

## EDMP, INC. Quarterly Review

## PRESIDENT'S MESSAGE

**Extraordinary Times  
Extraordinary Measures**

Calendar year 1997 continues to defy the laws of gravity. With the year now three quarters old, excessive over valuations continue to persist with a dogged determination. The longer this aberration continues, the more confident investors become that this is now normal. Commonsense and a review of history would suggest this to be foolish thinking. Yet if you offer the voice of reason, many investors will react with a most curious look. Smart investors on the other hand (and we include you, our EDMP clients and consultants, in this group) do not allow themselves to be seduced into this dangerous sense of false security. Of course the surest way to accomplish this is to review the undeniable realities of successful and proven long-term investing principles.

At EDMP we are fortunate to have our time tested investing strategy and discipline on which to rely. There is no more powerful shield or weapon against the potentially enormous dangers of foolish investing behavior. When the world of investing gets turned upside down like it is today, we can draw upon our logic and knowledge to keep us on solid ground. For example, a quick review of our historical graphs reminds us of what is really important regarding investing. We have the power of the perspective of previous irrational periods and can visualize the ultimate and inevitable outcome.

Yes, this is the same old never-ending story again, eventually (the long-run) a company's market price will correlate to the success or failure of the underlying business. In other words "Earnings Determine Market Price". Therefore, if a company's stock price deviates (over or under) from its fundamentally justified earnings driven valuation, it will at some point return to this rational level. More importantly, the longer the time frame, the more relevant this reality of investing becomes.

The above review is offered for a very important reason. Revisiting these

cannons and principles of sound investing will provide insights into the rationale behind your manager's current and imminent behavior. The impact of which will be consistent for both our newest clients as well as these who have been with us for many years. We are committed at EDMP to having the most informed clients in the industry. Consequently, we believe it is vital for you to understand and be aware of what actions we are contemplating regarding your portfolios.

In general terms, there is no question that many companies (stocks) are excessively and dangerously overpriced. This does not mean, however, that all stocks are. We have always built our client portfolios one company at a time. We have never been concerned with the market; we focus instead on each individual company we own or are considering buying. One of our most sacred principles is that we will only purchase what we believe is a bargain, again regardless of the state of the "stock market". For our newest clients this means it is taking longer today to build a portfolio, but we believe this prudent and patient behavior will be well rewarded.

Through normal market rotation, bargains are presenting themselves and we are being successful in exploiting these opportunities as they arise. In fact we have an adequate list of exceptional businesses to buy and are adding them as appropriate. There are times when having a little cash (dry powder) on hand is a major advantage. In our view this is currently one of those times.

Our more established accounts are faced with the exact same circumstances from the exact opposite spectrum. In past years we have bought you bargains which have exceeded in many cases not only our expectations but also our wildest dreams. Remembering that our prime directive is first to protect your money, then grow it over time, we are faced with our worst nightmare. In isolated cases

we must now consider the dreaded "S" word...sell. As we hope you all know by now, we hate selling fine businesses, just hate it. As pointed out earlier in this

letter, extraordinary times require extraordinary measures, and therefore in certain cases we must. It is important to note that this is consistent with our discipline and philosophy (for further explanation review the section "Sell Discipline" in our green brochure). Some companies we intend to sell in their entirety, others we envision partial sells. We do not anticipate whole sale liquidation in any portfolio, rather we are evaluating imbalances, excessive overvaluations, and to a lesser extent fundamental changes that have occurred in certain companies. Obviously this infers more portfolio turnover than you are accustomed to or expect. We promise you we are only doing what we believe is prudent and responsible and as previously mentioned consistent with our discipline. On a more positive note, the dry powder metaphor applies here as well, and we are excited about the opportunities we have uncovered to re-deploy your capital.

In closing, we remain very confident portfolio managers. The long-term future for investing in select companies appears bright and in some areas phenomenal. Empowered with our elegant discipline and clear perspectives, we look forward to a long and prosperous future together.

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

Sincerely,



Charles C. Carnevale  
President