

JANUARY MONTHLY REPORT

February 15th, 2001

DEAR INVESTOR...

Overall we found January to be a confusing month as negative earnings trends were offset by the two 50 basis point cuts by the Fed and a significant January effect. The North Growth US Equity Fund delivered a respectable absolute return in January of 1.4%, although on a relative basis we lagged all the major indices. The weaker relative stock price performance of our holdings was not indicative of poor fourth quarter financial results from these companies. In fact, quite the opposite, our companies that reported in January generally delivered very solid earnings and are well positioned for future growth.

2001 started with a pronounced January effect. It was very evident that many of last fall's biggest losers bounced back strongly as investors who had taken capital losses during the fall, and investors just looking for a rebound, moved back into these names. The 12% return during the month for the NASDAQ Composite Index is a good indicator of the magnitude of this year's January effect, especially when you consider that at the time this was written the NASDAQ was flat year to date. The second component of the January effect is that the best performers of the previous year are often relatively weak as they get hit with deferred selling. This was also clearly evidenced by the weaker performance of the healthcare, financial and energy sectors in January.

On January 3rd, the Fed surprised the market with an inter-meeting move to lower the Fed Funds rate by 50 basis points, triggering a broad rally that delivered the largest ever single day rise of the NASDAQ Composite Index. Throughout the month a continuous flow of negative economic news, below expectation earnings announcements, and downward revisions to earnings growth expectations helped to move the various investor sentiment indices into record bullish territory. By the end of the month the enthusiasm being generated by the deteriorating economic environment got to such a level that the market was disappointed when, at its regularly scheduled meeting on January 31st, the Fed only lowered the Fed Funds rate by an additional 50 basis points.

Many companies, especially in the darling communication infrastructure sector, including such market bellweathers as Cisco, reported a very significant downturn in their business during the fourth quarter and told the Street that revenues for the first quarter of 2001 would be much lower than previous expectations. Most of these companies went on to say that they did not expect any significant improvement in the second quarter and had no visibility further out than that. A very common refrain was that the problem was an inventory correction— a more accurate and potentially more troubling reason is that demand decreased.

The actual cause and magnitude of the reduction in demand will not be evident for some time now. We believe a number of factors are involved including:

1. the lack of capital for previously heavy spending dot. coms, now that the cheap bubble capital is no longer available;
2. the heavy capital spending on communication infrastructure over the past 5 years leading to declining returns on marginal capital deployed ;
3. and, the monetary tightening from the Fed between Feb 1999 and Jan 2001.

Despite not being willing to go on record with direct guidance for the third quarter, management of almost all of these companies indicated they were optimistic for a second half recovery based on the macroeconomic stimulus now being provided by the Fed. In many cases the market accepted this logic. One interesting note from the Cisco conference call was that John Chambers, Cisco's CEO, reiterated a number of times that his expectations of a demand recovery in the second half was predicated on the assumption that the slowdown be contained to the North American markets. We would note that numerous economic indicators collected by the New York based ISI Group are now pointing to a significant slowdown in Asia and Europe.

We remain somewhat cautious based on our opinion that although many stocks are well off their highs, many are also still valued at levels that can only be justified by very rapid earnings growth. With corporate earnings decelerating to almost zero growth in the first half of 2001 and the S&P 500 trading at over 26 times trailing earnings, it is more important than ever for us to work hard to identify our core growth at a reasonable price investments.

Yours truly,



Rory North

[Where to Find NGM Fund Prices](#)

The NGM US Equity Fund is listed under the Mutual Funds heading in the *Globe & Mail* and the *Vancouver Sun*. The NGM Cdn. Money Market Fund can be found under the Money Market Fund heading in the *Globe & Mail*. Both funds can be found on globefund.com and morningstar.ca. For those who prefer, we can e-mail our daily summary sheet to you every day that the market is open. To be added to our list please contact Caroline North at caroline@northgrowth.com or 688-5440.

PORTFOLIO HOLDINGS

AS OF JANUARY 31, 2001

St Jude Medical	4.46
Jones Apparel Group Inc	4.11
Universal Health Services Cl B	4.05
Precision Castparts	3.42
Manor Care Inc	3.35
Chesapeake Energy Corp	3.06
Louis Dreyfus Natural Gas	2.75
Michaels Stores Inc	2.65
Mesa Airlines	2.58
Brinker International Inc	2.30
Timberland	2.29
Synopsys Inc	2.17
Wellpoint Health Networks	2.14
Cardinal Health Inc	2.06
Pier 1 Imports Inc	2.03
Symantec Corp	1.88
Clayton Homes Inc	1.83
Federal Signal Corp	1.81
Sigma-Aldrich	1.69
Stone Energy Corp	1.69
Nextel Communications Inc	1.65
3Com Corp	1.64
Mohawk Industries	1.48
LSI Logic	1.04
Biomet Inc	1.03
Watson Pharmaceuticals	0.99
Devon Energy Corp	0.89
Dentsply International	0.84
Darden Restaurants Inc	0.79
Snap-On Inc	0.78
Schnitzer Steel	0.68
Diamond Offshore Drilling	0.62
TJX Companies	0.26
Vishay	0.20
American Power Conversion	0.13
City National Corp	<u>0.12</u>
Total Equities	65.46
Cash and Short Term Notes	<u>34.54</u>
TOTAL ASSETS	100.00%