DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND
Quarterly Review
March 31, 2004

Rates of Return

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Equity Growth Fund	**4.0%**	**59.2%**	**35.2%**	**36.0%**	**31.9%**	**27.0%**	**16.7%**
Nesbitt Burns Small Cap Index (Unweighted)	7.5%	68.3%	17.4%	17.0%	8.2%	12.3%	6.3%
S&P/TSX Composite Index	4.9%	37.7%	6.5%	6.0%	-0.8%	7.1%	9.0%
DJIA	-0.4%	32.6%	2.0%	3.7%	0.6%	3.0%	13.3%
S&P 500	1.7%	35.1%	0.8%	0.6%	-5.5%	-1.2%	11.7%

The broad market indices have risen smartly in the past 18 months since the lows that were reached in October 2002.

Appreciation between October 2002 and March 2004	
S&P 500	45%
Dow Jones Industrials	42%
NASDAQ	79%
S&P/TSX	51%
Nesbitt Burns Small Cap	90%

Bank Credit Analyst, in a report earlier this year, concluded that this has been a normal post-bear market rally. Expanding on their research using the S&P 500 as a measure of the market, we compared 9 previous post bear-market rallies to this recent one.

			Decline S&P 500	Dividend Yield at Trough	% Gain in Ensuing 18 Months
May 1946	to	June 1949	-29.6%	7.5%	50.8%
August 1956	to	October 1957	-21.6%	4.5%	47.7%
December 1961	to	June 1962	-28.0%	3.9%	43.4%
February 1966	to	October 1966	-22.2%	3.9%	33.3%
November 1968	to	May 1970	-36.1%	4.6%	35.6%
November 1973	to	October 1974	-48.2%	5.8%	63.2%
September 1976	to	March 1978	-19.4%	5.7%	25.8%
November 1980	to	August 1982	-27.1%	6.7%	53.3%
July 1990	to	October 1990	-19.9%	4.0%	40.4%
AVERAGE			**-28.0%**	**5.2%**	**43.7%**
March 2000	to	October 2002	-49.1%	2.0%	45.0%

The recent rally since October 2002 of 45% is very close to the 43.7% average of the previous 9 rallies.

However, in our opinion there are some disturbing aspects regarding the current rally. Looking at the evidence we have available to us today, it appears that the speculative mindset that gripped the market in the great bubble of the late 1990's, is still very much with us.

Firstly, at the bear market trough in October 2002, the S&P 500 was expensive compared to previous troughs. As we pointed out in our June 30 report last year, the 1973/74 bear market most closely resembled the 2000/2002 bear market by its nature and also when measured by percentage decline. However, at the bottom of that trough the S&P 500 traded at price/earnings multiple of 7 times. At the bottom in 2002 the multiple was close to 20 times. In fact, at the market trough in 2002 the S&P 500 p/e ratio was higher than the average S&P multiple of 14 over the last 100 years. The S&P 500 is currently trading at 23 times trailing 12 month earnings and the NASDAQ at a dizzying 79 times.

Secondly, the dividend yield on the S&P 500 in October 2002 was lower than any of the previous troughs and less than ½ of the average. In our opinion this leaves the S&P vulnerable to a rise in interest rates.

Thirdly, a comment in Barron's this February caught our eye . . . "companies with negligible earnings or worse, fared best last year (2003)". This brought to mind eerie parallels to the bubble market of 1998/1999. We had a look at the last 12 months in the Canadian market. The S&P/TSX index over the 12 months ended March 31/04 was up 38%. Of this increase, 12% was attributable to increases in the prices of Nortel and Research in Motion . . . companies with high valuations and negligible earnings or worse. Moreover, in the most recent 3 months, Nortel and RIM accounted for 33% of the total increase in the index.

Over the 12 months ended March 31/04 the Nesbitt Burns Small Cap index was up an astonishing 68.3%. However, of this increase, 35% is attributable to the increases in the prices of companies with negative earnings.

Our conclusion is that the rise in the market benchmarks has increasingly relied on the rise in value of a small number of overvalued companies or companies with no earnings at all. For regular readers of our reports, you will recall that we built this same case late in 1999, just before prices collapsed in 2000.

So, what do we do in this environment? Those that have been investing with us for a long time will appreciate that our style tends to produce short and long term results that are very different from benchmark indices. With a strong value element in our philosophy, our returns will tend to lag in extreme bull conditions and tend to do better in bear market conditions.

In today's environment our philosophy does not permit us to invest in those types of companies that are driving the benchmarks higher. Rather, we are building up our investments in deeper value situations . . . companies that trade at or near book value, that still generate earnings and cash flow in a difficult environment, and that are available at a reasonable multiple of those earnings and cash flow . . . **Velan Engineering** (valves), **CFM International** (hearth and BBQ products), **West Fraser Timber** (forest products), **Linamar Corporation** (auto parts) and **CAE Inc**. (commercial and military simulation and training).

As of March 31st the portfolio breakdown by industry group stood as follows:

Energy	30.9%
Industrials	24.1%
Base Metals & Minerals	14.3%
Consumer Discretionary	12.8%
Other Materials	6.6%
Healthcare	4.8%
Precious Metals	3.3%
Paper & Forest Products	2.4%
Utilities	0.8%
Cash & Miscellaneous	0.0%
	100%

As of March 31st the 10 largest equity holdings were:

LionOre Mining International	8.1%	Nickel Mining
Transat A.T. Inc.	6.7%	Tour Operator
First Quantum Minerals	6.3%	Copper Mining
Extendicare Inc.	4.8%	Healthcare
Vermilion Energy Trust	4.8%	Oil & Gas
Linamar Corporation	4.4%	Auto Parts
Algoma Steel Inc.	4.2%	Steel Manufacturer
CFM Corporation	4.1%	Consumer Products
E3 Energy Inc.	4.0%	Oil & Gas
CAE Inc.	3.9%	Aerospace Defense Equipment
	51.3%	