



Suncoast Equity Management, Inc.

January 9, 2001

Dear Client,

Listed below are Suncoast Equity Management's year 2000 and since inception performance results versus some comparable benchmarks:

<u>Time Period</u>	<u>SEM*</u>	<u>S&P 500</u>	Dow Jones
			<u>Industrial Avg.</u>
Year 2000	+ 4.26%	- 9.15%	- 4.85%
Since Inception	+17.89%	+12.23%	+12.66%

(Jan. 1, 1998 - 3 years)**

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

** Compounded Annual Growth Rates

During a difficult 2000, SEM clients had a very good year versus the stock market averages and versus most other money managers. It is not my custom, however, to spend a lot of time celebrating. Let's talk about the year ahead and beyond.

First, we added Harley-Davidson Motorcycles (HDI) to our portfolio in the fourth quarter of year 2000. As is customary, we took a small position in this new holding with a great desire to add to it if the business meets our expectations. HDI is the leader in the heavyweight motorcycle segment, but it is much more than just a motorcycle company. HDI's success is driven by the power of its brand and customer experiences. HDI products and the Harley "lifestyle" are an important part of life for over 500,000 members of the Harley Owners Group. The Harley mystique is fascinating as it touches nearly every demographic group. Of course HDI meets the stringent financial strength criteria set out by the SEM Disciplined Investment System (SEM-DIS) and we are hopeful to own HDI for a very long time.

The investment climate for the long term remains good. I believe that investing in common stocks will generate returns of 11% per year on average over the long run. The recent declines in interest rates could eventually have a positive influence on business values and the stock market. Lower interest rates have two effects: they (1) allow corporations to increase their interest in new projects (investments) by reducing their cost of capital and (2) investing in common stocks becomes more attractive when the rates investors can earn on alternative, fixed investments such as government and corporate bonds, decline.

To be sure, there are uncertainties as we start a new year, as there always are. The most pressing uncertainties we currently face are investor confidence and the outlook for growth in corporate sales and profits. I believe other near term issues such as energy costs and related infrastructure shortcomings such as the California power crisis, will work themselves out over time.

The investment road could be very bumpy in the near term. One of the important reasons, which often times has nothing to do with the long term fundamentals of a business, is that individuals react very quickly in today's world of instant information. Hearing about a negative near term development and observing the pessimistic activity of others, individuals respond in force and the end result is severe market volatility. As confidence declines it can paralyze the rational thought process of the consumer and business decision maker. Human nature being what it is, a generally upbeat confidence will only return for the individual when he/she observes that confidence is returning for others. Occasionally, confidence can take an extended amount of time to return.

While I believe that over the long run investing in common stocks is a worthwhile effort, it is important to understand why returns will be more normal and perhaps below normal in the short run. As I mentioned in the third quarter letter in October, from time to time there are generational shifts in the types of businesses that are growth businesses. The forces of capitalism drive these shifts. One strong capitalistic force is the Internet. Not very prevalent for most of 1980s and building in it's number of users throughout the 1990s; the Internet is now ubiquitous and very efficient. Early on, the Internet may have provided a new way for a business to get an early jump or advantage on its competitors. Now that it is widely available, everyone shares the advantages of this lower cost information and distribution system. The Internet is an important business tool and it's going to continue to significantly influence the fundamental prospects of many businesses.

It is important for us to steer our investments away from those businesses that will suffer greatly and towards those businesses that suffer less or may even benefit. We were delighted that Gannett Newspapers bought our interest in Central Newspapers this year. We, as well as management, understood that the future of the newspaper business was only going to get tougher. The Internet dramatically increased the number of sources that individuals could obtain the local and national news and it weakened Central Newspapers competitive position.

In the past, high profits on capital for some corporations have been made possible by information inefficiencies; however, the profit opportunity from information inefficiencies is shrinking. An IBM TV advertisement pokes fun at this serious issue for investors. In the TV commercial a small supplier, in an obscure Midwestern U.S. town, wins the opportunity to provide (with the help of IBM's e-commerce services of course) a large Japanese manufacturer with a component product at a lower price than the well-established local supplier. Competition clearly is much greater if with ease a small obscure U.S. based business, with the help of the Internet, is taking away business from a locally entrenched Japanese supplier or from any other global company.

In several ways the Internet may help businesses with strong brands get stronger. The Internet allows 500,000+ Harley Owners Group members a way to quickly share their satisfaction by posting notes and

trip experiences with each other, thereby strengthening their loyalty to the Harley brand. At the same time Harley-Davidson may develop a more productive Internet based supply purchase system that can potentially lower costs and provide new sources of higher quality components. How do we benefit as investors? Hopefully, Harley's happier customers will be less likely to focus on a small rise in the price of the product each year and they will come back each year for more Harley products including new accessories and Harley clothing.

The world gains and consumers clearly gain from the Internet's ability to create efficiencies. The economic advantage, for many transactions, is shifting towards the buyer (consumer) because of access to more suppliers offering similar products. During this process there will be a general reduction of returns on capital in corporate America, which would not be beneficial for investors. Notwithstanding this, the SEM-DIS is a disciplined approach to seeking out businesses that earn above average returns on capital, and I believe we will have available to us as investors a small collection of businesses meeting this criteria.

It is true that I am proud of the returns SEM clients have earned since inception. Passing the three-year mark in my business, I look forward to the next three and the next thirty years. At times the stock market will be more challenging, and in some years we will under perform the averages. In aggregate though, I am hopeful that the statistic below will continue to demonstrate our added value to you.

The value of investing \$100,000 since inception net of all fees:

SEM Clients: \$163,840

S&P 500: \$141,370

Over much longer periods of time if we continue to do well for you, the relative gains versus the S&P 500 will become very large indeed.

Thank you again for being a terrific client. It is a pleasure to serve you and I look forward to speaking with you soon.

Sincerely,

Don Jowdy

President