

J. L. BAINBRIDGE  
& COMPANY, INC.

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Our 2000 annual report identified the challenge facing investors today as, how does one achieve the growth required for a satisfying retirement in a paranoid market where the value of an investment can decline precipitously and permanently. The key to avoiding permanent loss of capital is a conservative growth investment program designed to minimize risk. As stated continuously over the past twenty years, our program is designed to avoid permanent loss of capital by staying away from popular get rich quick schemes and focusing on the long term, consistent returns that are achievable by owning reasonably priced, high quality growth companies.

The value of a 15% compounded return is illustrated by the example of a couple retiring with an IRA worth \$1,000,000 and starting with a withdraw of \$80,000 and increasing this amount by 4% annually, would after ten years be withdrawing \$118,000 a year and have an IRA worth \$2,158,000. Contrast this example with another couple with the same IRA and withdrawals but 15% annual growth interrupted by declines of 15% in the third and sixth years. This couple would after ten years have an IRA worth \$739,000, and assuming no more mistakes and a return of 15% annually going forward would be penniless ten years later. In a more terrifying example with a 20% loss in the third and sixth year, after ten years the IRA is worth only \$549,000 and insolvent seven years later. How could one incur these losses? Very easily in the past ten years by getting caught up in the craze to own foreign stocks in emerging markets five years ago and the speculative binge in technology and the internet last year. In fact the losses that occurred when the emerging markets collapsed resulted in emerging market mutual funds dropping in half in a single week and ultimately declining a whopping 90%. As for the technology speculative wave, to date almost 80% of the stocks listed on the NASDAQ have declined more than 75% in the past year. For investors involved in these high risks, the relatively small losses of the earlier examples look like child's play.

Another generally accepted idea is that young investors can afford to take risks because they have enough years to recover losses. The miracle of compounding refutes this misperception. Take couples A and B, both age forty with a \$500,000 investment portfolio. Couple B decides to speculate and lose half their money while couple A continues with a conservative program earning 15%. Couple B concludes they are in trouble, Change their ways (something that is very hard to do because old habits tend to recur) and save \$40,000 annually over the next thirty years. Even if couple A never saves another dollar and both achieves 15%, couple B will never catch-up.

- Please call us for a free consultation and how we can serve you.

Sincerely,

Jerry L. Bainbridge, President