

**RED HILLS
CAPITAL, LLC**

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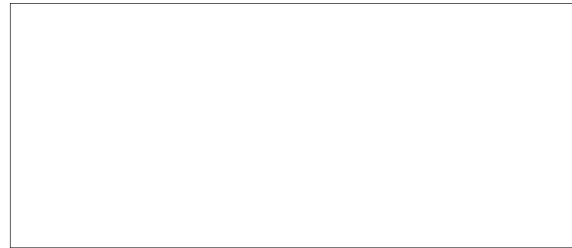
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*Tallahassee's REAL
Money Managers*



**Success Through
Independence**



THE FUN(NY) PAGES

Far away from the hurricanes and a 30 minute drive to Montana and Wyoming. Sounds good to me!



Comic by Walt Handelsman, Copyright 2004

RED HILLS
CAPITAL, LLC

TALLAHASSEE'S REAL
MONEY MANAGERS



R ED H ILLS R EVIEW

Autumn 2004

Volume 3, Issue 2

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

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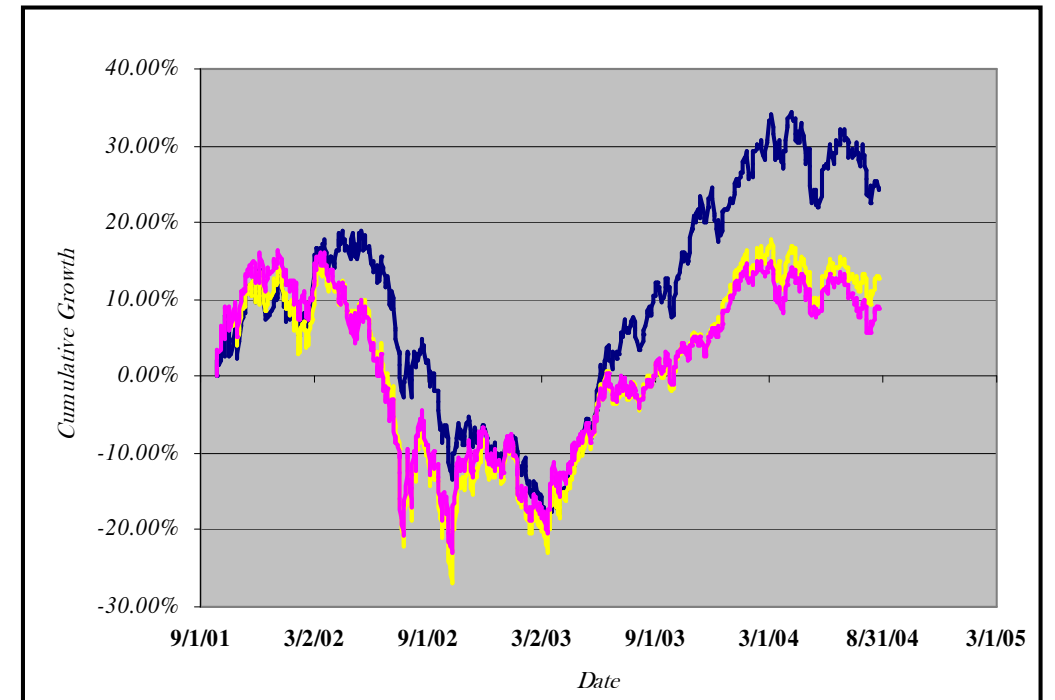
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Upcoming Dates of Importance

- Oct. 15, 8:30am Producer Price Index, Retail Sales
- Oct. 19, 8:30am Consumer Price Index, Housing Starts
- Oct. 25, 10:00am Existing Home Sales
- Oct. 26, 8:30am Consumer Confidence
- Oct 27, 8:30am Durable Goods Orders
- Oct. 29, 8:30 (GDP) Gross Domestic Product
- Nov. 1, 8:30am Personal Income
- Nov. 3, 10am Factory Orders
- Nov. 5, 8:30am Avg. Work-week, Non-farm Payrolls, Unemployment Rate for Oct., 3:00pm Consumer Credit
- Nov. 9, 8:30am Wholesale Inventories
- Nov. 16, 8:30am Producer Price Index
- Nov. 17, 8:30am Consumer Price Index, Housing Starts
- Nov. 18, 8:30 am Initial Jobless Claims

Happy 3rd Birthday to Red Hills Value!

At the close of the market on Monday, September 27, we were able to calculate a 3-year return for Red Hills Value. Inception day was September 26, 2001. Now, three years later, we can look back with some pride at our returns. RHV averaged 7.84% return annually over the last three years, greatly outpacing the S&P 500 and S&P Value indices. We'll even venture to say that a 7.84% average beats most money managers over the same time frame! We are delighted by the results and will be listing our 3-year numbers on our charts going forward.



9/30/04	RHV	SVX	S&P 500
Since Inception	+27.25%	+ 15.95%	+10.68%
1 Year	+14.83%	+15.14%	+ 9.25%
3 Year (annualized)	+ 7.84%	+ 3.87%	+ 2.38%
YTD	+ 3.54%	+ 3.67%	+ 0.24%

Source for S&P-Barra Value Data: Telescan. 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 9/30/2004.

Also of interest: the Beta (a volatility measure) of the portfolio was 0.66 compared to 1.00 for the S&P 500, while turnover was at a conservative 18% for the trailing 12 months. Past performance is no guarantee of future results but we are delighted to have "past performance" like this. We eagerly accept the challenge of continuing to produce results in the years to come.

MARKET COMMENTARY

“Only a man that is happy in his work can be happy in his home, and with his friends. Happiness in work means that its performer must know it to be worthwhile; suited to his temperament, and finally, suited to his age, experience, and capacity for performance of a high order.”

Dwight Eisenhower

The market as a whole has had a lackluster summer. Oil prices have spiked to \$50 per barrel which is an all-time high in absolute terms. During the price spikes in 1978/1979, oil was actually more expensive trading at nearly \$90 per barrel on an inflation-adjusted basis. The additional fuel costs are rippling down to all of us in direct ways (gasoline, heating oil, diesel) and indirect ways (increased transportation costs for goods being passed on to consumers). This budding inflationary pressure will be an interesting influence on the Federal Reserve as they manage interest rates in the near future.

The Dow Jones Industrial Average has been hovering around 10,000 again. Seems like eons ago that we broke 10,000 the first time! But for all the negative economic events of the last 4 years, we have moved sideways... and sideways is better than backwards! The major market indices have painted a mixed picture so far in 2004. The S&P 500 is slightly (less than 2%) higher, while the NASDAQ and Dow remain underwater for the year. Red Hills

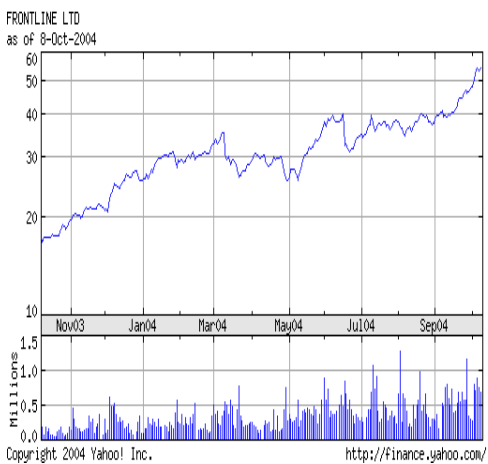
Value is out in front with a 4.6% return so far in '04. We hope to continue the trend of out-performance that we have been so blessed to enjoy.

One final comment about the markets -- or more accurately about one company. Fannie Mae (FNMA -- Federal National Mortgage Association) has been in the news regarding accounting issues and the treatment of some rather complex derivatives on its balance sheets. While we continue to evaluate the merits of Fannie Mae's equity, we remain confident in both its debt and preferred stock. The issues and subsequent proposed changes should have little impact on the ability of Fannie Mae to pay off its debts. As such, we are not likely to be rushing to sell any of our debt or preferred stock holdings in Fannie Mae in the near future. However, we reserve the right to sell any and all Fannie Mae securities should market conditions change. Feel free to contact us if you have any questions about Fannie Mae stock, bonds, or preferreds.

Featured stock Frontline Ltd. (FRO)

Frontline is a holding company whose subsidiaries are involved in the worldwide shipping industry. FRO subsidiaries are primarily engaged in the transportation of natural resources such as oil and ore. As global infrastructure demands increase, the need for additional resources also grows. Frontline is helping to meet that demand. FRO trades at a P/E of less than 8, a price-to-sales ratio of about 2.5, and at a 2.8x multiple of its book value. Frontline has become more expensive since we acquired it in August for less than \$37 per share. On October 4, FRO set a new 52-week high of \$50.98.

Even at this new price, FRO still sports a dividend in excess of 3%. However, as the price has run so dramatically, we are not likely to add to our position at this time, but will reconsider after each earnings report or after a price decrease.



The featured stock is presented for informational and educational purposes only and does not constitute a recommendation to buy or sell the security. Red Hills may be long or short the Featured Stock or any other investment listed in the newsletter. NEVER buy a stock based on what you read in this, or any other newsletter. Individual equities should form part of a balanced asset allocation and are subject to substantial risk.

“Drive thy business or it will drive thee”

Benjamin Franklin

INSIDER INFORMATION PLEASE DO NOT GET EMOTIONAL

How many times have you bought a stock and watched it accelerate through the stratosphere. You tell all your friends at the cocktail party how much money you are making in the stock market and you feel like a genius for making such a smart financial move. But one day it hits another all-time high and begins to trade down. Sometimes it is a noticeable trend and sometimes it plummets like a NASA probe failing to release its parachutes only to crater into the Utah desert. Oh the pain! Everyone who has invested in the stock market has felt it at one time or another. Some own up to their mistakes, while some repress them, never to return to the market again. Most likely they still own the loser stocks, hoping they will go up 300% again. They promise themselves they will sell when the stock gets back to their original purchase price. Sound familiar? Like anything worthwhile, there should be an objective, a plan, and the discipline to follow through. One of the most delicate and hazardous factors in the investing equation isn't PE ratios or earnings reports. No, this factor must be kept under a high degree of control. It can make you great or it can ruin you and drag you down into the abyss. It is your EMOTIONS.

Getting emotional about investing leads to irrational justifications for owning a stock. Pride, fear, anxiety, happiness and the real killer, GREED can get in the way of making rational and smart decisions. You are not alone. This is a normal and widespread problem as money is a very personal and serious issue in life. It in

volves funds for retirement, a child's education, care for an elderly relative, etc. You bet it is personal. You can remove yourself from this complication two ways: do it yourself with a discipline and proven strategy and actually stick with it, or hire someone you trust and in whom you have confidence. If you do it yourself, you must have the time and be disciplined enough to see yourself through the tough times and not get emotional. Easier said than done, but it can be done. Or, hire someone who understands portfolio theory and who manages money for a living. We at Red Hills appreciate the importance of your hard-earned money and respect what is on the line regarding its safety. We have the discipline to stick to our plan and objectives for each stock and each account. Just look at our chart on the opposite page, outperforming in a down market and outperforming in an up market for three years. Emotion? Sure we have concerns about the market, but that's what you pay us to do. You pay us to sift through all the information and noise that gets thrown at us so we can make smarter and more detached decisions on your behalf that will enrich you and make your life better. We take this personally because our life gets better only if your life gets better. Emotional? Sure we get emotional because we are personally responsible for your financial well being but that degree of separation can make a huge difference in your state of mind and day-to-day investment decisions.

“The sign of an intelligent people is their ability to control emotions by the application of reason.”

Marya Mannes

“Money doesn't always bring happiness. People with ten million dollars are no happier than people with nine million dollars”

Hobart Brown

Update on Red Hills Growth

Red Hills Growth continues its success. Several of RHG's stocks have set new 52-week highs including Ecolab (ECL) a service company to the hotel industry, Immucor (BLUD) a biotechnology firm, and Cigna (CI) the large insurance company. Recent additions have included Shuffle Master (SHFL) and Dick's Sporting Goods (DKS) while Krispy Kreme (KKD) and Jones Apparel Group (JNY) went to the great 1099 in the sky.

Offered under the same premise as Red Hills Value (managed accounts, \$100,000 minimum), Red Hills Growth is a multi-cap portfolio that seeks to identify companies with potential to increase their earnings and thereby their stock

prices. Investments in Red Hills Growth should be viewed as a long-term holdings. We kicked off this portfolio June 2, 2002 and have had a few brave souls owning these securities. The results so far:

	RHG	S&P 500
Since Inception	+21.98%	+ 8.15%
1-Year	+14.80%	+16.98%
2 Year	+21.21%	+16.03%
Year-To-Date	+0.63%	+ 0.24%

Source for S&P 500 Data: Telescan. Source for Red Hills Growth Index: Marketocracy. S&P 500 data do not include dividends. Red Hills Growth Index data include management fee. Data through 9/30/2004. Inception Date: 6/2/2002