

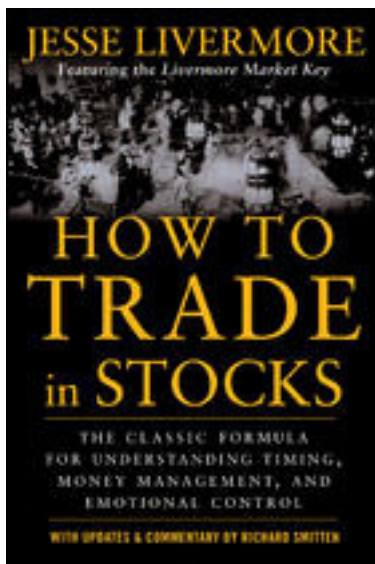
the Break Out Report

Volume # 4, Issue # 22

Sept. 17, 2006

Book Review:

How to Trade in Stocks by Jesse Livermore reviewed by Marco den Ouden



Jesse Livermore was arguably the greatest stock trader who ever lived. A mathematical whiz kid, young Jesse regularly confounded his teachers with his brilliance. But his father wanted him to quit school and work the family farm so in 1891, at the age of 14, he ran away from home to Boston. There he landed a job with Paine Webber as a board marker.

With his photographic memory and mind for numbers, Jesse noticed patterns in the trading action. He discovered he could often predict where a stock was going. And so he started playing some of his earnings at the bucket shops that were popular then. These were gaming houses where you could walk in and bet on a stock with just 10% down.

These shops were a scam as the small margin and natural fluctuations in stock prices made it hard for anyone to actually make money. The operators sometimes even manipulated the market to force players out. But Livermore, with his facility for numbers, regularly beat the bucket shops. He got so good at it that he was

banned from them, just as a card counter is banned from Las Vegas casinos if discovered. Their blather to the contrary, the house does *not* like consistent winners!

From there Livermore went on to play the real stock market, slowly building up his profits. It was in 1907 that he made his first big fortune. He made \$3 million shorting the market during the crash that year. He later lost that fortune and then built it back up again.

One of the things setting Livermore apart from most traders was that he was not afraid to play the short side. He had devised a set of trading rules and was supremely confident in his ability to call the market. And so he gained two of his nicknames – the boy plunger because of his boyish looks and willingness to commit a large stake to a trade, and the great bear of Wall Street, because he played the short side when circumstances warranted.

By 1929 he had made a fortune for himself, married a show girl and bought a mansion on Long

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In This Issue: Power Performers Mutual Funds! (See Page 10)

Book Review: How to Trade in Stocks (from page 1)

Island. As the great crash approached, Livermore saw it coming. He went short big time. On Black Monday, October 29th, he went home to find his wife had pulled her jewelry together for sale and moved into the chauffeur's house. From the news on the radio she had assumed he had lost everything and would need to sell their possessions to build a new stake and start over. Livermore laughed. He had just pulled off the biggest coup of his life. He made over \$100 million shorting the market. In today's terms, that is over a billion dollars.

The fascinating tale of Livermore's life is recounted in Richard Smitten's biography, *Jesse Livermore: World's Greatest Stock Trader*, which I reviewed in January 2002 (see review on the website) Now Richard Smitten has reissued Jesse Livermore's own book, *How to Trade in Stocks*, with additional chapters by Smitten explaining and elaborating on Livermore's ideas. It's a fascinating read.

While the biography touched on Livermore's techniques, this book spells them out in detail. The first seven chapters are the straight unedited Livermore tract. In it he lays out his rules for success in speculation. Livermore regarded himself primarily as a professional speculator, not an investor. He regarded the stock market as "the most uniformly fascinating game in the world." And he treated it as a business that requires intense study and work. He had little patience for people who asked him how to make some quick money in the market. That was akin to someone asking a doctor or lawyer how to make some quick money in surgery or law.

Livermore divided his approach into three topics: Timing, Money Management, and Emotional Control.

Timing

Livermore said that speculation "is nothing more than anticipating coming movements." But the market is made of people, and people are emotional and not always predictable. So his first timing rule was to have patience. If you come across information that you believe will move the market or a particular stock in a certain direction, "don't back your judgment *UNTIL THE ACTION OF THE MARKET ITSELF CONFIRMS YOUR OPINION.*" It is better to be a bit late in your trade and right than early and wrong.

A master of the market aphorism, Livermore wrote, "markets are never wrong – opinions often are." You may have an opinion on a stock and even be correct in your opinion but lose money anyway if you act on your opinion too soon. Wait for market confirmation.

One of his methods was to look for stocks making new highs after a normal correction. He never bought on reactions (his term for corrections) and believed in taking a small loss if your trade goes wrong. He was disdainful of averaging down. "Never average losses," he admonished.

Livermore liked to look for what he called Pivotal Points. Waiting for that pivotal moment takes patience. Whenever he waited for that point, he "always made money" in his operations.

Livermore developed an elaborate method of record keeping to determine pivotal points. This method, called the Livermore Market Key, is included at the end of the book.

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Book Review: How to Trade in Stocks (from page 2)

One of the simplest type of pivotal points, he observed is when a stock hits a milestone price of 50, 100, 200 or 300. He notes, for example, that he bought Anaconda as soon as it hit 100. It advanced quickly to 150 and continued. When it reached 200 he bought some more. The stock still climbed. At 300 he again bought some more. But then it only climbed to 302 $\frac{3}{4}$. This he regarded as a danger signal and he sold everything. A few days later the stock was back to 225. "The action of Anaconda, after crossing 300," he writes, "was entirely different than its action above 100 and 200."

Stocks, Livermore said, have personalities like people. "Some are high-strung, nervous and jumpy – others are forthright, direct, logical." Small reactions and rallies in a stock are normal. A stock never stands still. It always moves a little bit. It is when a stock starts to behave abnormally that one should be wary. If you are invested in a stock and it has an abnormal reaction, that is, a drop much greater than usual, "it is flashing you a danger signal which must not be ignored." Or, as noted above, when it fails to advance as anticipated, that is also a danger signal.

Because his method of determining pivotal points by keeping elaborate records is a bit complicated, I cover it in a separate sidebar. It is worth the effort, he says. "The results are almost beyond belief."

The essence of Livermore's approach can be summarized as taking the line of least resistance. Wait for a stock to establish a definite direction and then go with the flow until a reversal pivotal point is reached. "Be ever vigilant for the danger signs" that mark such reversals.

Money Management

The money management aspect of Livermore's approach is better explained in Smitten's chapters which quote extensively from Livermore's writings. Livermore had five rules for money management.

1. Don't lose money. Do this by probing your positions rather than establishing your full line at once.

If Livermore was planning to buy 1000 shares of a stock, he would probe first by buying 200 shares. If it rose he would buy 200 more. If it continued to rise he would buy another 200. And if it continued to rise, or underwent a minor correction and then rose again, he would buy the last 400.

"The basic logic is simple and concise," said Livermore, "each trade, as it is established toward the total 1000 share position, must always show the speculator a profit on his prior trades."

This is tough for most people, said Livermore, because "it goes against human nature to pay more for each trade."

While Livermore used a 20, 20, 20, 40 approach, he says each individual trader should choose an approach that suits him, perhaps 30, 30, 40 or whatever.

2. Never sustain a loss of more than 10% of invested capital. In other words, use stop losses to protect your downside. A trader's capital is like a shop keeper's inventory. Don't lose it! "Take your losses quickly," says Livermore. "Easy to say – hard to do!"
3. Keep cash in reserve. Livermore says you should resist the temptation to be in the market all the time. Again, patience is a virtue and waiting for the right opportunity is better than being foolishly invested. There are times when you should be 100% in cash.

Smitten starts the book with a marvelous story to illustrate this point. Livermore always sold out all his positions at the end of every year and had the cash deposited in his account at the Chase Manhattan Bank. Then he would arrange with the bank to have the money, in cash, in the bank's vault in chests. "There was a desk, a chair, a cot and an easy chair in the middle of the cash." On the occasion described in 1923, there was \$50 million in cash. In the corner was a fridge with food, enough for a few days. There was lighting installed. Then, like Scrooge McDuck, Livermore would have himself locked in the vault with his cash. He would stay a couple of days and "review his year from every aspect."

After his stay was over, he would fill his pockets with cash and go on a shopping spree. He would
(continued on page 8)

Service Sector Pick

Parkland Income Fund (PKI.UN – TSX)
website: www.parkland.ca

Formerly Parkland Industries, the company converted into an income trust on June 28, 2002. The Red Deer, Alberta based company operates gas bars under the Fas Gas, Fas Gas Plus and Race Trac Gas brand names in western and northern Canada with a focus on non-urban markets. It also operates the Short Stop convenience stores at some of its gas bars.

Parkland is also a wholesale distributor of gasoline through RT Fuels supplying gasoline to 215 independent gas stations. RT also serves the commercial market through twelve cardlock facilities. It was formerly Payless Oil and acquired in 1994. Parkland hauls its fuel through its wholly owned Petrohaul fleet of 37 trucks and 70 trailer units. In 2005 the company signed a long term contract with Imperial Oil and now supplies gas to and is responsible for the management of 150 Esso stations in Alberta and Saskatchewan.

And Parkland also supplies home heating fuels in the Yukon through Great Northern Oil.

As of their 2005 annual report, the Fas Gas brand had 206 outlets from Manitoba to British Columbia and also in the Yukon and Northwest Territories. 95 had been rebranded to Fas Gas Plus and 63 included a Short Stop or Short Stop Express convenience store. Some outlets are wholly owned company operations while others are managed by commissioned operators with Parkland retaining quality control. A loyal customer base is promoted through the company's "Litre Log" program of cash rebates to repeat customers.

The company started with just one service station in Red Deer in 1977. It has grown through new development and acquisitions including the acquisition of 51 Thrifty Gas outlets and 19 Petro-Canada outlets in 1996 and 35 Super Save gas outlets in 1997. The company's focus on non-urban markets has served it well with reduced competition and greater stability in revenues and income as the majors abandoned this market. In 2002 the company celebrated its 25th year of operation and was recognized by Alberta Venture magazine as one of the 30 fastest growing companies in the province.

In 1987 the company purchased the Bowden Refinery from Shell Oil. Negotiations to sell the refinery to the Blood Tribe of Standoff, Alberta fell through and on Sept. 5th the company announced an agreement with INEOS Canada Partnership to process oilfield drilling fluids at the refinery. This reactivates the refinery after being mothballed for the last five years and should add additional revenue to Parkland's operations.

The company distributed \$0.14 a share every month when it became an income trust and distributions have risen steadily to the current \$0.20 a unit for a yield of 7.51% at its current price of \$31.94.

Quarterly Earnings per Share

To June 30 th	2005	2006	% Change
EPS	\$0.56	\$1.75	+212.50%
Revenues (000s)	\$208,200	\$320,100	+53.75%

Annual Earnings per Share

To Oct. 30 th	2003	2004	% Change	2005	% Change
EPS	\$1.67	\$0.33	-80.24%	\$2.03	+515.15%
Revenues (000s)	\$567,226	\$686,658	+21.06%	\$875,539	+27.51%

(continued on page 7)

Parkland Income Fund (from page 4)

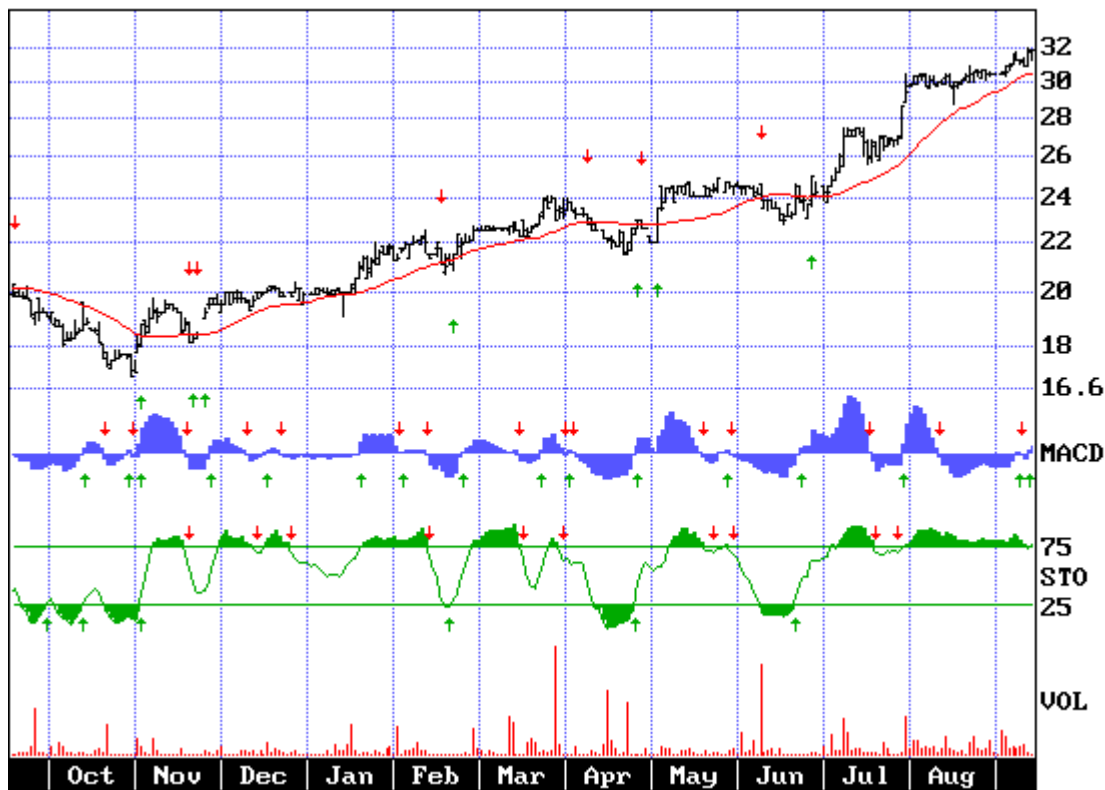


Chart Analysis: We featured Parkland Income Fund in our May 18, 2003 issue at \$15.62. We dropped it from our Watched List at the end of Q2 2004 when it went into decline and earnings started to fall. Price then was \$18.00. Although the stock recovered and went on to over \$23, it declined again to \$18 in November 2005 forming a double bottom. Since then it has been a powerhouse as earnings recovered strongly and revenues continued to grow. The chart since then is a thing of beauty!

Stats as of 9/15/06	Phase 2 Analysis
▪ Hi/Lo Ratio: 1.89	▪ Price Pattern: A
▪ RS: 91.96	▪ Volatility: A
▪ Shares: 9,594,282	▪ Estimates: n/a
▪ P/E: 8.85	▪ Snapshot: B+
▪ Price: \$31.94	▪ News: A+

Phase 2: We give Parkland an A for price pattern as it has been rising steadily since last November. Corrections are minimal and orderly so we rate it A for volatility. There are no estimates. The snapshot shows consistently rising revenues but an earnings drop in 2004. Last year earnings recovered and the current quarter is strong so we give it a B+. News is solid with record quarterlies, a new contract to distribute fuel for Imperial Oil, a re-opening of the Bowden Refinery and an increase in distributions. 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

Technology Pick

COM DEV International (CDV – TSX)
(website: www.comdev.ca)

If you use a cell phone or pager, fly commercially, have a GPS unit in your car, or watch television, you have benefited from COM DEV technology. Cambridge, Ontario's COM DEV International is the largest Canadian designer and manufacturer of space hardware subsystems. This high tech company makes such things as microwave multiplexers, modulators, switches, Surface Acoustic Wave (SAW) filters and other scientific instruments used in space age satellite technology. The company has 178 patents granted or pending for its technologies.

The company's space hardware subsystems are used in communications, remote sensing and military applications. High-power television broadcast communications satellites rely on COM DEV's transponder filtering and switching technologies and the company's hardware will provide on-board processing for the next generation multimedia Internet satellites. Internet data delivery, in fact, is fueling strong new demand for COM DEV products as is the advent of high definition television (HDTV) which uses double the capacity of traditional TV signals.

COM FEV has more than 50% of the global commercial communications satellite market for its core products. 80% of all commercial communications satellites ever launched have COM DEV technology aboard. Customers include the Canadian Space Agency, Alcatel Alenia Space, Boeing Satellite Systems, The Johns Hopkins University Applied Physics Laboratory, China Aerospace Science and Technology Corporation, Northrup Grumman Space Technology, Lockheed Martin Commercial Space, NEC Toshiba Space and the European Space Agency.

Besides manufacturing components for space and satellite applications, the company also does contract testing services in its state-of-the-art Components and Materials Testing and Engineering Lab. Capabilities include optical microscopy, microsectioning, scanning electron microscope, x-rays, tensile testing hardness testing. The company also has a Design Automation group which can be contracted to augment a client's design team.

Canada has a long history of leadership in space technology. The first Canadian hardware in space was sent up with the American Transit 2-A satellite in 1960. And in 1962, with the launch of the Alouette 1 satellite, Canada became the third country after the USSR and the USA to have a satellite in space. COM DEV itself has been around since 1974.

The company went public in December 1996. The company suffered five years of losses through 2003 but the company bounced back in 2004, consolidated in 2005 and is now on a growth streak again as the Internet and HDTV fuel new demand. The company is debt free. Watch for continued growth ahead.

Quarterly Earnings per Share

To July 31 st	2005	2006	% Change
EPS	\$0.03	\$0.10	+233.33%
Revenues (000s)	\$31,300	\$41,200	+31.63%

Annual Earnings per Share

To Oct. 31 st	2003	2004	% Change	2005	% Change
EPS	-\$0.48	\$0.09	turnaround	\$0.09	+0.00%
Revenues (000s)	\$87,962	\$119,755	+36.14%	\$123,634	+3.24%

(continued on page 7)

COM DEV International (from page 6)



Chart Analysis: From its IPO in 1996 at \$8, COM DEV soared to over \$32 in the fall of 1997. It plummeted through 1998 and 1999 then rallied to \$20 in 2000 before starting a long decline to 75 cents in March 2003. By the end of 2003 it had recovered to \$3. 2004 and 2005 saw it meander in a wide trading range between \$1.80 and \$4. The chart above shows the stock started the year at \$2.27 and it hasn't looked back since, and climbed 14.6% Friday (\$0.73) for a double on a very strong quarterly report that saw earnings triple. This after a short lived fall back earlier in the week. Volume was huge. Watch for continued growth ahead.

Stats as of 9/15/06	Phase 2 Analysis
▪ Hi/Lo Ratio: 3.52	▪ Price Pattern: A
▪ RS: 97.01	▪ Volatility: A
▪ Shares: 66,496,340	▪ Estimates: A
▪ P/E: 19.76	▪ Snapshot: B-
▪ Price: \$5.73	▪ News: A

Phase 2: We give COM DEV an A for price pattern and an A for volatility as it has gained steadily since December and corrections have been minor and orderly. Estimates are up sharply with a 1.7 or buy rating. We give it another A. The snapshot shows a loss in 2003 and flat earnings in 2005. Return on equity is a bit low at 10.88 but should improve so we give it a B-. News is strong with new contracts, early redemption of convertible debentures and a strong quarterly report. 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.

Book Review: How to Trade in Stocks (from page 3)

also take a vacation and not re-enter the market until February.

But unlike Scrooge McDuck, this was not the act of a miser, explains Smitten. Livermore lived a world of paper transactions all year long. He believed that “by the end of the year he had lost his perception of what the paper slips really represented, cash money and ultimately power.” He “needed to touch the money and feel the power of cash.” It made him re-appraise his stock and commodity positions.

4. “Stick with the winners as long as the stock is acting right – do not be in a hurry to take a profit. If there are no negatives or warning signals, let your winners ride!

Livermore had the opinion that if he was in a profitable position, he was playing with the stock market’s money and if he lost it all, then he “lost money (he) never had in the first place.” And the opposite also held, if a trade went against him right away, he sold out quickly. Aphoristically, he put it this way: “Profits take care of themselves – losses never do.” But, he cautioned, do not confuse this with the buy and hold forever approach. Keep an eye out for the danger signals that herald a reversal pivotal point.

5. “Park 50% of your profits from a successful trade, especially where you doubled your original capital. Put it in the bank, hold it in reserve.” This, in fact, is the rule Livermore regretted not paying enough attention to. He went broke a number of times from not following his rules.

Smitten also lists a number of other Livermore principles in this section, such as:

- Avoid cheap stocks
- Disregard the action of insiders
- Stick to the strongest industries and the strongest stocks in those industries

Emotional Control



Jesse Livermore

Livermore was one of the first students of market psychology. He observed that the market is moved by fear, greed and hope. The average investor is fraught with fear when he loses money and this clouds his judgment. “And the unsuccessful investor is best friends with hope,” he said. But hope, like fear and greed, distort reason. “The market,” he told his sons, “only deals in facts, in reality, in reason, and the stock market is never wrong – traders are wrong. The result is objective and final, with no appeal, like pure nature.”

For the most part, Livermore followed the “line of least resistance”. “The trend is your friend,” he said. The trick is to “separate (yourself) from the popular thinking, the group thinking and go in the opposite direction” when evidence of a change in trend appears. As he put it, “these major changes in trends were hell. But, I did not want to toboggan downhill with the crowd, unless I had sold stocks short.”

To counter the emotional roller coaster, Livermore had two rules:

- Do not be invested all the time. There are times when it is better to be 100% in cash, “especially when I was unsure of the direction of the market.”
- Use small position probes to test whether your prediction of a change in market trend is correct.

I’ve covered a lot of what is in the book in this review but there is much more and I highly recommend buying it and reading it through – several times!

It has certainly made me think about my own approach to managing the Model Portfolio in this newsletter. I am making a number of changes which are discussed on page 11.

On page 9 you’ll find a separate sidebar on Livermore’s Market Key.

Sidebar

The Livermore Market Key

Jesse Livermore wrote in his book that he kept elaborate records that gave him an insight into when pivotal points were reached in the price action of a stock. This approach is elaborated in an appendix to the book called the Livermore Market Key. Smitten reproduces this explanation along with the actual charts used by Livermore as examples.

The complexity of his method can be surmised from the fact that Smitten writes “the prudent stock market student will observe that some of the numbers used by Livermore as examples are difficult to follow.”

Smitten continues that he even went to a second edition to see if there were discrepancies. There were not. So I will try and explain it from the text rather than from the examples he used.

Livermore writes that “the records told me plainly that they would do nothing for me in the way of intermediate movements. But if I would but use my eyes, I would see the formation of patterns that would foretell major movements.”

His records consisted of six columns labeled respectively:

- Secondary Rally
- Natural Rally
- Upward Trend
- Downward Trend
- Natural Reaction
- Secondary Reaction

In this column he wrote down prices for the stock under observation. Upward Trends were recorded in black ink, downward trends in red ink and the rest in pencil. “Those figures in distinctive ink,” he wrote, “talk to me.”

He generally worked with stocks trading at \$30 or higher. He also used two stocks in the same industry and plotted both as well as a hybrid “Key Price”. The Key Price was simply the other two prices added together. This was a safeguard in that a change in the trend of one stock had to be confirmed by a change in the trend of the Key Price before he would act on it. In the examples he uses US Steel and Bethlehem Steel from March 23, 1938 to Feb. 19, 1940.

Each new high in an up trend is recorded. Each new low in a down trend is recorded. From a peak point in a trend, the stock has to move at least six points for a natural reaction or rally to have started. Anything less is a minor movement and not recorded. 6 points on a \$30 stock is 20%. It is less on a higher priced stock.

Let’s say a stock is in an up trend. Each new high is recorded. Now it drops six points from its peak. The figure is entered in the Natural Reaction column. If it now gains six points from the last figure in the Natural Reaction column, it is entered in the Natural Rally column. These form two pivotal points to watch to see if the up trend will resume or if a down trend has started. If the price jumps three points above the last recorded price in the Natural Rally column or reaches a closing price higher than the last recorded in the Upward Trend column, the up trend has resumed. And vice versa for down trends. There are additional rules regarding secondary reactions and rallies.

If the stock fails to resume its trend and trades 3 points below the last pivotal point in the natural reaction column (or 3 points above the last pivotal point in the natural rally column, the trend has ended and the new figure is entered in the appropriate trend column.

This is quite complicated to follow but in simple terms, it means this: An up trend is broken when a stock corrects and then rallies but fails to rally above its previous high and then starts to react again to three points below the last low reaction point.

I’m not sold on this method as I believe there has to be a simpler way to achieve the same results. That method is something called the Darvas box. I’ll discuss this in the next issue when I review Nicholas Darvas’s book, *How I Made \$2 Million in the Stock Market*.

Mutual Funds

Marco's Power Performers (for August 2006)

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 TSX gained 242.79 points or 2.05% in August. Since then, of course, it has dropped 417.71 points though that would not be reflected in the August mutual fund stats.

Thus we find that the number of funds making our Power Performer tables rose slightly. The number of Super Power Performers went up to 32 from 31 in June. But the number of Power Performers dropped to 19 from 24. And the number of Performers clocked in at 70, up from 64 in July. Total: 121 compared to 119. Still a far cry from the 173 in April.

If this severe correction that has hit the resource sector continues, the number of funds making our list will drop off for September.

Precious metals and other resource funds still make up the bulk of the funds in the Super Power Performers this month but Emerging Markets Funds are making an impact in the Power Performers. One of these probably would be worth having in your portfolio to provide some balance.

Super Power Performers (32)

Fund Name	1 yr	3 yr	5 yr
RBC Global Precious Metals	83.58	26.10	46.66
AGF Precious Metal	90.67	29.81	42.85
Front Street Special Opportunities Canadian	39.91	45.73	40.89
Mackenzie Universal Precious Metals(US\$)	92.61	26.53	40.74
Mackenzie Universal Cdn. Resource (US\$)	45.70	42.51	38.36
Front Street Small Cap Canadian	35.85	39.06	38.15
TDK Resource Fund Inc.	39.13	38.07	35.28
Friedberg Diversified (US\$)	109.16	89.41	33.42
CI Signature Cdn. Res. Corp. Class (US\$)	41.53	42.76	33.39
CIBC Precious Metals	80.52	25.26	33.17
Northern Rivers Innovation Fund LP	70.15	31.48	32.89
Sceptre Equity Growth - O	42.91	33.00	32.84
AGF Global Res. Class (US\$)	47.60	45.26	32.57
Sceptre Equity Growth - A	41.21	31.48	31.43
Dynamic FocusPlus Resource	54.02	37.61	30.71
Sprott Canadian Equity	40.13	32.61	30.69
London Life Canadian Resource	34.20	31.00	29.54
AGF Canadian Resources	34.89	36.60	29.51
Mackenzie Universal Canadian Resource	35.47	32.19	29.35
Sentry Precious Metals Growth	102.27	29.59	28.79
BMO Resource	37.68	34.30	28.54
GWL Cdn. Resources (A) DSC	32.29	34.68	28.54
Altamira Resource	27.59	33.41	28.31
GWL Cdn. Resources (A) NL	32.01	34.39	28.27
DMP Resource Class	52.87	35.97	27.24
TD Latin Amer. Growth (US\$)	46.28	46.67	26.67
Mackenzie Cundill Recovery 'C'(US\$)	33.68	27.59	26.66
Fidelity Latin America-B (US\$)	47.55	46.95	26.56
Fidelity Latin America-A (US\$)	47.12	46.75	26.46
CI Signature Cdn. Resource	33.64	33.75	26.37
Clarica SF CI Signature Cdn. Res. - DSC	32.44	32.24	25.79
Clarica SF CI Signature Canadian Resource	32.44	32.24	25.75

(continued on page 11)

**Marco is now a regular guest on Gold Radio at HoweStreet.com.
The Tuesday segment with host Tom Jeffries is called **Off the Cuff**.
Follow the links from our website or go directly to HoweStreet.com!**

Marco's Power Performers (from page 10)

Power Performers (19)							
Fund Name	1 yr	3 yr	5 yr	Fund Name	1 yr	3 yr	5 yr
Norrep Fund	24.17	31.46	30.66	Fidelity Emerging Mkts-B (US\$)	37.65	32.04	22.83
TD Precious Metals	72.26	20.46	28.82	Fidelity Emerging Mkts-A (US\$)	37.39	31.88	22.74
Sentry Canadian Resource Class	24.92	32.12	26.45	Mackenzie Universal World Resource Cap. Class	24.98	27.55	22.26
CI Signature Cdn Res. Corp Cl	31.81	32.41	24.65	Acuity All Cap 30 Cdn. Equity	27.12	22.47	21.87
Mavrix Strategic Small Cap	44.60	41.29	24.30	RBC Global Resources	38.56	35.60	21.40
Trimark Canadian Resources	26.41	28.20	24.30	AGF China Focus Class (US\$)	27.32	22.79	20.81
AGF Global Resources Class	37.48	34.79	24.00	Templeton Emerging Markets CC (US\$)	24.52	28.06	20.57
TD Resource	21.66	27.41	23.93	Legg Mason Cdn. Small Cap	27.43	25.20	20.56
Sprott Hedge L.P.	33.79	25.13	23.91	Templeton Emerging Mkts (US\$)	24.61	28.03	20.25
AGF Emerging Mkts. Value (US\$)	37.10	35.93	23.08				

(continued on page 12)

Portfolio Watch**Changes in Our Portfolio Management**

Reading Jesse Livermore's book was an interesting experience and prompts me to make some changes in the way I manage the Model Portfolio. First off, I am discontinuing the Venture Portfolio which has recently sunk into the red. I'm chalking this off as a learning experience. I will continue with the Rich Get Richer Portfolio at least until the end of the year when I see where we end up.

Meanwhile, I am implementing some of Livermore's ideas as follows:

- All new stock positions will be implemented in stages as per Livermore's Probe Method
- Initial stop loss will be 10% below the purchase price
- If a stock drifts sideways for a month, it will be replaced or turned to cash
- 50% of all gains made will be kept as a cash reserve.
- Stock selections will look more closely at the chart, looking specifically for new highs that appear to be breaking out of a Darvas Box which I will explain next issue.

The probe purchase method will be implemented as follows: first we will determine how much to invest in the stock. Then we will buy a partial position immediately. We will purchase more after a week if the stock has moved up as expected. A week after that we will buy the rest if the stock has again moved up. If the first follow-up purchase is not made after one week, we will check again after two weeks. If the position isn't fully filled by the next issue of the Canadian edition of the newsletter, it will be dropped from the portfolio.

Applying this to our current portfolio, we are selling off First Service Corporation, BMTC Group and Canada Bread, none of which have hit their respective stops but each of which have been drifting slowly downwards for over a month. Coupled with the stocks that were sold after hitting stops, we had \$93,128.60 in cash. We're opting to invest \$15,000 in each of six new positions to replace the stocks sold. Two of the stocks are our new picks this issue, Parkland Income Fund and COM DEV International. Looking over the other stocks in our Watched List, only three met our criteria – Research in Motion, TSX Group and ZCL Composites. We are buying an initial position of \$4000 of each and will add \$5000 a week later if the stocks behave and another \$6000 the week after that. That leaves us with a current cash position of \$73,063.14. Summary on page 13.

Marco's Power Performers (from page 12)

Performers (70)							
Fund Name	1 yr	3 yr	5 yr	Fund Name	1 yr	3 yr	5 yr
Dynamic Precious Metals	86.17	18.82	32.41	SEI Emerging Mkt Equity-O	19.19	21.21	17.70
Altamira Prec. & Strategic Metal	53.08	19.93	31.90	Empire Sm. Cap Eq. - Class A	18.08	20.70	17.69
Mackenzie Universal Prec. Metals	79.09	17.37	31.58	Scotia Latin Amer. Growth	30.27	30.84	17.68
CI Global Engy Corp Class(US\$)	15.09	47.97	30.84	SEI Cdn. Small Co. Equity-O	18.52	21.46	17.59
Epic Limited Partnership	16.23	30.45	29.88	Dynamic Cdn. Value Class	33.22	29.59	17.57
Mackenzie Universal World Precious Metal Cap	79.75	18.98	29.52	Trimark Europlus (US\$)	21.72	29.48	17.53
London Life Prec. Metals (MF)	77.18	16.21	28.75	IA Group Dividends	19.03	22.81	17.37
Excel India	15.08	29.67	26.88	ABC Fundamental Value	15.86	20.80	17.29
QVGD Cdn. Enterprise Sm. Cap	19.90	n/a	25.91	CI Emerg Mkts Corp Cl. (US\$)	33.37	26.34	17.18
Bissett Microcap-F	15.76	24.81	25.65	United-Cdn Equity Sm Cap Pl	21.08	22.60	17.12
Ethical Special Equity	19.36	23.30	24.82	Dynamic FocusPlus Sm. Bus.	24.33	25.90	17.09
Clarington Canadian Small Cap	19.20	22.95	24.25	APEX Cdn. Value (Dynamic)	34.73	31.75	17.05
BMO Precious Metals	85.92	15.97	23.11	AGF Canada Class (US\$)	22.25	25.95	16.82
Maritime Life Cdn Growth II-R	18.32	19.37	21.90	CI Emerging Markets (US\$)	31.98	26.65	16.78
Maritime Life Cdn Growth-R	18.08	19.09	21.66	Highstreet Canadian Equity	17.39	23.28	16.77
CIBC Canadian Resource	18.04	30.90	21.59	CI Synergy Focus Global Equity (US\$)	16.67	19.95	16.67
Renaissance Cdn. Small-Cap	26.85	26.82	19.96	AGF Global Fin. Svcs. (US\$)	29.73	27.51	16.48
CI Sig Select Cdn Corp Cl (US\$)	25.20	27.91	19.84	CIBC Latin American	27.09	29.67	16.43
AIC Canadian Focused Corporate Class (US\$)	17.50	27.96	19.75	Genus Biosphere Plus Canadian Equity	18.68	23.37	16.43
National Bank Natural Res.	22.89	27.43	19.50	TD Emerging Markets-A	25.58	22.24	16.18
iShares CDN Gold Sector Index	59.35	16.33	19.45	TD Emerging Markets	25.60	21.97	16.15
Trans IMS Canadian Small Cap	25.08	29.09	19.42	Trans IMS Cdn. Resources	18.00	21.73	16.15
R Canadian Smaller Companies	17.40	20.71	19.27	HSBC Small Cap Growth-I	15.28	22.06	15.85
CI Harbour Corp Class (US\$)	22.60	26.88	19.12	Talvest Millennium Next Gen	24.88	23.12	15.85
Elliott & Page Growth Opport.	17.17	20.19	18.94	Dynamic FocusPlus Real Est	18.61	21.08	15.71
Elliott & Page Growth Opport.	17.17	20.19	18.94	Acuity Canadian Equity	17.05	18.40	15.68
Investors Cdn. Nat. Resource-C	15.41	24.59	18.86	Altamira Global Discovery	20.19	21.32	15.49
Acuity Pooled Canadian Equity	20.39	21.62	18.81	GGOF Emerging Mkts Mutual	18.47	22.30	15.46
AGF Global Real Estate Equity (US\$)	25.62	26.27	18.47	Dynamic Value Fund of Canada	30.58	27.46	15.44
TD Latin American Growth	36.67	36.13	18.47	Mackenzie Cundill Value 'C' (US\$)	18.52	21.54	15.32
Mackenzie Cundill Recovery 'C'	24.30	18.35	18.42	Sceptre Cdn. Equity Pooled	19.88	22.39	15.24
Fidelity Latin America-B	37.39	36.30	18.26	CIBC Emerging Mkts Index	22.42	21.26	15.18
Fidelity Latin America-A	37.06	36.11	18.16	AGF Emerging Markets	27.83	26.11	15.11
Concordia Special Growth	18.63	21.96	18.02	BMO Special Equity	22.98	21.29	15.11
AGF European Equity Cl. (US\$)	34.30	28.15	17.71	Thornmark Enhanced Equity	25.58	26.43	15.08

Data source: Globefund.com

Our Model Portfolio

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

Current Position: \$162,876.79 (Up 225.75%) Up 3.85% YTD

Implementing our new approach as noted on page 11, we end up with five new stocks this week and a vacant position. Sold after hitting stops since last issue were Silver Wheaton, Pacific & Western Credit and WFI Industries. Sold off for being laggards are First Service Corporation, BMTG Group and Canada Bread. Bought are Research in Motion, ZCL Composites, TSX Group and our two new picks, Parkland Income Fund and COM DEV International. Only probing positions of around \$4000 each are being bought for each of these five stocks. Our cash position after trades is now \$73,063.14 or 44.86%. Purchases are on Monday and we will adjust prices if they cannot be had as indicated.

COM DEV International (CDV)		Carfinco Income Fund (CFN.UN)	
# of Shares: 698	Bought: Sept. 18/06	# of Shares: 3863	Bought: Aug. 21/06
Price Then: \$5.73	Price Now: \$5.73	Price Then: \$3.88	Price Now: \$4.19
Gain: 0.00%	Stop: \$5.16	Gain: 0.00%	Stop: \$3.30
Notes: COM DEV is the leading Canadian manufacturer of components for space technology and satellite communications.		Notes: Carfinco finances second hand automobile purchases for people who have trouble getting conventional financing.	
Foremost Income Fund (FMO.UN)		Fortis Inc. (FTS – TSX)	
# of Shares: 855	Bought: June 19/06	# of Shares: 795	Bought: Oct. 24/05
Price Then: \$17.15	Price Now: \$21.00	Price Then: \$22.88	Price Now: \$24.66
Gain: 22.45%	Stop: \$17.98	Gain: 7.79%	Stop: \$20.32
Notes: Foremost is a manufacturer of specialty vehicles to maneuver difficult terrain such as muskeg, swamps, deep snow, etc.		Notes: Newfoundland based electric company Fortis Inc. has expanded into other regions of Canada including British Columbia.	
Parkland Income Fund (PKI.UN)		TSX Group (X)	
# of Shares: 125	Bought: Sept. 18/06	# of Shares: 79	Bought: Sept. 18/06
Price Then: \$31.94	Price Now: \$31.94	Price Then: \$50.50	Price Now: \$50.50
Gain: 0.00%	Stop: \$28.75	Gain: 0.00%	Stop: \$45.45
Notes: Parkland is the leading independent retailer of gasoline in Western Canada. Brands include Fas Gas and Short Stop Stores.		Notes: TSX Group is the company that owns and operates the Toronto Stock Exchange and the TSX Venture Exchange.	
Research in Motion (RIM)		Vicwest Income Fund (VIC.UN)	
# of Shares: 42	Bought: Sept. 18/06	# of Shares: 917	Bought: June 19/06
Price Then: \$94.76	Price Now: \$94.76	Price Then: \$15.98	Price Now: \$17.56
Gain: 0.00%	Stop: \$85.28	Gain: 9.89%	Stop: \$15.94
Notes: Research in Motion is famous for its Blackberry Pager and is one of Canada's leading high tech companies.		Notes: Vicwest is Canada's leading manufacturer of metal siding and other building materials as well as Westeel grain bins.	
ZCL Composites (ZCL)		Vacant Spot	
# of Shares: 650	Bought: Sept. 18/06	# of Shares:	Bought:
Price Then: \$6.16	Price Now: \$6.16	Price Then:	Price Now:
Gain: 0.00%	Stop: \$5.54	Gain:	Stop:
Notes: ZCL Composites manufactures the huge underground storage tanks that gas stations use to hold gasoline.		Notes: As the market is a bit shaky and no additional stocks meet our buying criteria, this position is in cash.	