THE LONG AND SHORT OF IT

QUARTERLY NEWSLETTER FROM

ROBINSON & WILKES, LTD.

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Divergent Opinions, Divergent Results

Continued improvement in the U.S. economy led to gains in investor sentiment and the overall stock market during the third quarter of 2003. While the rising tide lifted all boats for the stock market, not all boats were raised by the same amount. For example, the average large capitalization stock had a mid-single digit percentage return, while the average small capitalization stock return was in the mid-teen percentage range. Also, the average stock in the value category had a mid-single digit percentage return, but the average stock in the growth category offered double digit gains.

Perhaps most telling were the quarterly returns by stock type. High yield stocks rose a modest 1.8%, while speculative growth stocks increased an impressive 10.3%, and Distressed stocks 19.0%. Valuations indicate that while pessimism has abated for the distressed stocks, outright optimism seems to have returned to the speculative growth stocks. However, do not be enticed by these attractive numbers. High yield and speculative growth stocks are recovering from dismal performances over the last three years, with cumulative losses of 27% and 51% respectively, even after this good quarter.

Since we use a value-oriented approach to invest primarily in dividend-paying, large-capitalization companies, our client portfolios were not with the hot money this quarter. This is usually the case and we are perfectly comfortable having it that way.

Our approach is somewhat reminiscent of the tortoise from the "Tortoise and the Hare;" but do not let the tortoise fool you. He is actually quite busy running statistical models and assessing the strength of earnings and balance sheets while his returns jog along.

In watching the performance of the computer hardware and computer software sectors since this spring, along with their disproportionate stock valuation increases, it appears investors are assuming corporate spending will return to the very high levels of the late 1990's. Many investors are betting on very substantial earnings growth, and they are doing so with considerable amounts of margin debt. NASDAQ margin debt is at record levels ($26B), now exceeding the peak during the 2000 bubble ($22B), arguably the largest bubble in American history.

Conversely, short positions have grown dramatically, reflecting considerable bearishness. Short interest has nearly doubled from this spring's lows on the S&P 500 ETF's (Spiders), and it has more than doubled on the NASDAQ ETFs (QQQ's).

With short interest growing quickly and margin debt at record levels, it seems that investors have some very divergent views about where fair value lies. It will be interesting to see how this plays out. It likely means we will see some volatility when one side or the other of these positions has to be reduced.

Percent Return of Composites vs. Benchmarks for Various Time Periods
As of September 30, 2003

Return Periods	YTD	1 Year	3 Year	5 Year	Since Inception 12/31/97
Portfolio / *Benchmark(s)*			**Annualized** / Cumulative*		
Equity Composite (gross of fee)	**14.7**	**26.5**	**3.5** / 10.8	**8.1** / 47.6	**6.2** / 41.6
Equity Composite (net of fee)	**14.2**	**25.8**	**2.8** / 8.5	**7.4** / 42.7	**5.5** / 36.0
S&P BARRA Value Index	*14.9*	*26.2*	*-6.6* / *-18.4*	*2.4* / *12.7*	*1.7* / *10.1*
S&P 500 Index	*14.7*	*24.3*	*-10.2* / *-27.5*	*1.0* / *4.9*	*1.9* / *11.2*
Balanced Composite (gross of fee)	**9.5**	**16.1**	**4.7** / 14.9	**6.9** / 39.6	**6.3** / 41.9
Balanced Composite (net of fee)	**8.8**	**15.1**	**3.9** / 12.1	**6.0** / 34.0	**5.4** / 35.3
60% S&P BARRA Value / 40% SSB 1-5 Year Gov't./Corp. Index	*10.6*	*18.1*	*-0.4* / *-1.1*	*4.6* / *25.1*	*4.3* / *27.2*

* Supplemental Information

For the third quarter of 2003, the S&P 500 Index and S&P Barra Index returned 2.57% and 2.54% respectively. The Robinson & Wilkes Equity Composite (RWEC) returned 1.14%, net of fees. As optimism and the market rises, it is our expectation to underperform slightly. As value investors, we are willing to pay this cost in order to outperform over the full market cycle. At times like these, we are encouraged by the consistency of results from our clearly defined process.

Currently, we are finding the occasional opportunity to invest in common stocks on the basis of valuation. Yet, little of our cash is being put to work because we are not finding many companies that are the subject of outright pessimism and price weakness. Our approach demands that we find attractive valuations before we invest; but it also looks for pessimism and price weakness to play their course, ideally reaching a mature stage before investing.

When analysts blindly follow popular opinion that an out-of-favor sector is doomed, it is at this stage that value investors usually have some of the greatest opportunities to profit from a systematic error. Among the economic sectors we follow, telecommunications and utilities are the two most clearly under pressure currently. It may still be a bit early, but opportunities in certain companies that compete in these two sectors will present themselves. It is interesting to us that these two high dividend-paying sectors are so out of favor during the same year that the tax rate on dividends dropped to 15%.

Finally, for some uncommon wisdom passed down through the ages. With so many famous quotes being circulated in the financial press recently, we thought it would be useful to pass on a couple of the earliest quotes we have found from value investors - not from Warren Buffet or even Ben Graham (the father of value investing), but from their ancestors:

> "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one." – Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*, 1841.

> "Nothing could be more useful, than to be well instructed in his Hopes and Fears; to be diffident when others exalt, and with a secret Joy buy when others think it their best interest to sell." – Sir Richard Steele, Late 1690's.

We will continue to gather company information to assess long-term intrinsic value and short-term irrationality. We are confident that our against-the-grain approach, made up of solid research and the courage of our convictions, is what adds value to our client's portfolios. We welcome your calls and emails, and look forward to serving 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 September 30, 2003, were $9.8 million, which represented 25% of the firm's total assets. The Balanced Composite assets as of September 30, 2003, were $23.4 million, which represented 61% of the firm's total assets. Non-fee-paying accounts are excluded from the composites, and 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 Verification for the time period December 31, 1997, through September 30, 2003.

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.