



## Suncoast Equity Management, Inc.

July 1, 2003

Dear Client,

**Suncoast Equity Management's (SEM)** performance results versus the Standard & Poor's 500 Index for various periods ended June 30, 2003:

	SEM	S&P 500	SEM - Value	S&P 500 - Value
<u>Time Period (Ended 6/30/03)</u>	<u>% Return*</u>	<u>% Return</u>	<u>of \$1,000,000</u>	<u>of \$1,000,000</u>
Six Months-Year to Date	8.11%	11.84%	\$ 1,081,100	\$ 1,118,400
One-Year	3.91%	0.32%	\$ 1,039,100	\$ 1,003,200
Three-Year	-2.55%	-11.20%	\$ 925,300	\$ 700,100
Five-Year	5.76%	- 1.62%	\$ 1,323,100	\$ 921,800
Since Inception (5 1/2 Years)	8.59%	1.48%	\$ 1,573,600	\$ 1,084,300

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

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

America held its breath in mid March as we entered Iraq. By early April the country breathed a deep sigh of relief as Baghdad fell and the immediate events escaped a potentially horrific spike in global instability. As the uncertainty of Iraq dissipated, the stock market rebounded. It seems as though lower quality stocks with undesirable finances have led the way, yet as time passes we expect that earnings and quality will prevail.

Economic performance, not accounting performance, determines earnings quality and this is what matters most to the true investor. One of the popular measures of a company's progress is the accountant's calculation of earnings per share. Yet the reliance on this measure is one of the basic causes of poor performance. Earnings per share net of appropriate adjustments from a true-owners perspective equals free cash flow. Free cash flow, which we defined in our April letter, is a more accurate contributor to economic performance.

Many investors rely on unadjusted earnings per share when valuing an equity investment and justify this practice by commenting that the "stock market" uses this measure of value. But this is a half-truth at best. As we discussed in our January 2003 letter, return on capital plays a most important part. A

business with an above average return on capital and quality free cash flow is an economically superior investment.

Sincerely,

*Don Jowdy*

President