

After reaching lows in November, equity markets in the US rose slightly in December. Overall, 2008 was the worst decline in US equities that any of us have experienced in our years as investors. The extended boom in commodity prices of the past two years undoubtedly had a hand in slowing economic growth. It was, however, the unimaginable folly and irresponsibility of leading financial institutions in the US and other western countries in their handling of subprime mortgages and related derivative products that precipitated the worst economic and market crashes since the 1930s. The events of 2008 hopefully will result in the curtailment of bad financial practices which had somehow been evolving unchallenged for years.

The priority at this time is for serious investors to stop obsessing about the momentous events of 2008 and focus on the responses to the current economic situation and the progression to a new bull market and economic upturn that will come about in the typical historical fashion. Driving events will be the remarkable amount of economic stimulus that has already been put in place worldwide and the upcoming policies of the new US administration that takes office within a matter of days.

2009 will be the year of a new bull market. Even with rising markets, the level of investor anxiety will remain high. Economic news and company reports will continue to be negative well into this new bull market. A steady stream of negative commentaries will continue to challenge investors' judgment with horror scenarios projecting the recognized problems behind the economic downturn continuing to feed on themselves unchecked. Although signs of an economic turnaround will take time to appear, last year's problems are certainly not going unchecked. Moreover, contrary to the fear of many investors, the seriousness of the problems of 2008 should not be interpreted as meaning that the future outlook for equity investing is poor. Even in the spring of 1932, US equities entered into a strong bull market despite an economic situation that was far more serious than the current economic problems.

The US Fund's portfolio continues to fit our "growth at a reasonable price" investment philosophy as well as any time in the past. Going into the second half of 2008, the Fund's major holdings had strong balance sheets, were trading at the low end of their historic P/E ratios, were reporting good operating results and had product lines strategically positioned to produce strong growth going forward. The collapse of the US economy since September of 2008 will affect earnings of even the strongest companies over the short term. It is our belief that companies with strong fundamentals such as those held by the US Fund will be quick to resume strong earnings growth as the recession subsides. Given the low current valuations placed on these companies we expect they will become the market leaders of the new bull market.

Bear markets set equity prices back with distressing short term consequences to investors. They also end while the economic news is still bad and investors are understandably shaken and pessimistic. That having been said, bear markets also present the most rewarding investment opportunities for investors. Even after taking into account all bear markets, equities offer investors the highest long term results of any asset class. It is axiomatic that the best time for long term investors to put money into equities is after a significant market decline. US equities have just completed a ten-year period ( to November 20<sup>th</sup>) where returns have been as poor as the worst ten-year performance in US history: 1929 to 1939. While it is common for investors to assume the rates of return of the recent past will continue into the future, the historical record is that poor periods such as the ten years of the 30s are followed by periods of high returns.

A record bear market year coming at the end of ten years of the lowest per annum returns in history is truly a unique buying opportunity. Emotionally, most people do not feel like buying equities when such an opportunity presents itself. That reluctance is also one of the most characteristic signs of the bottom area of a bear market. Take it from there, there is nothing more of value that can be said about the equity market cycle.

For anybody in a position to buy equities, now is the time even though the exact bottom cannot be pinpointed. The low might have been November 20, 2008. It might still be to come, but as I am finishing writing this report on January 14<sup>th</sup>, when the S&P is approximately down 47% from its high, it is a table pounding “buy”.

Yours truly,

A handwritten signature in black ink that reads "Rudy North". The signature is written in a cursive, flowing style.

Rudy North  
President

## NORTH GROWTH US EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending December 31, 2008

	1 Month	3 Months	6 Months	YTD
<b>NGM US Equity Fund \$CDN</b>	<b>0.86</b>	<b>-12.48</b>	<b>-15.36</b>	<b>-26.73</b>
S&P 500 \$CDN	-0.49	-10.66	-14.57	-22.59
<b>NGM US Equity Fund \$US</b>	<b>2.43</b>	<b>-25.53</b>	<b>-29.14</b>	<b>-40.37</b>
S&P 500 \$US	1.06	-21.94	-28.48	-37.00
S&P 400 MidCap \$US	4.85	-25.55	-33.64	-36.23
S&P 600 SmallCap \$US	6.10	-25.17	-25.81	-31.07
NASDAQ Composite \$US	2.79	-24.37	-30.87	-39.98

## NORTH GROWTH US EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending December 31, 2008

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception
<b>NGM US Equity Fund \$CDN</b>	<b>-26.73</b>	<b>-9.73</b>	<b>-4.12</b>	<b>5.63</b>	<b>9.41</b>	<b>10.80</b>
S&P 500 \$CDN	-22.59	-6.94	-3.40	-3.63	5.88	6.90
<b>NGM US Equity Fund \$US</b>	<b>-40.37</b>	<b>-11.11</b>	<b>-2.92</b>	<b>8.08</b>	<b>10.01</b>	<b>10.94</b>
S&P 500 \$US	-37.00	-8.36	-2.19	-1.38	6.46	7.04
S&P 400 MidCap \$US	-36.23	-8.76	-0.08	4.46	9.05	10.06
S&P 600 SmallCap \$US	-31.07	-7.51	0.88	5.18	7.79	9.40
NASDAQ Composite \$US	-39.98	-9.81	-3.95	-2.71	4.83*	6.40*

Source: Bloomberg "Total Return Analysis" as of January 2, 2009.

\*These returns are a simple price appreciation because total return data is not available on Bloomberg.

The inception of the Fund: October 13, 1992.

**NAVPS: Dec. 31, 2008 \$16.77 CDN  
\$13.77 US**

**Total Assets in Fund \$180.7 Million CDN**

## NORTH GROWTH CANADIAN EQUITY FUND

## Short Term Rates of Return (%) for Periods Ending December 31, 2008

	1 Month	3 Months	6 Months	YTD
<b>NGM Canadian Equity Fund</b>	<b>4.39</b>	<b>-23.71</b>	<b>-41.68</b>	<b>-46.68</b>
S&P / TSX \$CDN	-2.64	-22.71	-36.79	-33.00

## NORTH GROWTH CANADIAN EQUITY FUND

## Annualized Rates of Return (%) for Periods Ending December 31, 2008

	1 Year	3 Years	5 Years	*Since Takeover	**Since Inception
<b>NGM Canadian Equity Fund</b>	<b>-46.68</b>	<b>-19.80</b>	<b>-10.48</b>	<b>-5.96</b>	<b>-3.74</b>
S&P / TSX \$CDN	-33.00	-4.80	4.16	8.04	-0.63

\*North Growth Management Ltd. took over the Canadian Equity Fund's management contract on May 1, 2003.

\*\*The inception of the Canadian Equity Fund: September 1, 2000.

**NAVPS: Dec. 31, 2008 \$ 5.99 CDN**

**Total Assets in Fund \$ 6.5 Million CDN**

**NORTH GROWTH CANADIAN MONEY MARKET FUND**  
**Annualized Rates of Returns (%) for Periods Ending December 31, 2008**

	*CURRENT YIELD	1 Year	3 Years	5 Years
<b>NGM CDN Money Market Fund</b>	<b>1.48</b>	<b>2.92</b>	<b>3.70</b>	<b>3.11</b>
30 Day T-Bill	N/A	2.57	3.59	3.12

*\* The Current Yield for the Money Market Fund is the average of the annualized daily yield for the most recent seven day period. This measure is no longer available for the 30 day T-Bill Index.*

The North Growth Canadian Money Market Fund is consistently one of the highest yielding money market funds in Canada – not because we waste any time searching for basis points along the yield curve but because at **0.25%** the Fund's management fee is one of the **lowest in Canada**. We manage the Fund simply by creating a well-diversified portfolio of very short term, top credit quality notes and believe the product is a good proxy for the risk free rate\*. We maintain the average maturity of the Fund at near 15 days, meaning that we essentially roll over the entire portfolio every 30 days. As a result, the Fund's current yield will rapidly follow any changes (up or down) in the Bank of Canada's overnight rate.

The accountant's fees for the annual audit are greater than the annual management fees, so North Growth Management takes a small loss on the product. We don't mind because we offer the product as a service to our clients. We also believe an inflation protected liquidity product, such as our money market fund is an underutilized asset class that could improve the overall financial planning of many of our clients. This may seem strange coming from a firm notorious for its opinion that bonds are essentially an inferior asset class that offer inadequate returns for their inherent risk, but we can lay out a strong theoretical argument that you can create a superior portfolio using equities and money market than you can using equities and mid to long term bonds.

For retirees living off their financial assets, we believe that using a client's own personal cash requirements and risk tolerance to determine their appropriate mix of money market and equities, can, in most instances, create a superior portfolio to the all too pervasive industry staple 60/40 equity/bond split. For clients seeking a truly personalized retirement plan we encourage you to make an appointment to come in and get a fresh look at your plan from the North Growth Management investment professionals.

\*The risk free rate is the theoretical rate of return of an investment with zero risk. The North Growth Canadian Money Market is not a risk free investment and is not covered by the CDIC (Canadian Deposit Insurance Corporation).

**US EQUITY FUND**  
**PORTFOLIO HOLDINGS**  
**As of December 31, 2008**

	%
Cisco Systems Inc.	10.03
Apple Inc.	7.31
Bristol-Myers Squibb Company	6.54
Intel Corporation	6.05
General Electric Company	5.77
Microsoft Corporation	5.16
Wal-Mart Stores Inc.	4.76
St. Jude Medical Inc.	4.65
Pfizer Inc.	4.24
Citrix Systems Inc.	4.19
Applied Materials Inc.	3.99
Sybase Inc.	3.79
Safeway Inc.	3.57
Zimmer Holdings Inc.	3.08
Precision Castparts Corp.	2.91
DSP Group Inc.	2.90
Adobe Systems Inc.	2.80
Boston Scientific Corporation	2.61
Texas Instruments Inc.	2.55
Cerner Corporation	2.46
Herman Miller Inc.	1.86
WellPoint Inc.	1.82
NIKE Inc., Class B	1.79
Cheesecake Factory Inc.	1.64
American Eagle Outfitters Inc.	1.48
Goldman Sachs Group Inc.	0.82
Citigroup Inc.	0.58
Pier 1 Imports Inc.	0.13
Mesa Air Group Inc.	0.10
<b>Total Equities</b>	<b>99.58</b>
Cash	<u>0.42</u>
<b>TOTAL ASSETS</b>	<b>100.00%</b>

**CANADIAN EQUITY FUND**  
**PORTFOLIO HOLDINGS**  
**As of December 31, 2008**

	%
Bombardier Inc., Class B	10.45
WestJet Airlines Ltd.	9.95
EXFO Electro-Optical Engineering Inc.	7.81
Dorel Industries Inc., Class B	7.58
Sierra Wireless Inc.	6.70
Biovail Corporation	6.25
Jean Coutu Group (PJC) Inc., Class A	5.40
Tundra Semiconductor Corporation	5.35
ATS Automation Tooling Systems Inc.	4.83
Certicom Corporation	4.60
MacDonald, Dettwiler and Associates Ltd.	4.55
QLT Inc.	4.50
CAE Inc.	4.23
Saputo Inc.	3.60
Zarlink Semiconductor Inc.	2.97
Cossette Communication Group Inc.	2.84
Ballard Power Systems Inc.	2.48
Day 4 Energy Inc.	2.33
GSI Group Inc.	2.11
Angiotech Pharmaceuticals Inc.	0.85
Nortel Networks Corporation	0.25
<b>Total Equities</b>	<b>99.63</b>
Cash	<u>0.37</u>
<b>TOTAL ASSETS</b>	<b>100.00%</b>

**INVESTING WITH NORTH GROWTH MANAGEMENT:**

North Growth Management is a focused firm. Our objective is consistent, superior, long term returns on our equity funds based on our “growth at a reasonable price” investment philosophy.

**CONDUCTING TRANSACTIONS:**

The cut-off time for same-day transactions is 4 p.m. Eastern time or 1 p.m. Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to **RBC Dexia Investor Services Trust**. For security reasons, instructions can only be accepted by mail or by fax to:

North Growth Management Ltd.  
Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

Fax: 604-688-5402

**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 reports prices on [www.globefund.com](http://www.globefund.com).