

the Break Out Report

Volume # 4, Issue # 4A Supplementary

December 31, 2005

New Portfolio Launch

The Rich Get Richer Portfolio

In our last issue on Dec. 18th I revisited the idea of building a low maintenance portfolio that would, except for a generous trailing stop of 25%, be reviewed just quarterly. Each quarter we would rebalance the portfolio, selling off some stocks and replacing them with new ones. The stocks making up the portfolio would be the best performers from our Watched List for the previous quarter.

You'll recall that I had done a study of a ten stock portfolio based on that concept for 2002 and 2003 with terrific results. It outperformed our already excellent Model Portfolio by a wide margin. Last issue I did the same study for 2004 and 2005. The results, however, were not nearly as good. Both years the test portfolios underperformed the Model Portfolio. In 2004 it underperformed by a wide margin.

So I cast about for explanations and a better solution. The explanation was that "the key to huge returns in the low maintenance portfolio was stocks remaining in the top performers over several quarters so that their gains compounded over several quarters". More stocks, a twenty stock portfolio, for example, would "increase the odds of a stock carrying forward over several quarters in order to build up compounded gains". The results are shown in the table below.

Portfolio/Quarter	Q1	Q2	Q3	Q4	Year
20 Stock RGR Portfolio 2004	3.43%	-2.75%	-4.20%	18.97%	14.65%
10 Stock RGR Portfolio 2004	8.40%	-2.36%	-2.22%	14.88%	18.90%
Model Portfolio 2004	8.21%	-2.11%	10.23%	23.81%	44.57%
20 Stock RGR Portfolio 2005	7.00%	-2.54%	11.51%	16.57%	35.56%
10 Stock RGR Portfolio 2005	3.09%	-2.84%	14.06%	7.82%	23.18%
Model Portfolio 2005	4.64%	9.33%	3.46%	8.29%	28.18%

The numbers have been updated to year end for the 2005 portfolios.

We noted then and reiterate that the 20 stock test portfolio did worse in 2004 but a lot better in 2005. We noted that the fourth quarter seemed to be the best in both years and that it could be partially explained because we started each year off fresh with new stocks equally distributed. Thus compounding did not carry over from previous years and this would have improved our Q1 and Q2 results and our overall results for the year as well.

Nevertheless, we are confident enough in the results to launch what we call the Rich Get Richer Portfolio. Why that name? Well, the stocks that make up the portfolio are the ones that had the richest returns in the previous quarter. And our theoretical rationale is that the momentum of such

(continued on page 2)

Happy New Year!!!

The Rich Get Richer Portfolio (from page 1)

stocks will be enough to carry them to another quarter of stellar returns. In other words, the rich get richer.

Now that the fourth quarter of 2005 is finished, we have our contenders. The twenty best performing stocks on our Watched List in the fourth quarter are shown in the table below.

Name	Symbol	Date Featured	Price Then	Sept. 30/05	Dec. 30/05	Change Q4	Change YTD	Change Since Profiled
March Networks	MN	Nov. 20/05	\$22.50	\$22.50	\$32.33	43.69%	43.69%	43.69%
Royal Gold	RGL	Sept. 18/05	\$33.50	\$29.00	\$40.46	39.52%	20.78%	20.78%
Aur Resources	AUR	Oct. 16/05	\$8.57	\$8.57	\$11.78	37.46%	37.46%	37.46%
Garda World Security	GW	Aug. 21/05	\$12.15	\$11.19	\$15.12	35.12%	24.44%	24.44%
Trican Well Service	TCW	Apr. 18/04	\$12.16	\$42.31	\$56.00	32.36%	152.63%	360.40%
GSW Inc.	GSW.B	May 16/04	\$34.73	\$85.00	\$111.00	30.59%	146.67%	219.61%
ZCL Composites	ZCL	June 20/04	\$2.05	\$3.00	\$3.79	26.33%	10.82%	84.88%
Western Lakota En. Svcs.	WLE	July 17/05	\$9.45	\$14.00	\$17.36	24.00%	83.70%	83.70%
CCS Income Fund	CCR.UN	May 18/03	\$10.15	\$30.98	\$37.00	19.43%	68.45%	264.71%
Cameco Corp.	CCO	Nov. 19/04	\$36.87	\$62.02	\$73.79	18.98%	75.90%	100.14%
Canada Bread Co.	CBY	May 18/01	\$13.00	\$50.49	\$59.00	16.85%	25.53%	353.85%
Ensign Energy Services	ESI	Nov. 20/05	\$40.24	\$40.24	\$46.92	16.60%	16.60%	16.60%
Melcor Developments	MRD	Mar. 2/01	\$20.30	\$102.00	\$118.50	16.18%	132.35%	483.74%
TSX Group	X	Jan. 18/04	\$22.50	\$40.31	\$46.83	16.17%	74.45%	108.13%
BMTC Group	GBT.SV.A	Aug. 20/02	\$6.98	\$14.00	\$16.00	14.29%	25.98%	129.39%
Alimentation Couche-Tard	ATD.SV.B	Dec. 4/00	\$2.88	\$20.60	\$23.40	13.59%	31.83%	713.91%
Gildan Activewear	GIL	Sept. 18/05	\$42.01	\$44.31	\$50.00	12.84%	19.02%	19.02%
Kingsway Financial Svcs.	KFS	July 20/03	\$18.60	\$20.85	\$23.50	12.71%	23.68%	26.34%
Sino-Forest Corporation	TRE	Dec. 18/05	\$4.40	\$4.40	\$4.94	12.27%	12.27%	12.27%
Cryptologic	CRY	May 15/05	\$42.05	\$20.35	\$22.81	12.09%	-45.76%	-45.76%

The performance for these stocks in the fourth quarter ranged from 12.09% to 43.69%. Note that four of them, shown highlighted, were only featured during the quarter and their performance is since featured, not for the full quarter. This includes the top performing stock of the quarter, March Networks, which returned 43.69% since Nov. 20th. For the full quarter it actually returned 74.19%. Similarly the returns for Aur Resources, Ensign Energy Services and Sino-Forest Corporation are only for the partial quarter since they were featured. Sino-Forest made its 12.27% return in just twelve days. For the full quarter, it actually returned 46.59%.

Note also that nine of these twenty stocks have returned more than 100% since we first profiled them. That adds considerable weight to our thesis that the rich do, in fact, get richer.

The only real anomaly here is Cryptologic which has not done well since we first profiled it but barely makes the Top Twenty for the fourth quarter. It is, in fact, rated a sell on our Watched List. Should we steer clear of it because of that? Well, it meets the criteria for this portfolio which is that it
(continued on page 3)

The Break Out Report

is published twice a month by Break Out Publishing.

The report and its writers are not registered investment advisors and the contents of the Break Out Report are not to be construed as investment advice. It is for information only. The material in these pages is derived from sources believed to be reliable but accuracy and completeness are not guaranteed. Readers are advised that past performance of companies featured in these pages is no guarantee of future performance. The Break Out Report and its writers accept no liability for losses incurred as a result of acting on this information.

Copyright © 2005 Break Out Publishing.

Stock charts copyright © Investools and used by permission.

Editors: Marco den Ouden & Ken Ballard **Email us:** marco@breakoutreport.com
Website: http://breakoutreport.com **ken@breakoutreport.com**

Articles this issue by Marco den Ouden unless otherwise indicated.

Subscription: US \$14.95 a month

The Rich Get Richer Portfolio (from page 2)

be one of the twenty best performing stocks on our Watched List in the previous quarter so we include it. Maybe its time has come after lying in the weeds for so long!

The question now is what weight do we give each in our initial portfolio? I have the test portfolio for 2005 and so can assign greater weight to some than others. In that portfolio, weightings at the end of 2005 ranged from 3.80% for Finning International to 9.32% for Trican Well Service. Only four stocks from the third quarter made it back at the end of the fourth quarter. If each stock were equally weighted, they would each make up 5% of the portfolio. Should we start afresh with each stock getting that weighting? Or should we give the four returning stocks from our test portfolio their compounded weighting? The four returning stocks and their weightings are Cameco (5.51%), Western Lakota (5.75%), Melcor Developments (6.64%) and Trican Well Service (9.32%).

If we gave the four returning stocks their additional weighting, they would make up 27.22% of the portfolio. The remaining sixteen stocks would each make up 4.55%.

Because we are starting a new portfolio, we are going to start each stock off with an equal 5% weight. We are starting with \$50,000 so each stock will initially have \$2500 allotted.

In the test portfolios I invested 100% of the money with no cash balance. I used partial shares. But since we can only buy whole shares, I will follow that approach here. 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.
- We are using a 25% trailing stop based on closing prices. If a stock hits this stop during the quarter, the cash will be held to the end of the quarter before re-investing. We expect this to be a rare occurrence.
- We are assessing a \$20 brokerage fee on every transaction in calculating our results.

And our initial portfolio is...(drum roll please)....

Name	Symbol	Price	# of Shares	Value
Alimentation Couche-Tard	ATD.SV.B	\$23.40	106	\$2,480.40
Aur Resources	AUR	\$11.78	211	\$2,485.58
BMTC Group	GBT.SV.A	\$16.00	155	\$2,480.00
Cameco Corp.	CCO	\$73.79	34	\$2,508.86
Canada Bread Co.	CBY	\$59.00	42	\$2,478.00
CCS Income Fund	CCR.UN	\$37.00	67	\$2,479.00
Cryptologic	CRY	\$22.81	108	\$2,463.48
Ensign Energy Services	ESI	\$46.92	53	\$2,486.76
Garda World Security	GW	\$15.12	164	\$2,479.68
Gildan Activewear	GIL	\$50.00	50	\$2,500.00
GSW Inc.	GSW.B	\$111.00	22	\$2,442.00
Kingsway Financial Services	KFS	\$23.50	105	\$2,467.50
March Networks	MN	\$32.33	77	\$2,489.41
Melcor Developments	MRD	\$118.50	21	\$2,488.50
Royal Gold	RGL	\$40.46	61	\$2,468.06
Sino-Forest Corporation	TRE	\$4.94	502	\$2,479.88
Trican Well Service	TCW	\$56.00	44	\$2,464.00
TSX Group	X	\$46.83	53	\$2,481.99
Western Lakota Energy Services	WLE	\$17.36	143	\$2,482.48
ZCL Composites	ZCL	\$3.79	654	\$2,478.66
Invested				\$49,584.24
Broker Fees				\$400.00
Cash				\$15.76
Total				\$50,000.00

Except for stocks hitting stops, we won't update this portfolio again until March 31st, 2006.