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John Doe

EDMP, INC. Quarterly Review

PRESIDENT'S MESSAGE

FALSE PROFITS

The first quarter of 1999 was notably marked by a continuing narrowness of breadth and extreme volatility. It is currently not unusual to see the markets rising strongly one day and falling strongly the next. Moreover, it is currently not even unusual to see this same phenomenon occur from the morning to the afternoon of the same day. Anyone thinking with a clear mind would recognize that the true worth (intrinsic value) of the operating businesses behind these volatile stock price movements could not possibly change that much that quickly and that often.

In the past, we have stated that stock prices are pathological liars and unreliable indicators of a company's true worth. Today's insane volatility illustrates this point most clearly. Unfortunately, most investors rely only on stock prices as the barometer to evaluate their portfolios. True investors, including such greats as Warren Buffett, Peter Lynch and Marty Whitman use a much more precise instrument than lying stock prices to judge their investments. The best investors focus their attention on the actual operating results and future prospects of the businesses they own. They know the "market" will often mis-price their fine businesses, and therefore pay little attention to its short-term gyrations. We at EDMP think this way also, and must somehow get our clients to do the same.

The pure and simple truth is that the performance of many of the businesses that we have recently been buying, far outstrip the stock price valuation the market is applying to them. Even those companies who are currently experiencing temporary operating difficulties have stock prices dramatically lower than their prospects would dictate. In other words, our companys' operating results are significantly exceeding their stock prices. In general, the companies in our portfolios are growing faster than their price earnings (PE) ratios. This is in stark contrast to the currently very popular large cap companies that are enjoying PE ratios two or three times their growth rates and their long term norms. We believe that this means that our stocks (companies) are cheap and the big caps dangerously expensive. There is no question in our mind that our future performance will be good, we think better than the averages and also safer because most are undervalued yet have excellent prospects. More importantly, we are also confident that if we can get you, our valued clients and consultants, to shake the negative bias of low prices and evaluate your businesses with a fresh perspective, then you would see your portfolios as they really are. Our fundamental charts are a key and they are most profound when used properly. Please review them carefully and call your consultants or us if you need help or clarification.

The rest of this quarter's letter will be geared toward illustrating these disconnects from reality to clearly illustrate the dangers and the opportunities out there. The most common reference to the market is the Dow Jones Industrial Average, a composite of only thirty large capitalization companies. The next most common reference is to the S&P 500, a composite of only 500 again large capitalization companies. Both of these indices are at record highs, and since they are the most commonly referenced benchmarks, a majority of investors are under the impression that we are in a major bull market; and one of the largest and longest on record. In reality, this is only partially true in that it only describes a very narrow list of companies while ignoring the vast majority. Even within the S&P 500, the bulk of the gains have been generated by less than 50 of the largest companies. Even more amazing, the NASDAQ jumped 40% last year but if you don't count the top 10 performers, it would have dropped 18%. A review of the total universe of companies paints a very different picture indeed.

The following table of the recent performance results of these common indices, to include broader market indices clearly illustrates this point.

INDICES RETURN (IN%)

	1999 (3/24/99)	1998	1997
S&P 500	3.2	26.7	31
DJIA	5.1	16.1	22.6
Russell 2000	-1	-3.45	20.52
Russell Midcap	-2.26	10.1	28.3
Wilshire Small Cap	-4	-1.5	25.4

An even more important, yet currently almost totally ignored fact is the valuation levels of the companies in the respective indices. The valuation levels of the S&P 500 and the Dow are at levels that are unprecedented. In other words, investors have never before had to pay such high multiples of earnings or assets to play the game. If you feel compelled to own these big cap stocks, then be prepared to pay dearly for the privilege. Throughout history, overpaying for investments has never been the pathway to financial security or success.

On the other hand, when you examine the broader markets, a totally different picture appears. The majority of these smaller companies are actually selling at historically low prices and values. Even more staggering is the fact that many of the mid and small cap companies are growing faster than, and have healthier balance sheets than many of their large cap counterparts. Ironically, since these companies are being ignored, their stock prices are staying the same or falling. In fact, the majority of the stocks have been in declining trends since the early part of 1998, and on average have declined in excess of 20%. This meets the classical definition of a bear market! Since their earnings are growing, their price earnings ratios are actually shrinking at the same time that the underlying valuations of the businesses are rising. Management is increasing shareholder value while watching their stock prices sink or remain the same. Only being the manager of other people's money could be more frustrating.

The long-term investing implications of these disconnects from the norm and reality itself are most astonishing. True investors who understand the difference between a sound investment and a blatant speculation have the best of all worlds. Exercising wisdom gained through knowledge, they are quietly but aggressively accumulating these incredible bargains. It has been said that knowledge is learning the facts, and wisdom is simplifying the facts. For this writer at least nothing could be simpler and the facts are clear. Buy at value or below; sell if excessive overvaluation occurs. This is precisely what we at EDMP are doing with your portfolios. Our experiences over many years of investing have proven this to be the best way to wealth creation.
There are currently numerous experienced professional investors, including yours truly, who are trying desperately to warn and illuminate the investing public. Many have long established superior track records based on time tested and sound

philosophies of investing. A very relevant example is Franklin Resources Inc., which runs the Franklin and Templeton mutual fund families as well as private money and other financial services. Franklin and Templeton are renowned for their prudent and conservative discipline and have stayed the course through these speculative times. They have been rewarded for this sound behavior by having about $2 billion of their clients' capital leaving for so called greener pastures. Like most value oriented investors, their recent performance has lagged the so-called momentum investors. Many of you own their stock, which has fallen from a high of almost $58 seven or eight months ago to $25 to $30 today. This makes the company's stock very attractively valued today and we are buying it where appropriate. In the future, Franklin Resources' portfolio holdings should appreciate nicely, as they have done so consistently in the past, therefore growing their revenue and ultimately attracting new investors.

The reason so many clients have left Franklin Resources is simply because too many people chase stock price movements while simultaneously ignoring valuations or sound business and investing principles. This has led to the previously mentioned very narrow focus on those few large stocks that has resulted in a huge and expensive run up in their prices. These rising prices tweak people's greed and they rush in even more while losing all sense of value or prudence.

Many investors, including professionals, are stating liquidity as the rationale behind their narrow appetite for big caps. Ironically, this desire for liquidity actually becomes self-defeating in a most dangerous way. Just stop and think what would happen with such a large concentration in so few names if everybody suddenly decided they wanted out. I can state with almost total certainty that there are no value or value/growth investors such as EDMP that are going to buy them; at least not until their valuations (prices) come back to reality. A lot of sellers and no buyers have obvious consequences. There would be no liquidity; many of these companies would stop trading due to exchange rules and more than likely, open several points lower. There would in fact be no safe way out. The Rite Aid graph we recently sent you is a perfect real life example. We have often tried to point out that overvaluation is an illusion with no firm ground under it. **False profits** can and will disappear in the blink of an eye. Portfolios built on sound foundations of value and economics will endure and prosper over time.

We can look to our mentor the great investor from Omaha, Warren Buffett's recent guidance to summarize it succinctly. "The US stock market has to some degree reached a dangerous period where investors aren't paying enough attention to the businesses they are buying. You know valuations are high by historic standards, you know the level of speculation is high by historic standards and you know that it doesn't go on forever. But you don't know when it ends. The market is more exaggerated now than most of the time in the past. But we've had a lot of speculative activity and all kinds of things over the years in markets, and frequently it doesn't come to a good end. But it will be with us a 100 years from now just as it was 100 years ago."

Warren Buffett made these comments on ABC's Nightline and added that "people who are in the market solely because of its movement will get flushed out very easily compared to people that really want to buy a business." The perspective of owning a business and the knowledge of value is what provides Mr. Buffett the wisdom of patience.

Another illustration of an experienced professional investor trying to warn the investing public can be found in a recent letter to shareholders of the Third Avenue Funds. Written by its great leader and investor, Marty Wittman. "The appreciation in market prices for the common stocks that make up the leading indexes have, in recent years, so far outstripped the growth in book value and earnings for the companies whose common stocks make up indexes that these market prices seem now to be grossly out of line with corporate reality. Thus the possibilities for disaster. Here excellent past performance seems likely to be a harbinger of future under-performance insofar as one believes that over the long term, market prices for passively owned common stocks will have a relationship to underlying corporate fundamentals.

The managers of Third Avenue Funds do not predict the future but rather deal in probabilities. Probabilities are driven by securities prices as they relate to underlying corporate realities. It is our strong belief that the higher the current market prices relative to corporate fundamentals, the greater the investment risk; and the lower current market prices are relative to corporate fundamentals, the less the investment risk. We also believe that for an index, or almost any general aggregate for that matter, corporate fundamentals can be measured by accounting earnings and accounting net asset per share, i.e., book value."

In conclusion, the realities of sound investing principles will never change. The most dangerous phrase in investing is "it's different this time;" because in truth, it is not. Markets will always get out of equilibrium for short periods and we acknowledge this to be one of the longest periods on record. Ironically, the longer it lasts, the more seductive it becomes, causing many to disregard fundamentals and chase prices to ever increasing levels. Remember that if you buy a stock when it's excessively overvalued and it falls to normal (reality) it may take years and years to recover. In contrast, a stock bought at value and then falls to below value will more than likely recover very quickly and soon exceed your original cost.

Investing is not easy. Those who throw their hard earned money at overvalued stocks in hopes of easy returns are setting themselves up for disappointment. Investing is hard because long-term opportunities arise from buying companies that the majority are avoiding. This is contrary to our psychological comfort zone, but is the proven method to success. This sometimes includes sitting on paper losses until the recognition of undervaluation by the marketplace sets in; and it always does. The price of all stocks are always seeking fair value and will inevitably reach it. This is true regardless of whether the price is higher or lower than its true worth.

A final word on volatility. It can only hurt you if you let it, in other words, panic and sell. Our charts show you what your companies are worth. You would be wise to never accept anything less.

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

Sincerely,

Charles C. Carnevale
President