October 9, 2000

Enclosed are your statements for the third quarter of 2000.

For the quarter, equity investors saw returns of –1.0% for the S&P 500, 2.4% for the Dow Jones Industrial Average (DJIA) and –7.4% for the technology-oriented NASDAQ. These low returns were driven by expectations of slower growth due to Fed tightening and higher oil prices. For the year so far, equity investors saw returns of –1.4% for the S&P 500, -6.3% for the DJIA and –9.6% for the NASDAQ.

From 1998 through mid-2000, participation in returns narrowed to extreme levels. This fact meant that stellar returns required ownership of a very short list of stocks. Seasons change. As this narrow list of stocks began performing poorly, the weakness of the broad stock market became evident. As a result, participation in these negative returns has broadened significantly. That fact meant that good performance required avoiding a very long list of stocks.

For the quarter, fixed income investors saw returns of 2.2% for the 1-3 year Treasury Index, of 2.4% for the 7-10 year Treasury Index and of 2.5% for the 10+ year Treasury Index. These positive returns were driven by expectations of lower inflation due to a watchful Fed and slower economic growth. At the beginning of the quarter, the Fed was expected to raise rates but did not. At the end of the quarter, expectations are that the Fed will not raise rates for the rest of the year.

"Bubble" conditions are abating. There are signs of reduced speculative behavior in the stock market. However, expectations of stock rebounds and Fed rescues combine to sustain higher consumer confidence levels. While prices are reduced from the beginning of the year, prices are still dramatically higher than historical norms. Further, the hypercompetitive conditions are providing fewer opportunities for managed earnings. The environment continues to warrant extreme caution.

As stated last quarter, we would prefer to see the stock prices of companies in our portfolios go down. Unfortunately, the problems in the stock market have not spread to the stocks in our portfolios. Thus, our good performance this year is a mixed blessing. Performance has been good for short-term wealth creation. Yet, opportunities for increasing our ownership have been bad for long-term wealth creation. Long-term wealth creation is what we aim for.

In last quarter's cover letter, we went to the extreme of requesting a position on everyone's favorite prayer list for "downward pressure on for-profit educational stocks." That still has not occurred, so don't take it off your lists. However, this quarter presented outstanding opportunities to purchase "brand" companies. These companies have

extremely high corporate returns, low capital costs and long-lasting competitive advantages. They are "keepers." Cendant (owner of Avis, Century 21, ERA, Caldwell Banker, Howard Johnson, Days Inn and others), Gillette and Newell Rubbermaid are three such companies.

We will continue a patient, but attentive search for the purchase of excellent companies at prices significantly under their intrinsic value. As always, we appreciate the stewardship responsibilities you entrust to us.

Academy Capital Management