

## Bonnel Growth

### Fund Facts

Symbol	ACBGX
Website	<a href="http://www.usfunds.com">www.usfunds.com</a>
Address	U.S. Global Investors, 7900 Callaghan Road, San Antonio, TX 78229
Tel. No.	800-873-8637
Inception	10/17/94

### Portfolio

Total Net Assets *	\$70.70
Avg Mkt Cap (\$ Weighted) *	---
Average Price/Earnings Ratio	---
Average Price/Book Ratio	---
Turnover Ratio	383%

### Investment Information

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$50
Min Initial IRA Investment	\$0

### Risk (Against S&P 500 - 3 Years)

Alpha	-1.5702
Beta	0.7737
R-Squared	0.4235

### Returns vs. Lipper Mid-Cap Growth Index

	ACBGX	Index
1 Year (Cum.)	-26.13%	-19.82%
3 Year (Ann.)	-25.72%	1.10%
5 Year (Ann.)	-0.86%	-2.78%

### Returns vs. S&P 500

	ACBGX	Index
1 Year (Cum.)	-26.13%	-13.31%
3 Year (Ann.)	-25.72%	-12.97%
5 Year (Ann.)	-0.86%	-2.43%

### Fees and Expenses

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.25%
Total Expense Ratio	1.78%

### Portfolio Manager

Arthur J. Bonnel	10/17/94
* millions	Data through: 04/30/03

Source: Company Documents; Lipper

# The Lessons from Thirty Years

**F**rom floor trader to portfolio manager, Art Bonnel is a 30-year veteran in the money management field. Aside from sharing his views on his investment strategy, Bonnel provided some interesting insights into the current market scandals that have shaken investor confidence.

**Q: You're a veteran fund manager with 30 years managing money in the aggressive growth category. What is your outlook after nearly four years of a bear market, especially for high-growth issues?**

**A:** It's better to make money than to lose money. Bear markets take many years of hard work. There is nothing you can do about it unless you go to cash.

**Q: I notice the cash level is very low. Is that how you defended the fund against the bear market?**

**A:** No, we did not. Recently we were able to take that position. Initially, we were not able to. People did not want us to move to cash in 2000 and 2001. Finally in late 2002, they said we tend to agree that the market could be in for some lower prices. For the first couple of years they wanted us to be fully invested, so we did. It basically wasn't the right thing to do but that is in retrospect.

**Q: According to the literature, you use a computer screening method as part of the stock selection process. Can you elaborate?**

**A:** We look at four basic things. We want to see earnings growth quarter over quarter. If earnings aren't going

up, we don't buy the stock. We then look at the current ratio of the company. We like to see companies have a current ratio of two-to-one or better, or above the industry average. We get that industry average from various publications, such as Value Line. We look at debt to equity, the less debt the better. Even with all the corporate scandals, we still like to see ownership by management ranking 5%, maybe 15 to 20% of the equity. We run it through a simple screen and make a decision whether we want to buy or sell that issue. Ninety percent of the selection process is fundamental. The other 10 is technical. By technical, we'll pull up a chart of a company; find out how many shares it trades a day, look at the basic trend it's been in. It's not very hard to determine. We like to buy them when the trend is going up and we will only buy stocks when there is enough volume involved. A lot of times we come across companies that trade maybe a thousand shares a day. If we want to buy 10,000 or 20,000 shares we can't do it. So we like to see companies that trade maybe to 50,000 to 100,000 shares minimum. On the low end, very seldom do we buy stock that trades less than 50,000 shares a day. Volume is a very important part of the equation. I want to see some sponsorship. That is the main reason why we look at charts.



TICKER's Choice

**Q: The turnover in last 12 months was over 300%. Is that due to the computer- screening model or to raising cash?**

**A:** That was due to raising cash. Typically our turnover ratio is about 150% to 170%. We totally liquidated the portfolio at the back end of last year.

**Q: Have you started putting that cash to work?**

**A:** To a small degree. We're very interested in this quarter's earnings. We're keeping a close eye on companies that look good and are interested in picking up some of these. We certainly hope the numbers look good. Of course, not all of them will, but some companies should meet our criteria. We're anxious to put the money to work. I like being invested in the markets and I like bull markets.

**Q: The data I have of your holdings shows a concentration in semiconductor stocks. Have you done any switching?**

**A:** We were in those expecting a bounce in technology and Nasdaq stocks. We didn't get a bounce in some of those issues. We're basically not in a lot of those now. We're more into healthcare companies like C. R. Bard, Cooper Companies.

**Q: Those are medical device stocks. The sector has been bullish since July when more than two dozen from the group hit 52-week lows practically on the same day. What is driving them?**

**A:** Part of the reason is demographics. Of course, earnings are holding in there nicely. That's what we're seeing. That's why we like the companies.

**Q: The healthcare industry is divided into many subsectors. Are there other groups in which the fund is concentrated?**

**A:** We're just starting to put money into these, like Bard and Cooper. Also Immuncor that has applications for blood banks and clinical labs. We're also in Odyssey Healthcare, which is hospice services and Pharmaceutical Resources, a generic drug maker. Those are some of the names.

**Q: Are there any other sectors that look promising to a growth fund manager?**

**A:** Because of the anemic economy, we think about some of the discount



retailers like Ninety-Nine Cents Stores, Target. We don't own these yet but we keep a close eye on them. People will be shopping for the bargains.

**Q: In terms of holding periods, what is the rough objective?**

**A:** As long as possible. As long as earnings keep improving, we'll hang on to them. We have no set time.

**Q: That obviously is the basic sell criteria. Are there others?**

**A:** If companies take on an awful lot of debt or management sells. That tweaks our antenna. But earnings are the main driving factor.

**Q: Is there a particular earnings growth rate that you prefer in**

**screening for stocks for the fund?**

**A:** In a word, no. What's interesting is that earnings for a company have dropped for four or five quarters and suddenly they pop up. That might be a change in trend. We might wait a quarter or two to make sure the trend has changed. A company could have earned a dollar a couple of years ago, then 50 cents then 25 cents. If it goes back up that would be good. We don't care if it goes up 5% or 10%. We're not looking for 50%. We just want them to be growing.

**Q: With all the accounting scandals, I continually hear from growth managers how much attention they are paying to positive free cash flow. What is your view?**

**A:** I think it is very important. You don't want a company to get into a real bind. When they get in a bind they use creative measures to make themselves look good. I think cash flow is important. Also, the current ratio, which is reflective of cash flow.

**Q: One thing I don't see in the holdings is Internet stocks. What is your view of them now?**

**A:** Most of them are not making any money so we're not in them. If we see some good earnings growth we'll look at them. Right now, we don't see the earnings. So we just avoid them. But anything is fair game if it's earning money.

**Q: One thing about your fund is the concentration is mid-cap stocks, it does diverge into all equity capitalization, from mega cap to micro cap companies. You're a bit different from the traditional fund. Is it fair for the rating agencies to box you this way?**

**A:** Oh, I guess so. We tend to have more in the mid cap range. Usually I

would say 60 to 70%, sometimes up to 80%. Like I said, anything is fair game. But what we tend to focus on is mid cap because they offer better growth prospects by my definition. I look at a company, look at its past history and read a little bit about it. That's part of the science besides just picking a stock just because the computer spits it out. It's subjective, too. Based on the experience I've had in the market, I just like the mid-cap area. They have more flexibility. I've also made some good money in some of the big cap stocks. If you catch Microsoft or Intel at the right time you can make a lot of money. I'm not stubborn that way.

**Q: Returning to your research methodology, after the initial computer screening, what comes next?**

**A:** Like I said, a lot of experience. I'll look at how we've done in the past buying this stock or industry group. Some industry groups we do very well in. We've done very well in the semiconductors. If they start to show some light we go into them. Like I said, it's experience and also technical, the chart pattern, the basic trend it's in, the volume and all that - just a lot of experience of being in the market and realizing how long it takes earnings to turn.

**Q: What have you learned about companies and their investment potential?**

**A:** You learn that the market is a wonderful place to be invested in but you still have to do your homework. You also realize that you can't make money all the time. Every investment is not going to be profitable. Also, you learn that diversification is extremely important. We talked earlier about the medical area. Just because I like the medical area, I'm not going to focus on one certain area. Diversification even in

medical is extraordinarily important. Having good data is also important.

**Q: So having good data is important to you?**

**A:** We like companies that give good, clean numbers. It does make us wonder when talking about the good old nineties, when you look at all the companies that say we have to adjust our numbers for both the top line and

**About:** Prior to joining U.S. Global Investors, Art Bonnel was president and registered investment advisor for Bonnel, Inc., where he developed a proprietary stock selection system to seek high growth issues. Throughout his years of experience in the financial industry, Bonnel served on the Board of Directors of the Kansas City Board of Trade and held a seat on the exchange. He was a trust officer for the Security National Bank of Nevada. In addition, he was a commissioned officer in the U.S. Army.

Bonnel is a professional speaker for various national associations and has been guest commentator on PBS Nightly Business Report, CNBC and CNNfn. He has been quoted as an authority on growth stocks in USA Today, The Wall Street Journal, and Investor's Business Daily. He has also been featured in Worth, Forbes and Fortune magazines, Kiplinger's Personal Finance, Wall Street Transcript and Louis Rukeyser's Mutual Funds.

*“Based on the experience I've had in the market, I just like the mid-cap area. They have more flexibility. I've also made some good money in some of the big cap stocks. If you catch Microsoft or Intel at the right time you can make a lot of money. I'm not stubborn that way.”*

the bottom line for the past five years, you just wonder how good the nineties really were. I'm glad to say we were never in Enron, which was at one time the seventh largest U.S. company. And MCIWorldCom was the third largest company. Their numbers went into GDP and they were false.

**Q: You bring up an interesting point because WorldCom employed**

**so many people. It did make up a large portion of the telecom and computer networking industry. That means the Federal Reserve, which tracks GDP, didn't question the data.**

**A:** The Fed was looking at those numbers. What really were the numbers? To the best of my knowledge, the federal government has not gone back to readjust the inflation and economic numbers. It's not the total point of my conservation, but it is an interesting point.

**Q: How important is corporate integrity to you in evaluating investment potential?**

**A:** I think it is extraordinarily important. It always has been. I think the new laws that have come out are foolish. I mean that in all sincerity. If they had just enforced the laws they had in effect. It has always been illegal to falsify the books and records. Now they've put on more laws. We don't need the laws. I would say 95 to 98% of all the people operate on a very high ethical sense. But it's a very few that ruin it for the majority.

**Q: Do you rely upon any Wall Street research?**

**A:** No. I've always known they've been biased.

**Q: I see you worked as a floor trader in commodities futures for five years. How did you transition yourself from a trader to a stock portfolio manager?**

**A:** While I was doing that, I was also managing some individual accounts. I was doing well enough where a lot of people wanted to get involved in what I was doing. I thought the best way to open it up to them was to get involved in managing a mutual fund. ■

**Dave Jennings**