



GORDON PAPE'S MUTUAL FUNDS UPDATE

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WHAT'S NEW

◆ **ANOTHER TRAP.** A few weeks ago, a broker friend and I agreed to pool our resources to try to find some funds that combined exposure to the U.S. market with decent cash flow. On Boxing Day, he called me, all excited. He'd found a fund that met our parameters perfectly. He just couldn't figure out how he'd overlooked it for so long.

The fund he discovered is the **RBC North American Dividend Fund** and at first glance it appeared to be ideal. Income distributions are paid quarterly, about two-thirds of the portfolio is in the U.S. market (the rest is in Canada), and the track record looks great. Over the past five years, the fund shows an average annual compound rate of return of 12.9%, almost triple the category norm. A blue-chip portfolio and an above-average risk rating complete the picture.

But as he raved about this undiscovered gem, something was nagging away at the back of my mind. How could both of us have missed spotting such an obviously excellent fund? I told my friend to give me a few minutes to do some research and that I'd call him back.

Last summer I prepared a detailed report on all the RBC funds for subscribers to our On-Line Buyer's Guide to Mutual Funds so I started there. The answer was clear as soon as I turned to the appropriate page. The reason this fund looks so good is because the historic track record is based on results that were achieved when it had a completely different

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OUTLOOK 2007

The experts are cautiously optimistic but our advice is to err on the side of prudence in the year ahead.

The year just ended turned out to be much better than expected for investors. Both the TSX and the Dow Jones Industrial Average hit all-time record highs. The major European markets turned in double-digit gains across the board. Latin America, led by Mexico and Brazil, produced huge profits. Most Asian markets surged, with the bellwether Hong Kong index up 34%. Only Tokyo missed the big party, although the Nikkei did manage to eke out a modest gain of about 7% thanks to a strong December.

A repeat of those numbers is unlikely in 2007 but a consensus is emerging that it won't be a losing year – just a somewhat less buoyant one. That would be more than satisfactory, but we suggest taking those forecasts with a grain of salt and using more prudence than usual when making your 2007 fund selections.

The reason is simple: bull markets don't last forever. Never have, never will. The current bull began in the late fall of 2002, after a selling climax in October finally brought an end to the long bear market that started with the tech crash in the spring of 2000. That means this bull market is now more than four years old. It may have some strength remaining but we expect to see a sharp correction sometime before the end of 2007.

The Canadian stock market is more vulnerable than the U.S. market, we believe. Our industrial sector has been weakened by the strong loonie, several of our blue-chip companies have been devoured by foreign takeovers, and the income trust sector, which had provided a big lift in recent years, is on life support. That leaves resource and financial stocks to carry most of the weight. The resource sector has had a great run but there are signs we may have passed the peak. Our financial sector continues to be strong but by international standards the stocks are expensive. The TSX may end the year on the plus side, especially if a new energy crisis emerges, but don't count on more than a single-digit advance.

Bond funds look like a better bet this year than they have in some time. Bank of Canada Governor David Dodge has been making unusually gloomy noises about the prospects for our economy in 2007, which could presage a lowering in interest rates sooner rather than later, although economists are divided on the issue. That would be good news for bonds and we recommend increasing bond weightings in your portfolio to at least 30%. Older or more conservative investors should aim higher.

The bottom line: This looks like a year to hope for the best while preparing for the worst. Review your portfolio carefully with this idea in mind.

THE TOP FUNDS FOR 2007

We offer our selections for the top fund choices for 2007 in the core categories.

Our main goal in selecting the Top Funds for 2007 was to seek out the right balance between risk and reward, in line with our view that this is a year for caution. We have divided our selections by category for convenience, focusing on what we believe are the core groupings that should be represented in every properly-diversified fund portfolio.

Many of our selections are already on our Recommended List but not every fund from the list is here because some are better suited than others to the current climate. All performance numbers are as of Nov. 30, 2006.

Canadian Equity Funds

Fidelity Canadian Disciplined Equity Fund. This fund is indexed to the sector weights of the S&P/TSX Composite Index, however it is not a pure index fund because veteran manager Robert Haber has the responsibility of picking which stocks within each sector he thinks will outperform. He's done a pretty good job at it. The fund shows a five-year average annual compound rate of return of 13.8%, well above the category average. More recent results have also been good. The latest one-year advance was 19.2% which was 0.8 percentage points more than the S&P/TSX Total Return Index, once the 2.27% MER has been accounted for. The portfolio is heavily weighted to blue-chip stocks with lots of banks and corporate giants like Telus and Suncor. We like the transparency of the stock-picking isolation concept and expect this fund to do well in the future.

Leith Wheeler Canadian Equity Fund B. This small Vancouver-based fund continues to quietly turn in outstanding results. In the six months since we added it to our Recommended List, the fund showed a gain of 11.6% compared to an average of 7.1% for the Canadian Dividend and Equity Income category. Despite the categorization, the fund doesn't generate much cash flow but if it's steady growth you want, this is for you. We've been especially impressed by the managers' ability to protect capital in tough times; during the 2000-2002 bear market this fund suffered only one calendar year loss, a small drop of 1.2% in 2002. You'll need \$25,000 to take a position and the fund is not available in a few provinces.

Mawer Canadian Equity Fund. The team of Jim Hall and Martin Ferguson have proven their ability to produce good profits for investors while keeping losses to a minimum in bear markets. This fund, which is on our Recommended List, shows a three-year average annual compound rate of return of 18.5% with a better than average risk profile. Although the fund did experience losses in both 2001 and 2002, in both cases they were less than 1%. About 38% of the portfolio is in financial stocks with 18% in energy and 11% in industrials. Minimum investment is \$5,000.

Phillips, Hager & North Dividend Income Fund. We've singled out this one for special mention because it has been on our Recommended List longer than any other fund – since April 1996. Because of that longevity, some people may not even notice it. That would be a big mistake. This fund continues to churn out above-average returns at below-average risk. It has proven itself to be a safe and secure place for your money; the only loss in recent years was a 7.2% decline in 2002, the culminating year of the bear market. The latest one-year gain was an

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mandate. Until last July, this was the **RBC Blue Chip Canadian Equity Fund**. At that time, the mandate was altered to allow the managers to invest throughout North America and the fund's name was changed to reflect that. Within a few weeks, the portfolio had flipped from being almost 100% Canadian to having more than half the assets in the U.S.

So those impressive long-term results are actually meaningless because they were achieved at a time when the fund was prospering from the strong Canadian market and the rising loonie. Most investors doing a casual search – and even professionals like my broker friend – wouldn't realize that, however.

Given the significance of the mandate change, I strongly believe that RBC should expunge all historical results up to July 2006 and start fresh from there. In fact, I don't understand why they haven't done so already.

As far as investors are concerned, it's just one more example of buyer beware. If something looks too good to be true, dig a little deeper to find out the real story.

♦ **CATEGORY OVERKILL.** In their desire to clarify the various types of mutual funds, the folks who decide on the industry's official categories have gone a bit too far. As a result of the most recent overhaul, there are now six separate categories with the word "balanced" in the title. They are Canadian Balanced, Canadian Balanced – Equity Focus, Canadian Balanced – Fixed Income Focus, Canadian Income Balanced, Global Balanced, and Global Balanced – Equity Focus. As if those weren't enough, we also have a Canadian Tactical Asset Allocation category. That's a total of seven types of balanced funds. No wonder investors are more confused than ever.

♦ **SHANNON'S ROLE EXPANDS.** The folks from Brandes Investment Partners will be hitting the road over the next few weeks with new star manager Kim Shannon in tow. They'll be hosting a dog

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and pony show to tell financial advisors why they should be directing their clients' RRSP money to the four Brandes funds with which she'll be involved.

Just before New Year's, Brandes gave us a peek at the long-awaited details of the relationship between their organization and Shannon's firm, Sionna Investment Managers. In one case, Shannon will be co-managing an existing fund with the Brandes group: the **Brandes Canadian Balanced Fund** which has been renamed as the **Brandes Sionna Canadian Balanced Fund**.

As well, three new funds are being added to the Brandes line-up for which Shannon's company will have full responsibility, according to the prospectus. They are the **Brandes Sionna Diversified Income Fund**, the **Brandes Sionna Canadian Equity Fund**, and the **Brandes Sionna Canadian Small Cap Equity Fund**.

Kim Shannon's skills as an equity fund manager are already well-known to MFU readers. However, the fund I'll be watching with special interest is Diversified Income since, as far as I know, she has never handled a fund like this before. The prospectus says that the fund will typically invest up to a quarter of its assets in "foreign fixed income securities" while another 15% may be in foreign stocks. That's an unusual mix for a Canadian income fund so we'll see how it works out. Distributions will be paid monthly.

◆ **FRONT STREET FUND REOPENS.** Big news for aggressive fund investors! The high-performance **Front Street Special Opportunities Canadian Fund** is reopening for new business on Jan. 2. The fund was capped on March 31 after money flowed in too quickly for manager Norm Lamarche to deploy but now he's ready to go again. The gain for the year to Dec. 31 was just over 21%.

◆ **HAPPY NEW YEAR.** In conclusion, I'd like to take this opportunity to wish all our readers a happy and prosperous 2007. May you enjoy the year ahead in good health. – Gordon Pape

Top Funds – continued from page 2...

excellent 15.5%. This one belongs in all portfolios, if you have the \$25,000 required for a PH&N account. Its only flaw is that it does not deliver any meaningful income, despite the name.

Saxon Stock Fund. Managers Richard Howson and Suzann Pennington use a bottom-up value approach to identify stocks that are trading below their true value. They are contrarians by nature, buying companies that other investors may be avoiding, for various reasons. The current portfolio is heavily weighted to the resource sector with about 38% of the assets in materials and energy stocks. That makes us a little nervous, but Howson (who has been lead manager since 1989) has shown a nimbleness which has enabled him to protect unitholders in down markets – this fund never lost money in any calendar year of the 2000-2002 bear market. In the latest year the fund recorded a 15.5% gain, slightly below the category average. However, longer-term numbers are outstanding. The five-year average annual compound rate of return was 13.8% compared to 10.5% for the average Canadian stock fund. Over the past ten years, the fund's 11.8% annual compound rate of return beat the average fund by more than four percentage points per annum and the benchmark index by more than two points. Those results were achieved with a better than average standard deviation and a relatively low beta of 0.88 (both are measures of risk). Although recent results are sub-par, they are not seriously out of line and the strong long-term performance warrants maintaining the fund's \$\$\$\$ rating.

Sceptre Equity Growth Fund. There's more risk in this fund (and the next one) than in some of the others we're recommending for 2007 but manager Allan Jacobs is on a hot streak right now and if there is one lesson that investing history teaches us, it is to ride the winners while you can. We added this fund to the MFU Recommended List in October and it has gained 10.6% in the three months since. See the October issue for more details.

Sprott Canadian Equity Fund. This may seem like an unusual choice for a year in which we are counselling prudence but the unorthodox approach taken by the managers of this fund has been paying off big-time in both good markets and bad. The volatility factor is extremely high so the faint of heart should be wary but the returns demand that this fund be included on our list. Just look at the numbers: a one-year gain of 51.8%, a three-year average annual compound rate of return of 30.8%, and a five-year annual average gain of 32.6%. While other funds were tanking during the bear market, this one was posting calendar year returns in the 40% range over the entire 2000-2002 period. Your money is buying a lot of gold, oil, and uranium here and those gravy trains won't roll forever – or will they? In any event, this is our 2007 selection for more aggressive investors. You'll need \$5,000 to take a position. We're adding it to the MFU Recommended List.

U.S. Equity Funds

Mutual Beacon Fund. As we reviewed the U.S. equity fund choices available in this country, we were discouraged by the general mediocrity of the field. There are very few funds with a proven ability to consistently provide the desired combination of high returns and low risk. This is one that meets the test, although it isn't very exciting. It's a deep value fund from the Franklin Templeton organization that rarely has a down year and outperforms its peers over the long haul. Over the past five years the fund shows an average annual compound rate of return of 4.4% which doesn't seem all that exciting until you realize that the category average is a loss of 0.12%. The most recent 12 months have produced a healthy profit of 15.1%, compared to an 8% average for the category. It's not a great fund but in a world of midgets, it stands out from the crowd.

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RBC O'Shaughnessy U.S. Value Fund. This fund has been on our Recommended List since August 2003 and after mid-January it will be the only one of the original three O'Shaughnessy that is still open to new investors. That's good because we regard this fund as a perfect fit for the current conditions. The manager uses the O'Shaughnessy U.S. Value Strategy Index, which identifies firms with high dividend yields and higher-than-average sales and capitalizations. The fund went through a mini-slump in early 2006 but has since rallied well and shows a one-year gain of 15.1%. Longer-term returns are miles ahead of the category average. The five-year average annual compound rate of return is 10.1% compared to an average annual loss of 0.12% for the competition. One reason for this good showing is that both this and the companion **U.S. Growth Fund** use currency hedges. As a result, these funds were not exposed to the sharp decline in the value of the U.S. dollar against the loonie that cut into the returns of most U.S. stock funds. The portfolio emphasis is on blue-chip value stocks like JC Penney, Heinz and Allstate. The better-than-average risk rating and low MER of 1.57% add to its appeal.

Global/International Equity Funds

AGF International Stock Class. The Dublin-based team of John Arnold and Rory Flynn has done a bang-up job with this fund since taking over from the Brandes organization in 2002. The fund has been a first or second-quartile performer every year since then and boasts a three-year average annual compound rate of return of 19%. They use a bottom-up value investment approach, examining the fundamentals of all prospective businesses with a view to acquiring shares at a cheap price. As they have proven with the companion **European Equity Class**, this approach has the effect of reducing risk, even in rough markets. However, we have one caveat. Although this is an international fund, it is top-heavy with European stocks, which is the real expertise of the Arnold/Flynn team. Asian representation is very low and Hong Kong doesn't even show up among the major positions despite the great year that market had in 2006. So while we like the results, be aware that you are buying mainly a European fund here with a small amount of other international exposure.

AIM International Growth Class. Right now, this is the strongest performer among our international fund recommendations with a one-year gain of over 30% and well above average results for all time periods out to five years. This is a true international fund, with no more than 10% of the assets in North America, and it's one of the best. It is run by a team of four managers based in Houston who focus primarily on mid and large-cap stocks. The fund sustained losses in 2001 and 2002, which was par for the course in the bear market. Since then, it's been a different story. The portfolio is well diversified, with the U.K. having the largest geographic weighting at 12.1% followed by Switzerland at 7.9%. The risk rating is slightly higher than average for the category but not be

enough to be a concern. This fund doesn't get a lot of attention but if you want to expand your foreign holdings you need to take a close look at it.

RBC O'Shaughnessy International Equity Fund. Manager Jim O'Shaughnessy has done a great job with his U.S. and Canadian funds so in early 2005 RBC gave him another task: create an international portfolio using the same general parameters. So far, it has worked out just fine. The fund is off to a great start and recorded a one-year gain of 22.2% in the year to Nov. 30. The portfolio is well diversified with Japan as the largest single country holding at 24.3%. This fund hasn't been around long but we like what we've seen so far and O'Shaughnessy's track record with his other ventures is top-notch.

Trimark Fund. After slipping into a deep funk that lasted the better part of two years, this long-time favourite has suddenly re-emerged as a top performer, with a one-year gain of 24.5% (SC units). The malaise began with the departure of former manager Bill Kanko in May 2004. He was replaced by the team of Tye Bousada and Dana Love. However, it took them a while to get their act together and disgruntled investors began to bail out. We dropped the fund from our Recommended List last year because of the poor results. Now things are back on track, so if you're one of those who moved on, it is time to revisit this one. If you invest, try to get the SC units at zero commission from your advisor. The FundSERV code is AIM1513.

Balanced Funds

Chou Associates Fund. As we reported previously, this has been reclassified as a Global Balanced – Equity Focus fund, from a U.S. Equity Fund. Whatever it's called, it's a useful addition to your portfolio if you are a follower of manager Francis Chou's somewhat unorthodox value style of investing. The fund has been a consistent above-average performer for many years (latest 12-month gain was 15.2%) and Chou usually does especially well in soft markets. Minimum investment is \$10,000.

CIBC Monthly Income Fund. Since we believe 2007 will be a year when some caution is warranted, we recommend adding a well-managed balanced fund with steady cash flow to your portfolio. This fund has been a first or second-quartile performer every year since 2000 and it has been on our Recommended List since November 2002. It provides a monthly stream of income (72c per unit over the past twelve months) while preserving capital and generating above-average gains. The latest 12-month return was a very healthy 12.3% and the three-year average annual compound rate of return stood at 14.7%, more than four points better than the average for the Canadian Income Balanced category. The ratio of equities to bonds/cash is about 66/34, but equities in this case include a few income trusts and preferred shares so that

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proportion is somewhat misleading. Volatility has been about average on both on an absolute and relative basis, given the high returns recorded thus far. It's a good choice if you need steady cash flow or a balanced fund in an RRSP or RRIF.

Harbour Growth and Income Fund. Gerald Coleman's balanced entry remains one of the top choices in the new Canadian Balanced – Equity Focused category. It's an above-average performer over all time periods from one to five years and stood up very well during the bear market, with not a single losing year. Right now, the fund is in a highly defensive position with almost 40% of the assets in cash, suggesting Coleman is feeling rather nervous about the year ahead.

Saxon Balanced Fund. Sometimes the star ratings given by the major fund websites completely puzzle us. This is a case in point. Globefund gives it three stars out of five. Yet the fund shows above-average returns for every single time period out to 20 years, made gains for investors in each year of the bear market, has a

low MER of 1.86%, and is sold on a no-load basis. If that doesn't add up to a fund that should get a top rating, then we don't know what it takes. To its credit, the Morningstar.ca site recognizes the worth of this fund. We've given it a top \$\$\$\$ rating in our On-Line Buyer's Guide to Mutual Funds for years.

Trimark Global Balanced Fund. After sputtering along for a while, this fund has suddenly taken off, gaining almost 11% in the past three months. About two-thirds of the assets are in a well-diversified equity portfolio with the rest in bonds and cash. The fund has very low exposure to the resource sector, focusing instead on consumer discretionary, financial, and industrial stocks. Good global balanced funds are hard to find and this is one of the best right now.

Bond Funds

Altamira Bond Fund. We recommended this fund in the October issue. It got off to a modest start but had a good run in November and should do fine in 2007.

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GOOD FUND, BAD FIT

Every so often we come across a fund that has an impressive record but which doesn't fit comfortably into the average portfolio. The **Trimark Global Endeavour Fund** is a good example. This fund focuses on mid-cap stocks from around the world. It's one of very few with this specific mandate and, as a result, comparisons with other funds in the Global Equity category can be misleading. Further blurring the issue is the fact that the fund's goals were significantly changed in August 2002 – it had been an Americas fund prior to that. As a result, historic comparisons prior to that time are not relevant. The raw numbers since the beginning of 2003 show a fund that has been consistently profitable. Its best year since the mandate change was in 2004 when it gained 21.2%. It finished below the category average in 2005, advancing only 5.3%, but has since come roaring back and showed a 12-month return to Nov. 30 of 26.3%. The question investors really have to ask is whether they need such a tightly-focused global fund in their portfolios. If it works with your objectives then go ahead, but don't use it as your core global equity fund.

AN OFF-BEAT BOND FUND

If you're looking for something different in a bond fund and are prepared to accept some additional risk, consider the new **Chou Bond Fund**, which was mentioned in the November issue. For some strange reason, it is classified as a Canadian bond fund but in the real world it's international in nature, with significant positions in U.S. and U.K. issues. Although it's called a bond fund, the portfolio also holds other types of income securities including some trusts. Manager Francis Chou has enjoyed great success selecting equities with his value style but this is his first venture into the bond market. Well, for a rookie bond trader he's doing awfully well. The fund, which was launched in September 2005, gained an astounding 22% in the last 12 months. That's about five times the return of the average bond fund during that period. But be aware that this is not your classic buy-and-hold government bond fund. Chou focuses on distressed debt securities and beaten-up companies. The portfolio is sprinkled with names like Adelphia, Global Crossing, Hollinger, and GMAC, all of which have had their share of problems in recent years. So this is not a bond fund for the timid. Having said that, there is no reason why Chou's value approach won't work just as well on bonds as it has on stocks. Minimum investment is \$10,000.

FUND FLASH

Name: Sprott Canadian Equity Fund
Recent NAV: \$38.32
On-line Database Rating: \$\$\$\$
Suited to: Aggressive investors
One-year return (to Nov. 30): 51.8%
3-year average annual return: 30.8%
5-year average annual return: 32.6%
Average quartile ranking: 1.556 (excellent)
Load status: Front end (maximum 2%)
Minimum initial investment: \$5,000
RRSP/RRIF suitability: Poor due to volatility
How sold: Registered reps, direct from Sprott
FundSERV codes: SPR001 (A units),
 SPR100 (F units)
Phone number: 1-888-362-7172

LET'S MAKE SOME CHANGES

Although nearly all our Recommended funds are making money, some aren't making enough.

It's a New Year. That means it's time to do some housecleaning on the MFU Recommended List, dropping some of the underachievers and boosting the ratings on top performers.

On the whole, we're happy with the way the funds on the list are performing and we hope readers are too. With one exception, every recommended fund has made money for us. That's 59 out of 60, for a success ratio of 98.3%.

But the MFU Recommended List isn't only about profits. Our goal is to provide readers with a broad cross-section of funds, suitable for all types of investors, which offer the potential for above-average returns combined with a reasonable level of risk. It's easy to make money when markets are good. The key to success is to own funds that will minimize your loss exposure when things turn sour.

Our one losing entry is an example of that approach. Like every other dedicated income trust fund, the **Dynamic Focus+ Diversified Income Trust Fund** was hurt by Finance Minister Jim Flaherty's decision to tax trusts starting in 2011. However, its loss, although painful, was lower than the average decline for the category and at the end of November the one-year result showed a drop of 0.6%, virtually break-even. The fund rebounded by 2.4% in December and we suggest you use this as an opportunity to exit. At the current valuation, the fund has a projected one-year cash yield of 5.7%. You can do as well or better in some of the other income funds on our list, with less risk (e.g. **BMO Monthly Income**).

As part of our housecleaning process, we're also advising the sale of three other funds this month. Here are the details.

Halcyon Hirsch Opportunistic Canadian Fund. We've done well with this fund since it was originally recommended in November 2003.

However, manager Veronika Hirsch is known for her expertise in resource stocks and we think the best days of the resource cycle may be behind us. So it's time to take profits and move your money elsewhere.

Mackenzie Cundill Canadian Security Fund. This fund continues to offer a low-risk value approach to investing but you can find the same style elsewhere, combined with better returns. There are lots of other choices within the sprawling Mackenzie empire so we suggest you switch horses at this stage.

Mackenzie Cundill Value Fund. When Peter Cundill's deep value style is working, the results are very positive for investors. When it's not, it's time for us to take a hiatus – like now. We'll probably return eventually but for 2007 there are better opportunities.

Here are quick comments on some of the Hold positions on our list.

Chou RRSP Fund. It's been a disappointing year for this fund, to say the least. Over the 12 months to Nov. 30, manager Francis Chou was able to generate a return of only 5.3%, about one-third the category average. But we've seen this happen occasionally before, so be patient. We expect the master to regain his touch before too long.

CI Canadian Investment Fund. After Kim Shannon abruptly left to team up with the Brandes organization, CI reached deep into its managerial pool and named relative unknown Daniel Bubis of Winnipeg to take over this widely-held fund. Bubis may not have Shannon's star quality but his track record is solid and in the first couple of months under his leadership the fund has turned in above-average results. So don't pack your bags yet.

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Here is the quarterly update for the full MFU Recommended List.

FUND	DATE RECOMMENDED	RESULTS (Nov 30)	COMMENTS	ACTION
Canadian Equity Funds				
Leith Wheeler Canadian Equity (V)	Jun/06	+11.6% (6 mo)	Very strong	STRONG BUY
Harbour Fund (V)	Sep/05	+17.4% (1 yr)	Stalled recently	Hold
Mawer Canadian Equity (G)	Jan/05	+16.9% (1 yr)	Steady performance	Buy
CI Canadian Investment (V)	Jan/04	+19.0% (3 yr)	New manager	Hold
Halcyon Hirsch Opportunistic Canadian (G)	Nov/03	+14.1% (3 yr)	Time to move on	SELL
Mackenzie Cundill Canadian Security (V)	Apr/03	+11.0% (3 yr)	Switch horses	SELL
IA Canadian Conservative Equity (V)	Apr/03	+13.1% (3 yr)	Looking anaemic	Hold
Chou RRSP (V)	Nov/02	+11.2% (3 yr)	Disappointing year	Hold
RBC O'Shaughnessy Canadian Equity (V/G)	Sep/02	+16.9% (3 yr)	Slipping a bit	Hold
Saxon Stock (V)	Aug/02	+15.8% (3 yr)	Looking better	Buy
Bissett Canadian Equity (G)	Nov/00	+10.4% (5 yr)	Impressive lately	Hold
Fidelity Canadian Disciplined Equity (V/G)	Apr/00	+13.8% (5 yr)	Still doing well	Buy
ABC Fundamental-Value (V)	July/97	+19.5% (5 yr)	Great long-term record	Buy
PH&N Dividend Income (G)	Apr/96	+15.6% (10 yr)	Very strong lately	Buy

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FUND	DATE RECOMMENDED	RESULTS (Nov. 30)	COMMENTS	ACTION
Canadian Small Cap Funds				
Sceptre Equity Growth	Oct/06	+ 6.2% (3 mo)	Good start for us	Buy
Front Street Small Cap Canadian (G)	Aug/05	+29.8% (1 yr)	Strong performer	Buy
Beutel Goodman Small Cap (V)	Oct/03	+15.5% (3 yr)	Very good recently	Buy
Ethical Special Equity (V)	May/03	+18.8% (3 yr)	Going through tough time	Hold
Saxon Small Cap (V)	Jul/01	+16.1% (3 yr)	Strong lately	Buy
GBC Canadian Growth (G)	Oct/99	+12.4% (5 yr)	A little below average	Hold
Sector Funds				
RBC Global Precious Metals (G)	Jan/06	+74.5% (1 yr)	Doing well but volatile	Buy
CIBC Canadian Resource (G)	Oct/05	+23.2% (1 yr)	Good quarter	Hold
Front Street Energy Growth Series 1 (G)	Dec/03	+22.2% (3 yr)	Hit a soft spot	Hold
Balanced Funds				
Harbour Growth and Income	Sep/05	+12.9% (1 yr)	Coming out of brief slump	Buy
Saxon Balanced	Aug/04	+11.5% (1 yr)	Coming off good year	Buy
Dynamic Focus+ Balanced	Jun/03	+ 8.5% (3 yr)	Very weak lately	Hold
Chou Associates (V)	Nov/02	+13.1% (3 yr)	Slowing down	Hold
Renaissance Canadian Balanced Value	Sep/02	+10.5% (3 yr)	Looking better	Hold
Trimark Global Balanced	Feb/02	+10.2% (3 yr)	Surging	Buy
Fidelity Canadian Asset Allocation	Aug/01	+ 9.0% (5 yr)	Consistently good	Buy
ABC Fully-Managed	Apr/97	+11.8% (5 yr)	Struggling lately	Hold
Income Funds				
Sentry Select REIT	Dec/06	New	For income portfolios	STRONG BUY
BMO Monthly Income	Nov/05	+ 9.0% (1 yr)	Good cash flow	Buy
Dynamic Focus+ Diversified Income Trust	Jun/05	- 0.6% (1 yr)	Hit by Flaherty statement	SELL
Mackenzie Sentinel Income B	Feb/05	+ 8.0% (1 yr)	Good low-risk choice	Buy
GGOF Monthly Dividend (MF)	Oct/03	+ 8.5% (3 yr)	Capped again	Hold
RBC Monthly Income	Jun/03	+12.7% (3 yr)	Somewhat weak	Hold
CIBC Monthly Income	Nov/02	+14.7% (3 yr)	Great fund	STRONG BUY
Bond Funds				
Beutel Goodman Long Term Bond	Nov/06	New	Low-cost long bond play	STRONG BUY
Altamira Bond	Oct/06	+ 3.9% (3 mo)	Good start for us	STRONG BUY
Friedberg Foreign Bond	May/04	+ 7.0% (1 yr)	Very strong recently	Buy
PH&N High Yield Bond	Apr/04	+ 8.9% (1 yr)	Slowing down	Hold
TD Canadian Bond	Jan/03	+ 6.2% (3 yr)	Good no-load choice	Buy
CIBC Can. Short-Term Bond Index	Nov/01	+ 3.6% (5 yr)	For the risk-averse	Buy
CIBC Mortgage & Short-Term Income	Nov/01	+ 3.1% (5 yr)	Modest monthly cash flow	Buy
PH&N Short Term Bond & Mortgage	May/00	+ 4.3% (5 yr)	Very safe	Buy
PH&N Bond	Aug/98	+ 6.6% (5 yr)	Still a top pick	STRONG BUY
U.S. Equity Funds				
Dynamic American Value (V)	Aug/06	+ 6.4% (3 mo)	Doing as expected	Buy
RBC O'Shaughnessy US Value (V)	Aug/03	+12.1% (3 yr)	Still strong	Buy
ABC American-Value (V)	Jun/02	+12.5% (3 yr)	Not up to par	Hold
Mutual Beacon (V)	Feb/01	+ 4.4% (5 yr)	Pace is slowing	Buy
European Equity Funds				
AGF European Equity (V)	May/02	+20.9% (3 yr)	Still generating profits	Buy
International/Global Equity Funds				
Synergy Focus Global Equity	May/06	+ 7.1% (6 mo)	Should be doing better	Hold
Fidelity NorthStar (V/G)	Dec/05	+11.6% (1 yr)	Okay but not great	Hold
AIM International Growth (G)	Feb/04	+30.5% (1 yr)	Very good run	STRONG BUY
Saxon World Growth (V)	Aug/02	+ 8.6% (3 yr)	Improving	Hold
Trimark International Companies (V)	May/02	+14.5% (3 yr)	Strengthening	Buy
Mackenzie Cundill Value C (V)	Feb/01	+ 9.6% (5 yr)	Running out of steam	SELL
Exchange-Traded Funds (ETFs)				
iShares CDN Short Bond Index	Aug/04	+ 4.0% (1 yr)	Good recently	Buy
Diversified Preferred Share Trust	Jan/04	+ 2.0% (1 yr)	Offers tax break	Buy

R A T I N G S C H A N G E S

BMO GLOBAL BALANCED CLASS \$

This fund had the misfortune to be launched in November 2000, just as the bear market was tightening its grip. In the circumstances, the managers would have been smart to sit on their cash for a while but instead they plunged into the markets. As a result, the fund lost 18% in 2001 and another 14.7% in 2002, leaving early investors shell-shocked. Even after the markets turned, this fund was an underachiever, in part due to the rising Canadian dollar. While most funds were enjoying a banner year in 2003, this one gained only 1.1% in 2003. It added 3.3% in 2004 and barely finished above break-even in 2005. No wonder it has only \$7 million in assets! However, 2006 was a turn-around year – the first really good one the fund has experienced. The managers ended the year with an advance of 15.3%, well above average for the category. We're not about to hand out a big prize for one good year, so this one gets a \$ rating for now. But it will move up pretty quickly if we see a continuation of the 2006 pattern.

BRANDES GLOBAL BALANCED FUND \$\$\$

This is a good-looking global balanced fund although it should be noted that the portfolio is weighted towards North America, with about 54% of the assets in the U.S. and Canada. The target is to hold 60% to 70% of the assets in stocks and 30% to 40% in bonds. As of Nov. 30, the managers were within the stock parameters at 63% but light on the bond side at 22%. There was a large cash position of 15%, which had been increased from just 5% at the end of September in what was clearly a defensive move. Recent returns have been good, with a 15.3% gain for the year to Nov. 30. However, the fund got off to a slow start so the three-year average annual compound rate of return of 8.2% is slightly below average. We'll give this one the benefit of a doubt and introduce it with a \$\$\$ rating.

Make some Changes – continued from page 6...

GGOF Monthly Dividend Fund. Once again, this first-class dividend fund has been closed to new investors. As per our standard policy, we will therefore remove it from the Recommended List (hopefully temporarily). However, if you have a position in the fund, keep it.

IA Conservative Canadian Equity Fund. For years, we've been fans of the low-risk style used by the management team of Leon Frazer. They've managed to guide this fund to above-average returns with below-average risk over the long haul. But recent results have been unusually anaemic and the risk level has been creeping higher. We're not ready to bail out yet, but don't add to your positions at this time.

RBC O'Shaughnessy Canadian Equity Fund. We're classifying this fund as a hold right now, but if you don't have a position in it you may wish to remedy that before Jan. 19. After that it will no longer be available to new investors.

Top Funds 2007 – continued from page 5...

Beutel Goodman Long Term Bond Fund: This fund was added to the MFU Recommended List in November. You'll find complete details about it in that issue.

Phillips, Hager & North Bond Fund. We updated this one in the November issue and nothing much has changed since then. It's a top-notch choice for the long haul.

TD Canadian Bond Index Fund (e units). This one was also updated in November. It's a great choice for investors who want a no-load bond fund with a miniscule MER but remember it can only be purchased on-line.

G O R D O N P A P E ' S

Mutual Funds Update

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