



# MAY MONTHLY REPORT

*June 1, 2004*

The April sell-off in US equities carried through to the beginning of May, but subsequently, the markets rallied to end off the month with modestly positive returns. All the indices that we follow were up in May, with the strongest performance coming from the NASDAQ Composite and the S&P 400 MidCap which increased 3.52% and 2.07% respectively. While the North Growth US Equity Fund underperformed these two indices, it's monthly gain of 1.66% in US dollars beat the S&P 500 by 0.29% and the Russell 2000 by 0.05% in May.

The earnings reports for the first quarter of 2004 were not just good, they were exceptionally good. The fact that the market did not respond favorably to such good reports certainly added to the sense of frustration that four months of stalled market performance produces in most investors. Note that we say stalled — the actual decline has never amounted to much, it's just that it seems to go on endlessly. We think it is important to step back a bit from the daily market fluctuations. Considered objectively this pause in the bull market plays right into our hand for executing our growth at a reasonable price investment philosophy.

This year's market correction has stayed within the typical 5-10 % parameters of a bull market reaction that we commented on in last month's report. At its worse points in March and again in mid-May, investor mood was extremely pessimistic considering we were experiencing the first and rather minor correction of a bull market.

Most market letters have become bearish, with a significant number recommending shorting equities. Their main theme is that the prospect of higher interest rates is just going to continue beating stock prices down despite strong earnings performance. With this background of negative sentiment, a contrary opinion is most likely to pay off — the market is presenting an attractive buying opportunity.

The case for concern about rising interest rates is probably rooted in memories of the effect that a rising Fed Funds rate had on US equity markets in 1994. That year the Fed Funds rate was raised seven times taking it from 3.0% to 6.0%. The market faltered and monthly results fluctuated in a narrow range that never amounted to the market being down more than 4.8% nor up more than 3.6% throughout the year. The S&P 500 ended 1994 up 1.3%. The whole episode turned out to be an insignificant pause in the 1991-99 bull market. Nevertheless, investors became very unhappy and probably still remember 1994 as a bad year caused by rising interest rates. In the following year, 1995, the S&P 500 was up 37.6%.

Our fundamental analysis has caused us to overweight the technology sector. We have selected a well diversified group of technology stocks that is reasonably priced in view of strong earnings trends. The future growth outlook for these technology leaders is supported by new product cycles that are just getting underway and by their generally efficient manufacturing capacity. The case is made even stronger when the significant cash reserves of many of these



companies is taken into account. Many technology stocks that we consider attractive have sold off by over 20%. We consider this to be a significant buying opportunity. It is factors such as these that dictate our investment decisions.

The current confusion about the consequences of the anticipated rise in interest rates will subside. Historically the first hikes in interest rates generally occur while the environment for the equities is still constructive. Higher markets follow. Combined with the most important investment consideration — strong individual company fundamentals — there is a compelling case for investment gains.

The portfolio is fully invested. Stock picking based on fundamental company analysis and strict adherence to our growth at a reasonable price investment philosophy will continue to drive our ongoing active investment management. We are using the current erratic behavior of stock prices to fine-tune the portfolio. Looking forward, we expect continued economic growth, strong earnings and higher equity markets.

Yours truly,

Rudy North

**PERFORMANCE COMPARISONS: SHORT-TERM**

	<i>Year to May 31, 04</i>	<i>Six months to May 31, 04</i>	<i>Three months to May 31, 04</i>	<i>Month of May 04</i>
<b>North Growth US Equity Fund \$CDN</b>	<b>2.69%</b>	<b>5.77%</b>	<b>-1.01%</b>	<b>1.02%</b>
<b>North Growth US Equity Fund \$US</b>	<b>-2.35%</b>	<b>0.78%</b>	<b>-3.03%</b>	<b>1.66%</b>
S&P 500 \$US	1.47%	6.79%	-1.72%	1.37%
S&P 400 MidCap \$US	3.72%	5.47%	-0.86%	2.07%
Russell 2000 \$US	2.47%	4.56%	-2.67%	1.61%
NASDAQ Composite \$US	-0.66%	1.58%	-2.01%	3.52%

**PERFORMANCE COMPARISONS: LONG-TERM**

	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>	<i>10 Years</i>
<b>North Growth US Equity Fund \$CDN</b>	<b>25.40%</b>	<b>9.64%</b>	<b>16.97%</b>	<b>17.18%</b>
<b>North Growth US Equity Fund \$US</b>	<b>25.87%</b>	<b>14.14%</b>	<b>18.80%</b>	<b>17.35%</b>
S&P 500 \$US	18.32%	-2.13%	-1.52%	11.32%
S&P 400 MidCap \$US	26.72%	5.63%	9.68%	14.79%
Russell 2000 \$US*	30.34%	6.05%	6.77%	8.58%
NASDAQ Composite \$US*	25.08%	-1.56%	-3.92%	10.44%

*Source: Bloomberg "Total Return Analysis" as of June 1, 2004*

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

**RETURN SINCE INCEPTION (ANNUALIZED), OCT. 13, 1992 - MAY 31, 2004**
**17.74% CDN  
16.81% US**
**NAVPS: MAY 31, 2004**
**\$ 23.94 CDN  
\$ 17.56 US**
**TOTAL ASSETS IN FUND**
**\$ 220.26 MILLION CDN**

**CANADIAN MONEY MARKET FUND  
NET CURRENT YIELD AS OF MAY 31, 2004  
1.75%**