April 11, 2001

Enclosed are your statements for the first quarter of 2001.

For the quarter, equity investors saw returns of -11.9% for the S&P 500, -8.4% for the Dow Jones Industrial Average (DJIA) and -25.5% for the technology-oriented NASDAQ. These negative returns were driven by continuing concerns over profitability in the technology sector. For the last twelve months, equity investors saw returns of -21.7% for the S&P 500, -10.0% for the DJIA and -58.6% for the NASDAQ.

Again, a review of portfolio math is relevant due to the extreme returns of recent history. Portfolio returns are geometric and not arithmetic, meaning they don't add up. For example, if a portfolio is up 50% one year and down 50% the following year, the portfolio, surprisingly, does not break even. Instead the portfolio is down by 25%. To break even after the last twelve months' NASDAQ return, a NASDAQ portfolio needs to increase by at least 140%!

For the quarter, fixed income investors saw returns of 2.7% for the 1-3 year Treasury Index, 2.7% for the 7-10 year Treasury Index and 1.3% for the 10+ year Treasury Index. These positive returns were driven by the increased liquidity provided by the Fed, as rates were reduced three times for a total of 150 basis points or 1.5%. In line with such increased liquidity, lower quality corporate bonds did extremely well. For the quarter, 10 year BB- corporate bonds saw returns of 6.05% (if annualized, a rate greater than 24%!).

Last quarter, we commented on the disparity between high quality and low quality bond yields. This "credit spread" has receded, indicating higher liquidity. Paradoxically, the increased liquidity was felt favorably in the corporate bond sector, but did not have much impact in the corporate stock sector. Liquidity is up and profits are down; the "bubble" has popped and the aftereffects remain.

We also stated that we would prefer to see the stock prices of the most of the companies in your portfolio go down. While we are pleased with the purchases we have made, we could further increase our long-term returns with better buying opportunities. Most investors look for buying at the "bottom." We are simply looking for outstanding investment opportunities, regardless of short-term price movements.

Unfortunately, the problems in the stock market have not spread to the stocks of companies in your portfolio because the companies in your portfolio are generating nice profits. Until the market resumes an ignorance of profits, we will have limited opportunities. Thus, your portfolio's good performance this quarter was a mixed blessing. This performance is good for short-term wealth creation and the moods of our

clients. Yet, long-term wealth is created by low prices so that we can increase your ownership in these stocks. Long-term wealth creation is what we aim for.

In last quarter’s cover letter, we shared that declining U.S. Government interest rates would tend to drive down mortgage rates. Increased liquidity ought to stimulate consumption, since most people buy a payment, not an asset. We continue to believe that long-term investment opportunities may be found here. In addition, we are diligently analyzing ways to profit from the "tech wreck."

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