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John Doe

EDMP INC. Quarterly Review

PRESIDENT'S MESSAGE

"TRACK RECORDS"

The investing world seems smitten with an extreme preoccupation and incessant dialogue about track records. The current EDMP track record is quite strong, so it offers a perfect opportunity to express our view of track records.

Endless academic studies inundate us with so-called evidence proving that the majority of investing professionals do not beat the market. Consequently, many otherwise prudent investors throw in the towel and index their portfolios. Not necessarily a bad strategy because the market's long-term return is actually quite good and most active managers, and we emphasize active, really don't do better. The market's main advantage is its inactivity, in other words, it never tries to time itself. More importantly, history proves that the majority of the professionals that do beat the market are of the buy and hold type - Warren Buffett, Peter Lynch, EDMP, etc.

Professional consultants, technical research "gurus", and institutional investors (pension plans) are preoccupied to the extreme. In constant search of providing predictability to an ever changing stock-market, new and bizarre benchmarks and techniques are invented and given authoritative status by the industry. They become possessed with what we refer to as "unknown tongue", including concepts such as Alpha, Beta, Standard Deviation, R2, Sharpes Ratio, Relative Strength, Quantitative Theory, the exalted Modern Portfolio Theory, and of course the almighty Asset Allocation Theory, etc., etc. The bottom line is that the so-called predictive value of any of these concepts has never proven to give anyone an inside edge on market performance over the long-term. Rather, they are used by the industry to convince investors that they have the solution to the great market mystery.

Yet deep into the caverns of this darkness of intellect a small but very bright light shines through. Again, it's Warren Buffett, Peter Lynch, the Beardstown Ladies Investment Club, and we humbly submit EDMP, Inc., that clearly illuminate the undeniable truth. Over time, great, well-run businesses are excellent, prudent and superior investments.

Both history and logic support this irrefutable and conclusive fact of investing. We become successful and intelligent investors the moment we embrace this reality and recognize the one and only true and undisputed champion of all track records: the actual and reported financial operating results of the companies we own. Wise investors trust their capital to experienced and competent managers of proven businesses with superb histories and excellent future prospects. Most importantly, they closely watch and focus on the continued operation and management of the companies they own. It's okay to glance at stock prices occasionally, as long as we remember that in the short-run stock prices do not always reflect our businesses' intrinsic value. Emotions (fear & greed) can run hot or cold in the short-run. Smart investors simply know that ultimately a company's value is a direct reflection of its business success. Yes, I am talking about earnings again.

The October 16, 1995 issue of Fortune Magazine contains a pertinent article: *"CHEAP STOCKS: are they trash or are they treasure?"* The article highlighted: major regional banks, tobacco and retail department stores. These are all areas EDMP has been accumulating for client accounts for several months now. Allow us to share two quotes from the Fortune article: "Over time, say numerous studies, a portfolio of these discounted stocks will do six times better - that's right, I said six times - than a portfolio made up of shares with the highest P/E ratio." "Low P/E stocks don't just do more on the upside; they behave better when the market is falling."

The moral of this story is that at EDMP our discipline dictates that we only invest in good businesses when they are out of favor - cheap. This tactic won't necessarily produce the instant gratification that many seem so desperately to crave. However, as the above mentioned Fortune article points out, the long-term results are extraordinary. Long-time EDMP clients need only look back to 1993. We bought great fallen angels like Merck, Pfizer, Johnson & Johnson, St. Jude Medical, Diagnostic Products, Intel and Amgen. These superb companies were down dramatically from previous highs and languished there for a painfully long time. Patience and judgment eventually prevailed. Today, some two plus years later, these companies have produced returns for us in excess of 30% annually. We believe that newer clients can also expect superior future results from this proven philosophy. The key is to focus on the true track record - the company's operating success. EDMP makes this easy through this newsletter and our fundamental graphs.

All of us at EDMP confidently look to the future with great expectations. Instead of attempting to forecast market fluctuations, we trust your money to the hands of the experienced and competent visionaries who are running the great businesses that you own. We keep a close eye on them to validate that they are creating shareholder value for you. As long as they appear to be, we will hold them. This strategy has worked for a long time, and we do not expect to change it.

We appreciate your business and we are privileged to serve you. Once again, it all comes down to: *"Remember, Earnings Determine Market Price, always have, always will."*

Sincerely,

Charles C. Carnevale
President