

DK EQUITY GROWTH FUND
Quarterly Review
September 30, 2003

Rates of Return

	<u>3 Mths</u>	<u>YTD</u>	<u>1 Yr</u>	<u>2 Yrs</u>	<u>3 Yrs</u>	<u>4 Yrs</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
DK Equity Growth Fund	15.6%	30.7%	48.0%	45.9%	29.5%	21.0%	22.8%	16.2%
Nesbitt Burns Small Cap Index (Unweighted)	19.5%	26.0%	41.0%	21.8%	2.7%	6.0%	8.6%	5.0%
S&P/TSX Composite Index	6.7%	13.9%	22.5%	6.1%	-9.0%	3.3%	7.4%	8.4%
DJIA	3.8%	13.1%	25.1%	4.6%	-2.6%	-0.9%	5.3%	12.3%
S&P 500	2.6%	14.7%	24.4%	-0.5%	-10.1%	-4.8%	1.0%	10.0%

Things are getting a little “creepy” in the equity markets. Equities are back in favour and investors are doing dumb things again. Since the low point last October, the broad stock market indices in the U.S. and Canada have rocketed higher.

	<u>S&P/TSX</u>	<u>S&P 500</u>	<u>DJIA</u>	<u>NASDAQ</u>
Low October 2002	5695	777	7286	1114
Close September 2003	7421	996	9275	1787
% Gain	30%	28%	27%	60%

We did advise investors in a special alert in July 2002 to stay the course and not to bail on equity investments when the broad indices were down 40 – 75% from the highs in 2000. However, we did not foresee the buying spree that ensued, nor did we expect so many valuations to go back to fantasy levels. The S&P/TSX is currently trading at just over 22 times trailing 12 month earnings, the S&P 500 is just over 25 times and the NASDAQ at roughly 75 times. What are investors thinking? It looks like investors are falling in love with technology stocks again, and reverting to their old habit of chasing stocks that are going up, without paying attention to valuations. It is starting to feel like the mania of the late 1990’s. As Yogi Berra said, “*It’s déjà vu all over again*”.

There is also a bubble mentality developing in Canada in the market for junior gold stocks. With concerns about the rising U.S. Government deficit and the health of the U.S. dollar, the price of gold has risen from a low of \$256 per ounce in 2001 to a price of \$385 on September 30. This has lit a fire under gold stocks, particularly the junior sector. It is important because Canada is

the global epicenter of junior gold market financing. It is not the rising gold price that gives us concern, but we are wary of the speculative fever in the junior gold market that has ensued. When speculative fever takes hold in an area, all stocks in the category go higher. Even the lousy operators and the wannabees get access to cheap capital. We are exercising caution in this area. We have exposed the portfolio to gold exploration and production on two fronts. Both are serious mining companies run by management teams with outstanding track records.

- **LionOre International Mining.** Although primarily a nickel producer, the Company will produce roughly 200,000 ounces of gold this year at the Thunderbox gold mine in Western Australia.
- **Metallic Ventures.** The Company is a junior gold company that will commence production at their Esmerelda property in Nevada later this year. The Company has three key Nevada properties. The founders, Jeff Ward and Rich McNeely, previously built Cobre Resources and sold it to Phelps Dodge in 1997. They founded Metallic in 1999 and invested \$10 million U.S. of their own money.

There were significant announcements during the most recent quarter by two of the companies in the portfolio. **Cinram International Inc.** announced in July an agreement to acquire AOL Time Warner's CD and DVD business for roughly \$1 billion. The acquisition includes manufacturing and distribution facilities with the U.S. and Europe. The deal makes Cinram the largest independent producer of pre-recorded multi media products in the world. The share price had appreciated 72% in the first 7 months of the year, prior to the announcement, on strong sales growth of DVDs. Subsequent to the announcement the share price rose a further 46% to a September 30 close of \$24.95.

Aventura Energy Inc. announced September 15 that the Company and its controlling shareholder, **Vermilion Energy Trust** (both are companies in the portfolio) were in discussions with a potential acquirer of Aventura. Aventura explores for, and produces, natural gas in Trinidad. Vermilion, which owns just over 70% of the outstanding shares of Aventura, has made it known that it was their intention to crystallize the value of Aventura for its unitholders. There is no assurance that this transaction will proceed. However, it is our view that a transaction is likely and that the transaction price will be around the \$5 per share level.