The Long and Short of It

Quarterly Newsletter from

Robinson & Wilkes, Ltd.

14800 San Pedro, Suite 114
San Antonio, Texas 78232

Phone: (210) 490-2545
Fax: (210) 490-2353

First Quarter, 2004

The economy continued to gather strength during the first quarter of 2004. Continued weakness in the job market, while seen as bad news by some, had the beneficial effect of reassuring investors that interest rates would not be rising anytime soon. This constructive environment led to solid gains in the stock market. Once again the smaller, more risk-oriented companies performed the best. Increasing geo-political uncertainty increased during the quarter, perhaps keeping the stock market from achieving even greater gains.

In the late 1990's, there was a growing consensus that the business cycle was dead (i.e. No more recessions! Remember that?). We wrote that similar theories had been posited in previous economic cycles and that the new theory would be just as wrong as the prior theories. Again, people are extrapolating new theories from present circumstances and predicting continued weakness in the job market. Some are going so far as to predict the re-entering of a recession because of the weaker job market. We continue to believe the business cycle is not dead and the recovery will go full cycle. We believe this because full cycles are the norm and we have not seen any cause (monetary or fiscal policy, etc.) to believe otherwise.

If our assumption is correct, the normal response will be an eventual rise in interest rates and a strengthening of the dollar. Rising interest rates are bad for bonds, especially long-term bonds. They also have the potential of being bad for stocks if future earnings estimates are not great enough to offset the increased interest rates used to discount estimates of future earnings. There certainly will be increased volatility as Federal Reserve rate increases become more certain and imminent.

The easy gains from stocks are past. There should be more ebb and flow to future increases, but we continue to find select opportunities in individual companies. Fortunately, we do see more opportunities than risks at this time.

Equity Composite Portfolio Fundamentals
as of 3-31-04

	R&W Equity Composite	BARRA Value
Number of holdings	27	338
Wtd. Avg. Mkt. Cap. ($B)	49.6	66.7
Trailing P/E Ratio	17.7	19.7
Price/Book Ratio	2.8	2.2
Price/Cash Flow	6.9	9.0
Dividend Yield	2.4%	2.2%
Return on Equity	19.8%	14.1%

R&W Equity Composite performance was assisted during the first quarter by solid gains in holdings such as McDonald's, ConocoPhillips, Cendant, and American Electric Power. We also locked in gains in Reuters Group, PLC, which has two core businesses: Reuters Information Business (Reuters) and Instinet Group Incorporated. Reuters is a global information company that provides information and related services tailored for professionals in the financial services, media and corporate markets. Instinet, a 63%-owned subsidiary of the Company, operates a global electronic securities brokerage agency.

From its inception in the early 1990's, Instinet grew quickly with little competition. Then, numerous competitors arrived during the bubble. As a result, profit margins collapsed, Instinet incurred operating deficits, and Reuters Group was forced into an expensive restructuring of Instinet operations. During this time, Reuter's larger Information Business division, while facing some challenges, remained profitable. Nevertheless, the strength of the primary business was not fully reflected in Reuter's share price. It seems investors had little confidence Instinet would become profitable again and this pessimism was also projected onto the Information Business division. We did not see any impediment to the restructuring being successful and, in late 2002, purchased Reuters in the low twenty-dollar range. Investors' loathing of Reuters had not yet reached its peak, so we added to the position in the mid-teens a few months later. We had to reduce the position in late 2003 at just under $26 per share, as it had become an extraordinarily large position. We exited the remaining position in mid-February, 2004 at just under $45 per share, locking in substantial gains to provide capital for additions to the currently out-of-favor health care sector, which is discussed next.

Continued price weakness from the large pharmaceutical companies hindered performance somewhat during the first quarter. Yet, this afforded us opportunities to establish positions in Abbott Laboratories and Wyeth (formerly American Home Products), raising exposure to health care to an over-weighted position. Although patent expirations and regulatory risks do currently exist for many companies in this sector, history shows them to be amazingly resilient. Substantial bad news is already built into the current price. In addition, they are also out of favor for the simple reason that economically sensitive companies are currently in favor. Healthcare is the antithesis of the cyclicals presently desired by most investors. As rates begin to rise, this should change.

We also added to Electronic Data Systems because company specific concerns have prevented the rebounding economy from being reflected in its price. These concerns appear managerial, not structural, and are finally being corrected. When completed, the company's value should again be reflected in the price of EDS.

Percent Return of Composites vs. Benchmarks for Various Time Periods
As of March 31, 2004

Return Periods	1st Qtr	1 Year	3 Year	5 Year	Since Inception 12/31/97
Portfolio / *Benchmark(s)*			----------**Annualized** / Cumulative*----------		
Equity Composite (gross of fee)	**2.7**	**40.0**	**3.3**/10.1	**8.4**/ 49.9	**7.8**/ 60.2
Equity Composite (net of fee)	**2.6**	**39.3**	**2.6**/ 7.9	**7.7**/ 45.0	**7.1**/ 53.4
S&P BARRA Value Index	*3.4*	*44.2*	*0.5/ 1.6*	*2.0/ 10.4*	*4.3/ 30.2*
S&P 500 Index	*1.8*	*35.1*	*0.6/ 1.9*	*-1.2/ -5.9*	*3.9/ 27.0*
Balanced Composite (gross of fee)	**2.1**	**23.4**	**4.4**/ 13.8	**7.6**/ 43.9	**7.1**/ 53.7
Balanced Composite (net of fee)	**1.9**	**22.4**	**3.6**/ 11.1	**6.7**/ 38.0	**6.2**/ 45.9
60% S&P BARRA Value / 40% SSB 1-5 Year Gov't. / Corp. Index	*2.8*	*26.9*	*3.5/ 10.7*	*4.4/ 23.9*	*5.8/ 41.9*

**** Supplemental Information***

As a result of these individual company valuation opportunities, we are currently over-weighted in health care, telecommunications, and utilities; and under-weighted in financials and consumer cyclicals. Our approach does not call for sector decisions to be made from the top down (i.e. based on any projection of economic activity). Instead, sector weightings are influenced by the abundance or scarcity of individual opportunities. It is interesting that the current opportunities have led to a fairly defensive posture (less sensitive to rising interest rates) for the portfolio.

We noted in our last quarterly letter that history indicates there should soon be a shifting of valuation opportunities from the small capitalization companies to the large capitalization companies. Small cap stocks continued their multi-year performance advantage over large caps during the first quarter, but at a slowing rate. We are now finding an increasing number of opportunities to invest in large capitalization stocks, which reflects the opportunity has grown larger. As a result the weighted-average market capitalization of the portfolio has risen to just under $50 billion from about $40 billion late last year. It will be interesting to watch the response of the market if interest rates begin to rise in earnest during the second quarter. We believe that our clients' portfolios are well positioned.

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, 2004, were $11.9 million, which represented 26% of the firm's total assets. The Balanced Composite assets as of March 31, 2004, were $26.7 million, which represented 59% 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 March 31, 2004.

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.