2003 Fourth Quarter
Value Contrarian Canadian Equity

Dear Investors,

> ***The dirty little secret in tech investing is that virtually no one can buy great growth stocks and just put them in a drawer. It is a game of Greater Fools. If you can buy tech stocks on the cheap before they catch the fancy of greater fools and sell them to the greater fool at a higher price, you can make money and others will be left holding the bag.***
>
> ***Fred Hickey***
> ***High Tech Strategist***
> ***October 5, 2003***

> ***China's emergence as an industrial country will be the most profound social transformation in world history.***
>
> ***Wang Mengkui***
> ***China Development Review***
> ***Vol 5, No 3***

Today it feels like the old 1970's Alka Seltzer commercial has returned - "plop plop, fizz fizz, oh what a relief it is". Relief, as in finally positive equity returns for Canadian investors after two consecutive years (three in the U.S.) of negative declines.

In the history of the broad stock-market indexes, there have only been two declines of a magnitude comparable to what we have seen since 2000: the declines of 1973-74 and 1929-32, both of which were fairly extraordinary events. Most importantly, both periods were precursors to major structural shifts, both in the economy and in the investing climate.

Today we are also experiencing major changes affecting the world's economy. For example, low cost Chinese manufacturing capabilities will certainly continue to play a part in these structural shifts. The Chinese manufacturing juggernaut is on a role and it's moving up the food chain. The finicky Japanese male consumer is now content to buy suits "designed in Italy" but "made in China". While North Carolina furniture manufacturers are feeling the onslaught of Chinese competition. Chinese "H" stocks have more than doubled over the past nine months.

We can already see the greed in your eyes. "How", you moan "can we profit from China's extraordinary growth". Our only advice today concerning China is short and simple:

1) Don't be seduced by the mere fact of China's impressive economic growth rate. Rather, what counts is profitable growth. Remember Technology/Telecommunication growth? Learn from the recent lessons of investment history!

2) The return on your investments is directly related to the price you pay. Overpay, even if it's the world's greatest monopoly (Microsoft), and you'll receive little or no return on your investment (unless of course you find a "greater fool").

Our advice with respect to Chinese equity investments can be summed up in two words: be patient. Stock market history has demonstrated that periods of intense turmoil, both political and economic, often create windows of buying opportunities (i.e., bargains). It is likely in the next few years that China's development will suffer temporary setbacks, due to banking/stock market crises or perhaps increased demands for political freedom. During these periods of instability it is time to sharpen your pencils and "Buy China", even as others are running for the exits!

Prepare for Canadian Bank and Insurance mergers in late 2004 or early 2005. On our #1 wish list is for TD to acquire National Bank. With a Quebec liberal government in power, and the debacle of the Quebecor/Videotron merger still fresh in the mind of the Caise de Depot, this will now be a politically possible deal. In Quebec, the bank could be called, "National Canada Trust". Pay close attention to TD's Ed Clark. His upcoming speeches may start to contain increased French vocabulary! The union would also provide TD with a nice full service brokerage operation – National Bank Financial. Our guess is that a TD – National combo will either be the first or second merger out of the starting gates.

A scenario we don't want to see is a bidding war for BMO between Royal and Scotia. Instead, let Royal win Sunlife as the consolation prize. This would at least put a temporary stop to Royal's habit of overpaying for assets in the U.S. At the end of the day, Canadian bank mergers are a fait accompli. (Next up politically – more private health-care.)

Finally, our favourite "contrary" indicator continues to flash green – the coast is clear. More specifically, December 2003 was the 19th consecutive month retail investors withdrew more from Canadian Equity Funds than they put in. Not even the TSX's 26.7% rise in 2003 has been able to halt this exodus. Instead, Canadian investors have been shoveling their savings into dividend and income funds. Need we say more where the next accident is waiting to happen! With interest rates at historic lows, the smart money (Pimco's Bill Gross), feels that rates have only one way to go, and that is "up", likely "towards the end of the year".

2003 Performance: +27.7%

January 1, 1997	-	$1,000 (inception NAVPS*)
December 31, 2003	-	$2,095.07
December 31, 2003	-	$164.08 distribution per unit
December 31, 2003	-	$1,930.99 (NAVPS after distribution)

Your fund ended the year with a net asset value of $1,930.99 per unit, after having declared a distribution on December 31, 2003 of $164.08 per unit.

Your distribution was automatically reinvested in additional units. These new units will appear on your December 31, 2003 Value Contrarian Statement.

2003 was a most satisfying year in terms of your Fund's performance. But then again it was tantamount to shooting fish in a barrel, as every sector in the TSX showed positive gains for the year.

Many people tend to confuse the word "genius" when instead they should be using the word bull market. In our humble opinion, true genius is the money manager who preserves capital during a vicious bear market decline.

During the quarter we added to our leveraged play on TD Bank through TD Split Corp. For every dollar of TD Split, we gained approximately a $1.50 of exposure to TD common shares. Through our combined TD Common and Split share holdings, TD represents the fund's largest holding (10%+). As we've stated in the past, the key to TD's future success can be summed up in two words, Ed Clark.

The last of our position in BCE was sold during this past quarter. In our opinion this is a dead money stock at best. Simply stated, Bells local and long-distance phone service continues to be battered by falling prices, intense competition and technological change.

The new technology is VOIP (Voice Over Internet Protocol), or in plain speak, internet based phone calls. That makes phone calls as cheap to transmit as emails. Not a pretty situation for Bell's margins. Fueling the push from VOIP is the spread of affordable high speed internet service, also known as "broadband". Any home with either a cable modem or DSL line (the two types of high speed internet service) is ready for VOIP.

* Net Asset Value Per Share

All the major Canadian cable companies (and pesky upstarts) will soon be offering VOIP phone service. Moreover, they can reach consumer's without having to pay hefty access charges to the local carriers (i.e., Bell or Telus). Thus, in Quebec and Ontario, Bell's main cash cow, its local phone service, will inevitably lose market share to the cable companies (and others).

With VOIP, Bell's local phone monopoly truly becomes relegated to the history books (ditto for our bell stock).

Late in the quarter we took advantage of a discounted share issue by Winnipeg based Magellan Aerospace. The deal was done at $2.55 (book value $3.65) in order to finance the purchase of Mayflower Aerospace (a $55 million sales U.K. based company in receivership).

We liked the fact that Magellan insiders purchased over 3 million of the 11.75 share offering. The Mayflower purchase was done at a bargain price and opens up Airbus contract opportunities for Magellan. Nonetheless, our investment is of a more speculative ("Contrarian") nature, since prosperity in the aerospace industry may still be years off.

Our investment mistakes during 2003 were, as usual, a humbling, but learning experience. For example, the dangers of a changing business model and the inability to cope with a major drug patent expiration caused us to lose money in both Sabre Systems and Schering Plough. We have reduced the number of our foreign holdings in order to stay more focused in understanding each position.

Finally, on a positive note, we had one takeover in our portfolio this past quarter, the acquisition of our Fleet Boston shares by Bank of America. Other U.S. takeout candidates in our portfolio include Mellon Financial, U.S. Bancorp, and American Express.

2004 Outlook

The House of Sa'ud underwrites the mosque schools that turn out the jihadists, just as it administers the charities that fund the jihadists. It channels the anger of the jihadists against the West to distract it from the rot in the House of Sa'ud… The Saudi royals wouldn't allow a real popular vote unless you wrapped them in Semtex and attached a burning ten-second length of detcord to help them make up their minds.

Saudi Arabia is, in a phrase, a goddamn mess, and it's our goddamn mess. The United States made Saudi Arabia the private storage shed for our oil reserves… Like it or not, the U.S. and Saudi Arabia are joined at the hip. Its future is our future.

Sleeping with the Devil
Robert Baer
2003 Crown Publishing

The Fed has indicated many times that the Japanese tightened too early. Therefore, it will err on the side of staying to easy for too long….But the long end eventually goes up (in 2004) perhaps from 4.10% to 5.50%.

Felix Zalauf
Zalauf Asset Management

Are we in a new bull market today? In our opinion, no. For this to occur, the Dow would have to surpass its all time high of January 2000 (11,722) and never again drop below 11,722. What we most likely have experienced in 2003 was a cyclical bull market within a long-term secular bear market. The $64,000,000 dollar question is whether October 9th 2002 (Dow 7,287) was the real bear bottom. Stated another way, is the real bear market ahead of us, not behind us? We will only truly know when the next major economic recession ravages corporate earnings.

As we see events unfolding, the stock-markets for the next 10-15 years will likely remain in a trading range. Thus stock picking and trading skills will remain paramount.

The intellectual/hypothetical question we continually ask ourselves is what is most likely to precipitate a major global recession/bear market (as opposed to a deep but short term sell-off in financial markets)? In our minds, one of the greatest future threats to global economic well-being, is the political collapse of one of the worlds biggest "kleptocracies", Saudi Arabia. Under such a scenario, seventy-five dollar a barrel oil prices suddenly becomes a distinct possibility.

Over the past 30 years (1973, 1978-1982, 1990, 2002), history has repeatedly shown that unforeseen and dramatic upward movements in oil prices have often been a precursor to major equity market declines.

Whether any future dramatic increase in energy prices is Saudi/Middle-East induced, African related, or based on some other world conflict, reduced oil supplies would have a highly negative impact on the world's economics. We remain highly vigilant, and hopefully pro-active should this "energy crisis" scenario unfold into reality.

On the bright side, we don't see the Saudi regime collapsing, or $75 oil in 2004. Furthermore, Canadian interest rates seem set to fall in the coming months. And as long as job growth south of the border remains restrained, the pressure to raise U.S. interest rates hopefully gets delayed into 2005. Thus creating less of a head wind for stock prices in 2004.

Presently, the general stock index's are not cheap. The easy money was made in 2003. Returns in 2004 will likely be restrained (4% - 8%) by the fact that stock prices have discounted much of the stronger economy forecast in 04. We have no qualms in letting our cash levels rise until that "juicy" stock pitch comes along. And, as always, capital preservation of your assets remains upper most in our investment philosophy, even if that means lagging behind the "maddening crowds".

Year-End Management Note

> ***Probably 99.9% of investment management firms that sponsor mutual funds are there to take your money for management fees… We've taken the approach that if we do a good job of managing these portfolios and we're the largest shareholder in the funds, the performance will take care of South eastern's revenue growth – i.e., the funds will grow and happy shareholders will add more capital and eventually the word will get out and others will partner with us.***
>
> ***Mason Hawkins***
> ***Longleaf Partners***

As we have always stated in the past, we cannot promise any particular results, only that investments for your fund will be selected based on value, not popularity. We view our fund shareholders as our partners, and we assure you that the protection and growth of your capital will continue to be paramount in our thinking.

We aim not to be the biggest, but one of the better performing funds, even if that means limiting the Funds size or closing it in the future. We want to enjoy coming to work everyday. We view the Value Contrarian Fund more as a private club, where "membership has its privileges". Our size is our great advantage.

Being the largest shareholder and manager of your fund is certainly no guarantee of superior long-term results, but it may raise your comfort level having my financial interest aligned with yours. We would like to thank our shareholders for the trust you have placed in us during the past year.

Special thanks to my Editor, Karen Molgaard, who actually makes all of our investment letters readable. And also a special thanks to Kathleen Way, my cheerful assistant (how does she do it?) who has to deal with my "Type A" personality on a daily basis!

We do appreciate your **referrals** of new fund investors. Next entry-date into the Value Contrarian Fund: January 31, 2004. Call today (514) 398-0808

Respectfully Yours,**

Benjamin D. Horwood
Portfolio Manager
January 15, 2004

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?" 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. **Pity.**