

**RED HILLS
CAPITAL, LLC**

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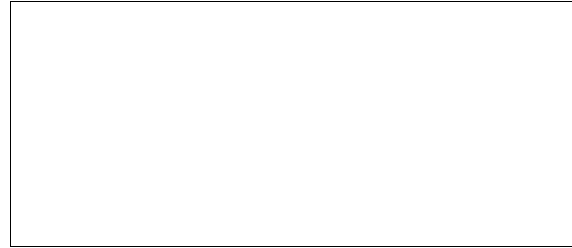
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*Tallahassee Money
Management*



**Success Through
Independence**



THE FUNNY PAGES

The Veritas is Out There...

So it seems that the Chief Financial Officer for Veritas (VRTS) had an MBA from Stanford University and an undergraduate degree from Arizona State University. These were some of the qualifications that eventually led to his prestigious position at this NASDAQ-100 company. Well, "seems" was the operative word as it has come to light that he never got a degree from Stanford nor apparently from Arizona State either. This from the man responsible for ensuring the veracity of Veritas' earnings reports.

Since such prestigious people in the financial world can "augment" their resumes, William & Richard would like to make the following modifications to their bios:

William C. Lamb, Jr.

Education

Ph.D. Oxford University, Economics

Experience

42nd Vice-President of the United States
Tony Award Nominee for supporting role in
"Stomp!"

Richard M. O'Leary

Education

Ph.D. Tufts, Computational Finance

Experience

Silver Medallist, 100m Dash, Seoul
Commander, Apollo 14

RED HILLS
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RED HILLS REVIEW

October 2002

Volume 1, Issue 6



**WILLIAM C. LAMB, JR.
RICHARD M. O'LEARY**

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Upcoming Economic Releases

- Oct. 10, 8:30 Import/Export Prices; Initial Jobless Claims; (10:00) Wholesale Inventories
- Oct. 11, 8:30 Producer Price Index (PPI); Retail Sales; (9:45) Consumer Sentiment
- Oct. 16, 8:30 Business Inventories
- Oct. 17, 8:30 Building Permits; Housing Starts; Initial Jobless Claims; (9:15) Capacity Utilization; (9:15) Industrial Production; (12:00) Philadelphia Fed Survey
- Oct. 18, 8:30 Consumer Price Index (CPI); Trade Balance
- Oct. 21, 10:00 Leading Economic Indicators
- Oct. 23, 12:00 Fed Beige Book
- Oct. 24, 8:30 Initial Jobless Claims
- Oct. 25, 8:30 Durable orders; (9:45) Home Sales
- Oct. 29, 10:00 Consumer Confidence
- Oct. 31, 8:30 GDP; Initial Jobless Claims; (10:00) Chicago Purchasing Managers Index; (10:00) Help-Wanted Index
- Nov. 1, 8:30 Average Workweek; Hourly Earnings; Nonfarm Payrolls; Personal Income/Spending; Unemployment Rate; (9:45) Consumer Sentiment; (10:00) Construction Spending; (10:00) Institute for Supply Management (ISM) Index

MARKET COMMENTARY

As we finish the quarter, the markets are in the process of retesting the lows we set back in July. The question of the hour is will those lows hold. We still view the markets as having far more upside than down. The nature of re-tests however, is that should the markets blow through the late July levels, we may be in for a significant decline. Time will tell and we are, of course, following the situation carefully. There are times when a good offense is needed to outperform the market. There are equally important times when a good defense is called for.

The other big news of the month was further non-action by the Federal Reserve on the interest rate front. The holding steady of the short term interest rates was entirely expected. The economic news over the last month has been mixed. It seems for every piece of upbeat economic news there is an offsetting negative release. On top off everything else sits the uncertainty of the war against Iraq. The markets dislike uncertainty, and there is no greater state of uncertainty than war -- especially in the anticipation of war. While peacetime economic expansion is the ideal state, events of 2001 have taught us they we do not always control whether we are in peacetime.

The markets kick off the final quarter of 2002 substantially lower than where they started. As of 9/26, The Dow was down 23% for the year while the S&P 500 and NASDAQ were down 28% and 38.5% respectively. All this while, the Municipal Bond Index posted an 8% gain in the first 9 months of the year. Despite the low interest rate environment, fixed income has been the portfolio saver one more time. Diversify, diversify, diversify. We can say it until we are blue in the face but the reality is that most investors put diversification in the same box as diet & exercise. Nevertheless, as your financial physicians we have taken an oath to remind you of the importance of diversification.

This reminds us of past stock distributions in Tallahassee created by mergers/acquisitions involving South Trust, Sprint, Bank of America, Sun Trust, and, most recently, BB&T Corp. For some local investors, the stock received represented a large percentage of their overall net worth. Dealing with such concentrated equity positions is not a matter to be taken lightly. The tax and risk consequences can be serious and we have addressed the issue in a presentation we have

(Continued on page 3)

THE RED HILLS MISSION

We specialize in our locally-managed Red Hills Value and Red Hills Income portfolios. We understand how taxes can impact the overall performance of your investment, therefore our portfolios are tax-managed and designed to reduce the tax exposure found in many traditional pooled investments. Recently, the complexity of the financial services world has forced many financial consult-

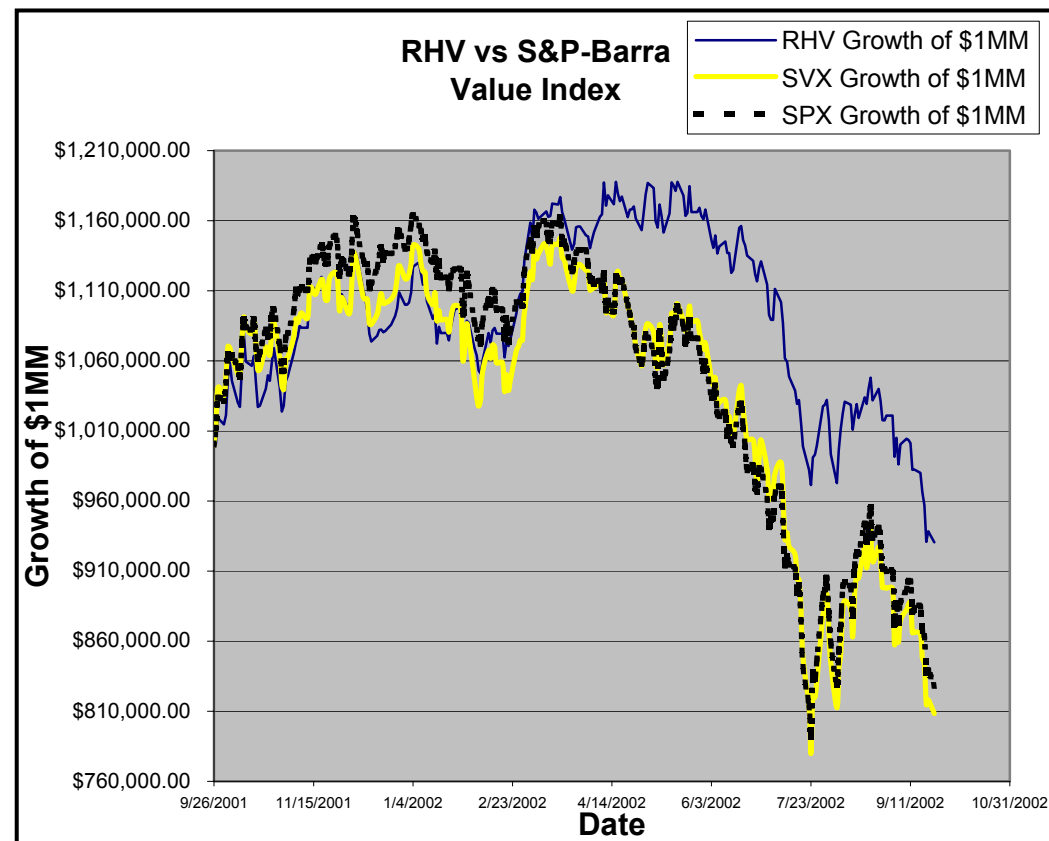
ants to try to be experts in tax law, insurance health care, mortgages and investments. We prefer to work as a team with the client's other professional advisors (CPA, attorney, insurance agent, and banker) to develop a well-rounded strategy that meets the clients long-term goals and objectives. At Red Hills, we focus on our strengths, managing individual portfolios.

RED HILLS VALUE

“The Y2K problem poses a serious threat that could disrupt the U.S. economy and bring about a yearlong global recession...”

— Edward Yardemi
Chief Economist,
Morgan Grenfell
(1997)

(The dock workers’ lockout) highlights one of the downsides of “Just-in-Time” manufacturing



Source for S&P-Barra Value Data: Reuters Datalink. Source for Red Hills Value Index: Marketocracy. S&P-Barra Value data do not include dividends. Red Hills Value Index data include management fee. SVX is the S&P-Barra Value Index; SPX is the S&P 500. Data through 9/26/2002.

SUMMARY OF RED HILLS VALUE PERFORMANCE

	RHV	SVX	S&P-500
From Inception	-6.42%	-17.18%	-15.10%
One Year	-6.42%	-17.18%	-15.10%
Year-to-Date	-14.94%	-25.96%	-25.53%

The Red Hills Value Portfolio (RHV) celebrated its one-year anniversary on September 26. We are delighted to have finished our first 12 months ahead of the S&P 500 (SPX) by over 8.5% and beating our target benchmark, the S&P 500 Barra Value Index by over 10.5%. Now it is on to year 2!

The drops in the market since the last newsletter have forced some sales that we didn't want to make as well as some sales that we were all too happy to make. RJ Reynolds (RJR) ended its brief stint in the portfolio and the only good news to come out of that was the sale was done before a jury decided to award \$28 BILLION to a single smoker in a case against Philip Morris (MO). There were

several other sales during the month including our long-time favorite Men's Wearhouse (MW). George Zimmer can guarantee you'll love his suits, but the downside grew to large for us to justify continuing to own it in our portfolio. One of the two additions during the last month includes Ross Stores (ROST). We are keeping a close eye on the dock workers' lockout in California as that is slowing the importation of clothing from Asia to American retailers. This highlights one of the downsides of "Just-in-Time" manufacturing and retailing where inventories (be they Japanese auto parts or Indonesian sneakers) are purchased on an as-needed basis and the manufacturers/retailers do not need to build large inventories. This model works well when the supply lines are efficient, but we have seen in the last week how one shutdown can ripple throughout a fragile economy.

INSIDER INFORMATION YOUR ACCOUNT OPTIONS

We have become aware that not everyone understands what types of accounts are available through Red Hills Capital. In large part, the Hedge Fund we operated caused much of the confusion because of the requirement that investor's have a minimum of \$1,000,000 net worth. But that is not all that we are!

We want to take this space to explain the various account options available to you through Red Hills Capital.

For accounts larger than \$100,000 we offer individually managed accounts for a quarterly management fee. Many of our managed clients also participate in the Red Hills Value Portfolio. Red Hills Value is our actively-managed value equity basket of stocks whose performance is reflected by the RHV Index on Page 2.

For accounts less than \$100,000 — and anyone who prefers a traditional commission based fee structure — we offer portfolios designed to fit your needs using low-cost index products wherever appropriate.

We also offer advanced strategies for clients with large concentrated equity positions. These strategies include tax-deferred forward contracts, stock collars, protective option strategies, accelerated disposal strategies and more. Prompted by the recent purchases by BB&T Corp., we have published "Advanced Hedging Strategies for Holders of Concentrated Equity Positions."

Finally, we will be offering financial planning services in the near future. These services will be available to non-clients for an hourly rate. These services are always available to our existing clients at no additional cost. In these reviews, the individual's existing portfolios are reviewed in the context of the investor's current and anticipated needs and lifestyle. As always, we will keep an eye on the risk levels to see if the risk in the holdings matches your stated objectives and risk tolerance.

“If a man does his best, what else is there?”

— General
George S. Patton

We have published “Advanced Hedging Strategies for Holders of Concentrated Equity Positions.”

Featured Stock

Name: Fresh Del Monte Produce
Symbol: FDP
Price: \$24.42
P/E Ratio: 9.2
Price/Book Ratio: 1.96
Price/Sales Ratio: 0.69
Dividend (annual): \$0.20



Stock information does not constitute a recommendation to buy, sell, or hold the security. Securities may only be recommended after careful consideration of

MARKET COMMENTARY

(Continued from page 1)
published entitled "Advanced Hedging Strategies for Holders of Concentrated Equity Positions." If you would like to sit down with us and review these strategies, please contact us at (850) 425-1110 or at info@rhasset.com

8.68% We look forward to the challenge of outperforming the indices again in our second year. Thanks to all who invested in our portfolio in our first year!

One final note: The Red Hills Value portfolio enjoyed its one-year anniversary on September 26! In it's first year, the Value Portfolio as measured by the Red Hills Value Index outperformed the S&P 500 Value Index by 10.76% and the S&P 500 as a whole by



Thanks to all who invested in our portfolio in our first year!