December 1997 Volume 5.4
John Doe

EDMP, INC. Quarterly Review

PRESIDENT'S MESSAGE

Market Volatility and New and Improved Charts

Calendar year 1997 is now behind us and goes on record as a continuation of one of the longest and most powerful bull markets in history. The fourth quarter of 1997 was, however, a different matter. From October through December investors became nervous as evidenced by significant volatility and an apparent lack of direction in the financial markets. The Asian contagion gave investors something to worry about causing some very aberrant behavior. For example, in December, we witnessed dramatic drops in interest rates which normally cause stock prices to rise. With stock prices acting contra to conventional wisdom investors became even more unsettled.

At EDMP we fervently believe that it is precisely irrational times like these that most validate the extraordinary advantage of a sound strategy and rational discipline. Empowered with our proven philosophy we are prepared to exploit irrational short sighted investor behavior to our long-term advantage. Our only concern is that we can effectively communicate these advantages to you, our valued clients, so that you can see what we see. We are confident that if we can do this successfully you will enjoy superior long-term results at the lowest risks possible. This is our challenge and the primary focus of this quarter's letter.

A general overview of current market conditions should prove helpful. The phrase "flight to quality" is the common euphemism used today to describe recent financial market valuations. The word euphemism can be loosely defined as an attempt to substitute a good sounding phrase to describe something bad. In other words our interpretation of the phrase "flight to quality" would be purchasing significantly overvalued stocks (companies). Historical analysis and review clearly supports the undeniable fact that today the majority of America's greatest companies-Coca Cola, General Electric, Procter & Gamble etc., are selling at valuations as much as 100% or more over their long-term normal ranges. It is also a fact that they currently are continuing to go up. Consequently, we believe that investors are deluding themselves into believing that they have safe and good performing investments. It is our contention that historical realities will eventually set in and manifest. In other words, investors will someday realize that their portfolios are not low risk and more importantly that there is little future money to be made from these levels. High risk and low results are sure fire recipes for financial disaster.

An analysis of EDMP client portfolios paints, in our view, a different picture altogether. Successful long-term investors clearly understand a few simple undeniable investing truths. The surest way to make money over time is to buy low and sell high. This implies a recognition of intrinsic value and a long-term strategy. The only thing that makes this approach difficult is the willingness to go against the crowd. In short, you have to buy what others don't want and simply wait long enough for them to realize they are wrong. The confidence to do this comes from doing your homework in a disciplined manner therefore empowering you to make sound rational decisions rather than ill conceived emotional ones. Good investors are like good mountain climbers, they realize that between them and the highest peak there are several valleys that must be negotiated before they ascend to each higher level. The following analysis of the technology industry is offered to lucidate these profound investing principles.

During the fourth quarter of 1997, technology companies (stocks) experienced what could only be described as a major bear market. In other words, their stock prices fell a lot. At EDMP we believe this has created an opportunity of a lifetime to invest in companies that posses extraordinary future business opportunities at, in many cases, bargain prices. Although we did not find perfect bottoms, we are confident that each purchase was done at sound and reasonable levels that two to three years from now will prove to be prudent if not downright exciting buys. In our opinion this is similar to our purchasing pharmaceutical companies during health care reform in 1993. It took 18 to 24 months to materialize but our patience and judgment led to 35 to 40% or better annual long-term results.

In summary, here is our prognosis for the technology sector now and into the future. First of all, this is still a young and growing industry that has already proven itself as having a more dynamic and profound impact for mankind than the invention of the wheel or any of mankind's other great achievements. The short history of technology has been typified by rapid advances in knowledge and falling prices. We see this industry in the midst of a major transition to significant advancements across all sub-sectors. Tomorrow's computer will be faster, more powerful, easier to use and most importantly more broadly embraced by society and business worldwide. For example, industry experts predict the internet and internet commerce will grow 10 to 20 fold or more into the early part of the next century. The logical question then is if everything looks great why the bear market?

We believe that technology stocks are currently weak simply due to the short sighted, immediate gratification needs of most investors. In other words as the tech sector evolves from the older technologies to the newer technologies adjustments need to be made. Inventory must be cleared, plant and equipment must be updated, software must be written etc. This process produces a transitory and temporary drag on earnings and operating results. Investors looking only at the end of their noses panic and sell. On the other hand shrewd investors with vision (EDMP,Inc.) are buying these bargains like there is no tomorrow. Cabletron, 3Com, Atmel and Oracle are four classic examples, in our opinion, of great fundamentally sound businesses currently on sale. We see their transitory earnings weakness as merely the prelude to explosive and accelerating future growth.

In closing, technology is not the only sector experiencing price weakness. We simply offer it as a focal point to illustrate the power and safety of value growth investing.

Many smaller companies that are industry leaders, have strong market niches and excellent long-term prospects have been sold off by frightened investors. Any signs of temporary earnings weakness causes wholesale liquidation. It is this type of situation that we, as long-term investors, need to exploit. For newer clients who have started with us just as we entered this period, we have prudently kept cash reserves and are taking advantage of these opportunities as they arise.

As we have pointed out many times before, having the ability to know the difference between what a company is selling at versus what it is truly worth is a powerful advantage. To our knowledge only EDMP clients through our proprietary fundamental charts and graphs enjoy this significant benefit. Therefore, once again we offer new and improved charts and graphs included in this report. From now on you will receive the historical and forecasting chart on each of your holdings each quarter. Our goal and hope is that each quarter you will review your companies' track records and their normal logical valuations. If you can use this information, as we do, to ascertain what your portfolio companies are truly worth versus what their stock prices are trading at you will enjoy significant advantages that few investors have. As a side note, we believe its equally important to recognize overvaluation as well as under-valuation. This exercise will empower you to being a successful long term investor.

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

Sincerely,

Charles C. Carnevale
President