1st Quarter 2003

EDMP, INC. Quarterly Review

Strong Hands

As the first quarter of 2003, comes to an end, the world finds itself gripped with the fear of war and terrorism. Consequently, throughout the world these geopolitical risks and crises are at the forefront of people's minds. These are real and great challenges that can only be met by the mustering of mankind's greatest courage and passion.

However, as serious and important as these issues are, they are separate from the principles of sound and prudent investing practices. Therefore, as it relates to our portfolios, it is incumbent upon us to deal with geopolitical issues separately and distinctly from investing issues. By keeping each in its proper perspective, we will be empowered to focus our energy appropriately towards the solutions of each.

Since it is our responsibility and duty to deal with your long-term financial security, we will trust the solving of the world's geopolitical problems and issues to our government and spiritual leaders. This is their responsibility and we encourage all of you to join us in pledging our support and prayers. We must especially show our support, love, and faith to our strong and brave military and law enforcement men and women who we are calling upon to protect our rights and security. United we stand is a foundational principle of our great nation that has not and never will be repealed. Together we will prevail.

This leads us to one of the most important investing principles that relates to geopolitical risk, although it is separate unto itself. When planning and building an investment portfolio, it must be done from the perspective of a positive outcome. There exists no investing strategy or practice that can protect a portfolio from Armageddon. There are no safe havens to protect us from the catastrophic destruction of the world economies. If, under the unlikely event that this happens, there is no refuge, and the least of our worries is whether our stock portfolio is up or down. In this scenario money itself becomes irrelevant and therefore is of no concern or consequence. Therefore, when building and maintaining our investment portfolios we must assume a positive solution to world events and problems.

The primary purpose of the above preamble was to make it clear to you that we are not making light of these critical world events. On a personal note, I, as a young man, was called upon by my country to fight in a war on foreign soil. Consequently, I know the seriousness and the horrors of war all too well. With this said, we will focus the rest of this letter on the investing principles behind the portfolios we manage for you, and our strategies for providing safe, sound and attractive long-term results. Furthermore, we are neither ignoring nor denying the economic realities of crisis. Rather we are endeavoring to deal with them in the most rational, prudent and effective manner possible.

There is an old Wall Street adage that states "in times of crisis money moves from weak hands to **strong hands**." Our primary objective is to provide you, our valued clients, the courage and wisdom to be in the strong hands group. More importantly, we believe you have valid reasons to be strong. It is our duty and responsibility to help you see them clearly, and we are committed to that end.

I have just recently read the 2002 Hewlett Packard annual report, a company that many of you own, and was inspired to share an excerpt with you as follows: "The message we take away from 2002: Progress is not made by the cynics and the doubters, but by those who believe that everything is possible. Which is why, at HP, we have always believed that optimism is the soul of invention and made by those who believe that everything is possible."

It might be helpful to consider that we were virtually alone in pointing out the dangerous overvaluations that existed between 1995 and through the spring of 2000. We were also the ones that sold and harvested the highly overvalued large cap and tech stocks during that period. Today, we are among the very few that are buying those same categories during this crisis-created, highly undervalued period. We are just as confident today that these exaggerated under-valuations will inevitably lead to future long-term outsized gains, as we were confident that yesterday's exaggerated overvaluations would lead to the outsized losses most investors have recently suffered.

As most of you hopefully know, E-D-M-P is an abbreviation for Earnings Determine Market Price ….in the long run. There is also an evil twin sister E-D-M-P, which is an abbreviation for Emotions Determine Market Price….in the short run. What this means is that the "Stock Market" is an efficient discounting mechanism given time. In other words a company's stock price will eventually and inevitably reflect the business success of the company behind the stock. On the other hand, during shorter periods of time, emotions can and will move stock prices temporarily. The biggest difference being that you can count on price ultimately reflecting earnings, while emotions are erratic, often irrational, and always unpredictable.

The primary point to ponder here is that periods highlighted by extreme emotions, good or bad, high or low, are always temporary in their nature and duration. They represent in effect and reality anomalous events that cannot endure. When they ultimately are bathed in the bright light of reason and truth, they dissipate as surely and easily as the darkness in a room when you flick the light switch. Fear and or greed can no more exist in the presence of truth and economic reality anymore than darkness can in light. Therefore, since we deal with economic reality and sound principles, time is on our side.

To put this in more practical terms, this is not a time to be fearful or weak regarding your portfolios. To add a caveat, this is only true for investors whose portfolios were built on sound fundamental valuations, as we believe yours were. Stated more directly, we believe that all EDMP managed portfolios in the aggregate, are being priced below their intrinsic value by today's stock market. Therefore, now is the time to be aggressively buying common stocks, not selling them. It is our confident assertion that anyone selling today is locking in losses and foregoing powerful future gains.

In summary and conclusion, it seems to us a great irony that just a few years ago when common stocks were insanely overpriced people went as far as to borrow money to buy more inflated stock, and now when they are finally reasonable to cheap again, no one wants them. During the bubble period we saw only risk when most saw only opportunity, because we ran the numbers and they did not justify the prices being paid. Today, we see only opportunity where most see only risk. Again, we ran the numbers and they more than justify the prices being asked today. The numbers don't lie.

It is an absolute truism that people who fail to learn the lessons from history are doomed to repeat them. This is why we are sending this quarter's letter early, because we want you to both learn and profit from the historical and expensive lessons of stock investing history. In the real world, money is made and safety achieved through buying low and selling high and never the other way around. Your portfolios are comprised of extremely high quality companies that we believe were purchased at sound and attractive valuations. Therefore, from our perspective, the companies we own are simply not for sale at these low and aberrant valuations. We hope you agree.

God bless America! And, in matters of investing please remember; *Earnings Determine Market Price* in the long run, always have, always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer