THE LONG AND SHORT OF IT

QUARTERLY NEWSLETTER FROM

ROBINSON & WILKES, LTD.

THIRD QUARTER, 2004

14800 SAN PEDRO, SUITE 114 PHONE: (210) 490-2545
SAN ANTONIO, TEXAS 78232 FAX: (210) 490-2353

Election Time

Every four years, as the Presidential election approaches, the stock market is forced to digest horrific assertions about the incumbent administration, the challenger, and their respective parties. The candidates and their supporters lob those assertions into the media with amazing flare and persistence. Irrespective of the virtue of anyone's political beliefs, the result of this use/abuse of the media is typically a weak performance from stocks during September and October of election years. As election uncertainty disappears, the markets often breathe a sigh of relief; if only until the new President is sworn in and the new Congress submits new legislation, usually frightening investors all over again.

The patterns in the chart below indicate a relationship between the election cycle and the performance of the stock market. At its simplest level (annual total returns), the stock market's performance during post-election and mid-term years has been significantly worse than during pre-election and election years. The logic for this pattern is perhaps a little more credible than, say, the "Super Bowl effect." During the first two years of each administration, more momentous--fear generating--legislation is submitted and/or passed, while the next two years are used to campaign and to "make nice" for the next election.

Performance of the Dow Jones Industrials
26 Presidential Election Cycles from 1900 to 2003

	Election Years	Post-election Years	Mid-term Years	Pre-election Years
Up Years/Total Years	18/26	13/26	14/26	21/26
Average Gain Per Year	9.2%	5.2%	3.2%	12.9%
Average Gain Per Year When Incumbent Wins	16.4	6.3	1.6	7.6
Average Gain (Loss) Per Year When Incumbent Loses	(1.4)	4.9	6.0	24.4

Source of chart data: Ned Davis Research, Inc. 2004. This index is price-weighted based on the average market price of 30 blue chip (NYSE) stocks. The average is found by adding the prices of the 30 stocks and dividing by a denominator that has been adjusted for stock splits, stock dividends, and substitutions of stocks. It represents about 25% of the NYSE capitalization. This is a total return index with dividends reinvested. Past performance does not guarantee future results. The index shown is unmanaged and cannot be purchased directly by investors, it is for illustrative purposes only, not intended to predict or depict the performance of any particular investment.

One thing is clear. There is little information available to give serious comfort to investors. Among the many concerns for the average investor must be the election's emotionally charged and divergent electorate; the difficulty in fully understanding the threat from terror; and even the difficulty in understanding our own economic recovery, with its productivity gains, slow job creation and low unemployment rates. Although it is generally accepted that our economy goes through business cycles, little about today feels familiar. As a result of these numerous and profound uncertainties, equities continue to have difficulty rising in value to fully reflect their long-term wealth creation potential. We still see the average valuation of the two hundred industry-leading companies we follow at moderately compelling levels, and numerous individual issues at very attractive prices.

The Portfolios

Historical patterns tell us we are entering the two-year period of lower than average returns from the stock market. Please remember that the patterns are just averages. There has been, and will likely continue to be, considerable variation around the average. As mentioned above, current valuations on most of the equities we follow are fairly attractive. Therefore, it probably makes sense to expect something a little better than the average. Much depends on what will develop with the economy and the war, which is quite difficult, if not impossible, to predict. Since we cannot predict the future or time the market, we look for more specific opportunities.

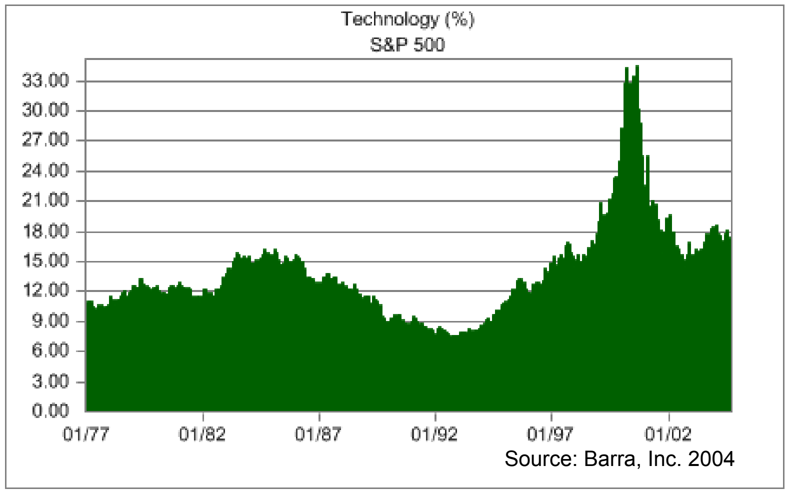
Equity Composite Portfolio Fundamentals
as of 9-30-04

	R&W Equity Composite	BARRA Value	S&P 500
Number of holdings	30	333	500
Wtd. Avg. Mkt. Cap. ($B)	60.9	69.2	89.7
Trailing P/E Ratio	20.4	17.7	19.9
Price/Book Ratio	2.7	2.1	2.9
Price/Cash Flow	7.6	8.4	11.3
Dividend Yield	2.3%	2.3%	2.0%
Return on Equity	17.6%	13.9%	19.4%

Generally, large-cap stocks are carrying more attractive relative valuations than mid-cap and small-cap stocks at this time. This is not surprising, given that over the last five years, the S&P 500 Index had an annualized total return of –1.3%, versus an impressive 11.5% return from the S&P SmallCap 600 Index. By allowing our portfolio to move to where the valuations are most compelling (as investments become fully priced and their realized values are reinvested into new opportunities), the weighted-average market capitalization of the Robinson & Wilkes Equity Composite (RWEC) has risen from $16 billion in 1998, when small-to-mid-cap stocks were very attractively priced, to $61 billion as of September 30, 2004, when larger capitalization selections are very attractively priced.

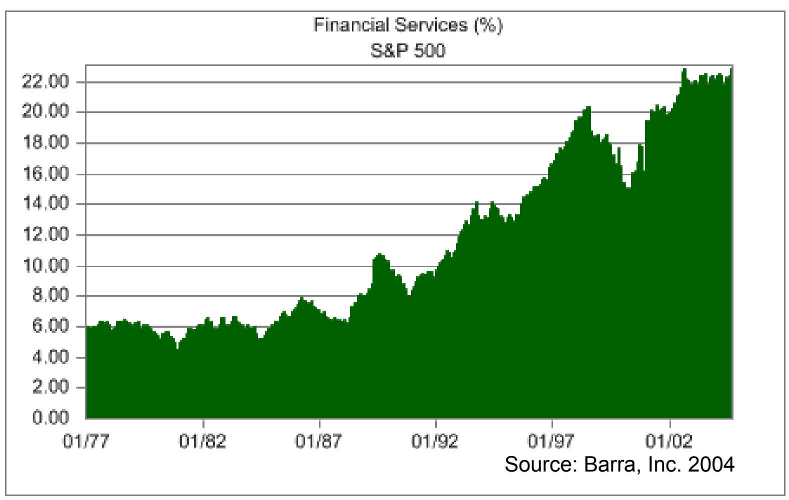
In addition, value has performed substantially better than growth recently. The S&P 500/Barra Value Index outperformed the S&P 500/Barra Growth Index, returning 1.0% vs. –4.8% over the last quarter, and 20.5% vs. 7.5% over the last year. Being value-oriented investors, there is a point where even a fast growing company can become so attractively priced as to appeal to investors looking for a margin of safety. Not surprisingly, we are seeing companies that traditionally reside in the large-cap growth indices reach valuation levels that make them compelling, even to value-oriented investors such as ourselves. As a result, we have begun to buy some of these long-term growers. Recently, this has hurt the RWEC returns somewhat relative to the value indices, as it appears we have been a bit early. Nevertheless, the opportunity for long-term gain from these companies is significant.

2004 has been a difficult year for equities, though not as punishing as 2001 and 2002 were to investors. We continue to pursue investment in industry leaders, currently out of favor or neglected, that sell for multiples that are attractive by historic standards. Valuations have led our holdings away from sectors such as banking and brokerage, energy, and industrials. Valuations are leading us toward health care (even though they are more frequently associated with growth indices), telecommunications, and consumer cyclicals.



Although it is not part of our decision-making process, we thought we would look at a few of the sector weightings in the S&P 500. In the late 1970's through the early 1980's, energy grew to carry a 29% weighting in the S&P 500, but it has since declined to about 6%. Pictured in this report is the history of the technology sector weighting in the S&P 500, which rose very quickly to 34% during the bull market bubble. Sectors that grow to become a very large portion of the index have a history of not being able to sustain such a heavy weighting.

It makes common sense that one sector of the economy cannot become the entire economy and that sustainable change to a sector's weighting has to happen slowly. Financial Services now represent 23% of the S&P 500. This represents a 61% increase in the weighting of the Financial Services sector in the S&P 500 since February of 2000. This dramatic increase, while not entirely reminiscent of the technology boom, has been fairly rapid and it is substantial. We will see if it is sustainable.



Our bottom-up, company specific, fundamental research indicates there is no great opportunity in being over-weighted in the Financial Services sector at today's prices. In fact our research has driven the weighting in the Financial Services sectors to slightly below that of the S&P 500. We also note that the S&P/Barra Value Index now carries a hefty 36% exposure to Financial Services. Considering the possibility of a significant economic recovery and the fact that we are at war--both of which typically lead to rising interest rates--as well as the unappealing valuation levels in the sector, we are comfortable not following the indices in holding an excessive weighting in finance.

Our sector weightings, subject to minimums and maximums, are the result of the quantity of attractively priced companies that we find in each sector not top-down sector weighting decisions. Nevertheless, it is interesting to look at the results of our process from different points of view. Recently, RWEC returns are tracking more closely with the S&P 500 than the S&P 500/Barra Value Index, which is consistent with our approach of pursuing value wherever it may be found.

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

Return Periods	3rd Qtr	YTD	3 Year	5 Year	Since Inception 12/31/97
Portfolio / *Benchmark(s)*			------------**Annualized** / Cumulative*------------		
Equity Composite (gross of fee)	**-0.9**	**2.8**	**4.1** / 12.8	**7.7** / 44.9	**7.3** / 60.3
Equity Composite (net of fee)	**-1.2**	**2.1**	**3.2** / 9.8	**6.8** / 38.6	**6.3** / 51.0
S&P BARRA Value Index	*1.0*	*5.6*	*5.9 / 18.7*	*2.3 / 12.2*	*4.3 / 33.1*
S&P 500 Index	*-2.0*	*1.6*	*4.0 / 12.6*	*-1.3 / -6.5*	*3.6 / 26.6*
Balanced Composite (gross of fee)	**0.3**	**2.7**	**4.8** / 15.0	**7.4** / 42.8	**6.7** / 54.3
Balanced Composite (net of fee)	**0.1**	**2.0**	**3.9** / 12.0	**6.5** / 37.0	**5.8** / 45.9
60% S&P BARRA Value / 40% SSB 1-5 Year Gov't. / Corp. Index	*1.4*	*4.2*	*5.9 / 18.8*	*4.5 / 24.3*	*5.5 / 43.9*

***Supplemental Information**

This newsletter is furnished only for informational purposes and does not constitute an offer or solicitation to sell or buy securities mentioned herein. Although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Opinions expressed herein are subject to change without notice. Past performance cannot guarantee comparable future results.

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, 2004, were $11.7 million, which represented 25% of the firm's total assets. The Balanced Composite assets as of September 30, 2004, were $30.6 million, which represented 64% 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 September 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 Amy Robinson at (210) 490-2545, email us at contact@robinsonwilkes.com or go to our web site at www.robinsonwilkes.com.