"The Long and Short of It"

Quarterly Newsletter from

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Third Quarter, 1999

The Third Quarter of 1999 was difficult for stocks as well as bonds. Each of the three months resulted in negative returns for the domestic equity indices. Interest rates continued to rise throughout the Third Quarter, as did investors concerns about potential inflation. After a strong showing in the Second Quarter of 1999, value oriented investors gave back some of their hard earned performance relative to growth oriented investors.

Even famed Berkshire Hathaway (managed by Warren Buffett, who many believe to be the best investor of the last 30 years) had a difficult Third Quarter, closing at $55,000 per share (see chart at right). This price is down 21.4% this year and 31.5% below the March closing high of $80,300. Clearly, 1999 has been difficult for some of the best and most seasoned investors.

We continue to believe that the bottom of the 1998 assault on value stocks and the peak in the nifty fifty type stocks took place during the First Quarter of 1999.

Returns for periods ending September 30, 1999:

Type of Investment	**3 Months**	**6 Months**
Morningstar Large-Cap Value Funds	-9.52%	-0.73%
Morningstar Mid-Cap Value Funds	-9.89%	2.11%
Morningstar Large-Cap Growth Funds	-3.53%	0.56%
S&P 500 Index	-6.24%	0.37%

Although the last 1 1/2 years have been difficult, we are particularly optimistic about future prospects. The companies you own are high quality and are selling at very attractive valuations. To illustrate the values, the table below summarizes valuation measures for the RWEC as compared to those of the S&P 500 and the S&P Barra Value Indices.

The valuation multiples for our holdings are well below those of the S&P 500 Index. They are even below the S&P Barra Value Index (the half of the S&P 500 Index with the lowest Price to Book Value Ratios). This stands to reason, as we are more selective in our value process than just picking the half of the market with the lowest price to book value ratios. You own more solid wealth production at a better price than most people in the market. Our valuation multiples are solid evidence that we remain dedicated to our value oriented, somewhat contrarian approach.

The problem value managers face is whether these are bad companies that may remain cheap forever. The challenges faced by each of our companies do not lead us to believe that is the case. Although some of their challenges may be significant, none appear to be perpetual and most are not structural problems. In addition, the problems in no way justify the low prices the stocks sell for currently. Support for this position is found in the expected short term and long term growth rates included at the bottom of the table below. Interestingly, the expected growth rates for stocks in our portfolio are more in line with that of the S&P 500 Index than the stocks in the S&P Barra Value Index.

In addition, these companies have a history of success. They are leaders in their industries and typically are priced at a significant premium to other stocks. The far right column of the table below describes the relative multiples that these stocks have carried historically. It shows that over the last ten years these stocks have generally sold at multiples 8% to 37% higher than the S&P 500 Index. These are high quality companies that are just currently out of favor.

Because of some short-term challenges faced by these companies, positive investor sentiment does not exist, leaving the underlying operations of these firms ignored, unappreciated, or even viewed as ancillary to the success of the firm. As a result, we are paying less for the underlying businesses than most investors. As the companies deal with these challenges, they are still creating wealth, which will translate into larger gains once the market is able to look beyond the current challenge.

September 30, 1999	**S&P 500 Index**	**S&P Barra Value Index**	**Robinson Wilkes Equity Composite (RWEC)**	**RWEC 10 Year Avg. Multiple Premium to S&P 500 Index**
Valuation:				
Price to Book Value Per Share	5.0	3.1	2.2	26%
Price to Revenue Per Share	2.1	1.4	1.3	37%
Price to Earnings Per Share	32	26	15	8%
Price to Cash Flow Per Share	18	12	8	25%
Return on Equity	23.8%	13.7%	14.1%	
Earnings Growth Rate:				
Expected One Year	15.0%	Unavailable	15.2%	
Expected Long Term	13.7%	8.5%	13.3%	

Despite the weakness in the Third Quarter, we remain firmly convinced that the bottom for value oriented investors was reached near the end of the First Quarter of 1999, immediately preceding the strength seen in the Second Quarter. The recovery in the relative performance of our holdings will not take place in a straight line. Nevertheless, current valuations are so compelling that we feel more optimistic about the future of our holdings than we have for some time.