



Heavy metals

Armada fund manager mines commodity-related stocks

By Greg Morcroft, CBS.MarketWatch.com
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NEW YORK (CBS.MW) — The recovering U.S. economy, booming growth in China and across Asia, and continuing low interest rates are spurring Don Ross to stay bullish on commodity-related stocks.

Ross, lead manager of the Armada Large Cap Core Equity fund (ACQAX), fills the portfolio with the best ideas from growth- and value managers at other Armada funds. Just now, he observed, the precious metals and energy sectors are flashing bright.

"Looking at fundamental supply and demand issues, capacity is going down, shipping rates have soared, producers can't get ships," Ross said. "The world works on the margin, so look for commodity prices to go up."



Donald L. Ross

In addition, with the Federal Reserve trying to get a least a modest bit of inflation back into the economy, real assets — commodities such as gold, copper and oil — are better leveraged to rising prices than are financial assets, he said.

Ross added that he's encouraged in this commodities strategy by comments from Fed Governor Ben Bernanke, who commanded the market's attention recently when he said rising commodity prices were "a variable of growth rather than inflation."

The \$215 million fund, which charges a 5.5 percent front-end load, or sales charge, holds about 50 different stocks, with the top-10 holdings representing about 30 percent of assets under management.

Over the past year, the fund's 35 percent gain lagged the Standard & Poor's 500 Index by five percentage points, while its three-year average annualized loss of roughly 3 percent is in line with its S&P benchmark.

Among the fund's larger holdings, Ross said, Freeport McMoRan Copper & Gold (FCX) is "a pretty simple story," even if gold prices remain at about \$400 an ounce and copper stays near \$1 a pound.

However, he added, "If you assume commodities rise 10 to 15 percent this year, Freeport's a particularly attractive stock."

On Wednesday, shares of the copper and gold producing giant soared \$2.13, or 5.4 percent, to close at \$41.73.

In the oil sector, Ross favors Occidental Petroleum (OXY).

Investors are currently assuming a \$28 a barrel minimum price for oil this year, which is higher than assumptions six months ago, Ross explained.

"Occidental is a company that really has some pretty focused geography, and the proven reserves are really proven," Ross said, in reference to news that rival Shell was forced to revise its reserve estimate, knocking 20 percent from the amount it previously had classified as proven reserves.

Plus, Occidental is a shareholder-friendly company with a 2.4 percent dividend yield, Ross said.

Shares of Occidental Petroleum gained 10 cents on Wednesday to close at \$45.09.

Turning from commodity-based investments, Ross likes prospects for SanDisk (SNDK), which makes storage memory for digital cameras and picture cell phones.

Demand is growing for digital cameras and picture phones, Ross said. Only about one in five U.S. households own a digital camera, and picture phones are expected to account for half of all new cellular phone sales, he added.

"This stock extremely volatile, but it really pulled back after a tremendous run last year," Ross said. "It was \$160 in 2000, now it's under \$60. It's extremely attractive at 19 times earnings."

On Wednesday, shares of SanDisk rose \$2.03, or 4 percent, to \$52.28.

Armada Large Cap Core Equity A (ACQAX)

Manager	Donald Ross
Performance (1 Yr)	35%
Performance (3 Yr. Avg.)	-3.2%
Total Assets	\$215 million
Expense Ratio	1.21 %
Front-End Load	5.5%
Minimum Investment	\$500

Source: Morningstar (Data through 2/10/04)

Greg Morcroft is New York news editor of CBS.MarketWatch.com.

PERFORMANCE OF ARMADA LARGE CAP CORE EQUITY FUND**Average Annual Total Returns as of 12/31/03**

	Inception Date	Current Quarter End	Year-to-Date (as of 1/31/04)	1 Year	5 Year	Since Inception
A Shares	8/1/97	6.79%	-5.58%	19.72%	-0.22%	4.68%
B Shares	1/6/98	7.87%	-5.18%	20.79%	-0.09%	4.94%
C Shares	1/20/00	11.75%	-1.18%	24.67%	0.23%	4.88%
H Shares	5/1/02	10.65%	-2.19%	23.46%	0.02%	4.71%
I Shares	8/1/97	13.11%	-0.09%	27.06%	1.19%	5.88%
R Shares	6/2/03	12.12%	-0.84%	25.25%	0.57%	5.25%

TOP TEN HOLDINGS OF ARMADA LARGE CAP CORE EQUITY FUND (AS OF 12/31/03)

Name of Holding	% of Total Net Assets
Microsoft Corp.	3.80
United Technologies Corp.	3.20
Pfizer Inc.	2.95
Kimberly-Clark	2.85
Texas instruments Inc.	2.77
Armada Money Market Fund	2.59
ChevronTexaco Corp.	2.48
Citigroup inc.	2.47
Occidental Petroleum Corp.	2.28
MetLife Inc.	2.26

As the fund is actively managed on a daily basis, the securities represented do not represent the current or future composition of the portfolio.

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Mutual funds involve risk, including possible loss of principal.

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Total returns reflect reinvestment of dividends, capital gains and deduction of applicable sales charges, operating expenses and fees for each share class provided. Inception dates for class B, C, H and R shares are 1/6/98, 1/20/00, 5/1/02 and 6/2/03 respectively. All performance shown for each class prior to each respective inception date is based on the performance of Class I shares, adjusted to reflect each share class's fees, expenses and maximum sales charges. The maximum sales charge for Class A shares is 5.50%. Class B shares have a maximum contingent deferred sales charge of 5.00%. Class H shares have a 1.00% front-end sales charge, in addition to a 1.00% maximum contingent deferred sales charge. Class C shares do not have a front-end sales charge, but do have a 1.00% charge on the redemption of shares that are held for less than 18 months. Class R shares do not have a front-end sales charge, but do have a .75% charge on the redemption of shares that are held for less than 18 months.