The Long and Short of It

Quarterly Newsletter from
Robinson & Wilkes, Ltd.
Fourth Quarter, 2002

14800 San Pedro, Suite 114 Phone: (210) 490-2545
San Antonio, Texas 78232 Fax: (210) 490-2353

After very difficult Second and Third Quarters, equity investors found some relief in the Fourth Quarter of 2002. Of course, everyone seems to be keenly interested in where things go from here. Are the CEO scandals really behind us? Is the economy about to recover, or will we have a double dip recession? Will we be at war soon? Will we be at war for long? What about North Korea, Israel, etc? The list of worries and opportunities goes on and on, with the possible outcomes being as different and unpredictable as ever.

"Perils of Prophecy," a recent article in Forbes by James Grant, the editor of *Grant's Interest Rate Observer*, caught our attention because it expresses our view about prophecy and its role in investing so eloquently. As a result, we are including a copy of the article in our quarterly mailings and providing a link to the article at the Forbes.com web site – all with permission – so that you can enjoy (or disagree with) Mr. Grant's erudite perspective.

In the article, Mr. Grant rightly states that the future is almost always unpredictable, and the markets are only "pretty efficient." Since the future is unpredictable all of the time, and the markets are efficient only most of the time, one can reasonably conclude that it is more difficult to predict the future than it is to identify prices and valuations that do not make sense. This conclusion creates the logic for looking for pricing inefficiencies, or "non sequiturs" as Mr. Grant calls them, and focusing less on predicting the future. We share this view with Mr. Grant. His work always makes for fine reading.

We much prefer buying stocks of good solid companies, trading at historically low multiples and dismal current expectations, and hoping for a return to the norm; to buying stocks at average to high multiples and hoping for continued performance above that of the company's long term past. With our approach, on average, we get a market return if all the bad news turns out to be true, and a better return if the company's fortunes improve and return towards normal. We encourage you to visit our website where you will find information on our composites which, driven by these preferences, now have a five year history.

As mentioned in the last two issues of "The Long and Short of It," and in stark contrast to 1999 and early 2000, we continue to find numerous equities selling for attractive prices relative to their fundamental measures of value. In addition, sentiment is clearly not euphoric. These factors combined with the length and depth of this three-year bear market lead us to be somewhat comfortable investing in equities at the current time.

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. To receive a complete list and description of Robinson & Wilkes, Ltd's composites and/or a presentation that adheres to the AIMR 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.