January 11, 2002

Enclosed are your statements for the fourth quarter of 2001.

For the quarter, equity investors saw returns of 10.7% for the S&P 500, 13.8% for the Dow Jones Industrial Average (DJIA) and 30.2% for the technology-oriented NASDAQ. These positive returns were driven by investor confidence in response to timely easing by the Federal Reserve combined with surprisingly competent actions by the federal government. Yet, for the last twelve months, equity investors saw returns of -11.9% for the S&P 500, -5.4% for the DJIA and -20.8% for the NASDAQ.

For the quarter, fixed income investors saw returns of 1.01% for the 1 year Treasury Index, -0.98 % for the 5 year Treasury Index and -2.32% for the 10 year Treasury Index. These returns were created by the increased liquidity provided by the Fed, as rates were reduced three times for a total of 125 basis points or 1.25%. Year to date, the Fed has dropped rates by 475 basis points or 4.75%. In line with such increased liquidity, 10 year BB- corporate bonds saw returns of 5.28%.

The end of the year brings reflection. Since 1998, our economic outlook has been "excess-capacity, and deflationary." We believe such conditions can be favorable for broad economic growth, but harmful to individual company profitability. Thus, we have invested in companies with strong franchises at "rational" prices. Companies with strong franchises are not impossible to find. During the last quarter, "rational" prices have been. With such increased liquidity, rational prices will probably require crises or panics. As William E. Corey, a client and friend of the firm, often states: "stumbling blocks are stepping stones."

The stumbling blocks of the past quarter presented no immediate stepping stones, but may later. Enron is an example. While the company and its peer group do not fit our investment criteria, accounting firms will be less likely to overlook problems and overstate earnings. A systemic downward revision of earnings could create further opportunities in other industries more exciting to us.

For the year, the crises of September 11 provided opportunities. We are pleased with the investments in the travel and lodging industry. We wish we could have made more, but as citizens, we are pleased with the intelligent management exercised by the Federal Reserve and the federal government. The dollar's extraordinary rise has been a global reflection of an exceptional run of good decision-making. If our system maintains this high quality of decision-making, good times should continue. If not, the impact of a declining dollar could be extraordinary and is where we see the highest likelihood of future investment opportunities.

As said before, your portfolio's good performance has been 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. We have repeatedly stated that we prefer to see the stock prices of most of the companies in your portfolio go down. While we are pleased with the purchases we have made, we could increase our client’s wealth with better buying opportunities. Long-term wealth creation is what we aim for, not buying at the "bottom."

In order to be prepared for such opportunities, we do have to hold some cash in your portfolio. This causes us as much joy as it does you. We realize that you do not pay us to hold cash. However, to act quickly as we did in mid-September, we must have cash on hand. Warren Buffett once commented that it was no fun having cash burn a hole in his pocket, but it was more fun than having that cash burn a hole in someone else's pocket.

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