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John Doe

EDMP INC. Quarterly Review

PRESIDENT'S MESSAGE

Calendar year 1995 is off to a roaring start. In general the equity markets performed well. Specifically, EDMP managed portfolios did even better. As we all know, markets can be fickle. More importantly, stock markets do not necessarily correctly reflect intrinsic value. Sometimes they overvalue companies, sometimes they undervalue companies and on occasion they fairly value companies. The point is at EDMP we focus more on how our businesses are operating and we tend to discount what "Wall Street" may be feeling at a given point in time.

History clearly proves that the most successful investors are those that stick to a proven discipline. Morningstar, an independent evaluator of mutual funds, recently studied the five year track record of 219 growth stock funds. The results are startling. The funds averaged investment returns of 12.5%. The average fund investor in those same funds lost (2.2%). The funds stuck to their discipline and won, the investor tried to time the market and lost. Therefore, we felt it would be prudent to review the <u>EDMP Investment Discipline "In a Nutshell"</u> as follows:

First, we have screened and identified a universe of approximately 400 of America's leading and best managed companies. Our screens give equal weight to historical results and future business prospects.

Next, we exercise the discipline and patience to only invest when a company is priced at a reasonable and sound business valuation. In theory, each company on the list could be invested in, but only when the price is right.

Once the valuation appears sensible, an extensive fundamental evaluation is conducted to verify the company as an investment grade prospect. This process continues until a minimum of 20 autonomous businesses with similar investment characteristics are found. Then, our portfolios are constructed based on a sound strategy and with a clear long-term objective.

After any company is placed in a client portfolio, it is continuously and diligently monitored and re-validated. We are constantly watching for either a deterioration of fundamentals, or an excessive and dangerous over-valuation. If either occurs, the positions will be sold and replaced with an equivalent company that is currently sound and attractively priced. We judge our holdings by how well their businesses are performing rather than what a schizophrenic "Wall Street" may be saying. If fundamentals are good and price falls, we hold or buy more as appropriate for each portfolio. If price rises to unjustifiable valuations, we sell and replace to protect against risk regardless of fundamentals.

Our strategy is based on the simple logic and reality that great businesses are by definition better then average. Therefore, it logically follows that a portfolio of great businesses will outperform the averages (S&P 500, DJIA, etc.). This is logical, obvious and true under one condition. The portfolio of great businesses must act and be positioned exactly as the averages (S&P 500, DJIA, etc.). In other words, the portfolio must not be traded except under the extreme circumstances described above. In summary, by definition a portfolio of superior (above average) companies bought reasonably and held for the long-run will beat the averages. This is not only common sense, this is a historical fact.

Since we tend to own our companies permanently, we enjoy the remarkable advantage of intimately getting to know and understand our portfolio companies, their businesses and industries. Consequently, our judgment is enhanced and we are able to clearly communicate our portfolio's future prospects to our consultants and clients. The greatest weapon against fear is knowledge, which ultimately leads to wise and prudent judgment. The result is superior performance at manageable and low risk.

Therein lies the basis of financial security and sound and successful portfolio management. For as always, we must remember Earnings Determine Market Price, always have, always will.

Sincerely,

Charles C. Carnevale
President