Eric N. Roseman's
Global MUTUAL FUND Investor

VOLUME 14, Number 8
September 2005
http://www.enrassetmanagement.ca

America the Invincible?

Despite Tragic Events Caused by Hurricane Katrina, Loss of Economic Output and Soaring Energy Costs, Stocks Power Ahead; Foreign Equities Dominate Global Trading Again in 2005

Dear Subscriber;

Welcome back to another issue of ***Global Mutual Fund Investor*** (GMFI).

Surging energy prices, a destructive hurricane, rising labor costs and an inverted yield curve would normally shake the United States into a severe correction. But that's not the case as we shortly conclude summer. Despite bearish events in the United States since August, equities and bonds have rallied. Since the market low of October 2002, U.S. stocks have now rallied 55% as measured by the S&P 500 Index without a decline greater than 7%. But that's nothing compared to international markets where developing economies continue to thrive, hitting new highs. The MSCI Emerging Markets Index has now gained a cumulative 114% off the October 2002 lows.

But the big story as the summer draws to an end has been oil and gas and the relentless climb in energy prices. Increasingly, it would seem, the United States is entering another 1970s era of stagflation, marked by anemic growth and rising inflation. Yet the bond market, where the smartest money trades, continues to witness an incredible anomaly where the yield curve, or difference between the 2-year and 10-year bond, has narrowed to its lowest levels in four years. After ten Federal Reserve rate hikes since June 2004, benchmark 10-year T-bonds actually yield three basis points less than 12 months ago. The trend suggests, though doesn't guarantee, that an economic recession or period of weakness lies ahead for the United States.

In currency markets, the U.S. dollar appears to have formed a top after posting its biggest gains versus major foreign currencies since 2001. The euro, yen and the Canadian dollar have all posted sharp gains versus the dollar since August. And despite China's mini-revaluation in late July, most Asian currencies are declining lately against the U.S. dollar. But that's not the case in Latin America. Bolsas south of the Rio Grande have enjoyed an incredible rally over the last 12 months accompanied by currency strength, mainly in Brazil.

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Inside This Issue

Portfolio Strategies

In Wake of Hedge Fund Failures and Fraud, It's Time for a GMFI Fund Check-List

In the wake of several high-profile hedge fund frauds this year in the United States and Canada, it's high-time to evaluate the most fundamental strategy before investing in any hedge fund or alternative investment product: Due diligence. An investor's prudent due diligence process will not only protect him or her from the resultant pitfalls, but can equally provide peace-of-mind following a step-by-step checklist implementation strategy.

Though a very comprehensive check-list is certainly no guarantee to safeguard your portfolio from fraud, it will raise some important "red flags" prior to making any investments. The most recent hedge fund fiasco, **Bayou Management** in the United States, sucked in a wide variety of experienced and sophisticated high net-worth investors over the last five years, including the much vaunted **Henessee Advisors**, a very large and influential hedge fund-of-fund investor and database provider. It can happen to the best of us. But there are safeguards to ensure that you'll avoid fraudulent operators like Bayou:

- **Audited statements.** You should request audited statements from the hedge fund for the past three years and contact the stated accounting firm. Bayou, for example, claimed Grant Thornton as its auditor in 2002, but the accounting firm had not worked for Bayou since the late 1990s;

(continued on page 5)

Purpose: To Achieve Long-Term Safety and Profits by Focusing on the World's Top-Performing and Best-Managed Mutual Funds.

Global Fund Industry Overview:

Where the Action Is: International Markets Blast Wall Street, Posting Big Double-Digit Gains

If the 1990s belonged to U.S. stocks, then this decade so far certainly belongs to international markets. Since 2000, the average emerging markets fund has risen 10.5% per annum versus a loss of 2.7% per year for the S&P 500 Index. But it's the performance picture over the last three years that has certainly been nothing short of mind-blowing for foreign markets compared to Wall Street's 12% annualized return.

Emerging markets have been on a nonstop tear over the last 30 months, more than doubling. Latin America and Eastern Europe account for the bulk of these impressive gains; Russia, Brazil, Poland, Hungary and Mexico have all more than doubled over the last three years. Mutual funds specializing in the emerging markets have now gained another 14% in 2005 and are up 41% year-over-year; over the last three years, the average emerging markets fund has surged 29.1% per annum. That might sound fantastic, but not as incredible as South American markets, up 40.6% per annum over the last three years!

Sector-specific mutual funds have also been stellar performers, particularly in the resource area. Anything relating to hard assets or power generation has boomed.

Natural resource funds have risen 34% this year and up 32.2% per year over the last three years followed by Real Estate funds, up 8.5% in 2005 and +24.3% per annum over the last three years. Remember those boring and staid utility stocks? The average utility mutual fund has climbed 15.1% this year and now up 19.9% per annum over the last three years.

Global Mutual Fund Barometer

As of August 31, 2005, in U.S. Dollars, in Percent

TRADITIONAL FUNDS	2005 YTD	1-Year Return
U.S.-based Global Equity Funds	4.59	19.75
U.S.-based International Equity Funds	5.71	24.12
U.S.-based Emerging Market Equity Funds	13.93	40.49
U.S.-based European Equity Funds	7.89	30.62
U.S.-based Pacific Equity Funds	7.27	22.69
U.S.-based Latin American Equity Funds	25.86	65.21
U.S.-based American Large-Cap Growth Funds	1.57	13.74
U.S.-based American Large-Cap Value Funds	2.91	13.56
U.S.-based Small-Cap Growth Funds	2.75	24.16
U.S.-based Technology Funds	-0.45	21.29
U.S.-based Gold Fund	-1.76	7.37
U.S.-based Real Estate Funds	8.46	25.92
U.S.-based Natural Resource Funds	33.77	56.46
U.S.-based Intermediate U.S. Gov't Bonds	2.14	3.71
U.S.-based High Yield Bond Funds	2.29	8.25
U.S.-based GNMA Funds (Mortgages)	1.98	2.87
U.S.-based Global Bond Fund	1.15	9.39
HEDGE FUNDS & MANAGED FUTURES FUNDS (CTAs)		
CSFB/Tremont Hedge Fund Investable Index (1)	1.10	5.63
TRADITIONAL FUNDS	**2005 YTD**	**1-Year Return**
CSFB/Tremont Event-Driven Investable Index	-0.27	6.04
CSFB/Tremont Fixed-Income Arbitrage Index	0.10	1.64
CSFB/Tremont Long/Short Equity Investable	-0.94	5.78
CSFB/Tremont Dedicated Short Bias Index	14.32	4.31
CSFB/Tremont Global Macro Investable Index	0.72	1.16
CSFB Managed Futures Index	-0.57	9.92
S&P 500 Index	**1.94**	**12.56**
MSCI World Index	**2.18**	**16.04**

Sources: Global Mutual Fund Investor, Lipper Analytical Services, Inc., Managed Account Reports. (1). Data courtesy of Credit Suisse First Bost-Tremont Hedge Fund Indices; Includes only Investable indices. Performance as of July 31, 2005 for CSFB Hedge Fund Index and CSFB Managed Futures Index; other hedge fund index returns as of May 31, 2005.

Mutual Fund Strategies:

Stick to International Markets, Futures Funds for Rest of '05

Back in June, I was getting pretty bullish on Germany after returning from a trip to Berlin. I recommended buying an index fund either in the United States or overseas in Frankfurt, just ahead of the big summer rally. German stocks, now up 15% in 2005, were barely above water back in June. The German market represents a good single-country bet as does China for the next 12-16 months. Both markets offer excellent values, are way off their all-time highs and harbor poor investor sentiment — more so in China's case.

For Germany, I like the **iShares Germany** on the Amex for domestic investors (EWG) and offshore, the Frankfurt-listed **UBS Dow Jones Germany Titans 30 Index** (ISIN: LU0147308422) which trades in euro. Both funds have enjoyed strong returns since July and are recommended at these levels. But I would sell the **Germany Fund**, which I plugged three months ago. The Fund has indeed participated in the rally but has decided to expand its investment mandate to include other European markets. That's not my objective for this theme.

For global funds, we've done quite well this year, smashing the returns generated by the MSCI World Index.

The **Orbis Global Equity Fund** and **GAM Worldwide** are my favorites for a one-stop investment in top-performing managers that have easily trounced their benchmarks over the last 15 years, and beyond. In the United States, I'm sorry to see another great fund close to new investors: **Tweedy, Browne Global Value**. I'm currently researching a few products for you to supplement the loss of Tweedy, Browne and First Eagle Sogen Global last year.

For alternative products, most multi-manager hedge funds are doing a good job, but should appeal mainly to conservative investors. **Momentum Emerald** has outpaced the average hedge fund by more than four times in 2005 and is up over 5.5% through August. It's also beating every GAM hedge fund.

If the stock market does eventually break at these levels and suffers a major correction of at least 10-15%, then managed futures should thrive. In that environment, which I do expect to occur at any time, **AHL Diversified** and **Winton**

Futures are my top choices. The way I look at it, markets have been rallying on not only good news, but bad news, too. I don't like the picture coming our way for 2006 and would strongly advise positions in one or both futures products.

One last important word: If you're a traditional investor that shuns hedge funds and especially managed futures, then make sure to raise cash now. In the absence of holding any products to defend your downside in a sell-off, cash is invaluable now.

WHAT TO BUY NOW:

Alternative Funds (Hedged):

- Pioneer-Momentum Emerald (Bermuda)
- MAN-AHL Diversified PLC (Ireland)
- Winton Futures Fund (Caymans)

Traditional Funds (Net Long):

- Orbis Global Equity (Bermuda)
- GAM Worldwide (BVI)
- Morgan Stanley Global Brands A (Luxembourg)
- Ivy Cundill Global Value (USA)
- Merrill Lynch World Gold Fund (Luxembourg)
- Merrill Lynch World Mining Fund (Luxembourg)
- Carnegie Global Healthcare (Luxembourg)
- Pictet Funds Biotechnology P (Luxembourg)
- UBS-ETF Dow Jones German Titans 30 Index
- iShares Germany Index (Amex-IWG)
- Merrill Lynch Pharmaceutical HLDRS (Amex-PPH)

Commodities:

Big Summer Rally for Commodities as Energy Complex, Grains, Softs Drive Gains

INFLATION/DEFLATION BAROMETER (9/7/2005)

	2005 YTD	1-Year
CRB Index (329.36)	+16.01%	+21.69%
Goldman Sachs Commodity Index	+48.91%	+56.64%
Oil, West Texas Crude ($65.96)	+51.81%	+52.30%
Gold, NY ($444.40)	+1.58%	+11.83%
Silver, NY ($7.05)	+2.92%	+12.26%
Copper, NY Comex, per lb.	+16.78%	+37.00%
U.S. 90-Day Treasury Bills (actual yield)	3.50%	1.57%
U.S. 10-Year Treasury (actual yield)	4.09%	4.12%
10-Year T-bond-Real Yield (inflation-adj.)	+0.89%	+1.12%
U.S. Inflation (CPI-July-Year-over-Year)	+3.20%	+3.00%
LIBOR (London Interbank Rate)	3.79%	1.80%
U.S. Federal Funds Rate	3.50%	1.50%

What a rally! If you're a commodity bull then you've got to love this price action. Since our last update in July, the CRB Index has gained 6% while the heavily energy-weighted Goldman Sachs Commodity Index has leapt 20%. Over the last 12 months, both indices have easily outpaced benchmark stock indexes and bonds.

The rally in oil and gas was given a big jolt following the regional devastation caused by Hurricane Katrina. Most of the rigs located in the Gulf were knocked-out while pipelines passing across the Gulf-belt were either shut down or barely operational, causing oil and gas prices to skyrocket in early September. Katrina has also boosted many of the softs, including coffee and cocoa. The CRB Index now stands at a 24-year high.

Outlook & Strategy:

With Supplies Tight and Winter Coming, Stay Long Energy and Commodities

You have to be very bold to bet against crude oil heading into the fall. A seasonal demand perks up in October and later in November and December for energy consumption, you want to remain invested in this sector. Having said that, it would not surprise me to see a major correction for the entire commodity complex at any moment; we've got too many bulls, speculators and traders riding oil and gas. A severe correction is highly likely before the late fall. Therefore, I would not accumulate any positions here at these levels.

However, the metals are a different story. I very much like all precious metals now as we head into traditional seasonal strength for the group. I would have to argue that the United States will suffer a slowdown in consumption in Q3 and possibly, Q4. I just can't see how crude oil at $70 per barrel, a massive hurricane suspending economic activity in the Gulf, and an almost inverted yield curve don't portend to slowing growth. A lower dollar would be good news for deficit reduction efforts and is highly likely over the next 12 months. Therefore, you've got to like gold.

One more bit on gold: The ratio of oil per barrel to one ounce of spot gold is now at its highest level since 1988. This tells me gold is a cheap commodity in relative terms, while crude is very expensive.

Offshore, I like **Merrill Lynch World Gold Fund** in Luxembourg; in the United States, Frank Holmes' **US Global Investors World Precious Metals Fund** is tops.

Currencies:

Canadian Dollar Busts through Resistance Levels; U.S. Dollar Looking Tired as Economy Bound to Slow

U.S. Dollar versus:	2005 YTD (1)	1-Year
Gold bullion (NY)	**-1.53%**	**-11.58%**
Euro (0.80)	+8.11%	-2.38%
Swiss Franc (1.238)	+8.60%	-2.52%
Japanese Yen (109.65)	+7.07%	+0.38%
Sterling (0.54)	+4.01%	-2.39%
C$ (1.189)	-0.92%	-9.24%
A$ (1.30)	+1.72%	-8.31%
U.S. Dollar Index (86.54)	+7.37%	-2.72%

(1). As of September 7, 2005.

U.S. Dollar versus:	2005 YTD	1-Year
Brazilian Real (2.32)	-12.78%	-20.82%
Mexican Peso (10.68)	-4.04%	-6.23%
Chinese Remninbi (8.09)	-2.29%	-2.29%
Taiwan Dollar (32.58)	+2.48%	-3.92%
South Korean Won (1,025)	-0.96%	-10.95%
Singapore Dollar (1.68)	+3.07%	-1.79%

WORLD MARKET SUMMARY

Since hitting a low C$1.255 in April, the Canadian dollar has rallied over 5% against the U.S. dollar and is one of the world's top-performing currencies since April. Canada just raised interest rates to 2.75% on September 7th and is supported by a budget surplus and a rising trade surplus, in good measure because of the bull market in energy. And because of a lame duck parliament where the governing Liberals struggle with a minority, Canada won't cut taxes. All of this adds up to more revenues for Ottawa, a fatter budget surplus and a stronger currency.

Other commodity currencies are struggling this year relative to the Canuck buck; Norway probably has the best fundamentals because its exports and economic health rely heavily on oil and gas. But in Australia, the market faces the prospects of rising trade deficits and the possibility of slowing exports as a result of high oil prices hitting its Asian markets.

Speaking of Asia, the region is still home to the most undervalued currencies in the world, excluding the yen. But surging oil prices have recently hurt these units, especially those countries that are heavily dependent on oil imports. The South Korean won, Thai baht, Taiwan New Dollar and especially the Indonesian rupiah, have all corrected since August vis-a-vis the U.S. dollar. The Indonesian rupiah hit a four-year low versus the dollar in late August.

Outlook & Strategy:

Currency Volatility Returning this Fall: Continue to Buy Canadian, Norwegian, Euro and Asian Units

The key question is "how long will the Federal Reserve continue to raise short-term interest rates?" My guess is that we're approaching the end of this tightening cycle, despite rising inflation. The United States must surely face an economic slowdown in Q3 as a result of the devastation in the Gulf and the resultant rising unemployment rate. I'm neutral on the U.S. dollar for the nest few weeks until we have a clearer direction on U.S. growth and deliberations from the Federal Reserve, which meets on September 20th.

From a value perspective, continue to buy the Asian currencies, the Canadian dollar, Norwegian krone and the euro on any further U.S. dollar strength. Though I don't expect the dollar to crash like it did from 2002 to 2004, a pullback to 1.35 euro is a strong possibility over the next 3-6 months, if not sooner. Also, in an environment of cost-push inflation and rising prices, gold bullion should be purchased. Increasingly, it seems, we're heading towards stagflation in the United States.

Bonds:

Yield Curve Suggests Economic Slowdown

	2005 YTD (1)	1-Year
Lehman Long-Term Treasury Bond Index	+7.96%	+11.39%
Lehman Intermediate-Term Treasury Index	+1.86%	+2.40%
J.P. Morgan Global Government Bond Index	-1.62%	+8.41%
J.P. Morgan Euro Government Bond Index	-2.70%	+12.42%
J.P. Morgan Emerging Markets Bond Index	+7.87%	+15.34%
Merrill Lynch High-Yield Bond Index	+3.10%	+9.06%

1). September 7, 2005, in U.S. Dollars.

U.S. intermediate-term bonds and the rest of the entire yield curve continue to flatten, strongly suggesting we will have serious economic problems over the next several months. Though rates have ratcheted higher in early September trading, we're seeing some disturbing signs lately. The yield curve, or the difference between 2-year and 10-year bond yields, hit a four-year low of just 16 basis points (0.16%) on August 31; at the start of the year, the yield curve was about 1.16% or 116 basis points.

After ten Federal Reserve rate hikes, we should have suffered a bond bear market by now; the last time the Fed aggressively raised rates was back in 1994, creating the worst bond bear market since the late 1920s. The fact that rates are even lower today at the long-end of the curve is a warning: Is accelerated disinflation becoming a concern, or is it deflation? *The bond market is not predicting inflation with yields at these levels.*

The devastating impact left in the wake of Hurricane Katrina in Louisiana and Mississippi has given the bond bulls a jolt as the loss of economic strength is measured in bits and pieces over the next few weeks. With U.S. government offices closed in New Orleans, economists and government officials continue to struggle with estimates on job losses and the true impact of the tragedy. Bonds, however, sniff economic weakness.

Outlook & Strategy:

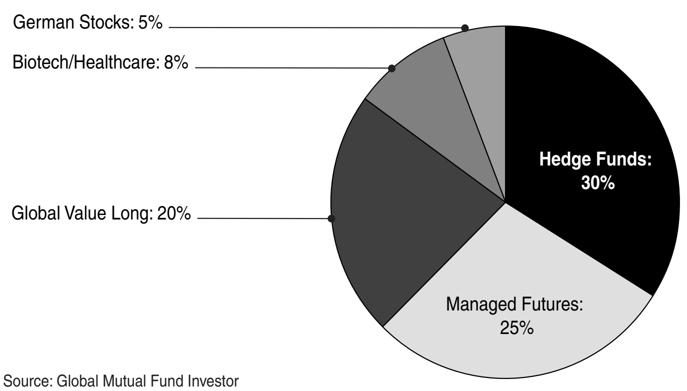
Still Neutral on Bonds

Until we see a clearer picture on the American economy following the Gulf hurricane, it's very hard to decipher which way interest rates are heading. Nobody can accurately measure Katrina's impact on the economy because government statistic offices are closed. The bond market remains stuck in a range over the last 12 months, hovering between 4.55% on the top end to just north of 3.95% on the low end. If we do see a break in bond yields (10-year T-bond) below 3.95%, then I'd say we're going to have a major stock market correction and the likelihood of a soft recession, at the very least, in six months or less.

GMFI Investment Position

As of September 8th, the *GMFI* **Model Portfolio** holds 25% in managed futures, 30% in hedge funds, 20% in global value equity funds, 5% in Germany and 8% in biotech/healthcare funds. ■

GMFI GLOBAL ASSET ALLOCATION



Source: Global Mutual Fund Investor

PORTFOLIO STRATEGIES (continued from page 1)

- **Referrals.** Before even dropping a dollar into any fund, get a list of referrals from existing clients in the fund or obtain an independent research report from companies like **Hedge Fund Research, Inc** or **Lipper Tass**. You'll pay a nice fee for this service but in the end, it should reduce your or quell your doubts about whether this is a real product or not;
- **Monitor performance.** Don't jump into any hedge fund right away without tracking its returns for at least six months. Make sure you're comfortable with the returns being generated and the stated investment objective as documented in the fund's prospectus or offering document;
- **Visit the fund.** This step is not necessary for investors considering a multi-manager or hedge fund-of-funds since they already conduct a thorough due diligence process. But for individual hedge funds, a company visit is key. Make sure to meet the principal or at least one or two directors of the firm. You might be surprised to learn that a company visit will dissuade you from making an investment;
- **Leverage.** Most investors have no idea about the size of leverage employed by their hedge fund managers. Many hedge funds are highly levered. Funds like **Long Term Capital Management** employed 50-1 leverage; when a hedge fund is hugely levered and interest rates reverse or a systemic crisis leads to a market crash, these products will suffer big losses;

Ask to be placed on the Fund's monthly reporting list. Be sure to be placed on the prospective fund's monthly e-mail investor report. Most managers will place you on their monthly client list whereby they provide disclosure, including commentary on trades and list information on top holdings, net long exposure, monthly performance tables, and leverage. If you don't get this information, don't make the investment.

Hedge funds do belong in a diversified portfolio. Despite the series of recent fraudulent acts in North America, hedge fund sponsors and operators are no different than public companies in that respect. Tyco, Enron, Worldcom, Adelphia and a host of other companies committed blasphemous acts of fraud and embezzled shareholders. Every asset class has their share of corrupt players, including hedge funds. The above guidelines will by no means fully protect you from a fraud, but it will raise some red-flags — hopefully enough of a warning to persuade you to turn down the investment.

One last note: The majority of hedge fund assets are dominated by multi-manager products. The better groups, like **Pioneer-Momentum, GAM, La Fayette, Permal** and the big European private banks, generally conduct excellent due diligence for their investors. Most investors, unless institutional, would be far better off in these products.

Global Equity Funds

GMFI Universe Handily Beats Major Benchmarks in 2005

Fund	Domicile	2005 YTD (1)
Orbis Global Equity Fund	Bermuda	11.48%
Morgan Stanley Global Brands A	Luxembourg	8.82%
GAM Worldwide	BVI	9.71%
SocGen International Sicav	Luxembourg	7.37%
First Eagle Sogen Global	USA	8.30%
Ivy Cundill Global Value	USA	7.70%
Tweedy, Browne Global Value	USA	10.10%
MSCI World Index		**3.46%**
MSCI EAFE Index (excl. USA)		**5.57%**
S&P 500 Index		**0.50%**

(1). Returns expressed in U.S. dollars as of September 5, 2005.

One of my favorite offshore domiciled global equity funds, **Orbis Global Equity**, continues to trounce the MSCI World Index virtually every year. Orbis, based in Bermuda, requires a rather hefty $50,000 minimum investment; but since 1990, manager Allan Gray has certainly earned his stripes with a 14.4% annualized return against just 6.8% per annum for the MSCI World Index, and 5.9% for the average offshore global equity fund. But unlike other value managers who tend to raise cash in expensive markets (like now), Gray is always fully invested. Orbis's standard deviation, or risk measure, is just above that of the MSCI World Index; but over the long-term, the Fund's performance has certainly been impressive. I'd rank Orbis along with **GAM Worldwide** as the best managers over the last 24 months in the offshore sector.

In the United States, superb products like **Ivy Cundill Global Value Fund** and **Tweedy, Browne Global Value** remain open to new investors. Over the last 18 months, however, we've seen **First Eagle Sogen Global** and **Third Avenue International Value Fund** close to new investors. Increasingly, it's becoming harder to tap into great talent as fund coffers swell and the smartest managers close their doors.

One argument I always encounter from some investors is "why bother with active fund management when most funds fail to beat the index over time?" In many respects, that's a very valid argument since over the last twenty years more than 85% of mutual funds have trailed their benchmarks. But in bear markets, a recent phenomenon only since 2000 for most investors, a true value-based approach has proven time and again to protect and even grow capital. Anyone faithful to indexing over the last eight years is sitting on zero returns; that's not the case with the funds listed above or the majority surveyed in ***GMFI***.

Emerging Markets

Incredible Rally Continues, Driven by Low U.S. Rates, Booming Raw Materials

Fund	Domicile	2005 YTD
GAM Emerging Markets Multi-Fund	BVI	8.07%
Pictet Emerging Markets Fund P	Luxembourg	14.72%
Vanguard Index Emerging Markets	USA	16.20
Ashmore EM Liquid Portfolio	Guernsey	9.24%
Ashmore Asian Recovery Portfolio	Guernsey	8.61%
Jyske-Invest Euro EM Bond Fund	Denmark	NA
Jyske-Invest Emerging Mrkt. Bond	Denmark	NA
MSCI Emerging Markets Index		**15.25%**
J.P. Morgan Emerging Markets Bond Index		**7.95%**

Talk about a rocket! The emerging markets don't know the word "correction." Despite only a few brief hiccups over the last 36 months, the MSCI Emerging Markets Index continues to hit all-time highs almost every month. The story that got us to these levels remains very much intact: Low global interest rates, a booming bull market for commodities and investors showing no adversity to risk. The latter remains a bad omen for the market. Too much money has flooded the sector, especially the bond market as emerging market bond yields continue to hit record lows.

The big risk remains interest rates. I can't recommend buying this asset class now. I've been too early on the exit last year and I stand by my reasoning that this remains a near-bubble for many markets, especially local fixed-income markets in Brazil, Russia and Venezuela. If you want to invest here, then my advice would be **Ashmore Asian Recovery Fund**, which provides a greater margin of safety than other Asian funds because it's yield-oriented. Visit http://www.ashmoregroup.com

Canada Corner

Toronto Flies as Stocks Border 5-Year Highs

The Canada Corner Portfolio, using an equally-weighted strategy, enjoyed one of its best summers in history. Led by surging oil and gas stocks and trust units, we've gained over 25% this year, including dividends. That compares quite favorably against the high-flying S&P/TSX Composite Index, which has rallied 16.5%.

There's no doubt in the marketplace about oil. Stocks in this sector are now just behind financial services as they challenge the banks for the largest market-cap sector in Canada. More than 70% of Toronto's advance this year is attributed to energy stocks. And the trust units? The average trust is now up 21% this year but trading at an expensive 19.3 times trailing earnings and yielding just 7.3%. Of all sectors, the trust units have been absolutely red-hot and this is mainly attributed to the bull market in oil and gas trusts.

In July and August, we saw a few stock-splits, including **Petro-Canada** (2-1) and **Fording Canadian Coal Trust** (3-1). The NYSE-listed shares of both companies did not split.

If you look at the performance tables, you'll see some great returns this year for not only the energy group but some of the bank stocks, too. **CP Ships**, which plunged last August 2004 because of restating several accounting periods, was just purchased by a European shipping company in August. CP Ships, a British-based company, has risen more than 55% in 2005.

At this point, there's just no way I'm recommending anything energy-related. Prices are now manic, and overdue for a severe correction. Stay away from the energy stocks. Instead, we're buying **Bank of Montreal** near a 52-week low and **Molson-Coors Brewing**.

If you're looking for great Canadian content, then go with **Canadian MoneySaver** for the best information and advice on Canadian securities. My good friends, Dale and Betty Ennis, put together the best financial monthly in Canada since 1981, hands down. MoneySaver features everything you need to know about smart investing, especially in Canada. If you like my Canada Corner, you'll love MoneySaver! Head to http://www.canadianmoneysaver.ca and subscribe!

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GMFI Canada Corner Portfolio

Stock-Symbol	Price*	2005 YTD	P/E	Yield	Advice
Bank of Montreal-BMO	$57.67	.84%	12.8	3.4%	BUY
Barclays Advantaged Income-BAI	$14.75	16.10%	3.6	6.3%	Hold
Bell Nordic Trust Units-BNQ.un	$18.40	17.50%	17.9	5.8%	Hold
CP Ships Ltd-TEU	$26.64	55.70%	18.2	1.1%	Hold

Stock-Symbol	Price*	2005 YTD	P/E	Yield	Advice
Canadian Oil Sands-COS.un	$123.40	84.52%	19.2	1.6%	Hold
Fording Cadn. Coal-FDG.un	$49.00	62.25%	22.8	7.6%	Hold
Laurentian Bank-LB	$28.87	20.58%	20.5	4.0%	Hold
Molson-Coors Brewing B-TPX	$76.70	2.14%	19.8	2.0%	BUY
National Bank Canada-NA	$58.10	19.50%	11.9	3.0%	Hold
North Amer. Palladium-PDL	$5.89	-40.02%	NA	0.0%	Hold
PetroCanada-PCA	$49.71	62.53%	19.8	0.6%	Hold
Pengrowth Income Trust-PGF.un	$28.24	20.68%	21.5	9.8%	Hold
Power Corporation-POW	$32.46	5.98%	12.1	2.1%	Hold
RioCan REIT-REI.un	$21.70	26.98%	30.1	5.9%	Hold
Saputo Inc.-SAP	$36.21	0.90%	16.5	2.0%	Hold
Sobey's-SBY	$38.35	12.09%	13.5	1.3%	SELL
Canada Corner Portfolio (EW-16)		**25.38%**	**17.3**	**3.5%**	
S&P/TSX Composite Index		**16.49%**	**19.4**	**1.6%**	

*Prices as of September 6, 2005, in Canadian dollars. All securities allocated using an equally-weighted strategy. Portfolio includes dividends, if any, but not dealing commissions.

Hedge Funds & Managed Futures

Hedge Fund Keep Pace with Bonds, Global Stocks in 2005; Managed Futures Ride Big Gains in Oil and Gas

Fund	Domicile	2005 YTD (1)
Low Volatility Hedge Funds		
Momentum AllWeather Master II	Bermuda	-0.09%
Momentum AllWeather (closed)	Bermuda	2.16%
Momentum Emerald	Bermuda	4.25%
Momentum AssetMaster (closed)	Bermuda	3.54%
Momentum MarketMaster	Bermuda	1.70%
Momentum DebtMaster (closed)	Bermuda	4.30%
GAM Cross-Trading (Cross-Market)	BVI	0.95%
GAM Diversity (closed)	BVI	2.59%
GAM Diversity II (closed)	BVI	1.94%
GAM Multi-Long/Short US$	BVI	2.60%
CSFB/Tremont Investable Hedge Fund Index		**1.10%**
Aggressive Hedge Funds & CTAs		
GAMut Investments (closed)	BVI	2.60%
Man-AHL Diversified PLC	Ireland	10.47%
Winton Futures Fund	Caymans	16.44%
Rivoli International Euro	France	-13.54%
CSFB Managed Futures Index		**-0.57%**
S&P 500 Index		**0.69%**

(1). As of July 31, 2005 for hedge funds; August 29, 2005 for GAM, and other CTAs.

Hedge Funds

Since the lows in April, the average hedge fund has managed to crawl back into positive performance through August. Though official results for August are not available at the time of this writing, it will mark another positive month for hedge funds — their fourth consecutive monthly profit. In August, the S&P 500 Index declined 1%.

The average hedge fund in 2005 is up a lowly 1.1%, according to the CSFB/Tremont Investable Hedge Fund Index. That is certainly not an inspiring rate of return but it's symptomatic of low volatility in the markets again this year, low interest rates and crowded trades. Still, the above multi-manager hedge funds have outpaced their benchmarks in 2005 and in fact, are even ahead of the S&P 500 Index, bonds and the MSCI World Index.

One of the world's largest hedge fund groups, **Global Asset Management (GAM)**, was sold to **Bank Julius Baer** of Switzerland in early September. GAM, which was purchased by **Union Bank of Switzerland (UBS)** in 1999, was part of an asset management sale from UBS to Julius Baer. It's unlikely that very much will change for GAM investors with this acquisition. I'll keep you posted.

Managed Futures (CTAs)

Managed futures have posted some big profits over the last few months amid huge gains for the energy complex, namely crude oil, heating oil and gas. The energy sector is largely responsible for this sector's strong performance since May and will also be its downfall when prices reverse. Virtually every CTA that embraces a trend-following system is highly long and leveraged crude oil and natural gas in mid-September.

AHL Diversified and **Winton Futures** continue to post healthy gains this year. Both managed futures products are up in the double-digits (see above table) with Winton clearly in the lead. AHL and Winton have scored most of their performance attribution from oil and gas lately.

ProFunds Launches Real Estate Bear Fund

There's no doubt that one of the biggest "bubbles" of our time lies in U.S. residential real estate. Though a regional phenomenon with markets in the Northeast, Southeast, and Southwest skyrocketing versus more modest gains elsewhere in the country, the public's participation has grown from widespread to utterly absurd in 2005. ProFunds, which offers investors a wide range of index and reverse index funds (some with leverage), just launched the Profunds Short Real Estate Fund, which offers 100% of the reverse performance of the Dow Jones U.S. Real Estate Index. Type http://www.profunds.com

Eric's Interview with Joe Bradley

My good friend, Joe Bradley, recently interviewed me in late June. I've posted this audio interview on my website at http://www.enrassetmanagement.ca. Joe's got the best service in the world, interviewing some terrific advisors. Visit http://www.investorshotline.com. ■

2005 INVESTMENT CONFERENCES AND SEMINARS

If you're looking to get away this year and visit some exciting destinations, then please join me en route at the following conferences and seminars this year!

- **Chicago Trader's Seminar**, October 10-12.
- **The Far East Offshore Investment Tour**, China, November 10-20.

Global Mutual Fund Investor (***GMFI***) is published 11 times a year by ENR Asset Management, Inc. Founder and Editor-in-Chief, Eric Naimer-Roseman; Design & Layout, Darlene Dion; Letter Fulfillment, Jean Shepherd.

Subscription rates: In the USA, US$149/yr. In Canada, C$149/yr. plus 7% GST (C$159.53). In Quebec, C$149/yr. plus 7% GST and 8.5% PST (C$172.98). Overseas, US$179/yr. Single copies of ***GMFI*** are available for US$20 in the U.S., C$20 in Canada (please add applicable sales taxes) and US$25 Overseas. **Special rates apply for 2-5 year subscriptions.** For additional subscription information, please call 514-989-8027, or toll-free in North America at 1-877-989-8027.

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#ISSN #1203-1518 **Printed in Canada**