October 11, 2005

Enclosed are your statements for the third quarter of 2005.

For the quarter, equity investors saw total returns of 3.60% for the S&P 500, 3.44% for the Dow Jones Industrial Average and 4.78% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw returns of 0.45% for the 1-year Treasury Index, -1.27% for the 5-year Treasury Index, and -2.24% for the 10-year Treasury Index. The riskier 10-year BB- corporate bonds had similar returns of 0.22%. These negative bond returns reflect anxiety that the Fed's continued rate raising campaign will be challenged by rising oil prices.

Our focus is long term, allowing for what we earlier (1st quarter 2005) described as "big, slow ideas." This focus enables us to compete favorably with managers who buy and sell more quickly for smaller gains. Of course, this requires patience on the part of our clients and good communications on our part. We try to find good companies and use the occasional low price of their stocks to purchase them.

After we have studied the merits of a business and the quality of its management, often for several years, it is exciting to achieve what we believe is the right purchase price. Unexpectedly, in this year of generally high market prices, we have been able to purchase the shares of several high quality companies.

As we have emphasized in our letters, stocks are different from the underlying companies. We are grateful that this distinction escapes many individuals. When the stock of a company goes down, acting "badly," many perceive that the underlying company is "bad." The misperception that the short term price movement of a stock gives valid company information is core to the value we try to deliver. For this reason, we root for the stocks of great companies to go down. When the stock is "bad," but the company seems "good," we have our best opportunity to help create safe and superior investment results. Similar opportunities occur, though less dramatically, when a company's stock stays flat for long periods, despite a great increase in the value of the company.

The current period highlights this point. Taking a look at the overall market, there are periods when stocks outrun their companies (such as the 90s) and there are periods when companies outrun their stocks (such as the 70s). Broadly speaking, the 90s were a good time to sell stocks and the 70s were a good time to buy stocks. The current period is beginning to share similarities with the 70s. Taking our new purchases this year, in the order of their purchase, shows what we mean:

Company Name	Five Year Earnings Per Share Change (Annualized)*	Five Year Share Price Change (Annualized)

Anheuser-Busch	**10.1%**	**0.3%**
Forest Laboratories	**42.0%**	**6.3%**
Wal-Mart	**13.2%**	**-1.9%**
American Express	**7.3%**	**-1.1%**
Fannie Mae	**10.7%**	**-8.9%**
Freddie Mac	**11.0%**	**0.9%**
TJX Companies	**9.0%**	**12.7%**
MBIA Corporation	**11.1%**	**5.0%**
Berkshire Hathaway	**20.0%**	**5.7%**
Aver. Cumulative Change	**119.2%**	**14.7%**
Aver. Annual Change	**14.9%**	**2.1%**

*The most recent quarterly earnings have been estimated because the reports have not been released yet. In the case of Fannie Mae, much of the period estimated is being restated. In the case of Berkshire Hathaway, we use Academy's earnings measurement which includes most investment sales.

In every case except TJX Companies, the growth of the companies themselves significantly outran the performance of their stocks. While our companies are carefully chosen and may represent an unrepresentative sample set, we have compared notes with other managers and found similar results. Some of them have complex theories about why so many strong companies are getting cheaper while their weaker competitors are getting more expensive. While theories are interesting and sometimes helpful, in the long run our best performance has been achieved by keeping the focus on the patient acquisition of great companies at reasonable stock prices. We are quite pleased to report that we have **never** owned a better list of companies. While underperformance, such as we have had thus far in 2005, never feels good, it is similar to that of 1999, which set the stage for superior results in subsequent years.

It is worth emphasizing this point. In order to create superior performance, we must buy stocks at good prices. To do so, there must be a set of conditions that cause the mass of investors to avoid these stocks. In most cases, the stocks are unappealing. For example, airline stocks are currently cheap, but we are not interested. We watch for companies that have good long term characteristics with temporary problems. In 2005, we have had an unusually large number of such companies, enough to suppress our short term results, but also enough to encourage us strongly about our long term prospects.

In this quarter, we also have had a particularly high level of new clients. For those who are new, we welcome you to Academy and want you to stay informed. Past quarterly letters are sometimes useful for a deeper understanding of our discipline. If you wish to receive these, please contact your financial advisor or Sue Compton at our office and they will be forwarded to you. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us.

Academy Capital Management