2002 Second Quarter
Value Contrarian Equity Fund

Dear Investors,

> ***The market is most dangerous when it looks best; it is most inviting when it looks worst.***
>
> ***Frank J. Williams***
> ***Early 20th Century Stock Trader***

> ***It is patently wrong to warn investors about stocks now that they have declined by more than 50%. ... After the market has dropped by 40% subsequent five year returns have averaged 8.6% per year above inflation and none has been negative.***
>
> ***Jeremy Siegal***
> ***Wharton School Professor***
> ***July 25, 2002***

In recent months there has been a host of issues contributing to investor skittishness, the biggest being the numerous high profile accounting and business fraud scandals south of the border. Cutting through all the financial noise (b.s.) leaves us with some simple observations.

What we are presently experiencing is a full-fledged business recession inspired bear market, which began in January 2000 with the Dow at 11,722. For a few months after the lows of September 2001, stock prices rebounded sharply. Unfortunately, stock valuations in early 2002 got way ahead of themselves in

anticipation of an earnings recovery that has not materialized as quickly or as vigorously as expected (especially in the U.S.A.).

What we are also witnessing today is a continuation of the deflation of the stock bubble from the late 1990's. On a psychological level, greed has given way to fear. The excessive valuations (i.e., high P/E ratios) are slowly being purged. Companies that don't meet profit/sales expectations, or surprise with negative news, are immediately pummelled.

The Canadian market has also had to contend with the additional headwind of rising interest rates. The Bank of Canada has raised interest rates three times in the past few months to keep the economy in check. Recent statements from the bank continue to confirm the positive underlying economic situation in Canada. The Canadian economy continues to exhibit robust growth (+3.0%).

While we can't predict a market bottom, we do know good values when they appear. Opportunities always arise when pessimism is rampant and investor sentiment is negative. History has also shown that once investors have suffered this much pain, subsequent stock returns will be very rewarding.

The Real Bubble - Telecom

> ***It's time to set history straight … If you were to ask 100 citizens to name the biggest stock market story of the past five years, … A considerable majority would answer the dot-com boom and bust. Others might say the Enron debacle and similar fraud-based scandals. Not even close. The easy winner by any gauge of dollars lost or human beings affected is the telecom bubble.***
>
> ***Geoffrey Colvin***
> ***Fortune magazine***

Simply stated, measured by retirement's ruined and employees impoverished, the telecom meltdown could be described as the biggest financial disaster in the history books.

The telecom disaster of today has similarities to the overbuilding, debt laden real-estate debacle of the early 1990's. Intoxicated by the prospect of data traffic, telecom firms around the world layed fiber-optic cable as fast as they could. According to Fortune magazine, the work cost some $4 trillion dollars, and at least half of it was borrowed money.

The other major blunder made by big telecom, was their purchase of wireless companies at ridiculously high valuation levels. Companies such as Telus are now stuck with backbreaking debt levels as a result of their wireless acquisitions.

As for Nortel, the company (and its industry) is part of the walking wounded. Until demand rises and local carriers clean up their balance sheets, equipment spending will be kept to a bare minimum. Moreover, when the orders do return, Nortel will likely never be the same high flying stock. Simply stated, over the past five years the company has issued billions of new shares, thus diluting any future profitability.

Second Quarter Performance

Your fund ended the second quarter with a net asset value of $1,742.83 per unit, an increase of $2.53 from the December 31, 2001 asset value of $1,740.30.

While the portfolio held up relatively well during the first half of 2002, we have not been immune to the pain inflicted by the broad market sell-off during July. If the pain of a bear market is needed to wring out the previous bull market's "irrational exuberance", then many are now feeling an intense ache.

We are often asked what is a "contrarian" investment. Today BCE would clearly fit the bill. Down, but not out, BCE can certainly be classified as a fallen angel. Today, the telecommunications industry is in a hole similar to the real-estate sector in the early nineties.

During the quarter we reversed our opinion on BCE. The catalysts behind our decision were the resignation of Jean Monty, the arrival of Michael Sabia as president, and the dumping of debt-laden Teleglobe.

Mr. Sabia's mandate is to clean house and unwind the years of strategic missteps incurred by Mr. Monty. The new president is highly focused on creating shareholder value by returning Bell back to its telecom roots (i.e., repurchase of 20% stake in Bell Canada), and deleveraging the company. His mandate is clear: to focus on improving Bell's existing jewels – Bell Canada, Bell Mobility, and Express Vu.

By jettisoning Teleglobe and Bell Canada International, the company has removed billion of dollars of debt from its balance sheet. To further clean up its balance sheet, the company will sell its Yellow Page assets and issue $1.5 billion of new equity during the next year.

The risks to this investment are twofold. One, the industries outlook worsens causing the company's sales and earnings growth to falter, which in turn leads to a contraction in the P/E multiple and thus a lower stock price. Two, executing on the Yellow Page asset sale and equity issue proves more difficult than planned. Teleglobe bondholder and creditor lawsuits are another potential risk.

The stock is trading at 12X 2003 earning's estimates of $2.00 and yielding 4.8%. This is a two year turnaround story that we believe Sabia will pull-off. The icing on the cake is the BellGlobe Media assets (CTV, Globe & Mail, Sympatico.ca) which will eventually be sold or spunoff to shareholders. Finally, BCE's competition is either bankrupt or severely weakened (i.e., Telus), thus further making Bell the dominant force in its industry and the clear leader in the telecom survival wars.

Outlook

> ***By the toughest definitions of earnings, the prices of stocks are now more than reasonable… Amid all this gloom, the market looks very inviting to me indeed.***
>
> ***Jeremy Siegal***
> ***Wharton School Professor***
> ***July 25, 2002***

There is a good chance that the Dow Index bottomed on the morning of July 24 at 7,532. (The peak was January 14, 2000 11,722.) The drop in the S&P 500 index surpassed the declines of the 1973-74 bear market, which up until now was the worse post WWII bear market.

Between now and the fall, the stock markets will start to look ahead to 2003, at which point positive quarterly earnings comparisons will become the norm. Until then the financial markets will be susceptible to corporate surprises.

<u>High noon comes to Wall Street on August 14</u>, the date on which CEO's from the largest 1,000 American companies must attest to the veracity of their corporate financial statements, or be held personally liable. This "mass confession" will undoubtedly lead to a couple of short-term corporate surprises. The T.V. cameras will certainly be rolling when they lead the next chief executive from his office or bedroom in handcuffs. (Hopefully, Value Contrarian investors won't be in the market for handcuffs anytime soon based solely on our July results!!)

The bigger the pain, the bigger the eventual gain will be. Our portfolio is full of financially solid leading companies with excellent long-term growth prospects. We continue to find opportunities to add value to your fund and appreciate your support during this volatile period.

Respectfully Yours,**

Benjamin D. Horwood
Portfolio Manager
July 25, 2002
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P.S. Do visit us at our web site: ***www.valuecontrarian.com***

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.