4th Quarter 2003

EDMP, INC. Quarterly Review

Trust True Worth™

Calendar year 2003 was a very good year for investors in general and even better for EDMP clients more specifically. Our superior performance in both bull and bear markets is a testament to the advantages of sound and prudent investing practices, and is not an accident. Since a brand new year is traditionally a time for reflecting on the past and planning for the future, we thought that it would be an interesting approach for this quarter's newsletter.

Therefore, let's first look back at last year (2003) and then further back to 2002, 2001, 2000, and 1999 and reflect on any lessons we can learn regarding investing. One lesson to be learned is that bad markets are the precursor to good markets, and vice versa. Good markets 1999 to 1st quarter 2000, led to bad markets, 2nd quarter 2000 to 2002, which led to a good market 2003. This is important to realize, because once understood it empowers you to make proper long-term decisions about investing money. Armed with this knowledge we know to buy during bad markets and never to sell into them. Conversely, we know not to be too aggressive during good markets with an attitude to sell being more rational than a compulsion to buy. In other words, buy low and sell high.

Unfortunately, this sage advice, though true, is easier for most investors to say than to do. We believe this is rooted in the difficulty that human beings, wired as we are, have in making huge leaps of faith. More clearly stated it's hard to be an optimist when surrounded by doom and gloom and hard to be a pessimist when surrounded by euphoria.

Consequently, just acknowledging that something is true is often not enough. The truth becomes powerful when we know why it's true, not just that it is. This deeper insight is the mother of trust that moves a belief to the more powerful position of a knowing. A belief leaves a modicum of doubt, a knowing is absolute. At EDMP there is one principle of investing that we know is true in the absolute sense. Unfortunately this principle, which is the ultimate key to investment success, is often ignored and or overlooked by most investors, most of the time. At EDMP, on the other hand, this principle is the primary focus of our attention and effort. This is why we made money during the bear market and continued to outperform in the recent bull market.

Directly stated, this vital principle is as follows: All businesses have a True Worth™, which can be calculated. This True Worth™ valuation is critically more important than the price that the so-called stock market may be depicting at any given moment of time. Yet, to its detriment the investing world puts more credence in today's market price than they do in True Worth™, which more often than not leads to disappointing results.

This monumental investing error can be attributed to the recently popular and widely followed concept known as Modern Portfolio Theory (MPT). The problem stems from a critical flaw in MPT's foundational principle that the stock market is efficient. In truth the stock market is always seeking equilibrium or efficiency and eventually gets there. However, the market is not always omniscient and therefore perfectly pricing stocks at all times, as MPT practitioners would lead us to believe. The recent bear market and bursting of the bubble in tech stocks is clear and indisputable evidence of this fact.

The point is, that it is more accurate and ultimately profitable to acknowledge the reality that the stock market can and will from time to time be very inefficient in its pricing of stocks. Furthermore, it is more prudent and profitable to be on guard and vigilant to the dangers and opportunities that these normal, although temporary, anomalies in pricing present.

The primary method or way to accomplish this is by applying the principles of what we at EDMP affectionately refer to as Ancient Portfolio Reality™. The principles of Ancient Portfolio Reality™ are the very same principles of business, economics and accounting. The most important of which, is the realization and understanding that the True Worth™ of a business, any business, is always a function of the past, present and future earnings and cash flows that the business can generate for its stockholders.

Most importantly, this True Worth™, or otherwise known as intrinsic value, can be calculated. It's merely a matter of running the numbers. This can be accomplished with close to perfect precision when calculating past intrinsic value or True Worth™ because all the necessary mathematical information is known, unless of course the numbers are fraudulently reported. Present and future True Worth™ calculations are a bit trickier because forecasting has to be applied. Nevertheless it can still be accomplished within reasonable margins for error that can protect assets and create profits as well. This is certainly more sound than buying into the false notion that stock prices are always rational or efficient.

The moral of this story is that to successfully invest money an investor is best served by placing their trust in True Worth™, rather than in an often fickle and deceitful stock market. The rationale behind this principle is that the most important factor that generates gains instead of losses for investors is valuation. Pay too much, for even the best of companies and you will most assuredly lose money. On the other hand as long as you buy at or below True Worth™ even mediocre businesses will prove profitable over time. Of course the ideal, if possible, is to exercise the patience and judgment to buy the best companies at or below True Worth™. When this is accomplished, remarkable results are sure to follow regardless of what the stock market may do.

At EDMP we strive to only apply sound investing practices for the long-term benefit and financial security of our clients. True investing implies paying attention to the fundamentals of the portfolio holdings. It becomes speculation when one attempts to exploit the volatility of the stock market. The differences between these concepts, investing versus speculating are profoundly important to long-term financial health. True investors know to Trust True Worth™.

There are other important investing principles that need to be considered. For example, turnover or activity is a clear indication of whether someone is speculating or investing. The higher the turnover the more speculative the strategy becomes. As we at EDMP like to say "a portfolio is like a bar of soap the more you handle it, the smaller it gets."

In future quarterly newsletters we will elaborate more on these and other important investing principles. However for this quarter's report the mantra is Trust True Worth™.

With good past performance behind us, its important to turn our attention to the future. At EDMP we believe that the very same principles that generated our past performance will likewise be the driver of our future performance. As previously discussed in this letter, we believe that valuation is the most important portfolio characteristic to get right. As long as we maintain a solid base of earnings, cash flows and assets underpinning our holdings, we have little to worry about and a lot to look forward to.

Importantly, there is a very clear distinction that needs to be made between our current holdings and the broader market. If you read the financial press, or listen to the financial media, you are likely to hear that due to the recent run-up in the stock market, valuations are once again getting high. Generally, we would agree with this position. For example, in October of 2002 there were over 400 high quality large capitalization companies (stocks) that met our valuation criteria and were therefore on our list of potential buys. Today, that list has dwindled down to less than 70. However, there still are 70 and we normally only need 25 to 30 from which to build a portfolio. Remember, we do not invest in the stock market; we build your portfolios one company at a time.

Most importantly the companies that we currently hold in your portfolios are both on the buy list and attractively valued. Given the current strength in the economy and the general expectation for this strength to continue, future earnings growth for most companies should be exceptional. The point is, this should lift the stock prices of our holdings, which are fairly valued, more than it does the broader market, which is overvalued. It has always worked that way in past and we see no reason for it to be different in the future.

Consequently we remain very optimistic that your portfolios should continue to outperform at an attractive level going forward.

And, as we hope you all agree: in the long run ***Earnings Determine Market Price***. Always have, and always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer