

J. L. BAINBRIDGE
& COMPANY, INC.

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For twenty years we have been stressing the fact that the only criteria for long term appreciation of a stock is the earnings growth of the underlying company. We have often drawn the analogy of owning a premier office building with annual rent increases of 15% annually and full occupancy. There is no question the value of this building will increase dramatically. The same is true for a company increasing earnings 15% annually. Its stock will increase in value dramatically over time. With the market at the lowest level in four years, the performance of the stocks in our current portfolio have appreciated as indicated below over this period. While this appreciation during four years when the market was flat is impressive, their earnings growth was actually greater which means the PE ratios of these fine companies are lower today than at a market low four years ago.

INVESTMENT	APPRECIATION
AVON PRODUCTS	+48%
FIRST DATA	+123%
GENERAL ELECTRIC	-7%
HOME DEPOT	+4%
JOHNSON & JOHNSON	+54%
MCGRAW HILL	+74%
MEDTRONICS	+62%
PEPSI	+22%
PFIZER	-5%
SYSCO	+92%
TARGET	+58%
WALGREENS	+47%
WAL-MART	+74%

How did these stocks appreciate when the market made no progress? Simply because their earnings grew dramatically. With the prevailing gloom and doom that persists today, most investors cannot envision these returns repeating over the next four years. The fact is that even in the unlikely event the market makes no progress over the next four years, the appreciation potential of these extraordinary companies' stocks are far greater because over the past four and over the next four years their earnings growth will exceed by a large margin their stocks' appreciation over the past four years. In our view the market will increase at least 6% to 8% annually for the remainder of this decade. While the current turmoil in the market is difficult to endure, the past performance of the high quality companies carefully selected for investment is a precursor of the future and provides considerable comfort.

Sincerely,

Jerry L. Bainbridge, President

