2nd Quarter 2003

EDMP, INC. Quarterly Review

The Truth About Investing

The second quarter of 2003 brought a degree of optimism from investors that had been missing for three years. This change in investor sentiment manifested in positive quarterly and year to date returns for the stock markets in general. Most importantly, the sound and disciplined investment philosophy that protected EDMP clients during the ravaging bear market did not preclude us from outperforming during this bull rally.

It should not be overlooked or forgotten that the behavior of the stock markets, from 1995 to the present, represent an unprecedented aberration from the norm. Rarely before in history had investors been more wildly optimistic than they were from 1995 through the spring of 2000. Conversely, rarely before in history had investors been more negative than they were from the spring of 2000 through the spring of 2003. Somewhere in the middle of these two extremes lies the truth.

It is this truth that EDMP strives to focus on for the benefit of our clients' long-term financial security. Grounded by practical economic principles and mathematical realities, we are empowered to avoid getting caught up in emotional frenzies. With fear and greed tamed, sound long-term decisions were made with great confidence, and ultimately, superior results.

The truth we are referring to is quite simple and straightforward. We invest in great businesses not stocks or the stock market. Any business great or otherwise is only worth the amount of future cash flows and earnings it generates for its owners (shareholders) discounted to the present value. In other words: Earnings Determine Market Price in the long run.

As discussed in last quarter's letter, there exists an evil twin sister to this truth that relates only to the short run. Emotions (fear & greed) Determine Market Price in the short run, only. The key to investing success however, rests in the following indisputable **truth about investing**: the short run always becomes the long run, eventually, while the long run never becomes the short run. Therefore, the short run needs to be and should be ignored by investors. Profits on your portfolio only truly happen over the long run, and the long run always comes.

When the truth is ignored or denied, disastrous consequences usually happen. During the aforementioned euphoric period, investors blinded by false profits in the short run went on to lose a devastatingly huge portion of their life savings in the long run. Even more tragically, while gripped with fear during the bleak period, investors fearful of more loss in the short run sold out at the bottom, missing the long run recovery.

In closing, we are confident that your portfolios are very well positioned to produce above average long-term run results. We are also confident that the businesses we own on your behalf are poised for sound and attractive future growth. Additionally, our portfolios are well diversified and balanced to produce a solid total return. Some of our holdings are paying attractive and growing dividends, with the remainder lean and mean as our economy recovers from the recent recession. Of course, we will continue to be subjected to the vagaries of the stock market and its short-term, often irrational, volatility. However, because of the sound valuation base from our net cost basis, time is on our side, and the long run always comes.

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