# J.L. BAINBRIDGE
## & COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

# 1995 ANNUAL REPORT

## INVESTMENT RESULTS

For 1995, J. L. Bainbridge & Company, Inc. achieved a 38.4% rate of return on all money under management. In conjunction with 1994 return of 10.2%, a January 1, 1994 investment of $100,000 has grown to a December 31, 1995 value of $152,517 which equates to an increase of 52% over the past two years. The annually compounded return over the past two years is 23.2%. These results assume reinvestment of dividends and are after transaction costs and J. L. Bainbridge & Company's management fee.

## INVESTMENT REVIEW

In all respects 1995 was a very successful year as the enhancements added to our investment program last year again contributed to meeting our objective of achieving a long term return of 15% compounded annually via a good return in bad markets and very strong results in good markets. In 1994 the market declined slightly while our program produced a return of 10.2%, and in 1995 our program produced a return of 38.4% which was comfortably above the market's overall performance.

While 1995 was indeed gratifying, be assured we are not basking in the sun. On the contrary, we are totally focused on 1996 and continued long term results of 15% compounded annually.

## INVESTMENT STRATEGY

Our investment program is highly disciplined and consists of the following basic elements:

- Consider for ownership only extraordinary major American companies with established records of consistent growth and exceptional financial positions with little debt and a high level of excess cash flow.
- Analyze these companies in-depth, and buy only if their business is understandable to the extent that future earnings growth can be quantified with complete confidence.
- Buy only when the price offers a potential return of 35% over the next twelve months.

- Hold for the long term, but sell when the price appreciates to full value in order to minimize the risk of a decline to more reasonable levels.

Following this approach without exception provides the means to both minimize risk and position investment portfolios for strong long term results independent of the emotional hype of the media and short term direction of the market.

Illustrative is Coca-Cola which was our largest investment at the beginning of 1995. Shares of this fine company were purchased when conventional wisdom questioned its future growth. For example, in January 1994, a well regarded mutual fund manager recommended the short sale of Coke in a major financial magazine and a five page cover story in the May 9, 1994 issue of Barron's entitled "Is Coke Still It?" concluded the company was going flat. However, based on decades of consistently high growth, enormous global growth potential in emerging markets and most importantly detailed information provided by Coke's upper management explaining their plans to capitalize on these burgeoning new international market opportunities, we concluded the future was bright and purchased heavily at very attractive prices.

Over the past eighteen months Coke's stock doubled in price, and the majority of our shares have been sold. The shares remaining are held in taxable accounts which will be sold in 1996 when the proposed capital gains tax cut, if approved, would become effective. Hence, while Coke has been a very rewarding investment, its sale was based on the current price representing high risk as well as a potential return over the next twelve months of less than 5%. Similarly, most shares of Gillette and Proctor & Gamble were sold in the latter part of 1995.

On the other hand, although McDonald's shares appreciated more than 50% over the past year, the earnings growth rate for this outstanding company has accelerated to the point that the current price remains attractive with more than 25% further price appreciation likely within the next six to twelve months. McDonald's is now our largest holding followed by Marriott International.

Marriott provides yet another example of a truly exceptional company being bypassed by most investors which provides an opportunity to purchase at an attractive price level with more than 40% potential return over the next year. The current undue skepticism of Marriott's future growth is based on the misconception the company remains a real estate development company susceptible to a downturn in the commercial construction market as was the case prior to the late 1980's. However, in the past five years Marriott has transformed itself from a hotel developer dependent on the profitable resale of newly constructed properties to a globally based service company. In addition, the trusted Marriott brand name has been successfully extended to senior living centers and vacation ownership resorts.

Marriott exited the commercial real estate business by separating its portfolio of existing properties into a separate company and changing the Courtyard, Residence Inn and Fairfield chains to franchised operations and the full service Marriott Hotels and Resorts to long term management contracts. As a consequence, future growth is based on an increasing stream of franchise and management fees. Because the Marriott brand, unequaled hotel management skills and worldwide reservation capabilities produce occupancy rates ten percent above industry norms, a large number of hotels join Marriott each year. This includes both new hotels built by independent real estate developers and existing hotels converting from other chains in order to gain greater profitability. To further enhance growth in the lodging division, a majority interest in the Ritz-Carlton Hotel Company was purchased earlier this year and within six months this business became profitable versus losses in the previous five years. An option to purchase the remainder of this prestigious worldwide chain of first class hotels over the next several years further enhances future growth prospects.

The growth in the lodging division is supplemented by new business entities. Senior living centers now number twenty six with the goal of at least seventy five by the end of the decade. The success of these centers is evidenced by an occupancy rate of 96% for centers open one year or more. The story is the same for the vacation ownership business. Currently twenty nine resorts are open with more than 90,000 timeshare intervals sold. Their goal is eighty resorts located around the world by the year 2000. These resorts are typically sold out within a year of completion and provide thirty years or more of consistent management fees thereafter.

Another area where existing capabilities are being expanded to new business is providing food service to outside customers. For years Marriott operated an extensive food and supply distribution system for their hotel operations. This service is now being aggressively marketed and over the past year large contracts have been signed with national restaurant chains, hospital groups, universities and corporate business centers. Since this new business is spread over their established distribution system, fixed costs are spread over a larger business base and profits expand at a rate faster than sales.

Because of the very positive changes in their core lodging businesses and new opportunities for rapid growth in senior care, vacation resorts and food and supply distribution, we confidently project Marriott will grow earnings per share by at least 17% annually over the next five years. Based on this growth rate, the share price of Marriott's stock has the potential to appreciate to $56 by the end of 1996 or 48% above the current price.

## CONCLUSION

Although last year's sharp rise in stock prices is a reason to be cautious, we do not share the view 1996 will be a down year for four fundamental reasons. First, whereas 1995 was a spectacular year, the rate of gain over the past five years is about the same as the growth in earnings over that period of time, and consequently current stock prices are not excessively high. Secondly, the current economic environment of low inflation, moderate economic growth and declining interest rates is ideal for rising stock prices. Thirdly, the United States has emerged with the most competitive industrial and service economies in the world and accordingly is experiencing strong growth in exports. And lastly, our investment portfolio has been restructured to both reduce risk and enhance returns by liquidating holdings as they reached full value and adding new companies which have at least 35% appreciation potential over the next twelve months.

The above notwithstanding, clearly we cannot predict how the stock market will perform in 1996 or any other year for that matter. And even with the positive environment outlined above, stock prices may decline over the next twelve months. Therefore, our focus remains on achieving a good return in poor years, a strong return in good years and a long term return of 15% compounded annually. Specifically our current investments in aggregate have the potential to appreciate 31% in 1996. This aggregate return is lead by Black & Decker, CSX, Marriott, Ryder and Standex with more than 40% potential return followed by Allied Signal, Avon, Deere, Walt Disney, McGraw-Hill, McDonald's and Walgreens with more than 25% potential return. This strategy of limiting investments to a carefully selected group of truly exceptional companies with the potential to achieve results twice our 15% objective is the basis of our confidence for continued success.

# ENHANCING CLIENTS' LIVES

At J.L. Bainbridge & Company, Inc. our business is dedicated to "enhancing clients' lives" by providing long term professional money management service totally focused on helping clients finance their children's education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.'s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to "enhancing clients' lives" is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to clients.

**J.L. BAINBRIDGE**

& COMPANY, INC.

VISIT OUR WEBSITE: www.jlbainbridge.com

1582 MAIN STREET
SARASOTA, FLORIDA 34236
(941) 365-3435/(800) 899-5171