



BANYAN CAPITAL MANAGEMENT

November 2002

Dear Client:

We are disappointed in the third quarter results in our equity portfolios. With the prices of over 90% of stocks falling, the market experienced its worst decline in 15 years. Unlike the first half of the year when our portfolios stood at a break-even, the share prices of many of our holdings declined. While our equity composite was down 17.9% year-to-date, the S&P 500 was down a staggering 28.2% ([Link for explanation of how composite was compiled](#)). Outperforming the market averages is little consolation in times when portfolios have dropped double digits.

When viewed over the entire bear market period, results are more satisfactory. Since March 2000, the market is down a stunning 38% through September of this year. Our equity composite over this entire period shows a 12% advance. Since our number one responsibility is the preservation of capital, we give ourselves a more than passing grade towards this objective. Recall that about a year ago, we warned investors of how difficult it might be to obtain double-digit returns over the coming 5-10 year period. Today, while we are not wildly bullish, we have a much more constructive view. In fact, our holdings should deliver better than average long-term results from the current levels. While stock prices have generally declined, the corresponding corporate values of each of our holdings has grown. The price to value proposition has not been better since 1990. This is an excellent time to add new capital to your portfolios.

By the way, we have no idea whether or not the market as a whole has already "hit bottom". While many tend to view such questions with great importance, we view all the chatter about the market direction as mostly useless. To be sure, overall business and economic conditions are not as bad as the pundits would have us believe. Additionally, the shift in investor psychology we are all looking for may very well evolve over time rather than happen instantly. I am pleased to report our portfolios are participating very nicely in the strong rally we have seen since the end of the third quarter.

We extend a special thanks to our clients who have been overwhelmingly understanding during this recent difficult period.

We wish you and your family all the best this holiday season and in all your endeavors for the coming year. Meanwhile, we at Banyan continue to be stimulated by the investment process and look forward to the challenges and opportunities that lie ahead.

Sincerely,

Gary L. Watkins
President