BANYAN CAPITAL MANAGEMENT

May 6, 1999

Dear Client:

The first quarter of 1999 was a period of under performance in our equity accounts relative to the market as measured by the S&P 500. The composite of our equity portfolios showed a .28% return in the first quarter versus 4.98% for the market. (Explanation of how composite is compiled)

Why the under performance?

There are two principal investment strategies employed by most investors - the value approach and the growth approach. A growth investor buys companies whose revenues and reported earnings are showing the most rapid increases sometimes without regard to the price paid. A value investor acquires shares in those companies whose fair value is not yet reflected in the price of the stock. The market disproportionately rewards one style over the other from time to time. During the decade of the 80's and early 90's - value ruled as king. Since 1994, however, a growth approach has generally been more rewarding. Why not switch back and forth to the approach that is popular at the moment? It's an extremely rare person who can do this consistently and successfully. In fact, if such a person exists, it has been kept secret. Rather than attempt such a high wire acrobatic act, I have chosen a value approach that makes good business sense. I will continue to apply it consistently in all market environments. And, even though the sun will not shine on the value approach all the time, it has proven to produce the best results over time.

During the last five years we have experienced solid results even though we've been swimming upstream. Our equity composite has compounded at 23.6% versus 26.2% for the market. It's only in the last three to six months that we have lagged the market averages to any significant degree. The responsibility for this rests with me. I did not anticipate the severity of deteriorating fundamentals at Philip Morris and Disney and I was not aggressive enough in acquiring new positions during the sharp drop in equity prices last fall.

How relevant is the S&P 500?

For many years now the S&P 500 has been the accepted standard of comparison for investors. Increasingly, however, that capitalization weighted index has become dominated by fewer and fewer large cap issues. Today the 15-20 largest companies dominate in the performance results of the index almost irrespective of what happens to the other 480 stocks.

BANYAN CAPITAL MANAGEMENT, INC.
2100 RIVEREDGE PARKWAY, SUITE 1030, ATLANTA, GEORGIA 30328
PHONE 770-951-2129 FAX 770-951-8277
www.banyancapital.com

For example, last year the capitalization weighted S&P 500 was up a remarkable 28.6% while the average stock in that index rose only about 8%. For some time now we have been in an environment where certain of those issues included in the index that are most overpriced have continued to go up simply to become even more overpriced. For this reason the S&P 500 may no longer be a relevant standard of comparison.

At Banyan we have never thought it was our job to outperform the index even though we have met or exceeded that pace in most years. Rather, we see it as our responsibility to make evermore rational investment decisions based on solid fundamental research, and through the light of economic reality.

What's in store for the future?

For the first time in five years the inevitable ebb and flow of value versus growth may have swung back in our direction. While the signs of such a shift have been building for a number of weeks, the process has gained substantial momentum lately. I'm happy to report our accounts are up sharply since the first quarter ended and have outperformed the market's increase during April. There's no way to know if this trend will continue, or if so, for how long. In any event, we are thankful.

Meanwhile the research effort continues. On average, four new annual reports are finding their way to my desk each day. Even in a generally high priced market, we continue to find a few new ideas each year that make good sense.

Sincerely,

Gary L. Watkins
President