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John Doe

EDMP INC. Quarterly Review

PRESIDENT'S MESSAGE

THE STOCKMARKET IS A PATHOLOGICAL LIAR

The second quarter of 1996 ended with many more questions than answers. Some of the market indices, such as the Dow Jones Industrial Average, continue to hover near all time highs, while the broader market and groups such as technology are undergoing significant price weakness. Investors seem to be split over what will happen next. The bears see a major correction imminently on the horizon; after all, they argue, it's way overdue. The bulls see a quick resumption to the upward trend; after all, it's different this time.

At EDMP, we believe there is a more sensible position for rational thinkers to take. First of all, we behave like the elite few who have consistently outperformed the markets, simply because we ignore the markets and the accompanying hype and hysteria associated with them. We agree with our peers who believe in the long-term ownership of fine businesses, and therefore focus our energies on evaluating the relative current and future prospects of the individual companies we own. Not only does logic dictate this to be a more sensible approach, history clearly validates it.

The media is very fond of constantly reminding us that the vast majority of professional money managers under-perform the markets. Consequently, they surmise that the only logical thing to do is buy index mutual funds. This conclusion would relegate us all to average returns, in other words, mediocrity. Somehow it never occurs to them to study the elite few who produce superior results over long time periods. Fortunately, there are those that do, and EDMP is one of them. John Train, in his book, <u>The Money Masters,</u> studied nine of the most successful investors of all time. Guess what he discovered? They all behaved amazingly similarly. Each did careful homework on each investment they made, had the discipline to buy at value, and finally, the patience to hold for the long run. There were no short-term traders or market timers on the list.

This leads us to the provocative title and theme of this quarter's newsletter. **The stock market is a pathological liar.** Translated, this means that stock prices in the short run rarely reflect the underlying companies' true intrinsic value. In other words, short-term prices of stocks are volatile and totally unpredictable. The old adage that "Wall Street climbs a wall of worry" is most profound. A look at any long-term chart of stocks or markets clearly illustrate the undeniable and highly reliable upward movement of stock prices. Simply put, in the long run stock prices move never endingly up. As the world grows, so do business opportunities and the obvious accompanying increases in value.

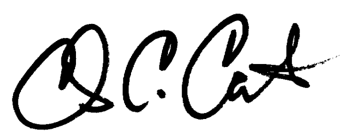
Nevertheless, the short-term volatility can be, and mostly is, quite unnerving to people whose money and future are at risk. The temptation to panic when prices decline is very strong and is in fact the real and true risk. Greedy behavior in a rising market is merely the other side of the same coin. As we have done so many times in the past, allow us to quote Mr. Warren Buffet our mentor and unarguably among the greatest, if not "the" greatest investor of all time. "To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

Investors, professional, and lay alike are overwhelmingly persistent in looking to stock price charts for answers to their so critically important questions. Yet, as we so clearly pointed out earlier in this letter, stock prices are pathological liars, at least in the short run. Our view is that the answers we so desperately need and seek are truthfully and dependably found through the careful evaluation of the real operating businesses that are in reality behind these things we call stocks and the stock market.

We believe that we truly become smart and successful investors the moment we realize and embrace the attitude that falling prices of great businesses are actually good news. Under this scenario rational investors have two sensible choices. First if you have the wherewithal, add more money to the gift of opportunity you received, or second hold onto your precious assets with the confidence that their intrinsic value will manifest itself and grow over time. To paraphrase Franklin Roosevelt, in matters of investing, all we really have to fear is fear itself. As an important aside, your enclosed EDMP newsletter and fundamental earnings correlated graphs are great aids toward achieving a better understanding of what you own. Knowledge is power, and it will help overcome the fear that arises only when you are otherwise in the dark. We sincerely hope you use them for your benefit and financial future.

In closing, we hope that you will not allow yourselves to have pathological liars determine your financial destiny. We pledge to you that we are currently, and will in the future continue to evaluate carefully each and every company in which your most precious money is invested. All the companies you own in your diversified portfolios are great businesses with exciting long term futures. Of course, we recognize that sometimes things change. In those few instances where the companies you own appear to have a <u>long-term</u> deterioration in their operating fundamentals, we will take the necessary action. It remains our privilege to serve you, and as always, remember "*Earnings Determine Market Price, always have, always will.*"

Sincerely,



Charles C. Carnevale
President