



## Suncoast Equity Management, Inc.

August 3, 2004

Dear Client:

Thank you for your continued interest in Suncoast Equity Management. We would like to alert you to a few new developments and update you on our latest investment thoughts. **SEM is ranked in the top 16% for investment performance in this country since inception through the period ended June 30, 2004.** This ranking is reported by *Effron/PSN*, a national performance reporting company, and can be viewed at [www.SuncoastEquity.com](http://www.SuncoastEquity.com).

Our assets under management have grown to nearly \$100 million as the number of satisfied clients who entrust us to help them preserve and grow their capital has increased. Also, SEM recently had its client performance results verified by Beacon Verification Services, which is a qualified AIMR-PPS and GIPS firm. Those results are reported below and in the enclosed mid-year 2004 fact sheet:

<u>Time Period (Ended 6/30/04)</u>	<u>SEM % Return</u>	<u>S&amp;P 500 % Return</u>	<u>SEM - Value of \$1,000,000</u>	<u>S&amp;P 500 - Value of \$1,000,000</u>
Six months - Year to date	+7.05%	+3.58%	\$ 1,070,500	\$ 1,035,800
One-Year	+18.95%	+19.12%	\$ 1,189,500	\$ 1,191,200
Three-Years	+6.48%	-0.69%	\$ 1,206,900	\$ 979,500
Five-Years	+7.05%	-2.21%	\$ 1,405,100	\$ 894,400
<b>Since Inception (6 1/2 Years)</b>	<b>+10.23%</b>	<b>+4.03%</b>	<b>\$ 1,880,000</b>	<b>\$ 1,291,600</b>

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

**Note:** Results for the three-year, five-year and since inception period represent the annual average rates of return.

Our portfolio consists of about twenty businesses and we will not grow the size of our portfolio much beyond these holdings. We believe that excessive diversification leads to average investment performance. According to *Morningstar*, mutual funds own on average 150 stocks and consequently diversify to the point that they intentionally or unintentionally mimic the general stock market. We design a portfolio to focus on a selected group of best businesses at good prices. Our goal is top performing results from a targeted selection of holdings. We place our confidence in a focused group of companies we feel we have an above-average understanding about, versus trying to know a little bit about hundreds of companies. Look at it this way - if the stock market did not exist yet we were still looking to invest our savings, would we invest in an equal part of every business in town? Not likely! We would look for and invest in only a few businesses that have favorable economic characteristics, a well-disciplined management team and are available at a fair price. That thought process guides our discipline and generated our above-average results since inception.

Mentors have been an important part of our success and we want to acknowledge the passing of one of the greatest - Phil Fisher who died in April at age 96. His first book was *Common Stocks and*

*Uncommon Profits* published in 1958. Fisher brought forward more than a few great ideas that we subscribe to in our investment decision-making process and three of these ideas are important to mention. His first is to invest in outstanding companies and stay with them through the fluctuations of a gyrating stock market and to not worry too much about price. This strategy proved far more profitable for him than trying to buy cheap and sell them dear. Second, invest in companies that have managements with "unquestionable integrity." Finally, since it is hard to find good investments, concentrate in a few and sell only if you feel the company has deteriorated in some significant way. Charlie Munger, Warren Buffett's partner, recently commented about Phil Fisher's investment philosophy, "98% of the investment world doesn't think this way." It's been good for the clients of **SEM** that we've followed Fisher's enduring principles.

We want to caution you against consulting economic fortune tellers about the prospects for inflation and rising interest rates. Compelling arguments can be made today for an economic boom or recession, and for higher or lower inflation. Indeed, we have recently seen leading articles in the same newspaper on the same day with opposite viewpoints that make a convincing case for either side.

People consistently have a craving to hear someone tell them the future and as such, there will always be "experts" who pretend to know the future. We urge you to conclude that those opinions almost always are less significant than thinking about how a specific business will do in the years ahead.

At **SEM** we spend all our time thinking about businesses and no time trying to forecast the economy or the stock market. It has worked well for our clients and perhaps it could meet your investment goals as well. Let us know if you or someone you may know has an interest in learning more about how SEM can help.

Sincerely,  
*Donald Jowdy*  
President