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John Doe

EDMP, INC. Quarterly Review

PRESIDENT'S MESSAGE

Intelligent Patience

Calendar year 1998 is off to a roaring start, exceeding the forecast of even the most aggressive prognosticators. Nothing seems capable of dampening investor appetite or enthusiasm for equities. Like water off a duck's back, neither the Asian contagion nor even disappointing earnings warnings seems capable of deterring investors. The investing world is behaving somewhat irrationally, many stock valuations are continuing to exceed established business norms and few investors seem to care. History and common sense dictate this to be dangerous behavior.

At EDMP, with the aid of our professional consultants, we are committed to ensuring that you, our valued customer, do not fall prey to this onerous complacency trap. More importantly, armed with our sound investing strategies, we believe we possess the discipline to remain rational while the rest of the world gleefully and blindly runs toward the cliffs with reckless abandon.

Our intelligent business perspective positions us to fully exploit the folly of other's speculation. The most effective way to protect you and ourselves from this mass hysteria is to arm you and us with the insights and realities of sound investing practices.

We are very proud of that which we offer you, and hope that you realize a most significant benefit from it. The investment results that we are generating for you are competitive, and in many cases superior to, the general market. However, it is our position that we are accomplishing these results at significantly lower risk than investing in the overall market. While most companies, especially the large cap growth stocks, are selling at price earnings ratios significantly higher than their earnings growth rates, the companies we are buying are not. In some cases the businesses we are purchasing are actually at discounts to their growth. Even more importantly, many of our selections are growing faster than the blue chips and are trading at lower P/E ratios. For the long term investor, this is an extraordinary advantage. The people currently buying the blue chips can look forward to growing earnings, but since they so dramatically overpaid for them, they could face shrinking P/E ratios. The logical result is that over the long run the company does everything they expect, yet they don't make any money or, even worse, suffer losses. Our current purchases on the other hand can also provide growing future earnings with the additional opportunity to see further P/E expansion. Lower risk and higher returns should be the goal of all investors.

I have recently read an excellent book on investing that I highly recommend to any investor. The book is titled Buffettology and is the most comprehensive and best book I have yet to read on Warren Buffett's, (the greatest investor of all time), strategies and philosophies. The book is co-authored by Mary Buffett, Warren's daughter-in-law for twelve years and David Clark, a family friend for over thirty years. As previously mentioned, the entire book is excellent, but I especially felt that chapter 10 offered very appropriate principles that I wanted to share in this letter. Chapter 10's title says it all: The Only Two Things You Need to Know About Business Perspective Investing: What to Buy - and at What Price. Allow me to share a few excerpts, and I quote "For the oddest reasons, Wall Street and the individual investor have jumbled the questions of what to buy and at what price into a myriad of financial pyrotechnics that befuddle the imagination. They screw it up by focusing entirely on the question of what to buy and totally ignoring the question of price. Warren's approach, on the other hand, is to separate the two questions. First he discovers what to buy and then he decides if the price is right. Warren's approach is to determine what he wants to buy in advance and then wait for it to go on sale". Pretty sensible to us; we hope you agree.

Buying great businesses on sale is easier said than done, especially in a major bull market like we have today. In this kind of market, companies usually go on sale for good reason. The trick is to separate the wheat from the chaff. If you can identify the great business experiencing a non-recurring, transitional or curable and therefore temporary challenge, then you have found a bargain. You are looking for the company that possesses superior long term earnings power that you have confidence will return. You exploit this opportunity to lower your risk while, at the same time, dramatically increasing your return. This comes from buying depressed earnings, because when they go back to normal and then return to above average growth, the P/E ratios rise again. You end up owning a company whose stock is inexpensive due to transient earnings weakness. Translated, you make a lot of money with less risk.

Being an investor with a business perspective obviously has its advantages, but also requires a long term commitment. Business perspective, value growth investors, like us, get our courage to be patient from sound intelligent analysis. This **intelligent patience** can be extremely rewarding as evidenced by our historical successes. It enables us to exploit fear. Since each of our client's portfolios are custom built, many of you have different individual equities. In other words we will only buy you a company that is reasonably priced at the time you entrust us with your money. Therefore, I would like to mention several companies where each and every one of you owned or own at least one. Each of these either fell in price soon after we bought them or took a longer than comfortable amount of time before they exploded upward.

Company	Average Cost Basis	Value 3/31/97
Alza	$26.30	$43.75
Applied Materials	14.90	35.31
Cracker Barrel	19.84	40.06
EMC Corp	8.72	37.19
Forest Labs	20.89	31.94
Intel	14.55	77.37
Johnson & Johnson	21.35	71.69
Merck	34.72	126.25
Michael's Stores	17.71	36.87
United Healthcare	43.87	65.12
Wal-Mart	23.45	50.44

There are others, but we hope this list enables each of you to appreciate the value of this sensible approach.

Most of this money has been made without generating large taxable capital gains which is another great advantage of this approach. Taxes only occur when and if you sell. We only sell for two reasons. Either the valuation gets so excessive that we sell to protect you, or the company's long term fundamentals change or deteriorate so we again sell to protect you. Ideally and otherwise we intend to hold permanently. Therefore we enjoy the advantages of tax free compounding of hopefully superior results. Also when you die, and we all know we will, you pass the value to heirs at a stepped up cost basis. Value growth investing; lower risk, superior results and great tax benefits too.

It remains our privilege to serve you, and as always, remember, "Earnings Determine Market Price, always have, always will".

Sincerely,

Charles C. Carnevale
President