

**J. L. BAINBRIDGE**  
**& C O M P A N Y, I N C.**

April 2, 2002

Most professional money managers treat investing like a game where the key to success is to be more clever than competing money managers and thereby achieve superior short-term results. These clever tricks usually fall into three categories; following the momentum of stock price changes; guessing the direction of the market; and guessing which stocks will perform the best in the next few months. Unfortunately these approaches increase risk and ultimately lead to poor results.

Momentum investing utilizes computer analysis of stock price changes to identify which stocks are appreciating at the fastest rate and buying only those stocks regardless of the strength of the underlying company's business fundamentals or the price level of the stock relative to the company's earnings per share. Hence this approach inevitably leads to owning poor quality companies and/or over valued stocks. Good examples are buying Cisco Systems at more than 200 times earnings in 1999 and buying Enron in the past two years. These money mangers can only be thankful that Arthur Anderson is not a publicly traded stock.

Guessing the direction of the market is another exercise in futility in that you have to correctly identify when to sell and when to reinvest. If the odds of getting one of these correct is 10 to 1, the odds of getting both correct is 100 to 1. Considering when the NASDAQ peaked at 5000 most money managers were busy calculating how many days it would take to reach 6000, these odds are probably too low. A good example is a well-known money manager that correctly sold out in late 1999. This manager remains in cash today, and is following a "three strikes and I'm in" strategy where reinvestment will not occur until the S&P exceeds 1100, 1130, and 1200. I don't know what crystal ball came up with these magic numbers, but I am sure it is very expensive equipment. Following this scheme will result in a mad scramble to reinvest at a level 24% higher than the market low reached on September 21, 2001.

Guessing which stocks will outperform in the short term is also a waste of time. In a recent interview a well-known money manager cited International Paper as today's best investment based on a computer analysis that found that this stock outperforms the market by 42% during the first six months of an economic recovery. The net result of this approach is owning a poor quality debt burdened business with no advantage over its competitors. Although there will be periods when these risky investment schemes will do better than our conservative philosophy, we will never join the crowd and thereby deviate from our pledge to always focus on minimizing risk.

Jerry L. Bainbridge, President