

# NOVEMBER MONTHLY REPORT

December 22, 2000

## DEAR INVESTOR...

The performance of the North Growth US Equity Fund for the month of November was exceptional. This performance was not a fluke, the portfolio performed well for what, believe it or not, were the "right" reasons.

### The Economy is Slowing

Back in March when the S&P 500 and the NASDAQ started to peak out, the economy seemed so strong that it was hard to imagine what could stop it. As usual, the market was discounting economic events that nobody foresaw. There was, however, enough overvaluation to expect a correction in important areas of the market. It was this bottom up approach to stock selection that resulted in our 30% cash position. While this type of stock selection will continue to drive our investment decisions, we are in a period of amazing economic developments that we should try to understand.

Optimism was very high as the market started to recover from a short-term "over sold" condition in mid-October. Virtually all major US brokers were convinced that November and December would see a strong market advance. It didn't happen. Even the resolution of the Presidential Election and Greenspan removing the Fed's bias towards tightening have not created much of a market bounce.

The current economic news is an accelerating landslide of negative announcements. The New York based ISI Group made the following observations in their December 20<sup>th</sup> Daily Economic Report:

- Mall traffic is off almost 10% year-over-year.
- Tech shares around the world are reaching new lows.
- AT&T is cutting its dividend for the first time in history.
- The NAHB housing index fell sharply in December.
- Earnings warnings are severe and widespread (e.g. SBC, Goldman Sachs, Cummins, Dollar Tree, and Norfolk Southern).
- Our dot.com company problems list is now up to 661.

This is only part of the December 20<sup>th</sup> list, and every day seems to produce a similar stream of "bad" news. Fortunately, the market has been discounting these developments for some time. US Equity markets have made no progress since March 2000. As of December 21<sup>st</sup>, the S&P 500 was down 17.2% from its high and the NASDAQ down 53.8% from its high. This is good news. Whether or not it has been widely recognized, stocks are working their way through a bear market.

Since October, the economy seems to have hit a stone wall. For months I have been telling my team that this is my recollection of how economic expansions tend to end. Leading companies in the mighty technology sector are reporting earnings downgrades daily. The problems cut right across the field—

telecommunications equipment, chipmakers of all sorts, PC manufacturers. It is even harder to understand why such different groups such as chipmakers and utilities have fallen on hard times simultaneously. The decline in consumer goods such as autos is easy enough to understand. They have finally felt the effects of "spent up" demand. The speed with which such diverse areas as heavy equipment manufacturers and paper companies have developed earnings problems further demonstrates the breadth of the slowdown.

All this is happening faster than I can recall in the past. It is typical of what normally creates a sense of gloom and doom among investors, and of which eventually erupts in the final panic of a bear market. So far the panic seems to be absent.

From an economic point of view, once problems are out in the open, actions are already taking place to correct the problem. It will be much later before the investment community starts to comment on positive moves. First we will see a post mortem on the current difficulties. This sounds quite unnerving, but it is the typical way events unfold in the final stages of a bear market. It is a necessary step towards the new bull market. This usually creates widespread confusion, bouts of panic, and extreme volatility. Be prepared. It will begin to make sense to buy on weakness.

We believe the decline in credit quality that has been surfacing for months is of fundamental importance. It will not only result in a period of weakness in the financial sector, but will hasten interest rate cuts. Interest rate cuts are one of the most important events in the transition to the new bull market. Cutting interest rates does not necessarily get instant results, as the market has come to believe since the dramatic market turndown of October 1998, but it is an important sign that better times are ahead.

We do not want to appear cavalier. It will feel terrible as it unfolds, but it will be a time to stay invested and buy equities if possible. There will be even more reasonably priced stocks available. Stocks that now represent "growth at a reasonable price", have good operating fundamentals (earnings growth), and are resisting the market weakness, will lead the market up. Our cash position will shrink under the pressure of compelling new investment opportunities. Over the past few days, we have made a couple of very interesting purchases that we hope to be discussing in future reports.

We are currently very busy working on ideas. This, of course, is always the case, but at this stage of the market cycle the rewards for making good decisions are so high that we are going to focus at an unsustainable rate. It also hasn't escaped us that we have created a record that deserves to be sustained with our best possible disciplined effort. This will include avoiding sticking with a winning trend too long. Our investment philosophy will not change, but sometimes it will, for example, dictate owning more large-cap stocks. At some point, large-cap stocks will again have compelling valuations, and many mid-cap stocks will have gone up so much that they will become overvalued.

We are busy working on new investment ideas and adding new positions to the Fund. The tell-tale signs of the end of the market decline will stress the urgency to act on new ideas and become fully invested once more.

Yours truly,



Rudy North

# PERFORMANCE RESULTS

AS OF NOVEMBER 30, 2000

## PERFORMANCE COMPARISONS\*

	Year to Nov. 30, 00	May 31 to Nov. 30, 00	Aug. 31 to Nov. 30, 00	Month of Nov. 30, 00
North Growth US Equity Fund \$CDN	38.20%	12.91%	7.46%	-0.88%
North Growth US Equity Fund \$US	29.86%	10.00%	2.94%	-1.75%
S&P 500 \$US	-9.55%	-6.92%	-13.11%	-7.88%
S&P 400 MidCap \$US	9.16%	1.64%	-11.29%	-7.55%
Russell 2000 \$US	-10.65%	-5.71%	-16.81%	-10.27%
NASDAQ Composite \$US	-36.06%	-23.54%	-38.21%	-22.89%

\* Source: Bloomberg "Total Return Analysis" as of November 30, 2000.

Note - Including income in all cases.

## AVERAGE ANNUAL COMPOUND RATE OF RETURN

	1 Year	2 Years	3 Years	4 Years	5 Years
North Growth US Equity Fund \$CDN	42.8%	25.0%	15.5%	19.6%	22.1%
Median U.S. Equity Fund \$CDN **	-2.8%	—	10.5%	--	15.5%
Average U.S. Equity Fund \$CDN **	0.2%	—	10.8%	--	15.9%

Results are after all management fees and other expenses

\*\* reported by the Globe & Mail, Report on Mutual Funds, December 21, 2000

**Return Since Inception (Annualized), Oct. 13, 1992 - November 30, 2000** **20.39%**

**NAVPS: NOVEMBER 30<sup>TH</sup>/00** **\$ 22.33 (CDN)**

**TOTAL ASSETS IN FUND** **\$ 68.83 million (CDN)**

CANADIAN MONEY MARKET FUND

**Net Current Yield as of December 22, 2000:**

**5.57%**

# PORTFOLIO HOLDINGS

AS OF NOVEMBER 30, 2000

St Jude Medical	5.30
Universal Health Services Cl B	4.73
Jones Apparel Group Inc	4.09
Precision Castparts	3.97
Brinker International Inc	3.70
Timberland	3.41
Louis Dreyfus Natural gas	3.17
Symantec Corp	3.13
Compaq Computer Corp	3.08
Wellpoint Health Networks	2.91
Cardinal Health Inc	2.63
Manor Care Inc	2.58
Federal Signal Corp	2.14
Michaels Stores Inc	2.05
Synopsys Inc	1.98
LSI Logic	1.92
Stone Energy Corp	1.91
3Com Corp	1.88
Sigma-Aldrich	1.86
Mesa Airlines Inc	1.58
BJ's Wholesale Club	1.57
Pier 1 Imports Inc	1.56
Clayton Homes Inc	1.51
Biomet Inc	1.37
Darden Restaurants Inc	1.18
Nextel Communications Inc	1.12
Dentsply International	1.07
Devon Energy Corp	0.98
Schnitzer Steel	0.89
Snap-On Inc	0.84
Diamond Offshore Drilling	0.56
Alza Corp	0.55
Mohawk Industries	0.30
TJX Companies	0.26
Vishay	0.21
City National Corp	0.13
American Power Conversion	<u>0.12</u>
<b>Total Equities</b>	<b>72.24</b>
<b>Cash and Short Term Notes</b>	<b><u>27.76</u></b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>