

OUTLOOK – FOURTH QUARTER 2003

Dr. Vernon Smith was the 2002 Nobel Prize winner in Economics. Though the title of his work is incomprehensible to most, he basically does work in experimental economics related to investment bubbles. He has shown that new participants in his experiments consistently produced a bubble and a subsequent crash even when the value of the traded asset is well known by all participants. After experiencing the bubble in the first round of trading, participants then trade again during a second round. Again, they produce a bubble and a crash, though the second version smaller than the first.

He subsequently asked participants why they took part in the second bubble given their experience with the first. Their response; according to his research, is uniform. Participants felt they could make money in the rally but would be able to get out in time to avoid the losses.

Sound familiar? Whenever investors say that we are in a bull market within a secular bear market, it reminds us of Dr. Smith's work. The assumption amongst these investors is that they will be able to take advantage of the rally, AND be able to get out of the market in time to lock in their gains. Dr. Smith's work suggests that few will indeed be so lucky.

The foregoing is an excerpt from a research report generated by the Chief U.S. Strategist for Merrill Lynch, Richard Bernstein. The market has had quite a run since March and optimism is at an extreme. But our fundamental views have not changed. We believe we are in one of those major rallies within a generally negative market outlook. It is possible that this run may last longer than anticipated. We are nearing the strongest seasonal period. Markets generally have their best performance in November, December, and January. If we do not get our much-anticipated correction soon, we may have to wait until the spring. We are quite prepared to do that. We are steadfastly looking at the longer term and not reacting to the short term.

As anticipated, our returns have picked up considerably from the second quarter and we are both pleased with our returns and our positions.

Investment Strategies

CEO Fund

The CEO Fund was up 4.72% for the quarter. The market, by comparison, was up 2.2%. As expected, as soon as the market rise is more normal, the CEO Fund outperforms. Our patience is starting to show results. If we get into a strong year-end run without a correction, we would lag once more, but we will continue to be patient and wait for the market to come to us. We will not chase short-term results. The Canadian dollar change was insignificant so the results measure in US or Canadian dollars are almost identical.

CEO Plus Fund

The CEO Plus Fund was up 7.9% for the quarter and is up 12.8% for the year. The CEO Plus Fund has essentially kept up with the market in spite of the huge run since March. We will become ever more defensive to protect those gains.

CEO Income Fund

The CEO Income fund was up 3.61% for the quarter and up 3.42% for the year, all in US dollars. The fund, as planned, paid a \$0.20 or 2% distribution at the end of the third quarter. Although the fund is still in its' infancy, thus far it is meeting our objectives. It has had volatility that is lower than the Scotia McLeod bond universe.

Canadian Dollar

The Canadian dollar stopped its unidirectional run for the current quarter. We are expecting it to retrace some of its gains over the months to come. When that happens, we will hedge our exposure to the US dollar fully. Our view is that the Canadian dollar will gain over the longer term. This increase is not so much an issue of strength in the Canadian dollar as it is to weakness in the US dollar. For example, the Canadian dollar has been very strong when compared to the US dollar but it has actually been weak when compared to the Euro. This relationship clearly shows the weakness of the US dollar.