

# DECEMBER MONTHLY REPORT

January 18th, 2000

## DEAR INVESTOR...

2000 A GREAT YEAR (*even though US equity markets were in a downtrend*)

The Fund continued to perform well in December to end the year 2000 with a 43% one-year gain in unit price. This resulted in the North Growth US Equity Fund ranking as best performing US Equity Fund in the Globe & Mail Annual Mutual Fund Report of January 18, 2001. It is unrealistic to expect performance of this magnitude on an annual basis, but the outlook is for continued above average performance.

The good news about the performance for 2000 is that the Fund was not riding a speculative or any other type of blow off during 2000. Avoiding over-priced stocks and sticking to our philosophy of investing in growing companies with sound fundamentals and reasonable valuations produced this exceptional result. By almost any accepted fundamental criterion, the Fund is managed conservatively. Current investment style classifications have difficulty characterizing our heavy weightings in mid-cap stocks, small-cap stocks and cash. Our decisive industry weightings also make the Fund's style hard for some to understand. For much of the investment community it is a bit too simple, it seems, to believe that seeking out growing companies at reasonable prices, being as well-informed as possible regarding company fundamentals, and taking the 'risk' of acting on one's judgement can result in above average performance.

### IN THE MEANTIME...

Excessively priced equities have been correcting. Current economic news as well as company specific news is predominantly bad. Economic and stock market commentators are finally talking about the dramatic slowdown in the economy. The number of profit warnings is at record levels. The outlook for high-tech companies has been getting the most attention, but the scope of the earnings warnings cuts right across the whole spectrum of the economy. The resulting market volatility is presenting some interesting buying opportunities of which we are taking advantage.

Economic analysis is not of much use as a basis for making equity investment decisions. The reason we are going to spend considerable time delving into the economic outlook is to prepare ourselves and our clients for the type of distracting economic news and commentary that we anticipate in the months ahead. Hopefully if we consider the range of scenarios which will bombard us at times of high emotion, we will be less likely to be misled by what has historically been useless babble.

### NEVERTHELESS THE PREVAILING MOOD IS STILL COMPLACENCY...

Complacency is a dangerous state of mind. It comes before real concern which precedes the pessimism and even some panic which usually ends a period of major valuation adjustment.

### **BUSINESS WEEK'S "BUSINESS OUTLOOK"**

Business Week's "Business Outlook" issue that came out on January 22 is written with the attitude of complacency to which I am referring. Consider the following quote: "unless the stock market really tanks, the

weakness will be short lived." In a nutshell, the issue said that technology and globalization have combined to change the inventory cycle that once plagued manufacturing and magnified economic cycles. We can also rest assured that "policy makers have made it clear they stand ready to help the economy, and the Fed is leading the pack." As far as Business Week is concerned, "the journey through the valley of gloom may not be as dire or as long as the pessimists fear." The short article on the California energy crisis conveyed companies' shock about rising energy prices but did not delve into the broader economic implications of the crisis. The issue did, however, speculate on the possibility that technology weakness might still cause problems in the second half of 2001.

We are not market timers or contrarians, but our experience would suggest that such a sanguine Business Week issue is indicative of more market volatility ahead than it is of the bottom of a major valuation adjustment.

#### GENERAL OUTLOOK

**The current market suits us just fine since stock selection will continue to be our focus. Buying reserves will fluctuate as a product of decisions to buy and sell individual stocks.**

After the usual year-end distortions, market leadership is expected to remain with the mid- and small-cap stocks that are showing good operating results and reasonable valuations.

Over-priced market leaders of the past few years are continuing to experience multiple contractions. Some of the stocks have been adjusting since mid-1998. We are getting closer to a time when we will be finding interesting investment opportunities in other modest growth stocks. Technology, which currently represents only 9% of the portfolio, is an area of continuing interest to us. So far we have not felt compelled to join the tendency of investors to buy the leading large-cap tech stocks after every oversold dip in their current downtrend.

#### TECH STOCKS OUTLOOK

Tech stocks have come down significantly from their highs in the first half of 2000. Even a 50% decline from grossly overpriced highs does not necessarily represent a good buying opportunity. Many of these stocks, despite their decline, are still overpriced by all past standards. Moreover, these valuations are based on earnings growth that is often still above trend but is in the process of slowing significantly.

There are other tech stocks that are beginning to represent good growth potential and reasonable prices. We definitely are following the tech sector with the intention to build its weighting up in the portfolio.

#### CONCLUSION

We believe that the emotion being demonstrated by the recent extreme volatility of the market is making the potential for a serious, disciplined approach to investing very effective. 2001 should be a year that continues to reward careful stock selection. Stock selection is what we will concentrate our efforts on and that will likely result in the Fund entering 2002 fully invested in equities in the "early stages" of a new bull market.

Yours truly,

[Where to Find NGM Fund Prices](#)



Rudy North

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](http://globefund.com) and [morningstar.ca](http://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](mailto:caroline@northgrowth.com) or 688-5440.

# PERFORMANCE RESULTS

AS OF DECEMBER 31, 2000

## PERFORMANCE COMPARISONS\*

	Year to Dec. 31, 00	June 30 to Dec. 31, 00	Sept. 30 to Dec. 31, 00	Month of Dec. 31,00
North Growth US Equity Fund \$CDN	43.38%	17.25%	6.02%	3.75%
North Growth US Equity Fund \$US	38.00%	15.77%	6.31%	6.27%
S&P 500 \$US	-9.10%	-8.72%	-7.82%	0.49%
S&P 400 MidCap \$US	17.51%	7.83%	-3.85%	7.65%
Russell 2000 \$US	-2.92%	-5.80%	-6.86%	8.65%
NASDAQ Composite \$US	-39.18%	-37.65%	-32.70%	-4.88%

\* Source: Bloomberg "Total Return Analysis" as of January 3, 2001.

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	43.4%	24.0%	17.8%	20.5%	22.3%
Median U.S. Equity Fund \$CDN **	-7.1%	—	9.7%	--	14.9%
Average U.S. Equity Fund \$CDN **	-4.0%	—	10.5%	--	15.4%

Results are after all management fees and other expenses

\*\* reported by the Globe & Mail, Report on Mutual Funds, January 18, 2001

**Return Since Inception (Annualized), Oct. 13, 1992 - December 31, 2000** **20.70%**

**NAVPS: DECEMBER 31ST/00** **\$ 23.16 (CDN) PRE-DISTRIBUTION**  
**\$ 19.30 (CDN) POST-DISTRIBUTION**

**TOTAL ASSETS IN FUND** **\$ 77.56 million (CDN)**

CANADIAN MONEY MARKET FUND

**Net Current Yield as of January 23, 2001:**

**5.47%**

# PORTFOLIO HOLDINGS

AS OF DECEMBER 31, 2000

St Jude Medical	4.74
Universal Health Services Cl B	4.47
Precision Castparts	4.10
Louis Dreyfus Natural Gas	3.90
Chesapeake Energy Corp	3.80
Jones Apparel Group Inc	3.49
Manor Care Inc	2.71
Wellpoint Health Networks	2.69
Brinker International Inc	2.64
Timberland	2.52
Symantec Corp	2.52
Cardinal Health Inc	2.27
Stone Energy Corp	2.12
Synopsys Inc	2.09
Pier 1 Imports Inc	1.98
Michaels Stores Inc	1.84
Mesa Airlines Inc	1.80
Sigma-Aldrich	1.77
Federal Signal Corp	1.70
Compaq Computer Corp	1.66
Clayton Homes Inc	1.49
3Com corp	1.37
Mohawk Industries	1.35
Biomet Inc	1.28
Nextel Communications Inc	1.25
Devon Energy Corp	1.05
Dentsply International	1.00
Darden Restaurants Inc	0.88
Snap-On Inc	0.78
LSI Logic	0.75
Schnitzer Steel	0.72
Diamond Offshore Drilling	0.64
TJX Companies	0.25
Vishay	0.14
City National Corp	0.14
American Power Conversion	0.11
<b>Total Equities</b>	<b>68.01</b>
<b>Cash and Short Term Notes</b>	<b><u>31.99</u></b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>