

the Break Out Report

Volume # 4, Issue # 16A Supplementary

June 30, 2006

Rich Get Richer Portfolio

Tough Second Quarter Takes Us Down a Notch

After a superb first quarter in which we beat the TSX by two percentage points, our Rich Get Richer Portfolio had the stuffing knocked out of it in the second. At one point the devastation was so bad that our portfolio was in the red. But we managed to recover some ground in the last two weeks as markets started to bounce back from a severe correction. We ended up ahead 3.93% for the year-to-date, slightly ahead of the TSX which is up 3.02% for the year-to-date. But we were 9.76% to the good after Q1 so we did feel some pain!

Just to bring you up to speed in case you are a new subscriber, we created the Rich Get Richer Portfolio at the end of December in order to bring our readers an easier to manage portfolio with returns to match or exceed our Model Portfolio. Considerable back-testing showed that if we were to take the top performing stocks from our Watched List each quarter and invest in them, holding them and not trading them until the end of the next quarter, we would probably beat our Model Portfolio and produce stellar returns.

The theory behind this is that stocks that are advancing have the momentum to continue to advance. They are showing above average strength. While it is true that a stock that has done well one quarter could correct the next quarter, William O'Neill, creator of the CANSLIM approach to investing and author of *How to Make Money in Stocks*, has shown empirically that stocks that hit new highs tend to go higher while stocks hitting new lows tend to go lower. It is playing the averages.

Furthermore, our strategy calls for us to continue to hold those stocks that remain in the top performers for an additional quarter, compounding the gains. In our back-testing we discovered that some of our stocks remained top performers for two or three quarters running before petering out. The compounded gains hugely impacted performance of the portfolio as a whole.

We started out with trailing stops at 25% and ended up selling off three stocks in the first quarter. But we would have done better not having stops so we did away with them for the second quarter making the portfolio a true buy and hold for the quarter. Was that a good move? By the end of the quarter we finished with three stocks that were off by 25% or more. If we had the stops still in place, we would have sold off ten stocks. Seven of those recovered ground by the end of the quarter. So we did better by not having stops. In fact, one of those, Aur Resources, did well enough despite a short lived correction, that it continues in the portfolio.

Others did not fare so well. In fact, while we hung on to six of our twenty stocks after the first

(continued on page 2)

Rich Get Richer Portfolio Up 3.93% for Year-to-Date

Tough Second Quarter (from page 1)

quarter, we're only hanging on to three at the end of the second quarter. Note that four qualify but we are selling (or rather tendering) BlackRock Ventures which has been taken over by Shell Oil at \$24 a share. Falconbridge is also in play for a takeover but there are competing bids so the price may yet go higher or it would be sold as well.

Below is the portfolio at the close of trading on June 30th. The stocks being sold from the portfolio are in bold and highlighted in yellow.

Name	Sym	Date Bought	# of Shares	Price Then	Price Now	Amount Invested	Current Value	Change	% of Portfolio
Aur Resources	AUR	Jan. 3/06	211	\$11.78	\$17.80	\$2,485.58	\$3,755.80	51.10%	7.23%
BMTC Group	GBT.A	Jan. 3/06	155	\$16.00	\$18.20	\$2,480.00	\$2,821.00	13.75%	5.43%
BlackRock Ventures	BVI	Apr. 3/06	175	\$13.95	\$24.00	\$2,441.25	\$4,200.00	72.04%	8.08%
Centurion Energy	CUX	Apr. 3/06	171	\$14.25	\$7.04	\$2,436.75	\$1,203.84	-50.60%	2.32%
Cryptologic	CRY	Jan. 3/06	108	\$22.81	\$26.96	\$2,463.48	\$2,911.68	18.19%	5.60%
Falconbridge	FAL	Apr. 3/06	58	\$41.65	\$58.80	\$2,415.70	\$3,410.40	41.18%	6.56%
Garda World Security	GW	Jan. 3/06	164	\$15.12	\$21.97	\$2,479.68	\$3,603.08	45.30%	6.93%
Goldcorp	G	Apr. 3/06	70	\$35.00	\$33.65	\$2,450.00	\$2,355.50	-3.86%	4.53%
Intrawest Corporation	ITW	Apr. 3/06	61	\$39.88	\$35.28	\$2,432.68	\$2,152.08	-11.53%	4.14%
Le Chateau	CTU.A	Apr. 3/06	43	\$56.25	\$43.97	\$2,418.75	\$1,890.71	-21.83%	3.64%
Melcor Developments	MRD	Jan. 3/06	210	\$11.85	\$17.00	\$2,488.50	\$3,570.00	43.46%	6.87%
Pareto Corporation	PTO	Apr. 3/06	1524	\$1.60	\$1.20	\$2,438.40	\$1,828.80	-25.00%	3.52%
Reitmans	RET.A	Apr. 3/06	122	\$19.98	\$20.00	\$2,437.56	\$2,440.00	0.10%	4.70%
Research in Motion	RIM	Apr. 3/06	24	\$100.50	\$77.80	\$2,412.00	\$1,867.20	-22.59%	3.59%
Ritchie Brothers	RBA	Apr. 3/06	42	\$57.94	\$59.43	\$2,433.48	\$2,496.06	2.57%	4.80%
SNC Lavalin	SNC	Apr. 3/06	76	\$31.89	\$29.38	\$2,423.64	\$2,232.88	-7.87%	4.30%
Sino-Forest Corporation	TRE	Jan. 3/06	502	\$4.94	\$5.75	\$2,479.88	\$2,886.50	16.40%	5.55%
Stella-Jones Inc.	SJ	Apr. 3/06	131	\$18.70	\$18.52	\$2,449.70	\$2,426.12	-0.96%	4.67%
Teck Cominco	TEK.B	Apr. 3/06	31	\$76.85	\$66.98	\$2,382.35	\$2,076.38	-12.84%	4.00%
Xceed Mortgage	XMC	Apr. 3/06	254	\$9.59	\$6.16	\$2,435.86	\$1,564.64	-35.77%	3.01%
						Stocks	\$51,692.67		
						Cash	\$272.12		0.52%
Portfolio Value	End	Of	Q2			Total Value	\$51,964.79		100.00%
Q1 Return		9.76%				YTD	3.93%		
Q2 Return		-5.31%							

The best performing stock for the quarter, of course, was BlackRock Ventures which gained 72.04%. That was followed by Falconbridge, up 41.18% for the quarter. Both are subjects of takeover bids. But after that pickin's were thin as Ritchie Brothers gained a paltry 2.82% for the quarter. Overall performance was so bad that Ritchie returns for another quarter! Stella Jones and Reitmans managed paltry gains of less than a percent. Every other stock in the portfolio lost ground

(continued on page 3)

Tough Second Quarter (from page 2)

for the quarter. The huge returns from BlackRock and Falconbridge saved us from a complete rout.

The proceeds of our stock sales reinvested in a new bunch leaves us with the following positions for the third quarter. Since there are over thirty trades in and out, we get a rate discount and are assessing just \$10 per trade.

The top 20 for the quarter ended June 30th are shown below along with the number of shares of each that we will buy. They are shown with Friday's closing date but will be adjusted if they cannot be had at those prices. New purchases are in bold and highlighted in green.

Name	Symbol	Date Featured	Change Q2	Change Since Profiled	Price	# of Shares	Value	% of Portfolio
Falconbridge Ltd.	FAL.LV	Mar. 14/04	43.87%	199.54%	\$58.80	58	\$3,410.40	6.61%
Commercial Solutions	CSA	May 21/06	41.03%	16.36%	\$8.25	299	\$2,466.75	4.78%
ZCL Composites	ZCL	June 20/04	33.33%	143.90%	\$5.00	494	\$2,470.00	4.78%
McCoy Brothers	MCB	May 15/05	26.56%	74.19%	\$8.10	305	\$2,470.50	4.79%
Aur Resources	AUR	Oct. 16/05	20.03%	107.70%	\$17.80	211	\$3,755.80	7.28%
Foremost Income Fund	FMO.UN	June 16/06	19.08%	12.83%	\$19.35	127	\$2,457.45	4.76%
WFI Inc.	WFI	May 19/06	17.14%	13.10%	\$19.00	130	\$2,470.00	4.78%
La Senza	LSZ.SV	April 17/05	16.95%	62.46%	\$23.80	103	\$2,451.40	4.75%
Canada Bread Co.	CBY	May 18/01	8.14%	380.38%	\$62.45	40	\$2,498.00	4.84%
Wajax Income Fund	WJX.UN	May 19/06	7.35%	-3.54%	\$40.31	61	\$2,458.91	4.76%
Niko Resources	NKO	Nov. 17/02	6.85%	183.96%	\$63.04	39	\$2,458.56	4.76%
Cameco Corp.	CCO	Nov. 19/04	5.88%	141.23%	\$44.47	55	\$2,445.85	4.74%
FirstService Corp.	FSV.SV	Feb. 19/06	5.16%	1.53%	\$29.95	82	\$2,455.90	4.76%
Sherritt International	S	Nov. 19/04	4.88%	28.98%	\$11.17	221	\$2,468.57	4.78%
Pason Systems	PSI	May 16/04	4.54%	118.00%	\$16.35	150	\$2,452.50	4.75%
Big Rock Brewery Income Trust	BR.UN	Oct. 15/04	3.74%	10.53%	\$17.74	140	\$2,483.60	4.81%
Ritchie Brothers	RBA	Mar. 19/06	2.82%	0.22%	\$59.43	42	\$2,496.06	4.84%
Contrans Income Fund	CSS.UN	Oct. 12/01	2.42%	249.86%	\$12.70	194	\$2,463.80	4.77%
Ensign Energy Services	ESI	Nov. 20/05	2.18%	14.02%	\$22.94	107	\$2,454.58	4.75%
Zargon Oil & Gas	ZAR.UN	Jan. 29/01	1.93%	550.64%	\$30.58	80	\$2,446.40	4.74%
Total							\$51,535.03	
Cash							\$89.76	0.17%
Total Portfolio Value							\$51,624.79	79.05%
					YTD	Return	3.25%	

Our new portfolio is \$340 less than our end of Q2 portfolio because of broker fees.

Our rules summarized are:

- The twenty best performing stocks in our Watched List at the end of a quarter go into the RGR Portfolio going forward. No other criteria are considered.
- Stocks that are continuing in the Top 20 list from the previous quarter will not be rebalanced but be allowed to compound their growth.
- There are no stops. (We will not make any changes until Oct. 1st.)
- We are assessing a \$20 brokerage fee on every transaction in calculating our results, \$10 if there are more than 30 transactions in the quarter.

One interesting thing we have noticed is that eight of the stocks in our portfolio have already given us solid returns over 100% since we profiled them. It just bears out our view that stocks that do well tend to continue to do well!