 1607 investors who switched from phone-based to online trading. They found that those who switched usually outperformed the market by 2% before switching, but "after going online, they trade more actively, more speculatively, and less profitably than before - lagging the market by more than three percent annually". They attribute this again to overconfidence - "the illusion of knowledge, and the illusion of control".

Terrance Odean Addressing a Las Vegas Investor's Conference, 2003

These guys are university profs, so their studies are long documents of 40 - 60 pages each. Their prose is generally readable, but sometimes abstruse, especially when they get into mathematical formulae. You can find these articles as readable short synopses and in their entirety at Terrance Odean's page at the University of California, http://faculty.haas.berkeley.edu/odean/ .

The lesson here, of course, is be careful and don't get cocky. Investing is not easy. And it's not a game or a sport, though some people treat it as if it is. You want to whip that cream into a frothy, sweet and tasty treat - a profitable portfolio. Churn it too much and you'll get butter!