1st Quarter 2001

EDMP, INC. Quarterly Review

President's Message

Past, Present, Future

The first quarter of 2001 was a disaster for most people with money in the market. After an extraordinarily long hiatus, the bear awoke with a ravenous appetite. Devouring everything in his sight, there seems to be no end to his hunger for plump equities. Fortunately for EDMP and our valued clients we hold very few fat stocks.

The fact that most of our holdings are lean and mean is precisely why we have done so much better than most in this market. As you all know and hopefully appreciate now more than before, our motto is "To Win You Must Not Lose." EDMP was founded on the principle of protecting our clients' money first, then growing it over time.

Protecting money is actually easier than it seems. All it really requires is a little discipline, a cool head and the mastery of fifth grade mathematics. It's not rocket science; it's common sense.

The simple and most important fact is that any business (company) public or private is only worth today its expected future cash flows or earnings, discounted back to the present at a reasonable rate. In plain English this means a company is worth to the investor what it can earn the investor in excess of a risk-less investment (Treasury Bonds). Even simpler still, a company is worth what it can reasonably earn for you in the future adjusted for risk.

This principle is a fact, not a philosophy. In truth, due to the emotional nature of humankind, this axiom of value can for a short time be forgotten. This is precisely what occurred during the last half of the 1990's. Lest you forgot, this was the greatest bull market ever. The present of that time (now the past) so consumed people with speculative fever that they ignored the axiom of value, ultimately to their financial peril.

Warren Buffett masterfully put this era into perspective in his latest Berkshire Hathaway annual report as follows: "Now speculation, in which the focus is not on what an asset will produce but rather on what the next fellow will pay for it is neither illegal, immoral nor un-American. But it is not a game in which Charlie and I wish to play. We bring nothing to the party so why should we expect to take anything home? The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities, that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future, will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There is a problem though: They are dancing in a room in which the clocks have no hands."

Well the clock has since struck twelve and yesterday's present, defined by irrational exuberance and gigantic valuations, has turned into today's present defined by the doom and gloom of falling stock prices. Just as yesterday's present has become today's past, so too will today's present become tomorrow's past. And, more importantly in the longer run stock prices will be based on the worth of their capability to generate earnings adequate to compensate for risk. Yes, Earnings Determine Market Price!

The moral behind all this is vital. In the 1990's things were no way near as good as they seemed, nor are they anywhere near as bad today as they seem. Today's bear market will eventually end, just as the bull market did. The world will go on, businesses will continue to sell products and services to a growing world population and everything will be just fine.

The only real risk people with money invested in stocks today face is themselves. The markets (stock prices) will end up O.K., how you end up financially depends entirely on how you behave. Sell now and you will certainly lose, hold or buy more and you will certainly gain. Since how you look at it will determine how well you do, allow us to offer a final perspective.
Bear markets are not bad, they are good; bull markets are bad. Fortunes are made and financial security is attained on the backs of bear markets when great and sound businesses can be bought cheaply! Bull markets are risky where stock prices must inevitably fall; bear markets are safe where stock prices must inevitably rise. The future will be different than the present and we should take our lessons from the past.

At EDMP, we are both proud and excited. We are proud that we did not lose your money by participating in the excesses of the recent past. We are excited about the opportunities we currently own and those we may acquire in the near future. We will continue to diversify and continue to exploit future trends. Technology is most promising, and getting cheap. But most importantly of all, we will continue to invest only when it makes economic sense to do so. And as always remember; Earnings Determine Market Price, always have always will.

It remains our privilege to serve you.

Sincerely,

Charles C. Carnevale
President