



BANYAN CAPITAL MANAGEMENT

May 1997

Dear Client:

We are pleased to report that the composite performance of Banyan's equity accounts was up 25.8% over the past twelve months ending March 31 ([Explanation of how composite is compiled](#)). Likewise, our accounts were up 20.6% compounded over the last five years. By comparison, the S&P 500 Stock Index was up 19.8% over the past twelve months and 16.4% per year over the past five years. Recent months have been marked by net selling in our equity accounts. We make our investment decisions one security at a time. We are not now, never have been, and never will be market prognosticators.

To vividly illustrate why we spend almost no time trying to predict the overall market, consider the following bit of research on the widely-watched Dow Jones Industrial Average (DJI) done by R. S. Salomon, Jr. of STI Management and offered in the April 7, 1997 issue of Forbes.

“...six DJI components have recently announced stock splits that will take effect this spring—Boeing, Du Pont, Exxon, GE, IBM and Philip Morris. Since the DJI is price-weighted, the divisor will have to be reduced to account for these companies' new lower stock prices. This will cause the combined weighting of the six split stocks to decline dramatically, from 31.3% currently to 17.6%. So from accounting for nearly one-third of the index's value, these stocks will decline to about one-sixth.

To illustrate another absurdity of the price-weighted DJI, consider this: In the last three years the six stocks now splitting have risen in price 117% and have, as a result, lifted the DJI 1,013 points. If the same stocks were to decline by...the exact amount by which they had previously risen, they would remove only 730 DJI points. What nonsense...”

I wonder if those making market predictions take such folly into consideration. I doubt it.

Understanding the difference between price and value has been the main reason Banyan has grown from a modest base 9 ½ years ago to our current roster of 28 clients with \$22 million of assets under management. Although we would like to increase our assets under management, we will not do so at the expense of the personalized service those individuals and trustees of qualified retirement plans whom we serve have learned to enjoy. With that in mind, we will probably add to our administrative staff before the year is out.

We remain steadfast in our commitment to always be improving our investment skills. Please let us know if we can be of additional help to you, or if you have any friends or acquaintances whom you think might need our services. We appreciate having you as a client.

Sincerely,

Gary L. Watkins
President