THE LONG AND SHORT OF IT

QUARTERLY NEWSLETTER FROM

ROBINSON & WILKES, LTD.

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The Numbers

In the first quarter of 2003, the stock market took away much of the previous quarter's gains. Moreover, value underperformed growth during the quarter and large-cap managers underperformed small-cap managers. According to Morningstar, the Large Value Investment Style was down 6.9% in the first quarter, while Large Growth was up 1.1%. Small Value was down 4.1%, while Small Growth was up 4.6% during the quarter. The Robinson & Wilkes Equity Composite (RWEC), which is large-cap and somewhat more value-oriented than the Morningstar Large Value Investment Style, was down 7.5%, net of fees, which is consistent with its investment profile. It was a challenging quarter for the large-cap value discipline.

The profile of returns in the first quarter of 2003 was consistent with the results of the past nine months. The NASDAQ Composite Index was down 8.3%, the BARRA Growth Index was down 9.7%, the S&P 500 Index was down 13.1%, the Barra Value Index was down 17.6%, and the RWEC was down 21.0%, net of fees. During this period, the more value-oriented the style, the worse the results.

After dropping dramatically in 2000 and 2001, technology and other growth stocks have been experiencing what is known as a "relief rally" over the last nine months. Typically, after an extended move in one direction, investments change directions, if for only a little while. One might say growth stocks had become over-sold and were due a change in direction. Their strength is likely to be temporary though, as valuations on most technology stocks are not compelling.

Bubble Deflated, Opportunities Seen

A value-oriented approach to investing has provided a more attractive return profile over the long run than a growth-oriented approach. The returns are higher and the risks are lower. At Robinson & Wilkes, we understand the importance of sticking with the winning approach, **especially** when it feels most difficult. Being a value investor inherently means being somewhat contrarian. We sympathize with our clients and all investors in these difficult times; but we also want to encourage staying the course. Turning points and great opportunities usually come when the desire to abandon the quest is greatest. Those of you who were with us in late 1999 know this to be true.

In a March 13, 2002 article, David Dreman, a long-time, successful value-oriented and contrarian investor, makes some useful observations. He argues that "There's a lot of value in the market, but we've never seen a bubble as large as the tech bubble in American financial history. It was about three times as large as the bubble in 1929. There's a high valuation in stock prices, there's a lot of problems, and a lot of people have been hurt. We've never seen a period where seven or eight trillion in investor's money has been wiped out, or where there's been an absolute lack of confidence in brokerage houses and in the accounting industry."

Continuing, Dreman says, "People are nervous. It's not an easy time for any money manager. People are starting to lose their belief in stocks. I've been a money manager for more than 30 years, and I've never seen it like this. But I think at the same time, anybody who buys high-quality stocks with good earnings and dividend growth, if they have the stomach to take the volatility for a couple of years, should do very well over time."

Sentiment Low, Cash Balances High

When asked whether it would be a good idea to invest in the stock market, only 29% of the participants in a late 2002 Associated Press poll thought so. In April of 1998, 67% of the participants thought it would be a good idea. These polls illustrate how negative investor sentiment has become.

Moreover, fear as measured by cash balances, is very high right now. BCA Research recently reported that cash, as measured by money market funds and savings deposits, has grown over the last three years from 25% of stock market capitalization – an extremely low reading – to 60% of stock market capitalization. Falling yields on this cash have led to a decline in the interest received from $240 billion to about $60 billion. Clearly, there is a lot of cash to be deployed into the stock market when investor fears subside. The low return on cash makes the temptation to move into interest bearing bonds or dividend paying stocks even greater.

Economy at Least Stable

With the pervasively negative media coverage of the stock market, which is likely to be as wrong now as it was errantly positive in early 2000, we thought you might be pleasantly surprised to know the economy is not dead. To wit, Larry Kudlow's economic review in his March 3, 2003 article at Townhall.com:

> "The latest report on gross domestic product was twice as strong as expected. When you take out the reverse algebra of trade-balance accounting, domestic GDP is up nearly 3 percent. Capital-goods investments by businesses have increased three straight quarters at an average 9 percent gain. Inflation is less than 1.5 percent, a miniscule amount. And both the money supply and commodities - including aluminum, copper, steel, tin and zinc - are rising, meaning that some of our cash-strapped businesses are getting back in the money."
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> "Fourth-quarter profits were up 14 percent. Durable goods retailers (automobiles, trucks and office/business equipment) were up 10 percent, the health-care sector was up 18 percent, telecoms were up 16 percent, and airlines were up 39 percent."
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> "Last year, the S&P 500 had an earnings per share of $45.80. This year, with 3 percent economic growth and 12 percent corporate profits, earnings per share could be $51.90, a 13 percent gain. With the humongous stock market correction of the past three years, the S&P 500 is now back to its long-run trendline growth of 7 percent per annum since 1969."

Staying the Course

Although it is our policy *not* to pontificate on the economy, and there are some less encouraging facts not mentioned by Larry, it is likely that things are not as grim as the average investor feels today. While we also do not attempt to predict the direction of the market in the short run, we do believe strongly in the merits of our value-oriented, somewhat contrarian approach, as well as the benefits of staying with equities over the long run. Like Mr. Dreman, we try to avoid the natural queasiness that comes with difficult moments. Instead, we try to use those times to take advantage of the opportunities they present. We do that primarily by making adjustments into higher quality stocks with solid long-term operating prospects that are currently out of favor.

With the growth style of investing currently outperforming the value style, the temptation is to make a switch. The attached monograph offers a unique look into the performance of the value and growth styles of investing, and demonstrates why acting on the temptation is not good for your financial health.

Style Investing: Value vs. Growth

Investing feels pretty bad right now for nearly everyone, but perhaps more so for value investors. The value style has been under performing for the last nine months. Is the value style's recent underperformance evidence that the growth style is better? It is an important topic and one we would like to discuss in more detail with you. We believe the more you understand about your style of investing at Robinson & Wilkes, Ltd., the easier it will be for you to weather the storms which invariably come every investor's way.

Conventional Wisdom

1) Swings between value and growth take place regularly.
2) It is difficult, if not impossible, to predict style swings. Therefore, it is not advisable to "style time" to seek better returns.
3) To reduce volatility, one should have equities managed in both styles.
4) Which style you choose to overweight depends on your risk profile. That is, aggressive investors who are willing to accept greater risk and volatility in exchange for higher returns should overweight the growth style; and more conservative investors who are not willing to accept big swings in their investments should overweight the value style and accept lower returns.

We agree with the first three statements. We also agree the growth style carries greater risks. History, though, demonstrates that greater returns do not necessarily follow greater risks. Over the long term, the value style has produced greater returns with less risk. The following is an attempt to demonstrate the truth of this statement. So we encourage you to take the time to understand the following so as to reduce the time you need to spend worrying about your investments. All investment approaches are not made equal, and you have the best we can find.

Some Differences Between Value and Growth

"Value" investing and "Growth" investing mean different things to different people. Probably the most common conception is that value stocks have lower price-to-earnings and price-to-dividend ratios than do growth stocks. That is, the price per share of value stocks relative to their earnings per share and dividends per share is lower than in the case of growth stocks. The higher multiples growth stocks (price relative to fundamental measures such as book value, earnings and dividends) is justified by the belief that those companies will grow faster than other companies. In other words, "growth" companies carry large expectation risk, while "value" companies are not expected to do such great things. From this perspective, it is common sense that value stocks have less risk – you pay less for a dollar of earnings and you are only expecting them to do what they have demonstrated a reliable capacity to do in the past. When multiples and expectations are already low, the risk of significant downward price movement is reduced.

Investment managers representing compliance with AIMR performance presentation standards must select a benchmark against which to measure their returns. Robinson & Wilkes, Ltd. has selected a widely accepted benchmark for large-cap, domestic, value investors, the S&P/Barra Value Index. Barra uses another fundamental measure of value, the book-to-price ratio, to differentiate between value and growth companies, and their website contains the following description of its value and growth indexes:

> "In 1992, Standard and Poor's and Barra began a collaboration to produce Growth and Value subsets of S&P's industry-leading equity indexes. Academic research pioneered by Nobel Laureate William Sharpe, and continued by Eugene Fama, Kenneth French and others have confirmed the validity of the growth/value distinction in terms of differential returns over time."
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> "The value index contains firms with higher book-to-price ratios; conversely, the growth index has firms with lower book-to-price ratios. Each company in the index is assigned to either the value or growth index so that the two style indexes "add up" to the full index."
>
> "Generally, the companies in the value index also exhibit characteristics associated with "value" stocks: lower price-to-earnings ratios, higher dividend yields, and lower historical and predicted earnings growth."
>
> "Similarly, the beta of the growth index is generally larger than that of the value index. This implies that the growth indexes will outperform value in periods where the full index has positive excess return (i.e. return net of the return on treasury bills) and underperform when the full index has negative excess return."

The Barra website states that growth has greater risk and thus should deliver a greater return than value. As stated above and demonstrated below, results have not been entirely in keeping with theory.

Value Less Risky than Growth

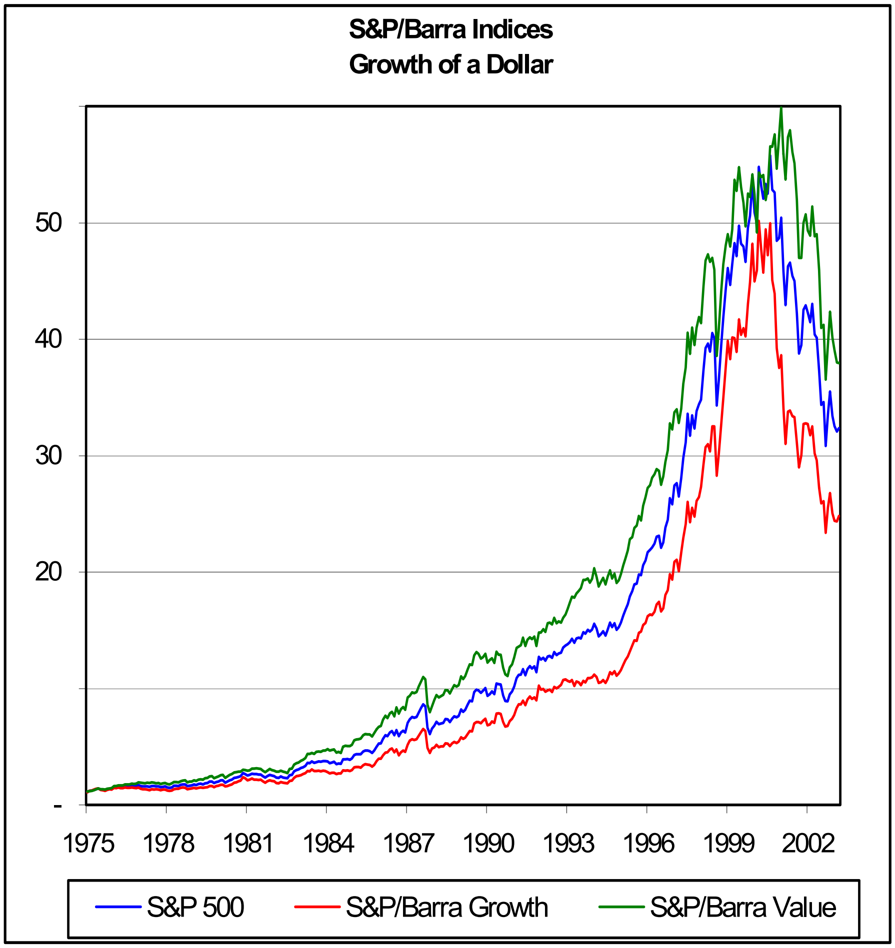
The overall risk in a value-oriented approach is lower. "Beta" is a measure of an asset's sensitivity to movements in the market, with the common understanding that the higher the beta the greater the risk. Barra says growth is riskier than value using beta as its measure (See Barra quote above).

While beta measures volatility relative to the market, another widely accepted measure of risk, standard deviation, measures absolute volatility. "Standard deviation" is a statistical measure of returns around the mean return, with the higher the standard deviation the greater the risk. In other words, it is a measure of the variance of returns. Using monthly returns, we measured the standard deviation of the indexes and found the risk differential between value and growth to be as profound as the beta differential. Over 28+ years, the S&P/Barra Growth Index has had a standard deviation of 4.9%, while the S&P/Barra Value Index has had a standard deviation of only 4.3%; a 12% reduction in risk.

Other more sophisticated measures of risk are also used, but space and practicality do not permit their inclusion in this article. They do, however, also support the assertion that growth is the riskier style. Finally, as stated above, common sense tells us that lower multiples reflecting lower expectations are less risky.

Value has Outperformed Growth

The "Growth of a Dollar" chart shows the total return of the two indexes as published by Barra for the period from December 31, 1974 to March 31, 2003. While one can invest in funds that attempt to mimic the indexes, one cannot actually invest in indexes themselves. As a result, a "Growth of a Dollar" chart using indexes does not account for the impact of commissions, other execution costs, taxes, etc.



The S&P/Barra Value Index has clearly outperformed the S&P/Barra Growth Index since inception. A dollar invested in the S&P/Barra Growth Index grew to **$24.83** while a dollar invested in the S&P/Barra Value Index grew to **$37.94.**

The annualized returns for the indexes are shown in the table below, with the S&P/Barra Growth Index returning 12.0% and the S&P/Barra Value Index returning 13.7%. 13.7% exceeds 12.0% by 1.7%, which is a 14% improvement in return. When the annualized improvement in return is compounded over 28+ years, the end result is a dollar invested in value being worth 53% more than a dollar invested in growth.

Higher Returns with Lower Risk Means a Better Product

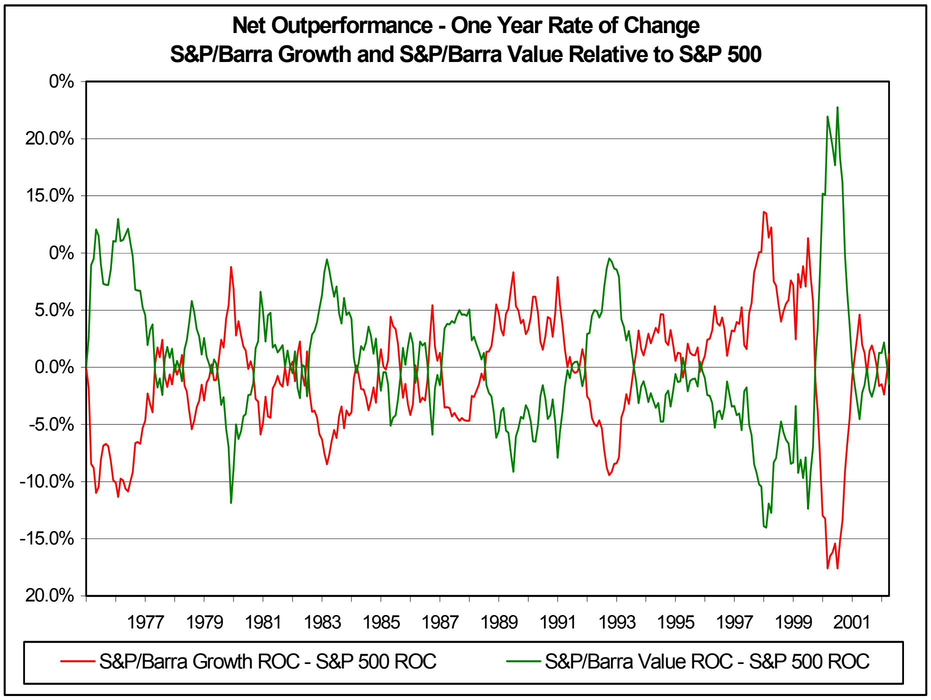
The real advantage of a value-oriented approach becomes clear when one realizes it provides greater returns with lower risk. One common way to measure the value of an investment style is to divide its return by its risk (as measured by its standard deviation). An investment is of greater value the greater its return per unit of risk. The table below shows that the reward per unit of risk for the S&P/Barra Growth Index is only 2.4 while the reward per unit of risk for the S&P/Barra Value Index is 3.2. By this measure, a value approach as a product is 30% better than growth.

Return & Risk Measures 12/31/74 to 03/31/03	S&P/Barra Growth Index	S&P 500 Stock Index	S&P/Barra Value Index
Annualized Return (Reward)	12.0%	13.1%	13.7%
Standard Deviation (Risk)	4.9%	4.5%	4.3%
Return / Standard Deviation (Reward/Risk Ratio)	2.4	2.9	3.2
Sharp Ratio	70%	85%	95%

A somewhat more rigorous measure of reward relative to risk is the Sharp Ratio, which measures a portfolio's excess return relative to the total variability of the portfolio. It is named after William Sharp, Nobel Laureate, and inventor of the capital asset pricing model. The sharp ratio of the two indexes displays an even more dramatic improvement in results, with the S&P/Barra Value Index at 95%, a 36% better result than the S&P/Barra Growth Index reading of 70%.

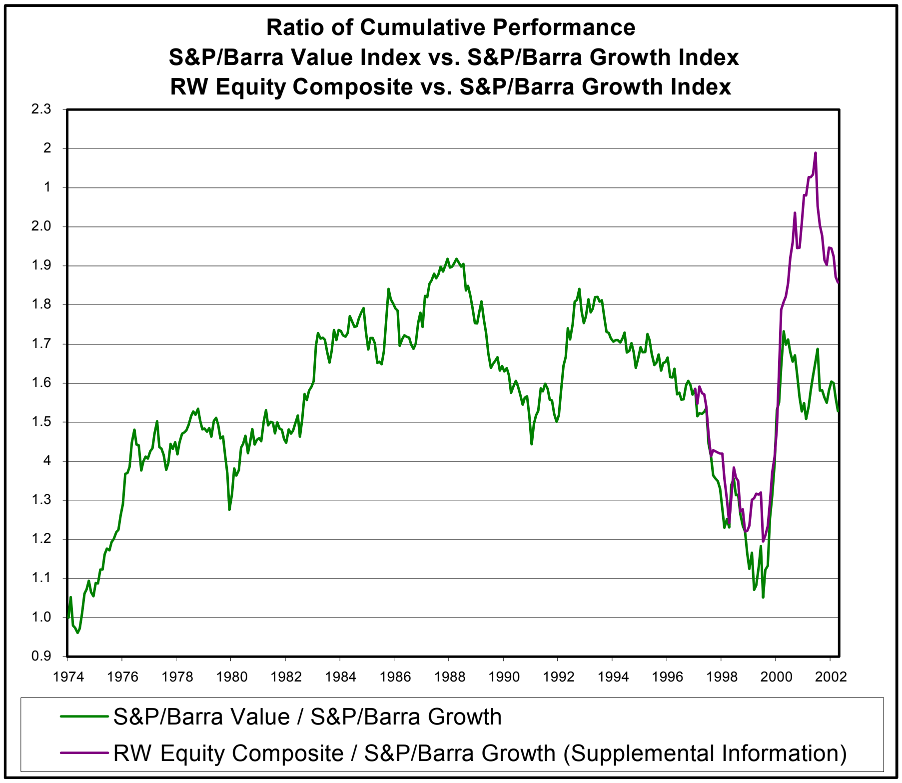
Putting It All Together

The chart to the right shows the one-year rates of change (ROC) of the Growth and Value Indexes relative to the S&P 500. Since the two indexes combined make up the S&P 500 Index, the performance of one is a mirror image of the other. They seem to take turns with one another, leading then lagging in intervals just consistently enough to tempt one to discern some cyclical regularity. While the indexes' performances are cyclical, there is not sufficient regularity to permit one to time style entry and exit any more than one can time market entry and exit. The chart does, however, demonstrate the following observations.



The growth style began an unprecedented ascent against value late in 1996 that lasted until the top of the dot-com bubble in mid 2000. As the bull market collapsed, value outperformed growth at a rate that was even more impressive, though brief, lasting only one year until mid 2001. Since that time, value has relinquished some relative performance back to growth. With the demise of the bubble, it appears the dramatic divergence in performance between the styles is fading. The end result is that since 1996, the total return from either index has been about the same. If the future is more normal than the last six years – no more bubbles – we expect to see the predominant pattern of the last 30 years to resume; value should resume its outperformance of growth with lower volatility.

Our final chart further demonstrates the relationship between these two indexes, and the superiority of value over growth, by plotting the ratio of value's cumulative performance to growth's cumulative performance. The ratio is calculated simply by dividing the "Growth of a Dollar" for value by the "Growth of a Dollar" for growth. The green line in the chart shows the cumulative outperformance of value, as well as value's relative decline during the bull market.



Note that the chart confirms our earlier statement that when the S&P/Barra Value Index's return outperformance is compounded over 28+ years, the end result is a dollar invested in value being worth 53% more than a dollar invested in growth (value's relative performance is 1.53 times growth's relative performance).

Also worthy of note is that, in terms of relative performance, (i) in 1988, value had accumulated over 90% in cumulative outperformance over growth, and (ii) the indexes are again at the same relative levels as when the bull market began in 1983.

Robinson & Wilkes, Ltd.'s Relative Performance

We have added a purple line to our Ratio of Cumulative Performance chart. It plots the ratio of cumulative performance of the Robinson & Wilkes Equity Composite (RWEC), net of fees, to the S&P/Barra Growth Index since the inception of our company. The purple line clearly demonstrates two results of our performance. First, RWEC returns track those of the S&P/Barra Value Index better than the S&P 500 or the S&P/Barra Growth Index. They should, as we are value-oriented in our approach and the value index is our benchmark. Second, while the RWEC has given back some of its excess returns; it has significantly outperformed both indexes since its inception. Index funds became popular because so few investment managers were able to beat the indexes. We thank you for the opportunity to invest your money.

Conclusion and Some Good News

Historically, while every style has its good and bad times, in the long run, owning stocks with low multiples has led to <u>both better returns and less risk</u>. Most investors have difficulty obtaining higher returns, not because these concepts are hard to understand, but because they abandon their approach when the going gets tough. Because the greatest returns seem to come most often right after the going has been tough, investors need to embrace their approach more fully at such times. Switching to an approach that has just been in a favorable cycle usually results in catching the approach as it then enters an unfavorable cycle.

We would like to let our readers know that in the last several months, two fine individuals have joined our efforts to deliver superior investment management services. Tom Broughton joined the firm as an investment analyst. Tom has ten years of experience in the investment industry, recently completed his MBA from UTSA, and will be a valuable addition to our team.

In addition, after providing administrative support services on a consulting basis for some time, Ruth Wilkes is increasing her involvement through employment with the firm to meet its expanding need for administrative assistance. We are grateful to her for all the work she has done in the past, in particular for her dedication and careful attention to detail.

We welcome your calls and emails, and look forward to continuing to serve you.

Established in 1997, Robinson & Wilkes, Ltd. is an independent investment management firm that uses a value-oriented, somewhat contrarian approach to investing client assets primarily in domestic, large capitalization companies, U. S. Treasury obligations and high-grade domestic bonds.

The Equity Composite assets as of March 31, 2003, were $8.2 million, which represented 24% of the firm's total assets. The Balanced Composite assets as of March 31, 2003, were $21.4 million, which represented 63% of the firm's total assets. Non-fee-paying accounts are excluded from the composites, but represent 3% of the firm's total assets. Returns are calculated in U.S. dollars.

Robinson & Wilkes, Ltd. claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U. S. and Canadian version of GIPS®. AIMR has not been involved with or reviewed Robinson & Wilkes' Claim of Compliance. Dabney Investment Consulting Associates, Inc. has completed a Level I Verification for the time period December 31, 1997, through December 31, 2002.

To receive a complete list and description of Robinson & Wilkes, Ltd.'s composites and/or a presentation that adheres to the AIMR-PPS standards, contact Charles Robinson or Michael Wilkes at (210) 490-2545, email us at contact@robinsonwilkes.com or go to our web site at www.robinsonwilkes.com. Past performance cannot guarantee comparable future results.