Suncoast Equity Management, Inc.

October 1, 2002

Dear Client,

Listed below are **Suncoast Equity Management's** performance results versus the Standard & Poor's 500 Index for the period ended September 30, 2002:

Time Period (Ended 9/30/02)	SEM % Return*	S&P 500 % Return	SEM - Value of $1,000,000	S&P 500 - Value of $1,000,000
Third Quarter (6/30-9/30)	-4.79%	-17.22%	$ 952,100	$ 827,800
Year-to-Date 2002	-12.10%	-28.16%	$ 879,000	$ 718,400
Three Years	+2.34%	-12.89%	$ 1,071,800	$ 660,900
Since Inception (4.75 Years)	+8.01%	-2.32%	$ 1,441,900	$ 894,700

* Composite results of all SEM managed accounts, net of all fees.

Note: Performance results for the three-year and since inception period represent the annual average rates of return.

Concerns with global stability, the general economy and executive excesses still weigh heavily on the minds of most investors. I am optimistic that the economy will pick-up and hopeful that the pockets of unrest that exist across the globe will eventually settle. The reports of executive excesses are decreasing and relying on history as a guidepost, I believe this issue will improve. History also demonstrates that despite some extremely tough times the markets long-term results have been very positive.

Quite frankly, life is too short not to be an optimist. Amidst the mostly negative sentiment today, I am also realistic and focus on the positive financial underpinnings that affect an investor. Low interest rates immediately come to mind.

Before I discuss how low interest rates effect investing, it is also important for you to understand how emotions can affect intelligent decision-making. Benjamin Graham, the father of investment analysis and teacher to many great investors including Warren Buffett, once said, "in the short run the market is a voting machine and in the long run it is a weighing machine." Interpretation: In the short run, what the popular thought is as printed in newspapers or overheard on CNBC and around the water cooler, drives short-term investor thinking. Today most investors are negative about any factor that can affect the financial markets - and it shows. Just three years ago, investors couldn't buy enough highflying technology businesses and they paid any price for these companies that had minimal business track records and no earnings.

In the long run the market is a "weighing machine" because true value is realized over several years. Simply illustrated, if you had been a part owner of most any airline company for the last 15 years the businesses earned no profits and your shares of stock in these businesses declined in value. On the other hand, if you had been a part owner of **Johnson & Johnson** (JNJ) or **Microsoft** (MSFT) over the same time period, the profits of both have grown significantly and so would have the value of your shares.

Three of the most important factors that "weigh" the value of a business over the long run are company specific returns on capital, profit growth as well as the general level of interest rates. Interest rates are at historic lows as illustrated below by the current yields for different maturities of U.S. Treasury Notes and Bonds:

	6 Month	2-Year	5-Year	10-Year	30-Year
U.S. Treasury Notes and Bonds	1.41%	1.67%	2.55%	3.59%	4.66%

When we decide to invest our capital (accumulated savings) in a business available through the stock exchanges, we compare our potential return to those of other companies and also against what we can earn in virtually no-risk U.S. Treasury Securities.

Today, stocks are favorably priced as compared to bonds. Our portfolio of businesses is currently valued by the stock exchanges at an average earnings yield of 5%. What this means is that we potentially earn $.05 for every dollar we invest in our portfolio today. In comparison, bonds are earning less, as noted above by the smaller 3.59% ($.0359 return on a dollar) earned by the 10-year U.S. Treasury Security. Note: The earnings yield is also the inverse of the more commonly known price to earnings ratio (p/e). For example, a company that earns $2 per share and sells at $40 has a 5% earnings yield ($2 divided into $40) and a 20 times p/e ($40 divided by $2).

Something else that is useful for investors to understand is that the payments (earnings) from U.S. Treasury investments do not change. You select a maturity and you earn the same amount each year. With stocks, the $.05 you earned in the first year could grow 10% or more in a following year and you would then receive $.055. Year after year the earnings we receive from stocks could grow, and our best estimate is for a 7% average annual rate of growth. Some years they may grow 12% or more and in any particular year earnings may not grow or even decline.

Remember, we noted earlier that Graham said the market is a "weighing machine". This principle illustrates that the market is fairly efficient in the long run, both in regard to specific businesses "as we described with the airlines versus JNJ and MSFT example," and also in regard to the general levels of interest rates. The market will make appropriate adjustments due to the imbalance of yields between stocks and bonds. One such appropriate negative adjustment in stock values occurred in 1987. In the fall of 1987 you could earn nearly 9% in U.S. Treasury Securities and at the same time the earnings yield on stocks was 6% (price-to-earnings ratio of roughly 16). Consequently, the mini-crash in the fall of 1987 took place because the stock market needed to adjust downward the significant 3% premium (9% U.S. Treasury less 6% stock yields) investors earned on U.S. Treasury Securities. When stocks in the mini-crash of 1987 declined, their earnings yield rose and the markets settled. Today we don't have anything near that circumstance, though we always monitor this relationship and will inform you accordingly.

What low interest rates tell us today is that if interest rates stay at generally lower levels, today's prices in our portfolio are attractive and investing in good solid businesses with earnings yields above treasury yields will produce attractive results for the long term. We believe that the businesses in the **SEM-Disciplined Investment System** portfolio will grow at above average rates. Thank you for your confidence and I look forward to speaking with you soon.

Sincerely,

Don Jowdy

President