Knightsbridge Asset Management
division of Canterbury Capital Services, Inc.

April 27, 1998

First Quarter Commentary

"Do not wear yourself out to get rich; have the wisdom to show restraint. Cast but a glance at riches, and they are gone, for they will surely sprout wings and fly off to the sky like an eagle."

Holy Bible, New International Version
Proverbs, Chapter 23, Verse 4,5
attributed to Solomon,
"thirty sayings of the wise"
10th Century B.C.

With the domestic stock market soaring like Kate Winslet on the bow of the Titanic, potential naysayers looking for market icebergs are exercising all due caution for fear of being relegated to early retirement. And the owners of U.S. stocks, like owners of the Titanic, are crying "full speed ahead… don't you know we are invincible?" With 28 being the average age of the nation's 9000 mutual fund managers, who remembers a bear market anyway? Why, the year 1990 barely qualified as a bear market and most of these managers were just a couple of years out of high school!

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And so it has been asked, why does the U.S. market keep going up? For principally three (3) reasons:

1. **The U.S. economy remains strong with a reasonable chance of rising profits, albeit at a lower rate,**
2. **there is little competition for investment money from bonds, money markets or real estate, and**
3. **aging baby boomers continue to view the stock market as their best hope for achieving retirement, frightened of talk that social security might become social insecurity.**

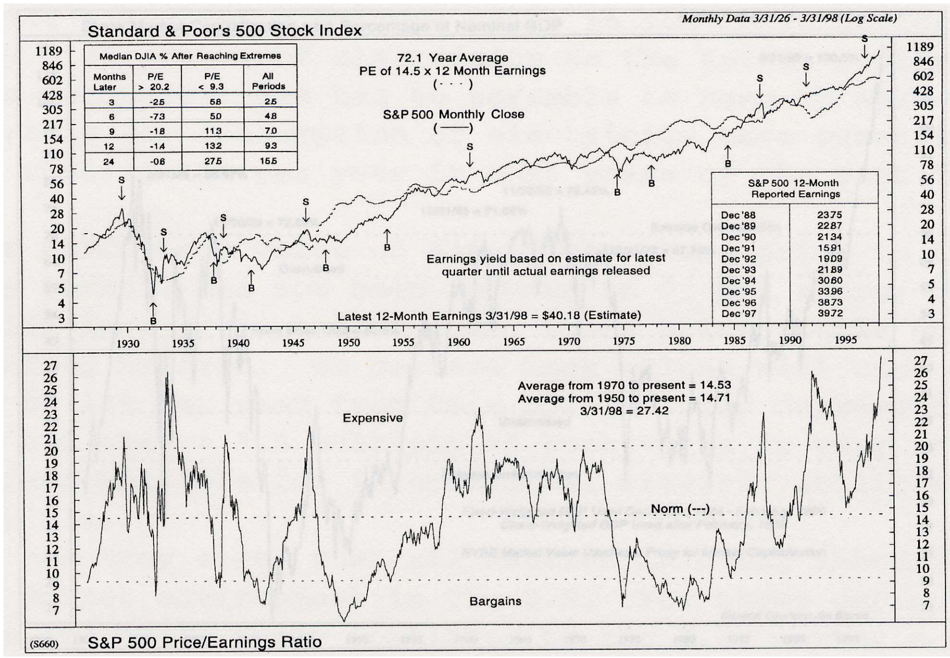
And so the "goldilocks" economy continues onward, with few remembering that in "goldilocks", the bears did eventually come home.

Just as it is important not to get caught up in the general psychological depression at market troughs, now only a distant memory, so it is likewise every bit as important not to succumb to the siren call of greed and euphoria at market highs. But keeping a level head is, at times, difficult and unnatural. After all, don't we all want our piece of the action? We now have brokerage firms sprouting up whose sole purpose is to allow people to come in on their lunch hour and "day trade." In case you don't know how, they'll teach you. Well, if it's so easy, I assure you they could make many more times their money by just doing it themselves forgetting the brokerage business completely. Maybe a fool *is* born every minute! Or perhaps, this is the time when "you *can* fool all of the people *some* of the time."

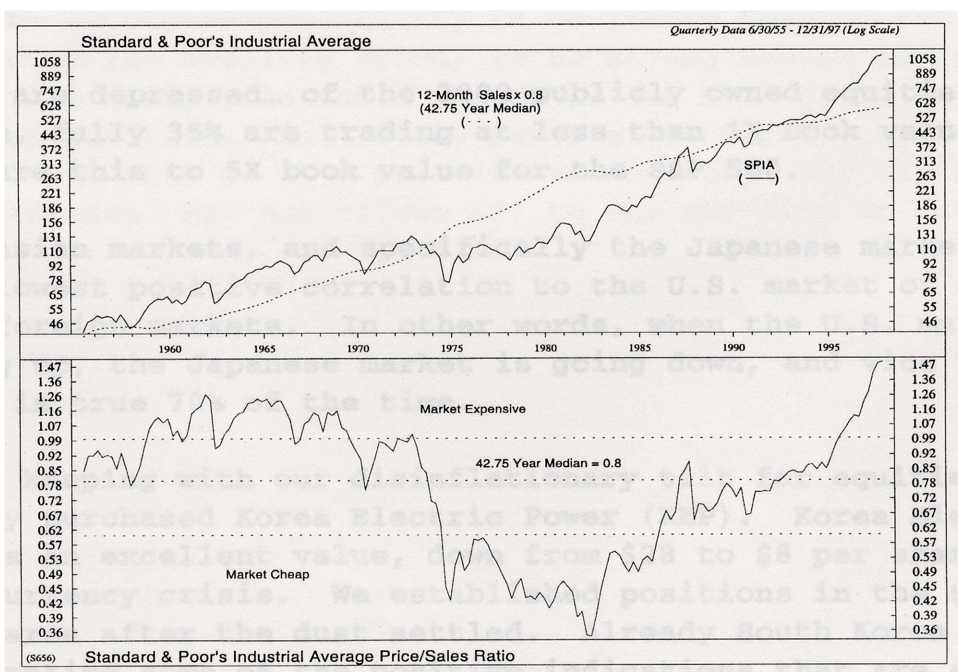
Seventy two percent (72%) of members of the American Association of Individual Investors are now bullish on the U.S. stock market. That's bad news because this indicator is strongly contrarian. Readings exceeding 61% are coincident with the market returning 1.3% in the subsequent year.

In preparation for what we feel will be a period of, at best, stagnation in the U.S. markets, and at worst, a nasty decline, we have adopted our most conservative posture since early 1987. Once again, the following charts shows us that U.S. equity prices are, in the aggregate, at all-time highs in terms of multiples of cash flow and operating earnings. Caveat Emptor! (buyer beware).

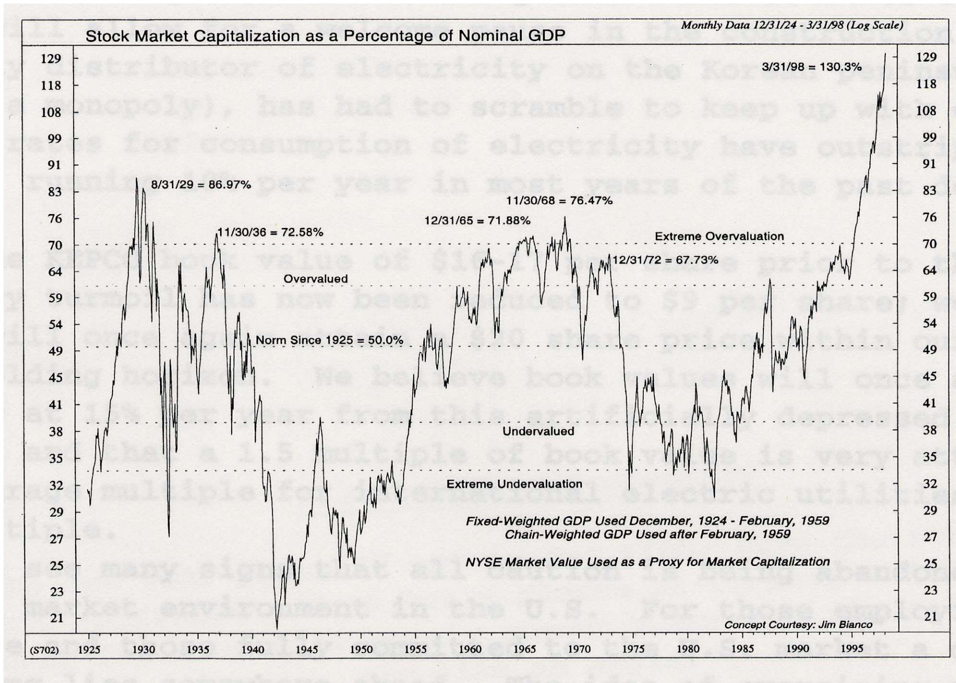
The trailing price to earnings ratio of the S&P 500 is at an all-time high of 28 times earnings, as seen below. This is unprecedented.



Moreover, the price to sales ratio has gone bonkers as well. This is the price of an average stock, divided by revenue per share.



And finally, stock market capitalization (number of shares times price per share) as a percentage of GDP is at levels never seen.



Since the U.S. equity markets are so significantly overvalued, we search elsewhere for value. The dramatic pounding taken by the Asian markets has provided us with an extraordinary opportunity. We look toward the Asian markets for two primary reasons:

1. They are depressed… of the 3000 publicly owned equities in Japan, fully 35% are trading at less than 1X book value. Compare this to 5X book value for the S&P 500.

2. The Asian markets, and specifically the Japanese market, have the lowest positive correlation to the U.S. market of any of the foreign markets. In other words, when the U.S. market is going up, the Japanese market is going down, and vice versa. This is true 70% of the time.

In keeping with our disinflationary tilt for equities, we recently purchased Korea Electric Power (KEP). Korea Electric Power is an excellent value, down from $28 to $8 per share in the Asian currency crisis. We established positions in the $9 3/8 to $9 7/8 area after the dust settled. Already South Korea is demonstrating some of the positive indications that are a necessary precursor to recovery, such as a very recent reversal of their current account deficit. The demand for electricity is

fairly inelastic, and a slowdown in the South Korean economy, the world's 11th largest, from 8% GDP growth rates to 0% or so in 1998, will allow for a welcome pause in the construction budget. The only distributor of electricity on the Korean peninsula, KEPCO (a monopoly), has had to scramble to keep up with demand as growth rates for consumption of electricity have outstripped GDP growth, running 10% per year in most years of the past decade.

The KEPCO book value of $16-17 per share prior to the currency turmoil has now been reduced to $9 per share; we think KEPCO will once again attain a $20 share price within our three year holding horizon. We believe book values will once again be growing at 15% per year from this artificially depressed $9 number, and that a 1.5 multiple of book value is very attainable. The average multiple for international electric utilities is a 1.9 multiple.

We see many signs that all caution is being abandoned in the current market environment in the U.S. For those employing leverage and those fully committed to the U.S. market a day of reckoning lies somewhere ahead. The idea of exercising restraint has been tossed to the scrap heap, with few remembering the wisdom of Solomon… not so much because it is 3000 years old, but rather because fear has faded and greed has become the opiate of the day.

Part of our responsibility is to insure that we are not trampled by the swelling crowd; to be strong enough to lean against the wind, gale force though it may be. It is an unpopular position. But as the party gives way to the morning hangover, we must be in a position to know that our capital… yours and mine… has not "flown off to the sky like an eagle".

Best regards,

Alan T. Beimfohr