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*Tallahassee Money
Management*


**Success Through
Independence**



THE FUNNY PAGES

Random Numbers

- 5:** The over/under Vegas line for number of CEO's convicted by 12/31/2003
- 6:** The over/under Vegas line for number of NBA players convicted by 12/31/2003
- 2:** Number of earnings re-statements that have hurt Red Hills Value.
- 14:** Number of months that Red Hills Value outperformed its target index since inception (total of 22 months)
- 3:** Books on the Red Hills Capital "must-read" list:
- Liar's Poker* – Michael Lewis
- Confessions Of A Street Addict* – James Cramer
- Who Moved My Soap? (The CEO's Guide To Surviving Prison)* – Andy Borowitz

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CAPITAL, LLC

RED HILLS REVIEW

Summer 2003

Volume 2, Issue 1

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



INSIDE THIS ISSUE:

- Red Hills Value* 2
- Insider Information –
Beware The P/E Ratio* 3
- The Funny Pages* 4

Upcoming Dates of Interest

- July 11, 8:30 Producer Price Index (PPI)
- July 15, 8:30 Retail Sales
- July 16, 8:30 Consumer price Index (CPI)
- July 17, 8:30 Housing Starts
- July 25, 10:00 Existing & New Home Sales
- **July 30, William's Birthday**
- July 31, 8:30 GDP
- Aug. 1, 8:30 Non-farm Payroll; Unemployment Rate
- Aug. 7, 10:00 Wholesale Inventories
- **Aug. 12, 2:15 FOMC (Fed) Meeting Results**
- Aug. 14, 8:30 Producer Price Index (PPI)
- Aug. 23, College Football Season Begins (7:45) California at Kansas State; (6:00) Grambling at San Jose State

MARKET COMMENTARY

It's the Economy...

We are now halfway through 2003 and the stock markets are at or near their highs of the year. But it certainly has been an exciting path! The threat of having to fight a war without the French took 1400 points off the Dow. The war itself added over a thousand back, leaving us about 300 points shy of the highs for the year (set in mid-January). The rest seems to come from priced-in expectations of economic improvement in the U.S.

Herein lies some difficulty as not all the numbers seem to justify the run in the equity markets. Now that the headlines are no longer focused on Geraldo embedded with troops, there is no escaping the fiscal realities that — in general — stock prices are a representation of the perceived future value of the companies they represent. Herein lies the rub. What is the future value of American Airlines? Should we rush out to buy newly issued K-Mart shares? Will our auto makers ever be able to induce us to buy a new car without 0% financing and/or "cash back?"

And the problems are not limited to the land of

NASCAR and Diet Vanilla Coke. Germany reported its highest unemployment since re-unification. French and British economic numbers have shown similar trends. Don't even get me started on Japan. The Europeans and the Federal Reserve are playing a game of chicken as to who will have to handle deflationary pressures first. So far, the U.S. has taken a stance that Europe needs to cut their interest rates and we are willing to let the dollar drop in value until they do. In the meantime, Euro importers will be spending their currency buying our suddenly cheaper goods and Euro travelers will likely be heading westward across the Atlantic to experience the culture they decry in their homelands.

All this being said, we continue to identify undervalued companies. Admittedly, they are getting harder to find, but then that is why you hire us, right? Our focus remains on dividend paying companies and the latest tax-law changes will only help us. For those of you seeking income from your portfolios, we implore you to come in and talk about the effects of the tax laws and how your needs may be met in ways you have previously

(Continued on page 3)

WHAT DOES RED HILLS CAPITAL OFFER?

What services are available through Red Hills Capital?

- Active money management on accounts greater than \$150,000
- Passively allocated accounts using low-expense indexed investments
- Individual Retirement Accounts (both Traditional and Roth)
- Fee-based accounts

- Traditional commission-based accounts
- Direct access to the people investing your money
- A Smoke-and-Mirror Free Environment

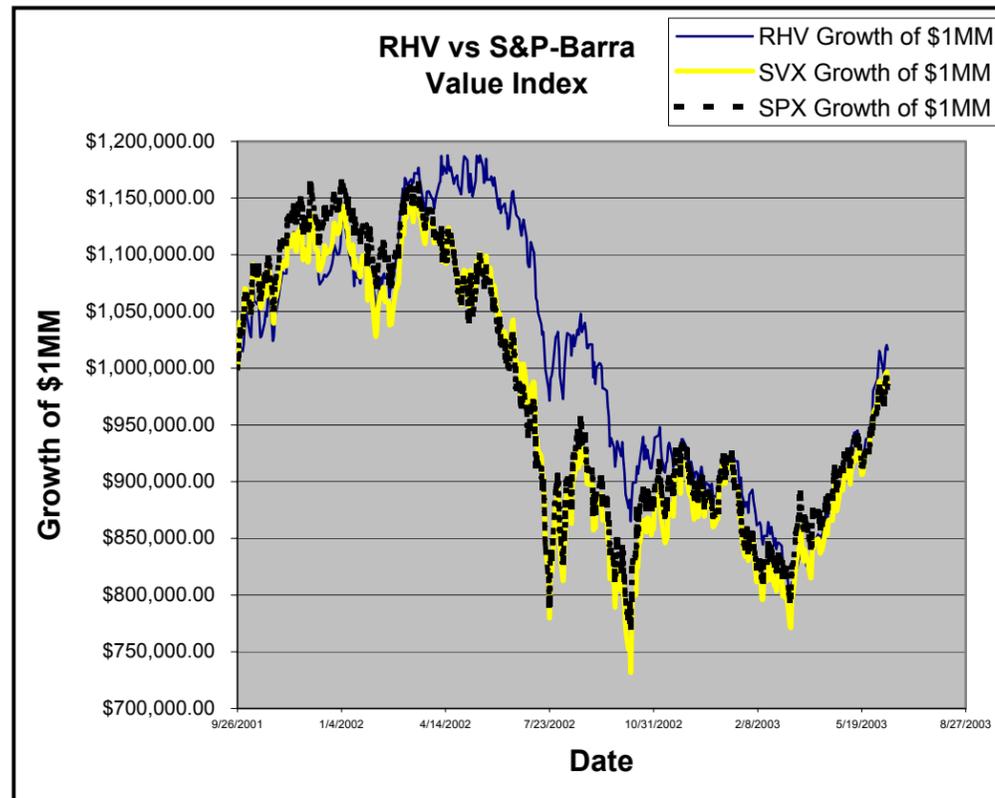
See for yourself the difference when investing with an **independent** money manager. Schedule a no-obligation meeting

(850) 425-1110.

RED HILLS VALUE

“Put yourself on view. This brings your talents to light.”

— Baltasar Gracian



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 6/13/2003.

SUMMARY OF RED HILLS VALUE PERFORMANCE

	RHV	SVX	S&P-500
From Inception	+1.62%	-1.34%	-1.83%
One Year	-9.49%	-2.31%	-2.08%
Year-to-Date	+14.05%	+13.76%	+12.37%

As of 6/13/03

Red Hills Value (RHV) struggled in the last part of 2002 primarily due to having too much cash while the market started running. Within the last month or two, RHV has regained its lead over the target indices and we have even been in the position of — think back hard and you may remember this term — taking profits.

For quite sometime, the portfolio management has consisted of implementing our money management rules designed to limit losses. It has been sometime since we last were in a position to take profits due to stocks becoming fully valued.

We recently pared down our positions in Ryland Homes (RYL) as it nearly doubled in value in the last 3 months. We originally bought RYL when we thought the home building industry had become cheap again following a run up in 2002. At that time we had bought and sold Pulte Homes (PHM) as one of our largest winners. In addition to RYL, we had to trim our position in a favorite name: Fidelity National Financial (FNF). FNF simply became too large a holding so we lopped 50% off after picking up our second small stock split in the last 15 months. Finally, we also trimmed our position in PHS (PacifiCare Health Systems, formerly PHSY). PHS has doubled in the last 3 months and we simply took some profit to reduce the weighting of the stock in the portfolio.

Nothing in this newsletter is intended as a recommendation to buy or sell securities. No one should ever buy a stock on the basis of a newsletter!

Think back hard and you may remember this term — taking profits.

INSIDER INFORMATION BEWARE THE P/E RATIO.

BY WILLIAM

Today it has become a challenge for the average investor to feel comfortable with the available research or the analyst that creates an interpretation of the earnings provided by a company's CEO and CFO. With all of the corporate scandal and fraudulent accounting practices, it is a wonder an analyst can give anyone a straight and objective opinion on the direction of a company. Could they or would they ever give us a straight answer? Analysts publish these wonderful ratings for example: buy, hold, outperform, overweight, etc. to help investors make informed decisions. Even after all the grief one may have endured over the last several years, one still does not see an out right "SELL." This topic is one that can be debated more, however, there is not enough space in this newsletter to do so.

As I was saying, finding the straight and objective opinion is tough, so one must dig into the financial statements themselves. So many ratios and so many interpretations of the tax code can make one's head spin. Therefore, let us start by looking at the most quoted ratio used and misunderstood at most cocktail parties and gyms: the Price to Earnings Ratio. The P/E ratio is thrown around as much as George W. uses "the evil one" to describe Saddam Hussein. Price is simple enough, the current market price, but the "gray" area comes in when looking at earnings. There are three ways to look at measuring a company's earnings: trailing actual 12 month earnings, forward or "forecasted" operating earnings, or operating earnings. Each have their own caveats and place in stock valuation models, but each tells a different story of a company's financial well being. Using operating earnings may show that a company is undervalued, relative to the valuation on the market as a whole. Companies began using "operating earnings" as a method of reporting their financial condi-

COMMENTARY (Continued from page 1)

ruled out.

On a broader note, despite the run in stock prices, we continue the diversification mantra. Our clients who have fared the best over the last 12 months have had well diversified

tion only 15 years ago. Coincidence?

Businesses have to come up with a forecast on what they expect to see in the coming quarters so they can plan inventories, staffing, cash flow, etc., but it is only a projection. Analysts are doing the best they can do to guess what is going to happen in the future, and nobody really knows what is going to happen.

So next time you are at a cocktail party and your buddy gives you a great stock tip, ask him what the P/E ratio is and then ask him, "was that using the trailing 12 months or forecasted operating earning?" He may just buy you another drink and talk about fishing.



“A handful of patience is worth more than a bushel of brains.”

— Dutch Proverb

He may just buy you another drink and talk about fishing.

portfolios that included some income-producing assets (bonds, real estate, etc.). Keep a sensible game plan in operation and don't succumb to the resurrected 1990's tendencies to load up on stocks now that the market has gotten hot.

Keep a sensible game plan