



Suncoast Equity Management, Inc.

January 15, 1999

Dear Client:

SEM is proud to have completed its first year helping its clients preserve and grow their wealth. The markets in 1998 were rewarding and at the same time very volatile. SEM's first year results were strong, as our client's accounts earned +26.14% (net of all fees). We managed to outperform two of three benchmarks, with the Dow Jones Industrial Average at +18.13%, the Lipper Growth Fund Average at +22.86% and the S&P 500 at +28.58%.

Since the markets could be as volatile in 1999, we thought it would useful for you to know what is at the foundation of our investment process. Benjamin Graham wrote many years ago that the secret of sound investing could be distilled into three words, "margin-of-safety." He explained that the margin-of-safety concept is used to distinguish a true investment operation from a speculative one. In essence it involves putting to work a discipline that will minimize the investor's opportunity for a permanent loss of capital.

At SEM, we practice the margin-of-safety concept through three steps. First, we invest in companies with proven records of earnings, consistent cash flow and financially strong balance sheets. A meaningful amount of the activity in the sensational fourth quarter rebound of the stock market came from technology companies. Many of these technology companies, especially those associated with the Internet, earn little or no profits today but investors believe their future is very bright indeed. Our strong aversion to potential loss leads us to invest only in those businesses that have demonstrated consistent profitability.

Second, we invest in companies with proven brands or franchises. Assessing the strength of a brand or franchise in some respects is more qualitative than quantitative and also can be more obvious in some cases than in others. To illustrate more obvious proven brands, below on the left side of the page is a product/service description. On the right hand side, fill in the blank with the first company that comes to mind:

Product/Service Company Name

Soft Drink _____

Razor Blades _____

Fast Food _____

Charge Card _____

Computer Software _____

Now, check our portfolio and see how they match up.

The third step is that we seek to acquire our portion of these companies at a fair price.

In very volatile markets and especially in the short run, downside risk can't be completely protected. However, over longer periods these three steps will serve us well.

It has been slow and spotty in its development but fairly clear that sales and profit growth for many U.S. companies have been slowing. And a few of our companies are no exception. Two of our holdings, Mattel (MAT) and Equifax (EFX), announced just before year-end that their respective businesses would have problems attaining the sales and profit goals they had originally forecasted in October 1998.

Normally, when any company announces a significant change in its business fundamentals it is sold from our portfolio. So why haven't we sold these two companies? We need more time to analyze the important information released by both companies and we will make a decision in the first quarter of 1999. For instance, MAT also announced a strategic decision to acquire The Learning Co. (TLC). TLC is one of the leading companies in computer games and educational software. MAT, if it completes this deal, will become a very powerful technology company in education and toys. Jill Barad, MAT's CEO, also sits on the Board of Directors of Microsoft and therefore has direct access to the most powerful technology company in the world today. At this point I am watching closely and waiting for more information. I believe it is intelligent to gather additional information before acting further.

I will be calling soon to review your account and our latest thoughts on these two companies. We look forward to 1999 and we are well prepared to continue this journey of preserving capital and making it grow into the next millenium. Happy New Year and best wishes to you and your loved ones for a healthy and prosperous 1999.

Sincerely,

Don Jowdy

President