



## Suncoast Equity Management, Inc.

April 7, 2000

Dear Client,

The SEM composite of all client accounts recorded a gain of +1.64% (net of all fees) for the first quarter ended March 31, versus +2.25% for the S&P 500 and -5.00% for the Dow Jones Industrial Average.

Our portfolio changes in the first quarter reflect our earlier observation that a wide valuation divergence exists among certain groups in the stock market. Likewise, as a result of the especially strong performance within the last year or so for several of our portfolio holdings, we realized some gains this quarter. We slightly reduced our positions in Amgen, Dell Computer and Microsoft. Fundamentally, these businesses are growing just as we expect and we intend to be long-term owners.

Two new companies joined our portfolio holdings in the first quarter: Fannie Mae and McGraw-Hill Co. Fannie Mae is the nation's largest provider of residential mortgage funds. Together with Freddie Mac (another SEM holding) these two companies provide a very important service to U.S. citizens, dominate their marketplace and, we believe, have the potential to earn very good returns for shareholders over the long-run. McGraw-Hill Co. is a multimedia company with such successful products as BusinessWeek magazine, Standard & Poor's rating and investment information services and is also a major textbook and education information provider.

Having just returned from a weekend at Walt Disney World visiting with friends, it is easy to relate theme park experiences to the activity of the stock market. At Disney there are several roller coasters that provide significant ups and downs (and thrills throughout the entire journey). But what sets them apart is that one of them is in complete darkness (Space Mountain) while the others are in the daylight. Darkness can be significantly more unsettling and, I believe, closely resembles the everyday feeling of most of today's stock market participants. If the Nasdaq stock market index (which represents many of the technology companies) drops 5% in any single day investors must feel as though they just experienced a steep drop-off on the Space Mountain roller coaster.

Why does this feeling occur? Why does it seem like they are in the dark? If you asked an investor today if they have any sense for the value of the XYZ company that they are invested in, most would reply: "Last night the stock closed at \$X per share." If you then follow-up: "I'm asking if you know what the company is worth," most still wouldn't understand your question.

For true investors (those who believe that when you invest you become a part owner of the company and that a company's stock market valuation in the long run has everything to do with the cash profit the business earns in the future.), the roller coasters are less unsettling, and a regular part of the

journey. We spend our time appraising a company's intrinsic value. Those investors that do not take the time to value each of the companies in their portfolio are flying blind.

Another enlightened experience came from Disney's Tomorrowland park in the Magic Kingdom. Christine and I encountered the alien leaders of X-S technologies (as in Excess) whose mission was to help the "less fortunate people on earth." X-S is in the business of planet restructuring, interplanetary transport and genetic engineering (sound familiar?). As we ended our journey and exited the space craft, our alien hosts reminded us that *"it takes time to see the future."*

We strongly believe that, as the world moves forward, technology will be a major contributor. Notwithstanding, most stock market participants continue to believe (as evident by the rich stock valuations) that the future of all of these fast changing businesses are very bright, easy to predict and contain little to no risk.

We continue to expect a very volatile year and we may realize more gains from time to time. Realizing gains is not something we purposely set out to do, but since we have a generally good understanding of the business values in our portfolio we may take advantage of this knowledge from time to time.

Our mission simply stated is: "Build and Preserve our clients' assets through the investment in common stocks. We thank you for the opportunity to serve you and I look forward to talking with you soon. Please call anytime.

Sincerely,

*Don Jowdy*

President