



## Suncoast Equity Management, Inc.

October 5, 1998

Dear Client,

Enclosed please find the following reports for the period ended September 30th:

(1) A "**Portfolio Appraisal**" of your account. This report lists all securities and cash in your account showing the cost, the market value of each, as well as the total value of your account.

(2) A "**Performance Report**" which shows your return through September 30, 1998. If you joined us during the year, your return will differ from the Suncoast Equity Composite performance discussed below.

(3) A "**Statement of Management Fees**" for the current quarterly period.

SEM's year-to-date results net of all fees is +7.29%, versus +5.96% for the S&P 500 and -0.57% for the Lipper Growth fund average.

In the past three months we have seen stock prices decline amid extreme volatility. To put the volatility in perspective, the S&P 500 declined sharply from its 1998 high at +23.25% on July 17 to negative territory at -0.40% on August 31st. Then the S&P rose quickly to +11.04% by September 23, and then dropped again to finish the quarter at +5.96% year-to-date.

What did we do throughout all this market turmoil? Not much at all. Why? Because there were no significant changes in the long-term fundamentals and future prospects of the businesses in which we are part owners. We did add slightly to some of our existing holdings during the quarter, including Amgen, Gillette, Coke and Mattel, as the opportunities presented themselves. I believe strongly in our discipline and valuation yardsticks, and the recent prices being offered for some of our companies have been favorable.

As you know, our strategy for preserving and growing wealth does not involve making predictions as to the direction of the stock market. The only prediction we are comfortable making is that in the short-run the possibility for wide swings always exists because the stock market is driven by the emotions of its participants, be it feelings of fear or greed. In the long run, the stock price of a particular company will reflect the overall progress and profitability of that business, be it negative or positive.

It became clear earlier this year that the growth in profits for many businesses was beginning to slow. Indeed, many of our companies earn a majority of their profits outside the U.S. and the economic pressure from overseas has been growing steadily. Many "experts" predict that we are entering a global slow-down. I believe successful investment results over the long-term are not dependent upon making

short-term economic predictions. It is useful, however, to think about the possible effects a global economic slow-down could have on our businesses. Importantly, I believe that during a period of economic adversity, the strength of the franchise type companies that we invest in will have a better opportunity than most other companies to maintain and grow their profitability; and consequently preserve and enhance our value as owners.

We believe that the value of a business is the discounted value of all the cash profits that can be removed from the business over its remaining life, not just the cash profits it may earn within the next two years or so. Often times stock market participants will focus too heavily on the latter and forget the former.

Interest rates also impact business valuations. It effects the rate at which we discount the future profits and a business' cost of capital. Interest rates have been very low and these lower rates yield a higher present value of the future profits. Our portfolio companies, because most have low to moderate debt, may take advantage of low rates and borrow prudently to invest in the expansion of their existing business or to buyback shares, and thereby increase our ownership, at attractive prices.

I believe that each of our companies has excellent five-year business prospects. Consider how Coca-Cola views its business opportunity as stated by CEO Doug Ivestor in the 1997 Coca-Cola annual report:

*" This year, even as we sell 1 billion servings of our products daily, the world will still consume 47 billion servings of other beverages every day.....never before has this company been more perfectly poised for pioneering, with a global system far more capable and far more stronger.....with the opportunity to serve almost all of the world's nearly 6 billion consumers morning, noon and night."*

I believe that for one of the world's five largest companies and after a 112-year history, Coca-Cola is truly just getting started.

I look forward to speaking with you soon. Please call at any time.

Sincerely,

*Don Jowdy*

President