



# JANUARY MONTHLY REPORT

February 7, 2005

The North Growth US Equity Fund got off to a great start for 2005, beating all the major market indices we track by a range of 1.8% to 4.6% in January. While the S&P 500 Index closed down 2.4% and the NASDAQ Composite lost 5.2%, the Fund declined only 0.6% in US dollars. We attribute the exceptional relative performance to our careful stock selection process, as we outperformed the technology-focused NASDAQ by the highest margin despite having a significant concentration of the portfolio in technology stocks. The weaker Canadian dollar resulted in a positive 2.6% Canadian dollar return for the Fund in January.

The earnings reporting season is well underway, and the majority of the results for the fourth quarter of 2004 have been very positive. With over half the companies in the S&P 500 having reported, the average year over year earnings growth rate for the market is on track to be approximately 18%. Although earnings estimates increased steadily during the final months of the past year, actual earnings growth of many companies have still exceeded expectations. So far, around 67% of the earnings reports have come in ahead of consensus forecasts and 15% have been in line.

Of significant note are the outstanding results from industry bellwethers such as Intel, Microsoft, and General Electric. Not only did these corporations report better than expected fourth quarter earnings, but more importantly, they were also constructive in their outlook and guided for the upcoming quarters to be above Wall Street analysts' forecasts. Nonetheless, the strong performance in corporate operations has not resulted in equally strong performance in stock prices. In the case of Intel, its share price actually declined following its positive earnings report and guidance.

The negligible impact of such favourable earnings on the markets leads us to believe that, contrary to popular opinion, investor sentiment is far from being overly optimistic. We vividly remember the late '90s when stock prices commonly soared following better than expected earnings reports; clearly, the markets are not in the same euphoric mood today. Furthermore, analysts have continued to lower their estimates for the current quarter ending March 31, 2005 despite the constructive outlook provided by various company management teams. Going forward, expectations remain low enough that there is a high probability that earnings will again beat consensus estimates.

The current tempered market sentiment and cautious tone of investors, coupled with good earnings growth, provide a healthy environment for positive equity returns. Valuations are becoming more compelling. As stock prices remain relatively flat and earnings continue to expand, price/earnings (P/E) multiples are contracting. Over the past year, we have consistently commented on the healthy balance sheets of US corporations. Many companies continue to generate significant cash flow from operations, adding to their already large cash holdings. When taking into account the amount of net cash companies possess as a percentage of their market capitalizations, valuations are even more attractive.

As an example, Microsoft is currently trading at 20 times its trailing 12 months earnings, its lowest P/E ratio since 1987. Considering the \$46.7 billion of cash and investments on its balance sheet, equivalent to over \$4.00 per share, Microsoft's adjusted trailing P/E ratio is 17x—again the lowest in the last two decades. While the company is no longer growing in the range of 50% as it was in the late '80s and early '90s, it is much more stable today, holds dominant market share positions, will launch multiple new products in the coming year, and has the largest proportion of cash to its market value ever. Microsoft is well positioned to deliver a consistent, long term average annual growth rate of about 15% and management is currently upbeat about the prospects for future growth.

We continue to be positive in our outlook for the equity markets and believe that, in time, the superior earnings growth of US corporations and attractive valuations will result in higher share prices. As always, we remain focused on stock selection to identify “growth at a reasonable price” investment opportunities.

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.



**PERFORMANCE COMPARISONS: SHORT-TERM**

	<i>Year to Jan. 31, 05</i>	<i>Six months to Jan. 31, 05</i>	<i>Three months to Jan. 31, 05</i>	<i>Month of Jan. 05</i>
North Growth US Equity Fund \$CDN	2.62%	10.07%	11.37%	2.62%
North Growth US Equity Fund \$US	-0.62%	17.90%	9.29%	-0.62%
S&P 500 \$US	-2.44%	8.16%	4.96%	-2.44%
S&P 400 MidCap \$US	-2.55%	12.23%	7.57%	-2.55%
Russell 2000 \$US	-4.17%	13.93%	7.25%	-4.17%
NASDAQ Composite \$US	-5.18%	9.60%	4.59%	-5.18%

**PERFORMANCE COMPARISONS: LONG-TERM**

	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>	<i>10 Years</i>
North Growth US Equity Fund \$CDN	3.97%	10.43%	16.85%	17.88%
North Growth US Equity Fund \$US	10.97%	19.87%	20.47%	19.37%
S&P 500 \$US	6.23%	3.24%	-1.77%	11.51%
S&P 400 MidCap \$US	11.09%	9.75%	9.59%	15.66%
Russell 2000 \$US*	8.75%	10.32%	6.12%	9.71%
NASDAQ Composite \$US	0.33%	2.65%	-11.79%	11.01%

*Source: Bloomberg "Total Return Analysis" as of Feb 1, 2005*

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

**RETURN SINCE INCEPTION (ANNUALIZED), OCT. 13, 1992 - JAN. 31, 2005**

**17.01% CDN**

**17.03% US**

**NAVPS: JANUARY 31, 2005**

**\$ 24.65 CDN**

**\$ 19.86 US**

**TOTAL ASSETS IN FUND**

**\$ 233.8 MILLION CDN**

**CANADIAN MONEY MARKET FUND  
NET CURRENT YIELD AS OF JANUARY 31, 2005  
2.27%**