

“The Long and Short of It”

Quarterly Newsletter from
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Third Quarter, 2000

Returns for the Third Quarter were more encouraging for investors and, in particular, value investors. The Russell 1000 Value Index returned 7.4% during the quarter, well ahead of the S&P 500 Index and the NASDAQ Composite Index which returned -1.0% and -7.4% respectively. Returns for the equity indices we use as benchmarks are as follows:

	-----Annualized-----				
Returns for periods ending September 30, 2000:					
Index	3rd Quarter	YTD	1 Year	2 Year	5 Year
<i>Russell 1000 Value Index</i>	7.4%	1.6%	6.6%	11.4%	14.8%
S&P 500 Index	-1.0%	-1.4%	13.3%	20.3%	21.7%

During the Third Quarter we saw acceleration in the movement away from growth stocks, especially technology and telecommunications. With multiple interest rate cuts and rising crude oil prices, it appears a slowdown is sure to arrive. Whether a recession is in store is unknown, but may depend on future changes in crude prices as much as anything. If the response by investors remains calm, we see no reason that a recession must occur. However, this has been the longest expansion and bull market in history so one could say we are due for the undesirable.

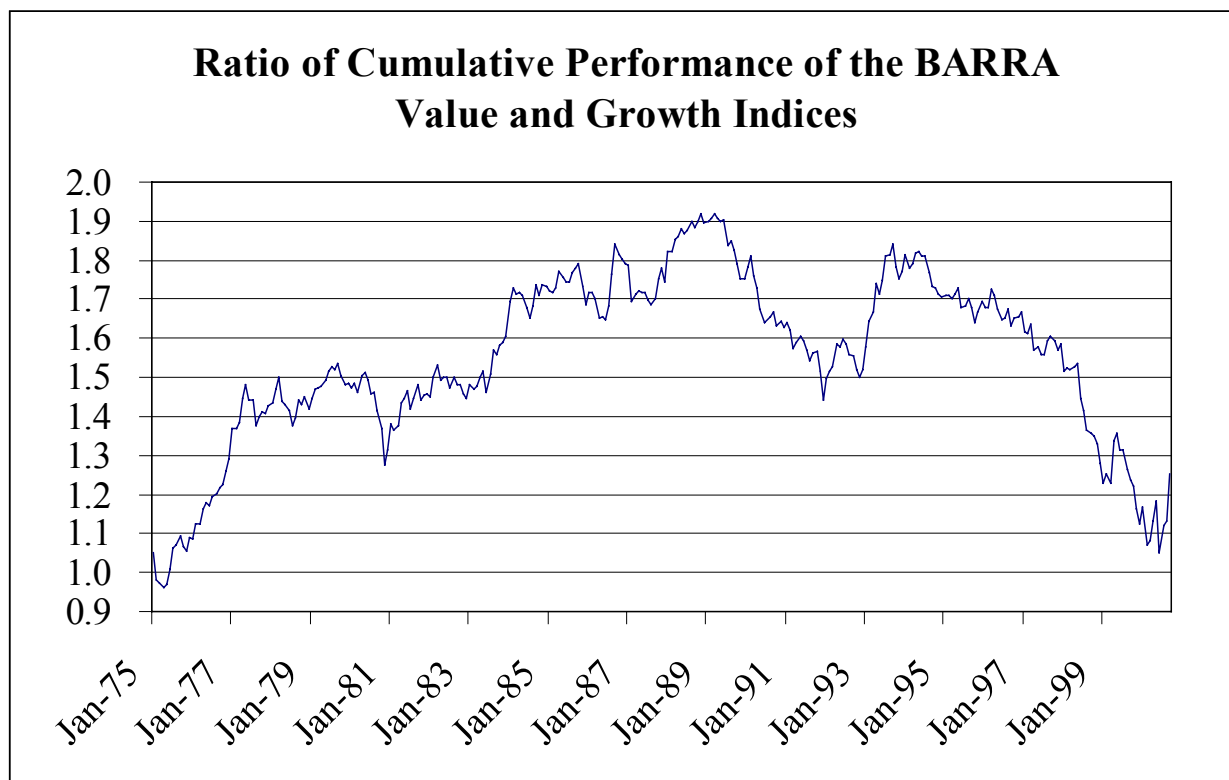
Yet, our investment process does not put undue emphasis on the latest temperature reading of the economy. We remain invested in solid businesses that are selling at historically attractive prices. It remains our goal to generate the good, solid returns that are consistent with our value-oriented approach even though the investment environment may be very difficult on occasion.

The price-to-fundamental profile of our equity portfolio as of August 2000 is as follows:

Fundamental Valuation Measure	RW Equity	S&P 500
Price-to-book value per share	3.0	5.8
Price-to-sales per share	2.0	3.7
Price-to-EBITDA per share	7.1	14.7
Price-to-earnings per share	16.8	35.9

Some disturbing facts came this quarter from Jack Ciesielski, an accountant from Baltimore. As reported by Barron's, Mr. Ciesielski added up the value of employee stock option grants for companies in the S&P 500 – an expense that the Financial Accounting Standards Board allows to be omitted from the Income Statement, thereby leading to an overstatement of earnings. He found that the earnings overstatement in the S&P 500 was 1% in 1995, 2% in 1996, 4% in 1997, 5% in 1998 and 6% in 1999. With reported earnings of \$386.8 billion in 1999, the fair value of the 4.6 billion stock options granted by the companies in 1999 was \$22.9 billion. Of course the only place to find these numbers was in the footnotes.

The chart below shows the cumulative performance of the BARRA Value Index divided by that of the BARRA Growth Index from December 1974 through September 2000. Although value has given up much of its superior performance over recent years, one can see that a modest recovery took place last quarter. By way of example, \$1,000 invested in the Growth and Value Indices on December 31, 1974 would have grown to \$45,084 and \$56,540, respectively by September 30, 2000.



Finally, our primary broker, Donaldson, Lufkin & Jenrette (DLJ), has been purchased by Credit Suisse First Boston (CSFB). The combined entity will have equity capital of nearly \$24 billion, more than 26,500 employees, and total assets of \$590 billion. The scale of this new organization will position us to serve you better as the enhanced global resources available to DLJ – Investment Manager Services will allow it to dramatically accelerate the development of its capabilities. The name DLJ, which you see on your statements, will change. Do not be alarmed. We believe the change represents progress and an appropriate evolution for the better.