

3rd Quarter 2001

EDMP, INC. Quarterly Review

United We Stand

The third quarter of 2001 goes down in infamy. All of us at EDMP join with all Americans, and most of the world, in mourning the tragic and senseless loss of innocent lives. It has been written that in every adversity lies the seed of a greater or equivalent benefit. The adversity from this great sacrifice of lives had a high cost. Therefore, it is the responsibility of those of us who survived to honor those lives spent by seeing that they bought a greater benefit. Personally, I am confident that we will.

The supreme sacrifice of so many invaluable assets has already paid large dividends. Their and our great loss awakened America's great spirit like never before. America has become united, and United We Stand. Let this continue to be our tribute and dedication to the value of those lives lost.

Another high dividend we gained from the victims was their inspiration. The courage and selfless dedication to their fellow man by the firefighters, police and all other volunteers inspired us all. America will continue to draw on this huge surplus of courage for years to come.

History has clearly established that when America has been inspired there is nothing we can't achieve. And, America has never been so inspired before. This is evident in our leadership as well as across all walks of American life. This clearly proves that America is the home of the brave, and the brave will continue to see that we remain the land of the free. We should all be bullish on America; she deserves it.

Our President has been joined by all levels of government and leadership in

asking us to go on with our lives. This is our best weapon against terrorism and America has complied in an extraordinary manner. America will not give her freedom to terrorists simply because it is not possible for them to take it. America's freedom is her strength and invincibility. Freedom is the source of free enterprise, which in turn is the mother of the greatest economy on earth. Its greatness stems from its unique capability to unleash mankind's possibilities. Our freedom nurtures our ingenuity, creativity, industry and humanity. Our freedom motivates us with powerful resolve and determination to reach our highest aspirations. America's economy is strong, will rebuild what was lost, and continue to grow to greater and greater heights.

EDMP will do as the President asked and the rest of this newsletter will be oriented toward our professional responsibility to our clients as investment advisors. EDMP will, however, never forget and always appreciate the contribution given us by the tragic sacrifices of our fellow Americans and all who loved them.

Catastrophic events have occurred numerous times throughout history. They are usually detrimental to the economy in the short run and beneficial in the long run. The attack on America has most probably tipped our economy into a recession. This merely means a temporary interruption in our long-term growth. Most economists expect this weakness to be short-lived with our economy strengthening in 2002; we agree. Consequently the current weakness in the market can only hurt us if we fall prey to it. With great American businesses becoming reasonable or down right cheap, this is the time to be thinking about buying, not selling.

Perhaps it's helpful to remember that our economy exists in order to provide goods and services for our insatiable appetite to consume them. We will continuously seek food, clothing, shelter and recreation. The machines and infrastructure we build will continue to wear out and or become obsolete, and we will replace them. Our cumulative knowledge will continue to expand and we will further develop the technology and insights to improve our productivity and the bounty it provides. The greatest cause of our current weakness is from the gluttony of the late 1990s filling our corporate shelves with bloated inventory. The shelves are getting bare and we have some rebuilding to do. Therefore, it's inevitable and possibly imminent that our economy will march onward and upward. Historically, stock prices move up in advance of actual economic improvement.

There has been an obvious reaction to all this in the stock market, but the reasons behind it have not been so obvious to most observers. Generally, for the past several years the market has been too high on a valuation basis. Consequently, a market correction of some magnitude was inevitable. More specifically, this has occurred at different times and degrees among various industries and companies. For example, telecommunication and technology were among the most overvalued industries in 1999 and are becoming the most undervalued today. The point is that EDMP has never bought the market. Instead, we build your portfolios one company at a time. Each decision is made as it specifically applies to each selection and its specific valuation and future prospects. Naturally, the impact of current and future economic conditions are considered, but once again, only as it applies to each individual portfolio holding. Consequently, we believe

your portfolios are comprised of strong companies with exceptional future prospects and most are selling at prices that are at or below intrinsic economic value. We are long-term bullish on our great country, its strong economy and your current portfolios as well.

Our prudence has served us well. Our portfolios are generally intact with most slightly down or even for the year and none suffering the insurmountable damage that many less prudent investors are faced with. Furthermore, most have cash reserves available to take advantage of the numerous opportunities that this temporary weakness is offering. We intend to use this cash to accumulate more of our holdings that have fallen to ludicrously low valuations and to accumulate new opportunities as they unfold. This is a buyers market and the money is made on the buy side.

There is a wise and profound Warren Buffett quote that we have shared with you many times before, that once again seems most appropriate to re-visit. This important message on investing was taken from the Berkshire Hathaway 1994 report to shareholders and is quoted as follows: *"We will continue to ignore political and economic forecasts which are an expensive distraction for many investors and businessmen. Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price controls, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one day drop in the Dow of 508 points, or treasury bill yields fluctuating between 2.8% and 17.4%. But surprise - none of these blockbuster events made even the slightest dent in Ben Graham's investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices. Imagine the cost to us, if we had let a fear of unknowns cause us to defer or alter the deployment of capital. Indeed, we have usually made our best purchases*

when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist."

In closing, it is true America was shaken by the great tragedy on September 11th, but we were also awakened, angered and united. We are a strong and resourceful people living in the greatest country with the greatest promise on earth. We will meet our challenges and we will prevail. The cowardly acts of terrorists will not deny our destiny; America will simply not let it, of this we feel certain.

God bless America! And, in matters of investing please remember; *Earnings Determine Market Price*, always has, always will.

Sincerely,



Charles C. Carnevale
Chief Investment Officer