



BANYAN CAPITAL MANAGEMENT

January 28, 2004

Dear Client:

At the beginning of last year, we thought the broad market averages would probably do well to advance at a double-digit clip. Instead, the S&P 500 rocketed ahead 28.7%. It's a good thing we aren't paid to make such broad market predictions. At the same time, Banyan's equity composite was up a healthy 29.1% ([Explanation of how composite was compiled](#)). Our portfolios achieved these results while holding larger than usual amounts of cash and without investing in the market leading technology sector. Evidently, some investors have yet to learn the perils of continuously bidding up the prices of stocks whose underlying companies have no profits. We are delighted with the results of this past year, especially when viewed on a risk-adjusted basis.

Although my 2003 market predictions were far from the mark, I can't resist the temptation to try it again. Looking at 2004, the market appears to be fairly priced at twenty times estimated forward profits. Assuming growth in earnings of about 7% and a dividend of approximately 1.7%, the market overall could generate just under a double-digit return without expansion of the multiple. This seems reasonable assuming interest rates are stable at current levels. Therefore, at this juncture, stocks are not cheap across the board, and it is increasingly difficult to find undervalued securities for new investments. However, even in this environment there are reasonable opportunities.

We look forward to the challenges and opportunities this year is bound to bring.

Sincerely,

Gary L. Watkins
President