The Long and Short of It

Quarterly Newsletter from

Robinson & Wilkes, Ltd.

Second Quarter, 2004

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The Economy

During the second quarter of 2004, Gross Domestic Product (GDP) growth slowed from its winter 2003 surge of 8% to a more sustainable rate of 4%. The Consumer Price Index (CPI) rose at an annualized rate of 3.1%, the highest reading since June 2001, and near the top of the range it has been in since late 1991. Core CPI (which excludes volatile food and energy prices) rose to an annualized rate of 1.7% and, while higher than we have seen during the last year, it remains at levels that are not worrisome.

However, underneath the surface, there are a number of economic indicators that provide plenty of evidence that the recovery is real. Enough even to suggest that inflation may become a problem if current trends continue. Among these are the broadly rising prices for raw and intermediate materials (Producer Price Index up over 6% in the last year) as well as capital goods, rising capacity utilization (fast approaching 80%), substantive job creation, a 2.2% increase in wages over the last year, and the resulting boost in consumer confidence. Surely, these types of numbers contributed to the decision by the Federal Reserve to increase interest rates by ¼ percent on June 30.

While the Fed Funds rate remained at 1% over the last year, the yield on the five-year U.S. Treasury note increased from 1.997% to 4.101%. Many investors were anticipating a ½ percent increase in interest rates by the Federal Reserve in June. After the ¼ percent increase was announced, interest rates across the maturity spectrum declined. Instead of being pleased with the smaller than expected increase, investors expressed the concern that the Fed might choke off the recovery and send the economy back into recession. Mr. Market, as usual, is manic. From a somewhat more rational perspective, Fed Funds Futures currently reflect an anticipated Fed Funds rate of 2.5% by June of 2005. This makes more sense in light of the nearly “across-the-board” rising trends of economic growth and the still very accommodative stance of the Federal Reserve.

The recovery in the market over the last two years has taken place without any significant correction. Although the lateral movement of stocks this past year did provide some time for the fundamentals to catch up with the pricing, we remain cognizant of the upcoming election and its potential for increased uncertainty. After the election, the markets will face either a new administration or a lame duck administration, both of which may be inclined toward bold action following the election (a near guarantee of increased uncertainty).

The Portfolios

We bring you our perspective on what is happening in the marketplace because most people are interested in it and believe it is relevant to their investment decisions. Nevertheless, at Robinson & Wilkes, we cannot predict the subtle nuances concerning the timing and strength of the recovery, interest rates, elections, and the ramifications of elections. We do not even wish to try, as this type of conjecture does not enter into our investment process. Instead, with an awareness of what is happening and expected, we focus on finding solid investment opportunities in the common stocks of industry leading companies.

Equity Composite Portfolio Fundamentals
as of 6-30-04

	R&W Equity Composite	BARRA Value
Number of holdings	29	334
Wtd. Avg. Mkt. Cap. ($B)	56.6	67.3
Trailing P/E Ratio	19.1	18.2
Price/Book Ratio	2.8	2.1
Price/Cash Flow	7.1	8.5
Dividend Yield	2.6%	2.2%
Return on Equity	19.0%	14.0%

We seek to invest when companies are attractively priced relative to their intrinsic values, and temporarily out of favor or neglected by Wall Street research and/or the popular press. We will remain invested in great companies at prices well below their intrinsic values, and perhaps keep a little cash on hand, as next year is sure to bring with it some exceptional opportunities.

During the second quarter, we established a position in BB&T Corporation (BBT), a financial holding company that provides a variety of banking and financial services. BBT conducts its business operations primarily through its commercial banking subsidiaries, which have offices across the southeast. In addition, BBT offers various lending products, insurance and other financial services products nationwide through other subsidiaries. BBT's operating strategy distinguishes it from other financial holding companies in that BBT's banking subsidiaries are organized as a group of community banks, each with a regional president, allowing decisions to be made locally, close to the customer.

BBT's price has remained between $20 and $40 per share for six years during which time the company has doubled its earnings per share and tripled its book value per share. Though operations have been solid in the past, much of the company's growth has come through acquisitions, which has increasingly raised investor concerns about management's ability to integrate the operations of its acquisitions and maintain profitability. As a result, the stock was selling for 1.3 times book value and 12 times expected earnings (current industry ratios are 2.3 and 15.4, respectively). BBT's management recently stated the company would pause its acquisition strategy in order to focus on integration and profitability. We have confidence that they will be successful.

We also locked in gains on half of our position in Albertson's (ABS), responding to reduced profit potential due to recent price strength and the recent purchase of Shaw's. ABS remains an attractive opportunity, but not worthy of a full position. Increased interest expenses will make it more difficult for ABS to compete with Wal-Mart, especially as Wal-Mart begins to make its presence known in California where ABS is so dominant.

Solid gains in holdings such as Albertson's (ABS), Baxter International (BAX), Computer Sciences Corporation (CSC), and Microsoft Corporation (MSFT) enhanced the R&W Equity Composite's second quarter performance. More importantly, we began to see some help from our over-weighted position in health care, as investors began to look for safety in stable earnings streams because of the beginning of the Fed's tightening cycle. Reduced performance came primarily from our holding in Barrick Gold Corporation (ABX), and our utility selections.

Percent Return of Composites vs. Benchmarks for Various Time Periods
As of June 30, 2004

Return Periods	**2nd Qtr**	**1 Year**	**3 Year**	**5 Year**	**Since Inception 12/31/97**
Portfolio / *Benchmark(s)*			--------------**Annualized** / Cumulative*--------------		
Equity Composite (gross of fee)	**1.0**	**15.7**	**-0.5**/ -1.4	**5.3**/ 29.2	**7.7**/ 61.8
Equity Composite (net of fee)	**0.8**	**15.0**	**-1.1**/ -3.3	**4.6**/ 24.9	**7.0**/ 54.7
S&P BARRA Value Index	*1.2*	*22.7*	*-0.5/ -1.6*	*0.2/ 0.8*	*4.3/ 31.7*
S&P 500 Index	*1.8*	*19.1*	*-0.7/ -2.1*	*-2.2/ -10.6*	*4.0/ 29.2*
Balanced Composite (gross of fee)	**0.3**	**9.6**	**2.6**/ 9.6	**5.8**/ 32.3	**6.9**/ 54.1
Balanced Composite (net of fee)	**0.0**	**8.7**	**1.7**/ 5.3	**4.9**/ 26.9	**6.0**/ 46.0
60% S&P BARRA Value / 40% SSB 1-5 Year Gov't. / Corp. Index	*0.1*	*13.5*	*2.4/ 7.4*	*3.1/ 16.3*	*5.6/ 41.9*

***** Supplemental Information***

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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 June 30, 2004, were $11.9 million, which represented 27% of the firm's total assets. The Balanced Composite assets as of June 30, 2004, were $26.8 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 reflect reinvested dividends and 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 June 30, 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.