

# AUGUST MONTHLY REPORT

September 21st, 1998

## COMMENTARY

August might not have qualified as the "Violent End" but it certainly was pretty brutal for small-cap stocks. The Russell 2000 Index was down 19.8% for the month. This almost qualifies as a bear market in one month.

August also produced a significant decline of 14.5% in the S&P 500 Index. For a few days even the large-cap stocks pulled back significantly, prompting national TV news to suggest that maybe the super bull market in large-cap stocks was over. We believe that the entire market is now in a bear phase and that the sell-off in small- and mid-cap stocks has reached an advanced stage.

In what might appear to be a perverse observation, this is good news. Common stocks have the best long-term investment record. Smaller 5% and 10% corrections in the market are common and even bear markets of over 20% are a regular, repeating and normal part of the winning strategy of owning stocks.

Relatively short-term periods of falling market values must be endured in order to be ready to benefit from the completely unpredictable periods when the market makes the bulk of its long-term growth. One of the best times to own stocks is during the first 12 months after a bear market. The bounce off the bottom is hard to distinguish initially from a short-term rally, which punctuates the bear market but turns out to be a false start. Once a new bull market is established, there are few if any second chances to get into the initial rise that typically is very fast and almost inexplicable given the economic news background. Buying after the market has declined significantly is a good strategy even though we can't identify the exact bottom of a bear market.

Obviously, despite the above observations and the fact that we have a large exposure to small- and mid-cap stocks, we are disappointed that we were not able to perform better over the past 12 months. For a period of poor relative performance, the operating results of our individual holdings have been coming through remarkably well. Also, as we have pointed out in our semi-annual report, the market valuations of many of our holdings are very low relative to their current earnings and long-term earnings outlook.

In view of the amount of decline that has taken place to the prices of individual stocks during the most recent market decline, we are continuing to put intense effort into stock selection. Small-cap stocks have been increased to 44.86% of the portfolio and mid-cap stocks represent 23.45% of the Fund – the highest level for these two classifications of stocks since the Fund's inception. This trend is likely to continue, although it must be emphasized that the Fund is **not** a small-cap fund.

The Fund targets stocks with high potential growth prospects that are currently selling at attractive valuations – regardless of capitalization. If, in our opinion, the value and prospects for earnings growth did not favour small- and mid-cap stocks, we would be investing in larger-cap stocks.

Yours truly,



Rudy North

# PERFORMANCE RESULTS

AS OF AUGUST 31, 1998

## PERFORMANCE COMPARISONS\*

	Dec. 31, 97 to Mar. 31, 98	Mar. 31, 98 to June 30, 98	June 30, 98 to July 31, 98	July 31, 98 to Aug. 31, 98	Year to Date
North Growth US Equity Fund \$CDN	10.9%	0.5%	-3.4%	-15.8%	-9.4%
North Growth US Equity Fund \$US	11.8%	-2.9%	-6.2%	-18.8%	-17.3%
S&P 500 \$US	13.9%	3.3%	-1.1%	-14.5%	-0.4%
S&P 400 MidCap \$US	11.0%	-2.2%	-3.9%	-18.6%	-15.0%
Russell 2000 \$US	10.3%	-4.6%	-8.2%	-19.4%	-22.1%
NASDAQ Composite \$US	17.0%	3.3%	-1.2%	-19.9%	-4.3%

\* Source: Bloomberg "Total Return Analysis" as of September 01, 1998.

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	-8.3%	12.8%	17.6%	17.3%	15.5%
Average U.S. Equity Fund \$CDN **	6.4%	19.1%	16.9%	--	14.2%
Median U.S. Equity Fund \$CDN **	7.1%	19.6%	17.6%	--	15.2%

Results are after all management fees and other expenses

\*\* reported by the Globe & Mail, Report on Mutual Funds, September 21, 1998

NAVPS: AUGUST 31<sup>ST</sup>/98

\$14.27 (CDN)

# PORTFOLIO HOLDINGS

AS OF AUGUST 31, 1998

Compaq Computer Corp (CPQ)	5.14
Xerox Corp (XRX)	5.13
Whirlpool Corp (WHR)	4.50
Greenbrier Companies Inc (GBX)	3.86
Tommy Hilfiger Corp (TOM)	3.76
BJ's Wholesale Club (BJ)	3.50
AMR Corp (AMR)	3.39
Dress Barn Inc (DBRN)	3.33
Kellwood Co (KWD)	3.32
Inacom Corp (ICO)	3.26
Toll Brothers Inc (TOL)	3.23
Precision Castparts (PCP)	3.20
Sun Microsystems Inc (SUNW)	2.96
Clayton Homes Inc (CMH)	2.84
Northwest Pipe Co (NWPX)	2.81
Greyhound Lines Inc (BUS)	2.59
Barrett Business Services (BBSI)	2.40
SBS Technologies Inc (SBSE)	2.33
Pier 1 Imports Inc (PIR)	2.02
CompUSA Inc (CPU)	1.92
Symantec Corp (SYMC)	1.80
International Specialty Products (ISP)	1.77
Owosso Corp (OWOS)	1.75
Mesa Airlines Inc (MESA)	1.74
M/I Schottenstein Homes (MHO)	1.72
Integrated Health Services (IHS)	1.69
Carnival Corp (CCL)	1.56
Praxair Inc (PX)	1.45
Costilla Energy (COSE)	1.39
O'Sullivan Industries (OSU)	1.26
Eastman Kodak (EK)	1.15
Nucor Corp (NUE)	0.97
Alaska Air Group (ALK)	0.97
National Data Corp (NDC)	0.94
Nextel Communications Inc (NXTL)	0.86
Dillard's (DDS)	0.83
Ford Motor (F)	0.77
Diamond Offshore Drilling (DO)	0.71
Texas Instruments Inc (TXN)	0.66
Cox Communications (COX)	0.27
Aluminum Company of America (AA)	0.24
FDX Corp (FDX)	0.23
Brinker International (EAT)	0.22
The Limited Inc (LTD)	0.20
Louis Dreyfus Natural Gas (LD)	0.19
Analog Devices (ADI)	0.15
US Filter Corp (USF)	0.15
LSI Logic (LSI)	<u>0.13</u>
<b>Total Equities</b>	<b>91.30</b>
<b>Cash and Short Term Notes</b>	<b><u>8.70</u></b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>