THE LONG AND SHORT OF IT

QUARTERLY NEWSLETTER FROM

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Investor anxiety took over during the third quarter of 2002, with the S&P 500 dropping nearly 18% - its worst quarterly performance in 15 years. The last six months were the worst in 28 years, losing 29%. The NASDAQ Composite dropped nearly 20% for the quarter, leaving it down 40% for the year thus far.

Fear manifests itself in many ways, but usually it can be identified when the supporting arguments as to why to be fearful exhibit a misinterpretation or misstatement of fact. One statement we have heard from too many people is that we may be entering a sustained period where stocks simply will not go anywhere. The next decade could very well be a low growth period, resulting in moderate returns from the equity markets. But many investors go on to recall two periods, the first from 1929 to 1953 and the second from 1965 to 1982, when the stock market "Did not go anywhere."

What actually happened to investors during these two periods? In those periods an initial high was reached, then not surpassed for a long time. In August of 1929, the Dow Jones Industrial Average reached about 380. It did not surpass that number again until November of 1954. Likewise, in December of 1965, the Dow Jones Industrial Average reached about 1000. It did not surpass that number again until December of 1982. While it sounds as though stocks offered little to no return over these periods, one must remember to include dividends. In addition, it is very important to consider the performance relative to inflation as well as to compare the returns to other investment opportunities.

The table below illustrates the cumulative and annualized returns of several asset classes during these periods of time when stocks went nowhere, 1929-1953 and 1965-1982. Inflation is also included as a reference point.

Time Period	8/1929 to 11/1954		12/1965 to 12/1982	
Asset Class	**Annualized Return**	**Cumulative Return**	**Annualized Return**	**Cumulative Return**
Small Company Stocks	4.3%	730%	14.9%	953%
Large Company Stocks	3.1%	357%	6.8%	206%
Corporate Bonds	2.2%	194%	4.9%	125%
Long Term Government Bonds	1.8%	151%	4.4%	109%
Intermediate Term Government Bonds	1.5%	112%	7.0%	216%
U. S. T-Bills (91 Day)	0.4%	20%	7.0%	218%
Inflation	0.9%	55%	6.8%	206%

These numbers demonstrate that for the duration of these very difficult times for stocks, there were no better liquid financial instruments to be found. Though Intermediate Bonds and T-Bills edged out Large Company Stocks during 1965-1982, one could argue that a diversified portfolio of stocks would have included some of the attractive results offered by Small Company Stocks.

Although cumulatively stocks did well for the two periods, there were intervals of underperformance that were quite painful for investors. For perspective, let's compare them with what we have just experienced. From the highs in 2000 to the end of the third quarter 2002, the total return of the Dow Jones Industrial Average was –33%, the S&P 500 -46%, and the NASDAQ Composite –77%. From the first time the Dow hit 1000 in 1965 to the bottom of the market in September of 1974, total returns on Large Company Stocks were –8%. From the top in 1972 to the bottom in September of 1974, total returns on Large Company Stocks were -43% - the difference between the returns of the two periods being the dividends paid from 1965 to 1972. So we have now matched and slightly surpassed the severity of 1973-1974.

The 1929 bear market was considerably worse, dropping 83% before reaching bottom. Though a drop like 1929 cannot be ruled out, most expect (and we would agree that) 1929 should not be repeated. Today, the Federal Reserve responds to crisis by providing liquidity instead of removing liquidity as they did in 1929. However, in that exceedingly difficult environment, if one had invested in stocks in December of 1930, when the market had dropped 46%, as it has today, one would have received a 17% (3.1% annual) from that investment over the next 5 years. While that may not seem like a lot, it was considerably better than T-Bills, which offered 3% cumulative (0.5% annual). More importantly, stocks outperformed inflation by 31% (6.1% annual) during those five years. Clearly you did not have to buy at the exact bottom to do well in stocks during the Great Depression.

While the drop from 1929 to 1932 lasted 34 months, the current decline has come from tops put in 33 months ago in the Dow and 31 months ago in the S&P and NASDAQ. At this stage of the bear market, we can see no reason to be anything but aggressively optimistic about the opportunities in stocks, especially when compared with other opportunities.

1974, like 2002, was a mid-term election year and the bottom was put in during September. Historically, returns from the fall of an election year to the end of the next year have been excellent and we are hopeful that historic patterns will repeat themselves. The bull market that took the Dow over 1000 in 1982 began in the fall of the year, which also was a mid-term election year.

More importantly, 1) Valuations, which we wrote about last quarter, are even more attractive now, 2) The growing level of bearish consensus, fear and uncertainty will not last forever, and 3) The recent acceleration of dropping prices driven by fear and uncertainty should culminate in a meaningful bottom. Moreover, the large amount of insider buying recently suggests insiders see their own stocks as compelling values. Finally, the recent record total position in shorted stock suggests a large latent supply of buyers of stock. Eventually many of those positions will have to be covered through repurchase. As value investors, we believe that volatility creates opportunities, if one has the valuation resources and discipline to take advantage of it.

This year, the value indices are under performing their growth-oriented counterparts. Robinson & Wilkes, Ltd. being further down the value spectrum than the indices tends to suffer most when value under performs. Over the long run value wins out by a considerable margin. It does require discipline and commitment, as well as some patience. We hope that you are healthy and know that better times will come again.

On a personal note, we wanted to update you on the well being of our patient, Michael Wilkes, who had bypass surgery on October 6, 2002 after experiencing "some tightness of the chest." The surgery was a great success (he was sent home 5 days later) and he will be returning to the office in several weeks. Please join us in wishing him a complete and speedy recovery.

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