

# EDMP INC. Quarterly Review

## PRESIDENT'S MESSAGE

### RECOGNIZING VALUE

The normally appropriate response for this time of year is "Happy New Year". Regarding investing, perhaps it's more appropriate this year to say "Happy Past Year". 1995 was certainly a good year for EDMP and our clients. On a personal note, Julie and I were blessed with the birth of our second child Colton Joseph, born at 9:30am on the twenty-third of December, 1995. This was exactly two years to the day after Chaz, his big sister, was born. Yes indeed, 1995 was a bountiful and memorable year.

The beginning of a new year is both a time for reflecting on the past and for making resolutions for the future. At EDMP, we pride ourselves on placing your interests ahead of ours, and we are committed to helping you be wiser and more successful investors. A popular phrase today is that "perception is reality". Sadly, this belief is too often the root of pain and poor decision making, especially regarding investments. A core goal of ours is to aid you in aligning your perception of reality with reality itself. Then, we believe you will be empowered to make effective and rational investing decisions. We hope that you agree that this quarterly report is a powerful aid to achieving this goal. Therefore, we would like to suggest a few ways for you to get the most out of this tool.

The EDMP reports are designed to provide you a perspective of the past as well as a sense of the present and the future. The financial reports clearly summarize your portfolio's past performance and current status. Please take a few moments to review this information first. We would suggest that you do this each quarter, and hopefully no more often than that. With investments, too much scrutiny can be much more dangerous than too little. Results take time, and generally the more the better.

The EDMP historical and forecasting graphs are elegant and powerful tools for investor enlightenment. The historical graphs provide the insight of the last ten year's track record of the businesses you own and the undeniable correlation of a business' success with investment success. Since these graphs are only

issued annually, this is the ideal time to review them carefully. Before you replace the old with the new, take a few moments to compare them. Pay special attention to the adjustments that the companies' stock prices made relative to their reported earnings. This is the crux of the previously discussed issue of perception and reality. These graphs show if the company is under valued, overvalued, or fairly valued relative to its fundamentals and its historical norm. For example, if your company's stock price is less than its intrinsic value it should be very comforting since there is a greater potential for capital appreciation. It makes more sense to see this as the reality of value, than the panicky feeling that you are losing money. In these instances we think it is more sensible to see the glass as half full, rather than half empty. Nevertheless, we hope you take the time to make these comparisons.

Last of all, we hope you spend some time evaluating the forecasting charts. As professional investment advisors, nothing frustrates us more than when we believe our clients hold misconceptions about their holdings. All too often we find our clients happy and content when they should be scared, and scared when they should be happy and content. Here again is the perception vs reality issue at work. We offer these charts to provide you a sense of value and to help you differentiate reality versus misconception. The point we hope to drive home is your ability to recognize the distinction between, a company's stock price at a moment in time and its long-term business prospects. The following scenarios should help clarify:

If you purchase a momentum stock where price continues to rise, most investors are happy. That's fine, unless the stock has become dangerously overvalued placing your money and profits at risk. On the other hand, if you buy a stock whose price immediately falls, you are upset and probably frightened. In reality you may own a great business that's gone on sale. The ability to make these distinctions offers investors a tremendous advantage. To quote the great Peter Lynch in his best selling book "One Up on Wall Street": "Just because you bought a stock that goes up, doesn't necessarily mean you are right, and just because you buy a stock and it goes down, doesn't mean you are wrong." We

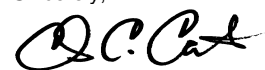
believe the earnings line on your forecasting charts are great aids towards measuring whether your stocks are overvalued, fairly valued, or under valued. The information is critical and invaluable to your long-term financial success.

At EDMP, we will continue to follow our proven discipline and its logical strategies. We will continue to ignore the temptation to forecast the stock market and the economy. Reflecting on 1995 clearly validates this approach. Last year goes on record as a great year for the stock market. Yet there were, as usual, many industries that did not follow the general trend. Stock markets and market timers are a fickle lot and will most certainly remain so. Patience will be rewarded when undervalued businesses come into favor again. We find it more rational to focus on the operations of proven well run businesses in growth industries.

There are basic investment realities that are persistent and will never change. In the short-run stock prices will fluctuate, reacting to an endless stream of news. However, in the longer run successful businesses will be rewarded, and unsuccessful businesses will be penalized. The companies' earnings which we talk so much about are the barometer which gauges business success or failure. Stock prices can lie in the short run, business success holds the truth. There exists no more powerful recipe for investment success than patience mixed with knowledge and perspective. The long-term ownership of well run and strategically positioned businesses will always reward investors handsomely over time.

As always, remember "*Earnings Determine Market Price, always have, always will*".

Sincerely,



Charles C. Carnevale  
President