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John Doe

EDMP, INC. Quarterly Review

PRESIDENT'S MESSAGE

New Improved Graphs

Calendar year 1996 is now on record as the sixth year of an unprecedented bull market. There appears to be no end to investors' appetite for equities. Federal Reserve Chairman, Allan Greenspan, coined the now infamous phrase "irrational exuberance" when commenting on current market levels. The media, of course, jumped on his words and, at least in this writer's opinion, denigrated the profound message his words represented.

At EDMP we believe that rational thought is the cornerstone of sound investing. Therefore, we are constantly reminding you, our valued clients, and your financial consultants, that the prices of common stocks do not necessarily represent intrinsic value. We strongly believe that the ability to know whether a company's stock price is representative of its true worth is a vital perspective for an investor to possess. This is why we go to such great lengths to provide you the enclosed information that we hope helps you be better informed long-term investors.

The enclosed year end reports are always the most comprehensive that we send you. In addition to the forecasting graphs, we also include updated historical ten year graphs. We constantly strive to improve the information we provide you as represented by several enhancements we have made to our graphs, both historical and forecasting.

On the ten year historical graphs we have added one additional piece of information. Please note that the last line item on these graphs now illustrate the compounded annual rate of return that your company achieved over the past decade. In short, you can now know the precise track record of each company in your portfolio.

On the forecasting graphs, we added two items which we hope will help you be better informed. First, on the bottom right hand corner of the chart, we have included the company's debt ratio. We hope this gives you added insight into the quality of the companies you own.

Next, if you look at the right hand edge of the graph, you will see that we have attached numbers to the ten lines that fan out from the estimated growth rate (eGR). The computer displays these as percentages consistent with the growth rate. However, if you ignore the percent sign, these numbers represent the price earnings ratio at which your company is selling. Therefore, if you note the line on the graph closest to the current stock price and follow it to the right, you can determine the approximate price earnings ratio at which the company is trading.

One of the core principles of our philosophy is that a company is at reasonable value when its PE ratio is equal to or less than its earnings growth rate. Please remember that this is a rule of thumb and that there are explainable exceptions to this rule. For example Coca Cola normally sells at a premium to its growth rate and Philip Morris normally sells at a discount to growth. The point is that we hope this additional information will aid you in being a more informed investor with a better perspective of each of your company's relative valuations, as well as your portfolio as a whole.

We would like to make some general comments regarding your portfolios. In the aggregate, we had a great year last year. As is typical with us, more established (older) portfolios did better than the newer ones. This is attributed to our policy of only being willing to invest in a great business when it is reasonably priced or valued. In raging bull markets like we have experienced for several years now, this often means buying companies when they are temporarily out of investor favor. In our view this is consistent with the old Wall Street adage "buy on bad news and sell on good news." Clichés not withstanding there are more valid and important reasons for behaving in this way. Exercising the judgment and patience to invest only when investing makes rational sense accomplishes, at least to us, two very important goals. First, we believe it dramatically reduces long term portfolio risk, and second significantly enhances long term performance. In our mind the only catch is the required tenacity to allow enough time to reap those benefits. Those of you who have been clients of ours for three years or longer understand this perfectly. The first year or so you saw your portfolios either underperform the market or just barely keep up. However, as these fallen angels come into favor again, we have enjoyed performance that dramatically exceeded the markets. This has translated into inception-to-date results that are either at least equal to, or in most cases significantly better than the averages. More importantly we believe this has been accomplished at risk levels which are much lower than the risks of owning the currently overvalued averages. Finally, except for a few companies whose fundamental outlook we are reexamining, your portfolios remain well positioned for future performance.

Regarding our newer clients, we sincerely hope that you will give your portfolios the requisite two to three years necessary for these benefits to manifest. We are confident that not only will this experience prove to be financially rewarding, it will also enhance your financial knowledge as well. History clearly demonstrates that the long term ownership of above average businesses is one of the most reliable methods for investor success.

In closing, we encourage all of you to review the enclosed information very carefully. We know you are going to look at your portfolio's results, and we realize that you should. However, it is also important to remember that short term price performance does not always tell the whole story. The enclosed newsletter and the enhanced graphs will go a long way toward providing you complete and relevant perspectives. At the very least we hope they illustrate the thoroughness and carefulness with which we monitor and evaluate your holdings. Finally, we encourage you to talk to your consultants or contact us for a portfolio review. Either your consultant or an EDMP representative will be delighted to help you get the most out of this important information.

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

Sincerely,

Charles C. Carnevale
President