

J. L. BAINBRIDGE
& COMPANY, INC.

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In a period of economic weakness and the uncertainties associated with the war with Iraq, the companies carefully selected for investment again reported record earnings with the lone exception being General Electric (GE). GE's earnings were affected by temporary losses in reinsurance and the expected sharp decline in the gas turbine business. By the second half of this year their earnings growth will resume.

<u>INVESTMENT</u>	<u>EPS GROWTH</u>
Avon Products	+19%
Cardinal Health	+21%
First Data	+22%
Forrest Labs	+85%
General Electric	-09%
General Mills	+11%
Johnson & Johnson	+17%
McGraw Hill	+33%
Medtronic	+20%
Pepsi	+17%
Pfizer	+15%
Sysco	+13%
Target	+17%
Walgreens	+14%
Wal-Mart	+16%

When the market was going through another bout of emotional selling last quarter, the natural question was; how does one protect their investment dollars from these declines? The answer is the strong earnings of the companies listed above. As we have stressed for years, earnings and dividend growth are the determinants of the future value of your investments. Just like owning a building with rents increasing year after year with full occupancy, owning part of a company with earnings and dividends growing at a healthy pace year after year will result in significant long-term appreciation. Without this growth you can expect an opposite outcome. For example, General Motors and International Paper are good companies with honest, intelligent, hard-working executives. But these companies operate in highly competitive cyclical industries, and as a result their earnings have gone up and down over the past ten years with little overall progress. Consequently their stock price today versus ten years ago is -12% and +9% respectively. On the other hand Johnson & Johnson (JNJ) has posted double digit earnings and dividend growth every year over the past ten years and its stock price has increased 376%. Furthermore the dividend yield today based on the price of their stock ten years ago is 8%.

We appreciate your continued interest in our service. I would look forward to the opportunity of talking about how we can serve you. I am available for a meeting at your home, a Charles Schwab office or our office, at your convenience.

Sincerely,

Jerry L. Bainbridge, President