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John Doe

EDMP INC. Quarterly Review

PRESIDENT'S MESSAGE

Stock Market Jitters

At year end 1996, all the experts predicted 1997 would be an anemic one for investors. With the year now half over, once again the experts are wrong. Admittedly, the next six months could bail them out....or not. The simple point is that forecasting the stock market or the economy, for that matter, is truly an exercise in futility. This is especially true for those vainly trying to exploit short-run volatility. History would dictate that it's easier to be lucky than smart over short time periods. The intelligent investor has a clear perspective on the differences between luck and brains. I once read that the definition of a guru was "an ego maniac in a bull market".

It's both curious and bizarre to see all the many ways in which investors try to get an edge on market prognostications. There are numerous schemes and wacky methodologies that otherwise sensible and intelligent people will embrace. They range from the inane to the insane. We have the super-bowl theory, the hem-line theory, intelligent computer theory, astrology, and numerous other ludicrous strategies that investors place trust in for their financial future. Yet, no matter how often reality proves these tactics wrong, many investors remain persistent.

The flip side of all this irrational behavior is even more strange. There is a small minority of investors with the commonsense to have evaluated what has always worked in investing and choose to follow these prudent and proven strategies. Admittedly, these sensible approaches are not glamorous and lack the allure and excitement of the more exotic approaches mentioned above. Perhaps their only redeeming quality is that they work consistently and reliably, which, after all, is the whole point of investing anyway....isn't it? The problem with these strategies is that they require a commitment to hard work and a blend of patience and faith. Unfortunately, these are not attributes that many investors possess. There are too many stories of quick money being made by the few riverboat gamblers and too few reports on the majority that leave the game busted.

People love the scintillating and provocative, and the media knows this all too well. Therefore, the stock market, with all of its gyrations and undulations, will continue to be front page news. Sadly, many uninformed investors will fall prey to the hype and hysteria and their financial futures will be damaged. At EDMP, we are dedicated to seeing that not happen to our valued clients. Knowledge is the key and the power.

The points we are trying to make thus far are simple. Since none of our clients own the "stock market", and since it's impossible to forecast anyway, then it makes no sense to worry about it. This is important enough to repeat. None of you own the stock market. Therefore, your perspective should be much more precise and focused. What you need to concern yourselves with is your specific portfolios. You need to focus on the valuations and potential futures of only the fine businesses in which you are actually invested. The "stock market" and its inherent volatility and current overvaluation should have little bearing on your portfolios for the following reasons.

First of all, few of the companies in EDMP managed accounts are significantly overvalued. We recently reviewed the approximately 90 or so companies we hold and only found six that were dangerously overpriced. We did sell all or part of these holdings even though we hated to do it. Admittedly, many others, 20-30 or so, are currently rich, but not in our view dangerously so. In balance, the remainder are reasonable and in some cases "cheap". A great way for you to share this perspective is to review your EDMP historical and forecasting graphs. Pay special attention to previous highs and where the company is priced relative to its forecast earnings growth. What you will discover through this exercise is that many of your companies have already had a correction and many others are fairly priced.

During the last quarter we were often amazed at how defensive our portfolios were during the big sell off days. For example, the day the market was down over 190 points (the third largest point drop - not percentage drop) many of our stocks were either up or off an eighth or so. That was very comforting for us, and we wondered if you were aware of it. Therefore, we thought it was important to share it with you in this letter.

Finally, we hope that a rational review of your specific portfolio will provide a surefire cure for the dreaded stock market jitters. Our view is that each of you hold portfolios comprised of superbly managed, leading companies that are sensibly priced and possess extraordinary long-term futures. More importantly, we feel that our long-term risk is well defined and quite low relative to the broader markets. Although it's difficult to quantify, we believe we have potential, superior to the market at significantly lower risk.

In addition to sensible valuations, it is also important to focus on the diversity of your portfolios and the quality and track record of each company. Most are industry leaders with excellent track records, little or no debt and superior competitive positions. We are confident that this is a winning formula and hope you share our enthusiasm.

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

Sincerely,

Charles C. Carnevale
President