Currency Watch

The Death of the Dollar (Yankee that is!)

Mark Twain once wrote, after he had seen his name in the obituary column, “The rumors of my demise have been greatly exaggerated.” And maybe predicting the death of the Yankee sawbuck is a bit premature. But without a doubt, the US dollar is one sick puppy.

On Friday Mr. Sunshine, yes I mean Alan Greenspan, finally could take it no more. The sinking of the greenback has sickened even him. And so he abandoned his cryptic ways and spoke candidly about what continued weakness in the dollar could mean.

First some background. The US dollar has become the reserve currency for many countries, particularly in Asia. Their own currency is backed by reserves of US Treasury Bills. Japan has a lot of them and has periodically stepped in to buy more in an effort to prop up the dollar. Why? Because as the Yankee greenback falls, the yen appreciates, making Japan less competitive in the American market. And China has been accumulating US dollars because it has a huge trade surplus with the United States. More Chinese goods are heading to America than the other way around. To keep competitive, the Chinese government pegged the Chinese yuan to the American dollar, meaning that as the dollar moves, so does the yuan. Buck goes down, China stays competitive. The Americans have been railing against this policy to no avail.

But other currencies, including the Canadian dollar, have soared against the greenback. Why? Well, Canada has run seven consecutive fiscal surpluses. The United States has been running deficits, the latest one a $412 billion dollar deficit for the fiscal year ended September 30th. Canada also has a current account surplus, meaning that, like China, Canada exports more than it imports. The United States has a US$600 billion trade deficit meaning it has to borrow money from abroad to fund its imports. If individuals or corporations were as profligate as the United States government, the end result would eventually be bankruptcy.

Back to Greenspan. Friday he told the European Banking Congress in Frankfurt that given the size of the US trade deficit, “a diminished appetite for adding to dollar balances must occur at some point.”

“International investors,” he added, “will eventually adjust their accumulation of dollar assets or, alternatively, seek higher dollar returns to offset concentration risk, elevating the cost of financing the US current account deficit and rendering it increasingly less tenable.”

In less elegant and perhaps more understandable English, the you-know-what is about to hit the fan! His remarks immediately sent the dollar down to a four year low against the yen and it also sank against the Euro, which is becoming increasingly attractive as an alternative reserve currency.

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In This Issue: An Environmentally Friendly Stock? (See Page 8)

Death of the Dollar *(from page 1)*

And while the US stock markets blithely continue to rise, Mr. Greenspan warned Friday that at some point, foreigners might lose interest in US dollar denominated investments, something that would send stock markets into a tailspin and interest rates soaring.

This has, in fact, already started. A headline buried deep in Friday's Financial Post blared "Chinese dump US dollars". The feature article told how individual Chinese are moving out of the dollar. One man who had set aside US$50,000 to educate his son in the United States told of his regrets he had not held the stronger Euro or Japanese yen. "The dollar doesn't mean anything anymore," said another person on line at the Bank of China waiting to unload her dollars. Some are converting US dollars into Chinese yuan despite the official peg. They don't believe that parity can be maintained and that the yuan will inevitably rise against the greenback. "The renminbi (yuan) is the hard currency now," shouted one man as he liquidated US$10,000 in US stocks and converted it into the Chinese currency.

It used to be that black markets in currency such as existed in the former Soviet Union sold US dollars at inflated prices to those wanting to bail out of a worthless ruble or other weak currency. Today the black market in Shanghai is selling yuan to those wanting to bail out of the dollar. This reversal of roles on the black market is possibly the most telling trouble sign of all.

In an unusually blunt statement, Mr. Greenspan noted that "Rising interest rates have been advertised for so long and in so many places that anyone who has not appropriately hedged this position by now obviously is desirous of losing money."

Significantly, President Bush on Friday approved raising the US debt limit by US$800 billion to US$8.2 trillion. That is not small change!

It's Baaacckkk!!!!

Compounding the woes of the US dollar is a dragon some thought the US government had soundly slain in the 80s. Inflation! Well, it's baaaccckkk!!!!

Last Tuesday the Producer Price Index for October was released showing US wholesale prices up 1.7% for October. This was triple the expected 0.6% and the highest inflation jump in fifteen years.

Some blame this on high oil prices and a trickle down effect on the economy, but even core inflation, which strips out volatile food and energy items, rose 0.3% in October, also three times expectations.

Wednesday the Consumer Price Index was released showing a 0.6% increase from September. The core rate was up 0.2%.

Some analysts averred that the stock market bubble of the late 90s was inflation driven, that even though traditional measures of inflation showed it to be in check, it was showing up in surging stock prices.

After the crash brought reality back to the stock market, a new bubble has formed. Real estate!

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Death of the Dollar *(from page 2)*

Patti Croft, chief economist for Vancouver-based Phillips, Hager and North Investment Management, sounded the alarm after a recent PH&N study showed that there were clear signs of a continent wide bubble in the US housing market. A bubble, incidentally, not evident in the Canadian market. US housing prices are rising at a pace that “we just don’t think is sustainable,” said Croft.

On top of that, US consumer debt is at record highs and many Americans have leveraged their homes to take advantage of low interest rates and high valuations. This has fuelled consumer spending in the States, helping fuel recovery. But as rates continue to rise, this bubble, like the stock market bubble, could collapse.

This would produce a double whammy effect – many debtors will face a cash flow crunch and will cut back on spending. This would create a downturn in the economy.

In fact, this has already happened in the UK and Australia where rapidly rising interest rates have cooled off house prices and in the Netherlands where a downturn in the housing sector has caused a “deep downturn” in the economy.

While the US stock market seems to have weathered the storm and is now on the rise again, the fiscal chickens are starting to come home to roost. How long this can continue until the crunch comes is anyone’s guess. But investors should be cautious on the US market.

Everything’s Relative

Here’s a quick riddle for you. Of the TSX Composite Index, the NASDAQ, the Dow, the price of gold, the XAU and the Canadian dollar, which has gained the most this year? The last two years? The last three years? The last four years? The last five years? The answers are in the table below.

Index Comparisons as of Nov. 12, 2004						
	TSX	**Dow**	**NASDAQ**	**POG**	**XAU**	**CDN $**
YTD	8.22%	0.81%	4.09%	5.34%	-0.23%	8.35%
2 Years	40.55%	25.67%	54.52%	36.22%	60.61%	31.99%
3 Years	23.15%	10.31%	13.33%	56.54%	98.74%	34.32%
4 Years	-3.29%	-0.60%	-31.15%	65.49%	151.37%	29.58%
5 Years	18.21%	-2.14%	-35.26%	50.49%	55.26%	22.56%

What’s interesting here is that while the US markets are often considered by Canadian investors as *the* place to make substantial gains, the TSX Composite Index has outperformed both the Dow and the NASDAQ for the one year, three year and five year terms. In fact, over five years, the TSX is up 18.21% while the Dow and the NASDAQ are both still in the red with the NASDAQ down over 30% for both the four year and five year terms. And a recent report showed that if you strip out that dog named Nortel from the TSX Index, it is now hitting all-time new highs.

The big winner has been the XAU which, although still in losing territory for the year-to-date as of Nov. 12th, has outperformed every other metric in all other time frames noted above.

But wait!!! The above is misleading. Why? Because each is calculated on its own terms. The TSX is valued in Canadian dollars and its change is relative to itself. For US investors who put their money in the TSX, their gains are magnified by the gain in the Canadian dollar. For Canadian investors who put their money in the US market, their gains are diminished and their losses magnified by the currency differential.

And even the fantastic gains made by the price of gold and the XAU are diminished as a result of the currency differential as both are traded in US dollars. The implications for Canadian investors are significant as the US dollar continues to slide.

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Death of the Dollar *(from page 1)*

One of the important implications for Canadian stocks is that companies who export heavily to the US market will face a price squeeze. They'll either have to raise prices or lose export business. This could significantly affect the bottom line and the stock price.

One of the huge factors in the booming Canadian economy are the resource industries. Oil companies and gold mining companies are obvious examples. Both commodities are priced in US dollars. And while the jump in oil and gold prices has been good for these companies, to the extent that their operations are in Canada or in countries whose currency is appreciating relative to the US dollar, these gains will be mitigated. For net gains to be made, the commodity prices must increase faster than the US dollar is sinking.

Since we publish in Canada, the table below shows our first table recalculated in Canadian dollars.

Index Comparisons in Canadian Dollar Terms as of Nov. 12, 2004						
	TSX	**Dow**	**NASDAQ**	**POG**	**XAU**	**US $**
YTD	8.22%	-6.98%	-3.95%	-2.81%	-7.94%	-7.73%
2 Years	40.55%	-4.80%	17.05%	3.19%	21.67%	-24.25%
3 Years	23.15%	-17.90%	-15.65%	16.52%	47.93%	-25.57%
4 Years	-3.29%	-23.31%	-46.88%	27.69%	93.95%	-22.84%
5 Years	18.21%	-20.16%	-47.18%	22.77%	26.67%	-18.42%

To create the table we simply converted all US dollar figures to Canadian dollars before calculating changes. For example, the US dollar was worth $1.5742 Canadian on Nov. 12, 2002. The Dow was at 8386.00. In Canadian dollars it was at 8386.00 X 1.5742 = 13,201.24. On Nov. 12, 2004, the US dollar was at $1.1925 Canadian and the Dow at 10,539.01. That made the index 12,567.77 in Canadian dollar terms. Even though the Dow was up 25.67% in US dollars, in Canadian dollars it was down 4.80%. A Canadian investor who bought the Dow on Nov. 12, 2002 would be sorely mistaken if he believed he was ahead 25.67%. He was actually in the red! The Dow would have to be at 11,070.22 to just break even!

Now this is quite a difference from our first table. As far as stock exchange indexes goes, the TSX handily beat the Dow and the NASDAQ in all time frames. Over two years, the TSX has done twice as well as the NASDAQ. Even gold and the XAU have failed to beat the TSX for the year-to-date and two year periods when converted to Canadian dollars. Longer time frames for gold have fared better.

This doesn't mean that investing in US stocks is a bad idea. If you are a short term trader and a good stock picker, there are certainly gains to be made. And if you're an options trader, the US options market offers a much larger variety of optionable stocks with substantially more volume and liquidity.

The big question is, will the US dollar continue to slide? As long as the US government fails to come to grips with its massive debt and deficit, the US dollar will continue to sink. With Dubya back in the White House, that is likely to be the case.

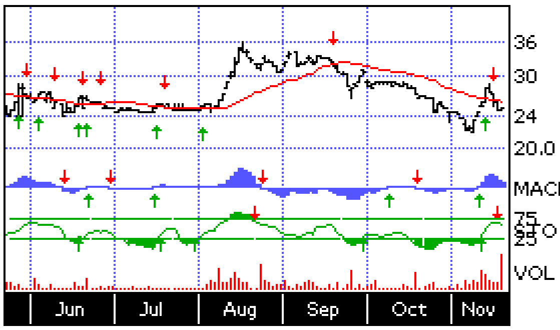
Several prominent commentators have come out predicting a continuing decline in the US dollar. A headline in Friday's Financial Post cited James Grant, founding editor of *Grant's Interest Rate Observer*. "Grant calls US dollar to keep falling," it read. Grant noted Thursday that Russia is facing a 12% inflation rate partly because of its policy of printing rubles to buy dollars to keep competitive. But like the Chinese man on the street, Russia may soon pull the plug on this policy. If Russia and other buyers of US debt paper call it quits, US inflation will rise even faster than it is now as imports become increasingly expensive.

In fact, currency analyst Jim Rogers, author of *Investment Biker*, thinks the Canadian dollar will continue to gain and will top out at around $1.06 US. That's right! Rogers thinks the Canadian dollar some day will be more valuable than the greenback! Where would you prefer to be invested?

Watched List Update

Hiding in the Weeds

Four stock on our Watched List are rated “wait” this week, which means either they have gained ten percent from their recent lows but are not yet in up trends or have not given us a confirmation bounce off the moving average yet. Being cautious, we don’t recommend buying a stock until there is such confirmation. The charts below give us the picture on each of these.

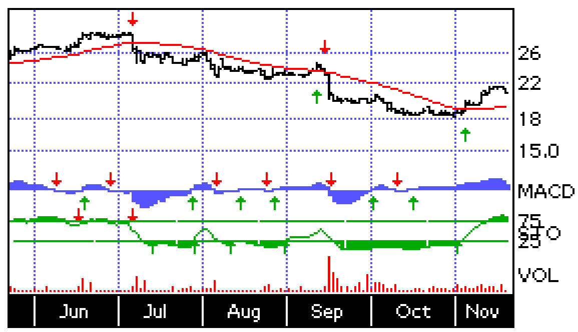


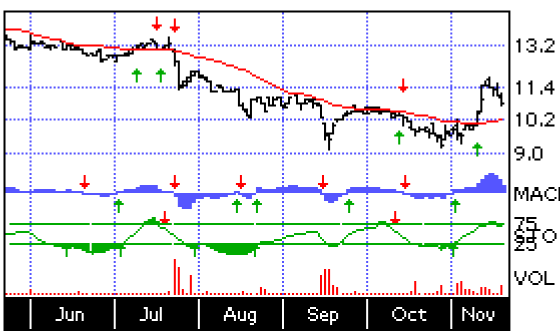
Ainsworth (ANS)	Profiled: 08/17/04
Price then: $30.40	Price Now: $25.00

⇦ We featured this surging lumber company in mid-August when it appeared to be taking off after a flat stretch. We were wrong as the stock quickly peaked and then dropped back. It’s now started to move up again but its moving average is not yet in an uptrend. We expect to see it as a buy within a week or two.

Axcan Pharma (AXP)	Profiled: 06/20/04
Price then: $27.43	Price Now: $20.80

We featured this one in June this year ⇨ expecting a continuation after a bounce off the moving average. We were wrong again as it dropped in steps and is now off 24.17%. It’s just started climbing again and we want to see a confirmation bounce before rating it a buy. When we do, it will be a bargain at these prices.



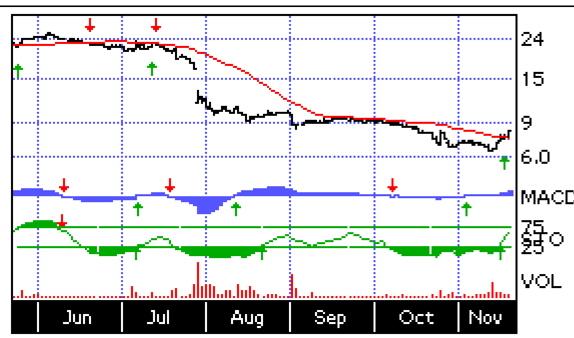


Calian Tech. (CTY)	Profiled: 10/01/02
Price then: $3.85	Price Now: $10.80

⇦ Since we featured this company in 2002, it has soared 180.52%. It has been in a correction since peaking at over $15 in April. Now it seems to have taken off again. We’ll know for sure when it bounces off the moving average to the upside. Then will be the time to take a flyer on this high flyer once more.

Coolbrands (COB.A)	Profiled: 06/15/03
Price then: $10.25	Price Now: $8.25

This leading ice cream maker soared to as ⇨ high as $27 earlier this year and then started faltering in March. It faltered enough to give us a sell rating well before it plunged mightily in July after it lost a contract with Weight Watchers. Now it appears to have bottomed. We want an uptrend in the MA and a confirming bounce before rating it a buy again.



Resource Pick

Sherritt International (S –TSX)

(website: www.sherritt.com)

Sherritt International is a powerhouse in the resource industry with assets of over $2.3 billion and operations in Canada, Cuba and internationally. A diversified resource company, it has significant interests in coal, nickel and cobalt, oil and gas, and electricity generation. It even has interests in soybean-based food processing, tourism and agriculture.

Founded in 1927 as Sherritt Gordon Mines Limited, the company has growing ever since. In 1947 it pioneered hydro-metallurgical ore processing through the ammonia leach process in partnership with the University of British Columbia. This led to the development of a refinery at Fort Saskatchewan, Alberta in 1954, close to natural gas resources needed for the leach process. This year marks the fiftieth anniversary of the Fort Saskatchewan plant.

The company has expanded partly through acquisitions and partly through internal growth. Today it operates five divisions. These are:

- Coal – In 2001 Sherritt partnered with the Ontario Teachers' Pension Fund to acquire the assets of Luscar Ltd., Canada's largest coal producer. In 2003 the partnership bought the thermal coal assets of Fording Inc. Coal contributed $232.6 million in revenue in 2003.
- Metals – Metals Enterprise is a 50/50 joint venture with General Nickel SA formed in 1994. It has nickel and cobalt mining operations in Moa, Cuba and refining operations in Fort Saskatchewan, Alberta. Metals contributed $321.1 million in revenues in 2003.
- Oil and Gas – Sherritt holds major indirect interests in ten oil and gas exploration and production operations in Cuba. It is, in fact, Cuba's largest oil producer. It also owns interests in Spain and Pakistan. Oil contributed $223.1 million in revenues in 2003 and most of Sherritt's profits with earnings of $91.5 million.
- Power – In 1998 Sherritt Power Corporation was created to build gas-fired power generation facilities in Cuba through its one-third interest in Energas SA. It contributed $26.1 million in revenues in 2003. Sherritt funded the project and gets 100% of revenues until the project is paid for (to the 4th quarter of 2005). A two phase expansion plan is now being negotiated.
- Other Businesses – Sherritt acquired a 50% in a Cuban soybean processing operation in 1998. It also has interests in two Cuban tourist resorts. Other businesses contributed $17.2 million to revenues in 2003.

Although oil generated the largest profits for Sherritt in 2003, metals was the largest contributor of both revenues and earnings in the latest quarter due to strong commodity prices. Metals earnings quadrupled. Trailing twelve month earnings to Sept. 30 are $1.13 compared to $0.67 for 2003. While coal prices have tripled in the last year, these have not yet impacted Sherritt because of forward selling. This could change as contracts unwind.

Quarterly Earnings per Share

To Mar. 31st	2003	2004	% Change
EPS	$0.10	$0.19	+90.00%
Revenues (millions)	$186.4	$221.3	+18.72%

Annual Earnings per Share

To Dec. 31st	2001	2002	% Change	2003	% Change (12 mo.)
EPS	$0.34	$0.38	+11.76%	$0.67	+76.32%
Revenues (000s)	$657,157	$746,500	+13.60%	$851,400	+14.05%

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Sherritt International *(from page 6)*

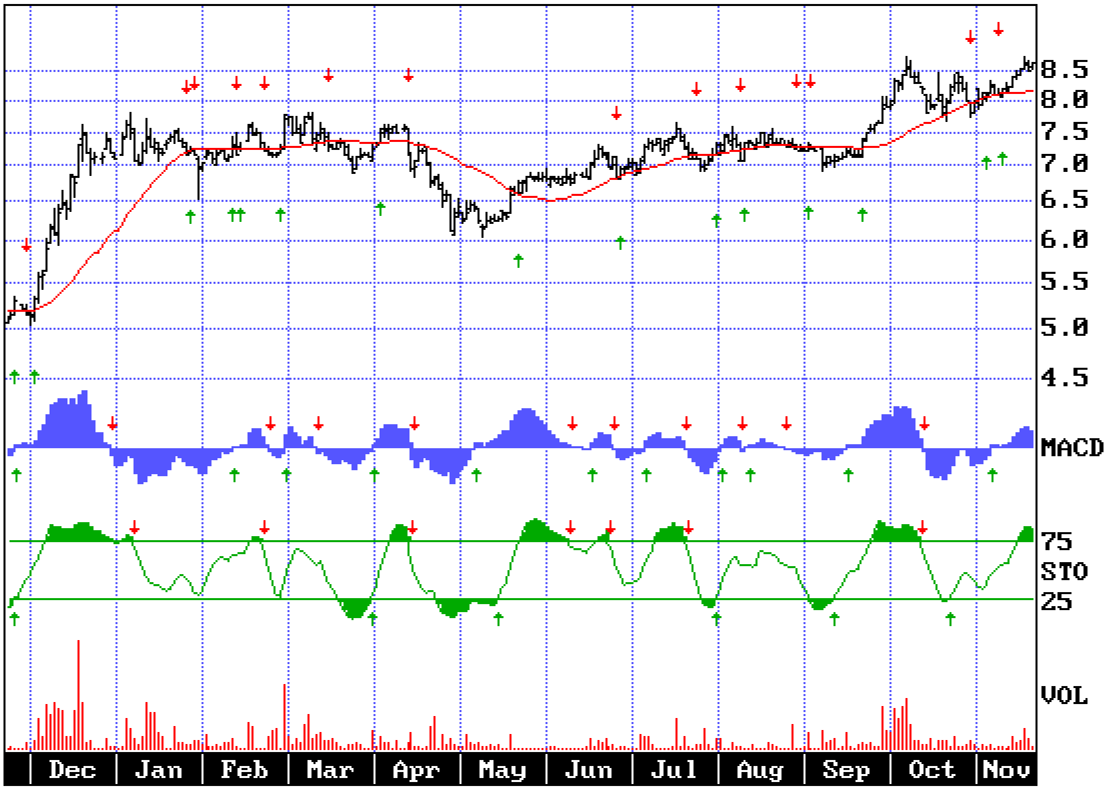

Chart Analysis: Sherritt soared from $5 to $7.50 in December 2003, traded flat and then corrected to $6 in April this year. Since then it has been on a steady climb to its current level of $8.50. It has recently broken out to new highs and we could see significant gains ahead as demand for strategic metals and energy increase.

Stats as of 11/19/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.75	▪ Price Pattern: A
▪ RS: 92.95	▪ Volatility: A
▪ Shares: 130,701,462	▪ Estimates: B-
▪ P/E: 7.73	▪ Snapshot: B
▪ Price: $8.66	▪ News: A

Phase 2: We give Sherritt an A for price pattern and for volatility as it is growing but not showing wild swings. Estimates are mixed with higher predictions for the current year but lower for 2005. Overall rating is 2.0 or buy based on reports from nine analysts. So we give it a B-. Snapshot shows steadily growing revenues and significantly growing earnings. These are to some extent driven by commodity prices however. Return on equity is lower than we like at 7.93 for fiscal 2003 but it is improving. We give it a B. News is good with record earnings and revenues and strong commodity prices. 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

Cameco Corp. (CCO –TSX, CCJ-NYSE)

(website: www.cameco.com)

While environmentalists may rail against nuclear power, it is, in fact, one of the cleanest sources of energy available today. Much of US electricity generation has been done with coal powered plants over the last half century. And this has contributed hugely to acid rain, smog, and the greenhouse effect. Though new technologies are helping to solve some of these problems, nuclear energy remains one of the safest and cleanest sources of power. Safeguards introduced in the wake of Three Mile Island and Chernobyl have made it even safer today.

Ironically, in the wake of the concern over greenhouse gases and the Kyoto Accord, nuclear power may the environmentalist's best friend.

And Cameco is the world's largest, low-cost producer of uranium. It supplies fully 20% of the world's nuclear requirements. Electricity generated from Cameco uranium powers one in nine US households.

Cameco operates four mines in Canada and the United States and controls ownership of the world's largest high-grade reserves in northern Saskatchewan where ore grades are 100 times the world average. Two new mines are under development, one of them in Asia.

The company also is the largest integrated provider of uranium with refining and processing plants in Blind River and Port Hope, Ontario. It is the only producer of the fuel used in Candu reactors. It even owns a 31.6% interest in Bruce Power which operates six nuclear power plants in southern Ontario.

And just to add some icing to the cake, Cameco owns 53% of Centerra Gold which includes gold mines in Kyrgyzstan, Mongolia and Nevada.

Recently Eric Sprott, CEO of Sprott Asset Management and one of the shrewdest money managers on Bay Street (note which mutual fund tops our listing on page 10), said, "I think the whole nuclear industry will ultimately prove to be the key energy source of the future." The increasing scarcity of fossil fuels, he believes, will highlight the need to further develop nuclear power. Demand is outstripping supply by 10 million pounds a year and that is expected to grow to a shortage of 30 million pounds a year by 2015. Spott, ironically, currently has a sell rating on Cameco because he believes it has moved too far too fast. But long term, the potential is enormous.

With the Chinese economy starting to move into over-drive, that country could well be a key source of demand for nuclear power in the future. The future for Cameco has a green glow in more ways than one!

Quarterly Earnings per Share

To Mar. 31st	2003	2004	% Change
EPS	$0.59	$0.87	+47.46%
Revenues (000s)	$232,000	$313,000	+34.91%

Annual Earnings per Share

To Sept. 30th	2001	2002	% Change	2003	% Change
EPS	$0.1.01	$0.78	-22.77%	$3.65	+367.95%
Revenues (000s)	$712,993	$757,888	+6.30%	$835,645	+10.26%

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Cameco Corp. *(from page 6)*

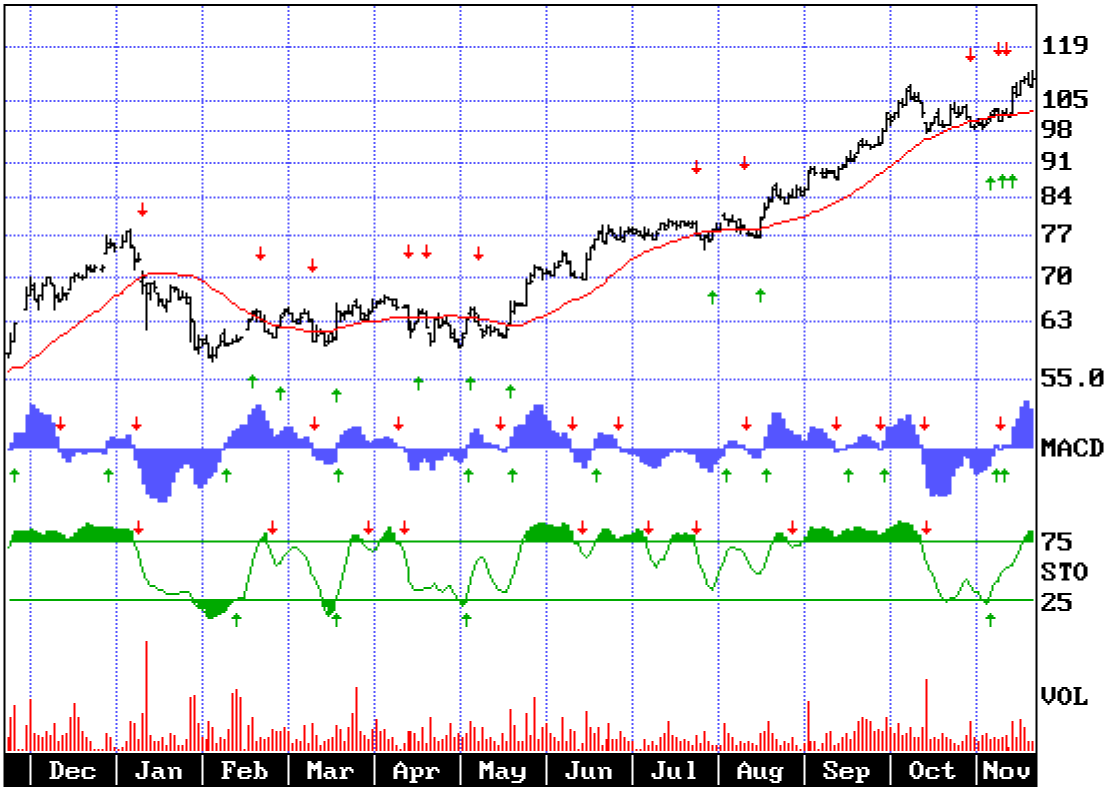

Chart Analysis: Cameco has been on a tear since May, climbing from $60 to $110. It underwent a short-lived and minor correction in October and has now bounced off the moving average to the upside. The stock could continue to climb or it could meander around in a tight trading range like it did from February through May. Downside support is strong at $98 (the level which Eric Sprott calls "fair value" currently). This is a stock to own for long term gains. The stock is optionable on both the Montreal and American exchanges. Covered calls might be in order if you think the price may drop short term.

Stats as of 11/19/04	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.96	▪ Price Pattern: A
▪ RS: 94.55	▪ Volatility: A
▪ Shares: 57,498,823	▪ Estimates: B
▪ P/E: 33.83	▪ Snapshot: B
▪ Price: $110.61	▪ News: A

Phase 2: We give CCO an A for both price pattern and volatility as it has been climbing steadily with only minor corrections since May. The long term trend is clearly up. Estimates for this year are down a bit but up for 2005 with an average rating of 2.5 or buy. So we give it a B. Snapshot shows growing revenues with earnings down in 2002 from 2001 but up substantially in 2003. Trailing earnings to Sept. 30th are down from that level but not a huge amount. Return on equity is a bit weak at 11.10 but it is growing. We give it a B. And news has been positive with growing revenues and earnings, and the end to a strike. 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 October 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.

Super Power Performers			
Fund name	**1 yr %**	**3 yr %**	**5 yr**
Sprott Canadian Equity	29.15	33.03	41.
Resolute Growth	40.66	31.33	38.
Dominion Equity Resource	36.36	28.00	28.
Front Street Small Cap Canadian	26.89	37.49	27.
Mackenzie Universal Canadian Resources (US$)	40.54	42.53	26.
Power Performers			
London Life Canadian Resource (MF)	28.84	29.69	21.
Mackenzie Universal Canadian Resource	30.00	30.60	21.
Mawer New Canada	28.46	27.88	21.
Hillsdale Canadian Performance Equity	20.37	22.81	21.
Northwest Specialty Equity	21.79	35.17	20.

The small cap sector remains strong as once again three small cap and two resource funds make our Super Power Performer list. The number of Power Performers slipped from 8 to 5 however. The three sliding off that list made it into the Performers list which grew from 35 to 38. Total funds making our tables stayed steady at 48.

Our Performers are listed in the table below.

Performers							
Fund name	**1 yr**	**3 yr**	**5 yr**	**Fund name**	**1 yr**	**3 yr**	**5 yr**
Front Street Special Opp. Canadian	17.24	40.64	32.23	GGOF Monthly High Income Mutual	23.18	19.12	18.48
Norrep Fund	15.57	28.89	24.88	Acuity Pooled Conserv. Asset Alloc.	15.31	18.44	18.41
Vertex Fund	27.22	18.46	23.99	Sceptre Equity Growth	18.29	32.28	18.36
R Small Cap Canadian Equity	16.12	21.27	22.24	Mavrix Dividend & Income	18.68	18.27	18.17
Elliott & Page Growth Opportunities	15.84	20.94	22.21	Acuity Pooled High Income	20.21	20.63	18.03
Bissett Microcap-F	15.60	26.18	21.39	Desjardins Financial Pool Bissett SmallCap	20.35	22.63	17.90
RBC Energy	46.08	18.69	20.47	Dynamic FocusPlus Resource	33.31	28.30	17.52
CI Signature Canadian Resource	27.26	19.95	20.22	Elliott & Page Monthly High Income	17.92	16.04	17.51
Sentry Canadian Energy Growth	31.95	18.76	19.85	Assante Cdn. Equity Value Pool	19.56	16.95	17.42
Ethical Special Equity	17.37	27.88	19.73	ABC Fundamental Value	24.93	20.42	16.60
TD Energy	40.11	18.21	19.64	IA Group Dividends	20.20	16.00	16.48
Bissett Income-F	23.64	19.36	19.49	TD Resource	16.68	20.69	16.44
CI Global Energy (US$)	61.32	25.52	19.41	Bissett Small Cap-F	18.87	20.80	16.20
Trimark Canadian Resources	26.75	25.42	19.38	AGF Canadian Resources	22.58	23.29	16.16
Clarington Canadian Small-Cap	16.93	26.88	19.28	GWL Canadian Resource (A) DSC	22.60	22.97	16.06
GGOF Monthly High Inc. Classic	23.94	19.88	19.09	BMO Resource	24.35	20.28	15.91
CIBC Energy	47.08	26.53	18.85	GWL Canadian Resource (A) NL	22.34	22.71	15.80
Renaissance Cdn. Income Trust	21.47	17.79	18.58	KEYSTONE Saxon Smaller Co.	18.31	20.28	15.42
Trimark Cdn. Small Companies	15.71	16.05	18.49	Acuity High Income	17.93	17.80	15.17

Methodology

How to Generate Stop Losses Using a Spreadsheet

One of our readers recently emailed me sending along a spreadsheet he designed to keep track of his stocks. In the past he had tended to hang on to losers because he “knew they were going to turn around”. But now he has sold his losers and follows the Break Out System. He wrote that “when I first considered using your system, this issue of tracking seemed to be a roadblock”. Not everybody has the patience of this reader to create a spreadsheet that works so I thought I’d pass along how I manage mine.

The table below shows half of our Model Portfolio in a spreadsheet.

Stock	Purchase Date	Purchase Price	Close	Profit	Recent High	Down By	Highest Profit	Soft Stop	Hard Stop
ATD.SV.B	Aug. 16/04	$27.20	$31.70	16.54%	$31.75	-0.16%	16.73%	$28.58	$26.99
CCR.UN	May 19/03	$20.29	$39.50	94.68%	$41.00	-3.66%	102.07%	$36.90	$34.85
CBY	July 26/04	$28.35	$38.00	34.04%	$39.99	-4.98%	41.06%	$35.99	$33.99
GSW.SV.B	May 17/04	$34.73	$40.00	15.17%	$45.00	-11.11%	29.57%	$40.00	$38.25
HCG	Aug. 9/04	$21.49	$26.50	23.31%	$27.00	-1.85%	25.64%	$24.30	$22.95

To keep track of the prices I created a portfolio online at Globeinvestor.com. They update prices every day and at the end of the day I can copy and paste the updated prices right into the Price column on the spreadsheet.

All of the data in the spreadsheet is entered data except for the Profit column, the Recent High column, the Down By column, the Highest Profit column and the Soft Stop and Hard Stop columns. Those columns all have formulas to automatically change the data according to the latest price. As in all spreadsheets, the columns are labeled A, B, C etc. and the rows are numbered.

Column	Formula
Profit	=(D2-C2)/C2
Recent High	=IF(F2>D2,F2,D2)
Down By	=(D2-F2)/F2
Highest Profit	=(F2-C2)/C2
Soft Stop	=F2*0.9
Hard Stop	=F2*0.85

The formulas are shown in the table at right. The columns are formatted as percentages or currency as required. With the Recent High formula, Works Spreadsheet will tell you every time you bring up the worksheet that there is a circular reference. Just click okay and ignore it. It doesn’t matter. With Excel, it will tell you there is a circular reference when you enter it and won’t allow the entry unless you change something called Iterations. Just follow Excel’s notes to change the Iteration to 1 and it allows the formula. (On the menu select Tools, Options, Calculations and change Iterations to 1)

In my case, if a soft stop is hit, I look at my Highest Profit to see if I should allow some leeway. I then go and calculate what the stop is. But if you want to have it automatically generated, simply add four columns between the Soft Stop and the Hard Stop labeling them Soft Stop +1, Soft Stop +2, Soft Stop +3 and Soft Stop +4. The formulas for each will be F2*0.89, F2*0.88, F2*0.87 and F2*0.86 respectively. Then if a Soft Stop is triggered, you just check the Highest Profit and select the appropriate column to see what your actual stop should be.

When creating the spreadsheet, you can enter the manually entered data for each row, enter the formulas for the first row and then copy the formulas. Copying formulas adjusts them as needed.

Copying the prices from Globeinvestor Portfolio is easy as well. Copy the portfolio table from the web page to Microsoft Word or some other word processor. Delete all the columns except the price column and copy the column into the spreadsheet. What could be easier?

Our Model Portfolio

Initial Position: $50,000 (Jan. 11, 2002)
Current Position: $108,292.00 (+117.03%) Up 28.21% YTD

Our portfolio made strong gains since our last issue and is now up 28.21% for the year. If it was a mutual fund it would now be ranked 12th out of 5727 funds in Canada for the year to date. This past week saw our cash position augmented by $171.10 in distributions from our income trusts. It now stands at $221.50. Be sure to follow our trades as they are updated weekly in the Subscribers Only section of the website.

Alimentation Couche-Tard (ATD.B – TSX)

# of Shares: 260	**Bought:** Aug. 16/04
Price Then: $27.20	**Price Now:** $31.70
Gain: +16.54%	**Stop:** $28.26

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

Canada Bread (CBY – TSX)

# of Shares: 245	**Bought:** July 26/04
Price Then: $28.35	**Price Now:** $38.00
Gain: +34.04%	**Stop:** $34.39

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

CCS Income Fund (CCR.UN – TSX)

# of Shares: 240	**Bought:** May 19/03
Price Then: $20.29	**Price Now:** $39.50
Gain: +94.68%	**Stop:** $34.85

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:** $40.00
Gain: +15.17%	**Stop:** $39.60

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

Home Capital Group (HCG – TSX)

# of Shares: 450	**Bought:** Aug. 9/04
Price Then: $21.49	**Price Now:** $26.50
Gain: +23.31%	**Stop:** $23.76

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:** $18.53
Gain: +23.53%	**Stop:** $16.49

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

Peyto Energy Trust (PEY.UN – TSX)

# of Shares: 300	**Bought:** Mar. 29/04
Price Then: $30.30	**Price Now:** $42.50
Gain: +40.26%	**Stop:** $38.25

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.

Reitman's (RET.A – TSX)

# of Shares: 500	**Bought:** Oct. 18/04
Price Then: $20.00	**Price Now:** $23.90
Gain: +19.50%	**Stop:** $21.27

Notes: Reitman's is Canada's largest women's fashions retailer with over 800 stores across the country.

RONA Inc. (RON – TSX)

# of Shares: 280	**Bought:** Sept. 27/04
Price Then: $32.10	**Price Now:** $36.00
Gain: +12.15%	**Stop:** $32.85

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

Zargon Energy Trust (ZAR.UN – TSX)

# of Shares: 515	**Bought on:** Apr 19/04
Price Then: $17.70	**Price Now:** $23.25
Gain: +31.36%	**Stop:** $20.63

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