



## Suncoast Equity Management, Inc.

April 6, 1999

Dear Client,

Enclosed please find the following reports for the first quarter ended March 31, 1999:

- (1) "**Portfolio Appraisal**" of your account - this report lists all securities and cash in your account showing the cost, the market value of each, as well as the total value of your account.
- (2) "**Performance Report**" - which shows your return through March 31, 1999. If you added to your investment account or joined us in the first quarter, your return will differ from the SEM Composite performance discussed below.
- (3) "**Statement of Management Fees**" - for the current quarterly period.

***The SEM composite of all client accounts earned +8.48% (net of all fees) versus the S&P 500 at +4.94% and the Lipper Growth Fund Average at +4.36%. Our first quarter results were very good from both an absolute and relative (compared to the benchmarks) basis.***

Spring training for Major League Baseball is one of the most delightful times of the year to be in Florida. The New York Yankees facility is in Tampa and I attend a few games each year. One of the great aspects of spring training is to observe how the players and coaches concentrate entirely on practice and execution. Throughout the regular season, it is the scoreboard at the end of each game and the cumulative win-loss record that identifies the leaders. Ultimately though, it is the execution of their batting and fielding skills which puts those runs or lack of runs for the other team on the scoreboard. In essence, Joe Torre doesn't coach his World Series winning team by staring at the scoreboard throughout the game; he is focused on what is going on in the playing field.

You can be confident that our focus is as keen as Joe Torre's. Our focus is on the operations of the businesses that we own and what they are capable of doing over the next five to ten plus years. Our favorable scoreboard for this inning, and in the long-run, will be the consequence of the operating results of our businesses. Warren Buffett, one of this century's greatest investors, deserves the credit for teaching us this very logical principal of sound investing.

During the quarter we sold a long term holding and added two new businesses to the portfolio. We sold Mattel (MAT) because in our analysis their strategic move to acquire The Learning Co. (TLC) will be done from a position of weakness not strength. Children's play patterns have changed and we felt that MAT, though still a fine company, had to accept the changes in their business as opposed to leading it. In

addition, TLC shareholders were going to become significant new owners of MAT and dilute our ownership at much lower MAT valuation than the recent past.

General Dynamics (GD) and Robert Half International (RHI) were added to the portfolio. When we invest in a new business, we typically start with a small position. If the company operations continue to do well and are consistent with our insights, we will add to it over time. I will tell you a little more about GD and RHI when we have the opportunity to speak.

To explain how we keep our focus on the playing field and not the scoreboard, let me share with you how we begin our research process. In order to identify businesses that meet our stringent **Disciplined Investment System (SEM-DIS)** criteria, we utilize *The Value Line Investment Survey*. I have been using this publication for nearly fifteen years, when I first began helping investors preserve and growth their wealth. Warren Buffett and his partner Charles Munger also find Value Line to be a valuable resource. Below is an excerpt from the September 1998 issue of *Outstanding Investor Digest*, quoted during Berkshire Hathaway's 1998 spring annual meeting:

*"Charlie and I both get it in our respective offices. [And] we get incredible value out of it - because it gives us the quickest way to review a huge number of key factors that tell us whether we're basically interested in a company....It's a good way to make sure you haven't overlooked something...the snapshot it presents is an enormously efficient way for us to garner information about a company...And I don't know of any other system that's as good."*

Value Line is a wonderful resource and I agree wholeheartedly with Mr. Buffett's and Mr. Munger's observations. I look forward to speaking with you soon. Please call anytime.

Sincerely,

*Don Jowdy*

President