



## Suncoast Equity Management, Inc.

July 4, 2001

Dear Client,

Few investors realize that successful investing is first the preservation of capital and then second the growth of capital. Most investors operate in reverse and take great risks to try to produce growth. We witnessed a lot of this risk taking activity for the sake of growth over the last 3 years.

Warren Buffett, a great investor and businessman, said it best when he explained that there are only two rules on investing (1) Don't Lose and (2) Don't forget the first rule. SEM lives by these two rules.

SEM's performance results shown below versus the S&P 500 demonstrate that we have been hard at work at both the preservation and growth of capital:

	<b>SEM</b>	<b>S&amp;P 500</b>	<b>SEM -Value</b>	<b>S&amp;P 500 - Value</b>
<u>Time Period Through 6/30/01</u>	<u>% Return*</u>	<u>% Return</u>	<u>of \$1,000,000</u>	<u>of \$1,000,000</u>
Year-to-Date	-4.95%	- 6.72%	\$950,500	\$932,800
Year 2000 to 6/30/01 (18 months)	-0.89%	-15.25%	\$ 991,100	\$847,500
Since Inception (3.5 years)**	+13.49%	+8.22%	\$ 1,560,343	\$1,310,870

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

\*\* Performance results since inception represent the annual average rates of return.

When we experience a slower business environment, it is important to distinguish the strong from the weak. I study our businesses to make certain that they are maintaining their financial strength and competitive advantage or edge. In most cases our businesses get stronger during weak economic periods and then emerge more vibrant than ever before.

Occasionally, we perceive that a business in the portfolio has lost its financial strength or competitive edge and the risk of losing capital over the long term has increased. During the second quarter we sold two of our very long-term holdings, Schering Plough and McDonald's, for separate reasons but because they had indeed grown weaker.

McDonald's (MCD) is a good business that grew weaker as (1) management borrowed significant sums of money to buy back its stock and (2) began to venture into other restaurant franchises unrelated to

the magic of its original McDonald's franchise. MCD is not going out of business anytime soon nor will be it likely that it ever will. It just grew weaker than we preferred.

Schering Plough (SGP) has been a great business for a long time and was one of my largest personal holdings for over 7 years. The challenges SGP faces grew in magnitude over the last year and are increasing significantly as the company experiences (1) a new delay in the FDA approval of its antihistamine drug Clarinex (successor to Claritin) and (2) a recent recommendation by a subcommittee at the FDA for numerous antihistamine drugs including SGP's to be sold over-the-counter (OTC) instead of by prescription. Put simply, OTC products earn significantly less profit for investors than do prescription drugs. Although the ultimate outcome of changing the drugs to over-the-counter is unpredictable as long court battles are expected, the risk was far too great for us to ignore. If the issues are resolved and SGP once again meets our stringent criteria we would not hesitate to become long term investors once again.

In spite of quite a few of our businesses including American Express, Catalina Marketing, Microsoft, McGraw-Hill and Symantec announcing recent softness or declines in their businesses, I am confident in our business portfolio and I believe that many have built upon their financial strength and competitive edge during the last 18 months or so. I also enjoy the opportunity to uncover new business (stocks) opportunities as near-term concerns for investors continue.

Thank you for your confidence and I will be speaking with you soon. Best wishes for a terrific July 4th holiday.

Sincerely,

*Don Jowdy*

President