

The Long and Short of It

Quarterly Newsletter from
Robinson & Wilkes, Ltd.
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Finding the Bottom

With hopes of a recovering economy, the First Quarter of 2002 brought rising interest rates and a generally weak equity market. The only strength in the equity markets came between February 22 and March 11, a rally that was impressive in that it had considerable breadth. Unfortunately, the advance was unable to sustain to quarter end.

While the Dow Jones Industrial Average posted decent gains, the S&P 500 was essentially flat and the NASDAQ Composite saw mid-single digit losses. Value indices outperformed Growth by several percentage points, and small cap stocks outperformed large.

International stocks and gold stocks delivered strong performances, which hints at excessively loose monetary policy, growing concerns about inflation and the strength of the dollar. We will have to wait to see whether these possibilities become reality, but these concerns are common at this stage of the business cycle.

Rising interest rates are beginning to make bonds appear attractive. In particular, the economic concerns have pushed yields on lower quality issues to very high spreads over the treasury markets. If there is more news of economic recovery, the spreads will narrow to more normal levels and treasury yields will also rise more, giving

us a chance to buy some of the higher quality bonds that we prefer.

However, our decision making process does not look to the economy for direction, but to individual stock valuations. Our research continues to indicate that the stocks we follow, on average, remain priced at a 20% discount to fair value.

Again, the companies we follow closely are large cap companies that have relatively clean balance sheets and a minimum of ten years of publicly traded history. There are only 190 of these companies, which obviously excludes much of the overall market. And we are not in the business of predicting what the market will do. We find the affordable pricing of these stocks to be encouraging, but there is obviously no guarantee they will not drop further.

Accounts Deceivable

There is plenty of fear to go around with respect to corporate accounting. During the First Quarter, everyone seemed to be looking for the next Enron. Fortunately we never owned the stock, but it seems a bit extreme to believe that every company that has an accounting issue has a good chance of being out of business by year-end.

Though accounting abuses are likely to take place frequently in our economic system, fortunately most fall into gray

areas of GAAP interpretation or they are relatively small in comparison to the fine print and “not-in-print” at Enron. The U.S. economy is not composed of paper tigers.

An event like Enron’s collapse is extraordinary. Most attempts to paint other companies as bound for a similar destiny should be scrutinized carefully, even used to prompt consideration as an investment opportunity.

Of course there will always be a crook at the helm of some company. There will also be bright executives who simply lack the experience or ability required to run a company. These managers can occasionally fail to see their mistakes, even when they are large enough to be considered criminal. In addition, even the most in-depth investigation and analysis by analysts and investors often will not disclose which executives are the crooks or the weakest links. That is why diversification among at least 20 companies is always a good idea.

Structural Update

As mentioned last quarter, Robinson & Wilkes, Ltd. converted from a limited liability company to a Texas limited partnership. The corporate general partner/manager of Robinson & Wilkes, Ltd. is RW Value Management, Inc., which is co-owned by Charles Robinson and Michael Wilkes.

We have moved our offices to “The Registry,” a building that we like very much. The address and phone number are at the top of this letter. The move itself was quick and uneventful, taking much less time than we imagined. It is

our hope that you will drop by to see us soon, if you have the opportunity.

In addition, we now have a web site that can be found at www.robinsonwilkes.com. It contains more information about Robinson & Wilkes, Ltd. than you probably want to know. We hope you will take the time to visit the site occasionally, as it will contain updates on the performance of our composites and other disclosures about the company. Suggestions are always welcome. Also, please feel free to tell others of the site. It is a great way for them to investigate what we do. There is no more reliable source of new business than client referrals. Your help would be greatly appreciated.

Finally, though many of you have already seen this announcement, we like it, so here goes again. Robinson & Wilkes, Ltd.’s Equity Composite placed on the Efron PSN “Top Gun” lists of top performing products for the second and third time at the end of 2001.

PSN is an advanced software application offering investment professionals high-quality, in-depth data on domestic and global investment managers. For each category of product, the ten top performers make the “Top Gun” list. In PSN’s Domestic Large Cap Value Universe (318 products), Robinson & Wilkes, Ltd.’s Equity Composite was a “Top Gun” for the Fourth Quarter of 2001 and for the three-year period ending December 31, 2001. A copy of the report from Efron can be found under the “Performance” section of our web site.

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