



## Suncoast Equity Management, Inc.

October 6, 1999

Dear Client,

Enclosed please find the following reports for the nine months ended September 30, 1999:

- (1) **"Portfolio Appraisal"** - 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) **"Performance Report"** - which shows your return through September 30, 1999. If you added to your investment account or joined us during the year, your return will differ from the SEM Composite performance discussed below.
- (3) **"Statement of Management Fees"** - for the current quarterly period.

**The SEM composite of all client accounts has earned +6.65% (net of all fees) for the nine months ended September 30, versus the S&P 500 at +5.30% and the Lipper Growth Fund Index at +6.07%.**

We have added two new companies to your portfolio during the quarter, Dell Computer and EMC Corporation. Dell Computer makes desktop and notebook computers, servers and related equipment serving business as well as consumers. EMC designs, manufactures and supports high-performance data storage products and software for business customers.

These new additions reflect our growing belief that Internet related technology will be a key driver of economic growth as we enter the twenty-first century. During the past ten years technology provided for the production, collection and organization of data. But not many businesses have been making much use of this information.

Now technology is being used to analyze and study data to zero in on improving customer satisfaction and loyalty. Likewise, the Internet is redefining business in many ways. For example, for an increasing number of businesses, inventory is being replaced by information, and that improves the return on invested capital for investors. Dell Computer has proven that you can build a product exactly to a customer's specification, deliver it to them when they want it, and you don't need an inventory stockpile to accomplish the task. Dell calls this the "Direct model" and it certainly defines, as we see it, the new business model of the future.

A recent endorsement of this new business model is the recent announcement of Ford Motor teaming up with Microsoft to develop an online build-to-order car sales system. Ford and Microsoft's efforts may well change the economics of the auto business; though we don't know yet if this will be a positive change, it will be exciting to watch.

The powerful force of technology is creating a business environment of constant change. Businesses must react quickly and those that do will gain a competitive advantage. Those businesses that don't will get left behind.

Importantly, the impressive power and growth of technology and the Internet will not require us to change our fundamental approach to preserving and growing wealth. The Suncoast Equity Management Disciplined Investment System (**SEM-DIS**) discovered both Dell and EMC because they met our stringent criteria of an outstanding business with a strong balance sheet, above average return on capital and large amounts of free cash flow.

One important principle for the true investor will evolve as we enter the digital revolution (as Bill Gates refers to it). Warren Buffett has said "I would rather invest in a great business with mediocre management than a mediocre business with a great management." In today's world of Internet economics I would take this to the next logical conclusion and add that the only acceptable investment is a great business with great management.

I look forward to speaking with you soon.

Sincerely,

*Don Jowdy*

President