

The US equity markets started 2006 on a strong note as all the indices we track posted healthy gains. During January, the S&P 500 Index advanced 2.7% while the technology-focused NASDAQ Composite gained 4.7% and the S&P MidCap and SmallCap indices surged 5.9% and 8.4% respectively. The North Growth US Equity Fund increased 3.9% for the month, outperforming the broad S&P 500 by 1.2% yet lagging the stronger returns of the other indices. The weaker US dollar against the Canadian currency reduced the Fund's monthly return in Canadian dollars to 1.7%.

Since January, the economic news flow has been encouraging and indicates that the US economy continues to be in a healthy state. This is contrary to the public perception that the US economy is floundering.

Notably, US durable goods orders rose 1.3% in December, above economists' estimates, after a strong 5.4% increase in November. This supports our belief that capital spending by businesses will sustain the economy's growth as companies invest in new plants and equipment to keep up with growing demand. On the consumer front, a positive indicator that consumer spending should hold up or even improve heading into 2006 is the sharp drop in US jobless claims in January. The unemployment rate fell to 4.7% last month, the lowest in more than four years as American employers added 193,000 workers during the month. And despite high energy prices, the University of Michigan's measure of consumer confidence remained close to a five-year high in January.

The main blemish among the economic reports was the slower-than-expected GDP growth for the fourth quarter of 2005. The US economy grew at a 1.1% annual rate last quarter after expanding at a 4.1% pace in the previous three months. Clearly, the economy had trouble gaining traction early last quarter as the Gulf Coast was just beginning to recover from Hurricane Katrina which struck on August 29, 2005. As well, in October, the US automakers withdrew incentives that extended employee pricing to all customers, leading to significantly weaker sales of cars and light trucks. Given the current, increasing momentum of business investment and the improving labor markets, it would not be surprising to see growth pick back up this quarter.

We continue to believe that the Federal Reserve will stop raising interest rates at 5.00% or less (from 4.50% today), meaning that we are very close to the end of the Central Bank's current rate cycle. The end of January marked the transition of the Federal Reserve chairmanship from Alan Greenspan to Ben Bernanke. We would not put too much emphasis on interpreting the modified language of the January 31<sup>st</sup> Federal Open Market Committee (FOMC) Statement, as the "non-committal" wording is essentially Greenspan leaving Bernanke with a relatively clean slate. Nonetheless, as we have mentioned in our previous monthly reports, the new Fed Chairman is widely expected to follow the established monetary policy of the Fed, targeting consistent economic growth and low inflation.

The end of a rate cycle has historically been positive for equity investments and there is no reason to believe that this time will be any different. The upcoming absence of further interest rate increases, in combination with healthy corporate earnings and reasonable valuations, bodes well for equity returns in the near term, and we remain positive in our outlook for the markets. So far, the majority of the earnings reports for the fourth quarter of 2005 have largely come inline with or above analysts' expectations. The North Growth US Equity Fund remains fully invested and we are encouraged by the numerous "growth at a reasonable price" opportunities we are able to find in the markets.

Yours truly,



Erica Lau

#### **WHERE TO FIND NGM FUND PRICES**

Please visit [www.northgrowth.com](http://www.northgrowth.com) to view the Fund's daily prices or to be added to our e-mail list to receive daily notification of the Fund's prices. Alternatively, the Globe & Mail lists the Funds under the following headings: **Mutual Fund** - NGM US Equity Fund; **Pooled Fund** - NGM Cdn. Equity Fund; **Money Market Fund** - NGM Cdn. Money Market Fund

**SHORT TERM RATES OF RETURN FOR PERIODS ENDING JANUARY 31, 2006**

	1 Month	3 Months	6 Months	YTD
<b>North Growth US Equity Fund \$CDN</b>	<b>1.74%</b>	<b>4.13%</b>	<b>-2.68%</b>	<b>1.74%</b>
<b>North Growth US Equity Fund \$US</b>	<b>3.88%</b>	<b>7.98%</b>	<b>4.59%</b>	<b>3.88%</b>
S&P 500 \$US	2.65%	6.57%	4.68%	2.65%
S&P 400 MidCap \$US	5.89%	11.83%	9.04%	5.89%
S&P 600 SmallCap \$US	8.37%	12.30%	8.13%	8.37%
NASDAQ Composite \$US	4.68%	9.04%	6.06%	4.68%

**ANNUALIZED RATES OF RETURN FOR PERIODS ENDING JANUARY 31, 2006**

	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>North Growth US Equity Fund \$CDN</b>	<b>5.55%</b>	<b>13.79%</b>	<b>8.94%</b>	<b>15.30%</b>	<b>16.11%</b>
<b>North Growth US Equity Fund \$US</b>	<b>15.02%</b>	<b>25.32%</b>	<b>15.09%</b>	<b>17.48%</b>	<b>16.88%</b>
S&P 500 \$US	10.38%	16.42%	0.37%	8.99%	11.02%
S&P 400 MidCap \$US	22.31%	24.71%	9.37%	14.85%	15.24%
S&P 600 SmallCap \$US	19.40%	27.18%	11.62%	13.04%	N/A
NASDAQ Composite \$US*	12.74%	21.13%	-3.12%	8.53%	10.98%

Source: Bloomberg "Total Return Analysis" as of February 3, 2006.

\*The return since inception for this index is a Simple Price Appreciation because total return data is not available on Bloomberg.

The inception of the Fund: October 13, 1992.

**NAVPS: Jan. 31, 2006**      **\$23.24 CDN**  
**\$20.40 US**

**Total Assets in Fund**      **\$263.7 Million CDN**

**North Growth Canadian Money Market Fund**  
**Net Current Yield**  
**3.14%**