

# MARCH MONTHLY REPORT

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## DEAR INVESTOR...

Merrill Lynch has been almost alone amongst the big brokerage firms in suggesting that the high multiple large cap stocks represent excesses which will ultimately be corrected. This theme might be getting a bit boring, but last year's market and the first quarter of 1999 is believed by Merrill Lynch (and us) to be one of the narrowest stock advances in history.

To quote Merrill Lynch from their April 5th Market Analysis Comment: "The large cap sector (including technology and the internet) is still in the bull phase of the "classic cycle". However, it seems to be at or near its own overbought extreme like the Japanese market in late 1989 (record valuation, parabolic price rise, and extreme investor enthusiasm), and the Dow 10,000 level [breakthrough] might yet prove to be the emotional climactic point of this sector's advance. ....this sector could be on the verge of its initial decline which, if it occurs, would likely have an especially big impact (15-20% or more) on the major averages whose performance is dominated by these issues [i.e. big cap stocks]."

Merrill Lynch's Bob Farrell goes on to point out that if the precedent holds, such a decline would be followed by an initial recovery [of the U.S. market in general] including big cap stocks. There would then be a longer erosive process or lagging stage [for the leading big cap stocks] such as happened in the late 1970s/early 80s during which the previously depressed small cap stocks would be able to outperform. We feel that these comments accurately describe how overvalued markets have been resolved in the past.

The Fund's current 25% plus cash position is a rare departure from our general policy of being close to fully invested in U.S. equities. Given the valuation levels of the market, however, the Fund's current cash position is a direct result of our long-term "growth at a reasonable price" investment philosophy. When a stock moves to a valuation level that seems excessive we trim or eliminate the position. In a market replete with overvalued stocks it is sometimes difficult to find a good new investment with which to replace the eliminated position. As a result, while we are still finding some attractive new ideas for the Fund, the cash position of the Fund has increased. As more appropriate new investments are identified the cash position will come down. A sharp market correction would accelerate this process. We are working hard to develop ideas that can be used as soon as valuations become reasonable.

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We intend to stick with our current weightings of small and mid cap stocks. As always, our stock selections will be governed by our philosophy of seeking earnings growth potential at a reasonable price. This is our definition of value, and it applies to all investments regardless of their size in terms of market capitalization.

Yours truly,



Rudy North

***Postscript:***

Ironically, within less than a week of the above-quoted Merrill Lynch comments, the high multiple, large cap, growth stocks started to sell off significantly and a number of laggard groups such as the aluminum, paper, chemical and machinery groups jumped 15-30% in a matter of a few days. The advance/decline characteristics of the market also had a dramatic turn towards net advances even when the major indices posted significant declines. This has caused a lot of excitement and speculation as to what will happen next.

Although the Fund has been benefiting from this development, I have memories of the past that Merrill Lynch seems to share. In their April 19<sup>th</sup> Market Analysis Comment, Merrill Lynch questions "...whether this recent rapid shift in leadership provides a strong new backbone for the market to support a durable extension of the post-October advance of the major averages. **Although this is a possibility, history shows that a failure of leadership groups and a catch-up of laggard ones is often characteristic of a late stage or ending of a particular phase of market advance.**"

# PERFORMANCE RESULTS

AS OF MARCH 31, 1999

## PERFORMANCE COMPARISONS\*

	<i>Dec. 31, 98 to Jan. 31, 99</i>	<i>Jan. 31, 99 to Feb. 28, 99</i>	<i>Feb. 28, 99 to Mar. 31, 99</i>	<i>Year to Date</i>
North Growth US Equity Fund	4.4%	-7.9%	1.5%	-2.5%
North Growth US Equity Fund \$US	5.8%	-7.7%	1.5%	-1.0%
S&P 500 \$US	4.2%	-3.1%	4.0%	5.0%
S&P 400 MidCap \$US	-3.9%	-5.2%	2.8%	-6.4%
Russell 2000 \$US	1.3%	-8.1%	1.5%	-5.4%
NASDAQ Composite \$US	14.3%	-8.7%	7.6%	12.3%

\* Source: Bloomberg "Total Return Analysis" as of April 09, 1999.

Note - Including income in all cases.

## AVERAGE ANNUAL COMPOUND RATE OF RETURN

	1 Year	2 Years	3 Years	4 Years	5 Years
North Growth U.S. Equity Fund \$CDN	-6.6%	13.5%	16.2%	19.1%	16.1%
Average U.S. Equity Fund \$CDN **	13.1%	26.7%	21.1%	--	18.9%
Median U.S. Equity Fund \$CDN **	12.7%	26.4%	21.9%	--	19.9%

Results are after all management fees and other expenses

\*\* reported by the Globe & Mail, Report on Mutual Funds, April 15, 1999

**Return Since Inception (Annualized), Oct. 13, 1992 - March 31, 1999    18.4%**

**NAVPS: MARCH 31ST/99**

**\$15.67 (CDN)**

# PORTFOLIO HOLDINGS

AS OF MARCH 31, 1999

Xerox Corp (XRX)	4.69
Sun Microsystems (SUNW)	4.56
BJ's Wholesale Club (BJ)	4.54
US Filter Corp (USF)	3.67
Compaq Computer Corp (CPO)	3.22
National Data Corp (NDC)	2.64
Tommy Hilfiger Corp (TOM)	2.63
Brinker Int'l (EAT)	2.51
Northwest Pipe Co (NWPX)	2.37
AMR Corp (AMR)	2.22
Symantec Corp (SYMC)	2.15
Louis Dreyfus (LD)	2.15
LSI Logic (LSI)	2.13
O'Sullivan Industries (OSU)	2.13
Clayton Homes Inc (CMH)	2.10
Greenbrier Companies Inc (GBX)	1.94
Pier 1 Imports Inc (PIR)	1.86
Kellwood Co (KWD)	1.85
Jones Apparel Group Inc (JNY)	1.62
Nextel Communications Inc (NXTL)	1.61
Wellpoint Health Networks (WLP)	1.51
Mesa Airlines Inc (MESA)	1.50
Axent Technologies (AXNT)	1.45
Analog Devices (ADI)	1.43
O'Charley's Inc (CHUX)	1.40
The Limited Inc (LTD)	1.32
Texas Instruments Inc (TXN)	1.14
Precision Castparts (PCP)	1.13
Oracle (ORCL)	1.03
M/I Schottenstein Homes (MHO)	1.03
Diamond Offshore Drilling (DO)	0.89
SBS Technologies Inc (SBSE)	0.87
Owosso Corp (OWOS)	0.82
Alaska Air Group (ALK)	0.79
Timberland (TBL)	0.79
Gateway 2000 Inc (GTW)	0.60
Southtrust (SOTR)	0.59
Michaels Stores (MIKE)	0.58
Ralcorp Holdings Inc (RAH)	0.49
3Com Corp (COMS)	0.35
Aluminum Company of America (AA)	0.28
Altera Corp (ALTR)	0.26
Stone Energy (SGY)	0.23
Firstmerit Corp (FMER)	0.21
BMC Software (BMCS)	0.20
Devon Energy (DVN)	0.19
City National Corp (CYN)	0.19
DSP Group (DSPG)	<u>0.06</u>
<b>Total Equities</b>	<b>73.91</b>
<b>Cash and Short Term Notes</b>	<b><u>26.09</u></b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>