

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

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Last autumn when the market was in a small scale speculative phase, some clients were tempted to sell some of the high quality blue chip companies that are the focus of our long-term growth program and join the speculative fray. Our September 2003 monthly letter included the following advice:

After more than three years of outperforming the major market indices by a wide margin, so far this year our results trail these indices. This is not due to earnings disappointments from the companies carefully chosen for investment. The cause is simply a preference for technology and industrial cyclical companies based on the theory they will outperform the market during the early stage of economic recovery. In this environment traditional growth stocks have been relegated to the back burner.

As we have emphasized repeatedly over the years, long-term investment returns are directly tied to long-term earnings and dividend growth. With this knowledge we are content while waiting for the current phase to pass and will adhere to our philosophy of owning only proven growth companies with exceptional financial conditions.

Since last autumn the speculation has run its course, and the companies in our portfolio have appreciated in response to continued strong earnings reports and announced dividend increases, new share repurchases programs and a stock split. Consequently our return for the first two months of this year is +6.3%, and we continue to expect the next several years to produce a return of at least our 15% compounded annual objective.

Last month's letter and our 2003 Annual Report highlighted Cardinal Health. Last month Cardinal held an all day analysts meeting and projected the following:

- Sales growth from \$50 billion in 2003 to \$100 billion by 2010, not including acquisitions.
- Free cash flow of \$3.6 billion over the next three years.
- Long-term earnings per share growth of mid-teens or better.

As we have opined before, this is the type of investment we love.

Jerry L. Bainbridge, President