Knightsbridge Asset Management, LLC

April 12, 1999

FIRST QUARTER COMMENTARY

"Crowds, being incapable both of reflection and of reasoning, are devoid of the notion of improbability."

Gustave Le Bon (1841-1931)
French Historian
The Crowd, 1895

Improbable valuations increasingly rule the market. Dow 10,000. New highs in the S&P 500 and NASDAQ "averages". One might be deluded into thinking all was well on Wall Street. Not quite. In the past year the average NYSE stock is off 33% from it's high and the average NASDAQ stock is off 41% from it's high, while the broad based Russell 2000 small cap index and ValueLine averages are down about 18%. Beneath the bull market hype lurks a stealth bear market in the overwhelming majority of issues. In fact, the Dow Theory (first advanced by Charles Dow, publisher of the Wall Street Journal in the 1800's) says that we have been in a bear market since last April, irrespective of new highs in the Dow Jones Industrial Average. Moreover, 69% of all NYSE issues are now trading below their 200 day moving average. And the plurality of new lows over new highs as the DJIA crossed 10,000 was decidedly in favor of new lows.

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On March 16th the DJIA *crossed* 10,000 for the first time in history. Yet new lows outnumbered new highs on the NYSE.

On March 26th the DJIA *closed* above 10,000 for the first time in history. New lows exceeded new highs on the NYSE by 2:1.

NYSE HIGHS/LOWS

Tuesday, March 16, 1999

NEW 52-WK. HIGHS — 61

ATT81/8PNSn	EMCCp	LbtyCp	Pfizer
Allergan	Entercom n	MatsuElec	PioneerElec
Alpharma A	Fingerhut s	Merck s	RJRNbCppfUn
AmOnline s	FrontrCp	MicroFnl n	RogerComm B
AmHmPdts s	GenDynam s	Midas	Rubbermaid
AmIntGp s	GenElec	MT Pwr	SK Tele ADR
ArgosyGamng	GMaseca ADR	MrgnStnAsia	SafegrdSci
BkTokyo	GuidantCp s	MSDW	ScheringPl s
BauschLomb	HondaMotor	MSDW CaQty	SchwabC s
BestBuy s	IT Gp	MortonInt	SprintFON s
BestBuy wi n	IndiaFd	NielsnMedia n	TaiwanSemi s
BurlNthSF s	JabilCircuit s	Nippon ADR	TomHilfiger
CarrGottstn	JapanOTC	NwstrnCppfBn	UnBanCalTrl n
Conseco pfV n	JohnsJohns	ParkPlEnt n	UtdTch
DonLufJen s	LhmnHldgptln	Paymentech	ZiffDavis n

NEW 52-WK. LOWS — 76

Advo	CrownAmRlty	JoAnnStrs B	PblcStorg pfE
AlliedWaste	CurtWrght	Kranzco	RDO Equip A
AmBknote	DE GpDivInco	LG&E Engy	RltyIncoCp
AtchisnCstg	Equus II	LTC Prop	RelianceGp
BantaCp	EstrlneTch s	LacledeGas	RobnsMyrs
BarnesGp	FstIndRlty pfD	LeasingSol	RuseCap QUP
BeckmnCoultr	FrnklnCovey	MaximGrp	SierraHlth s
Berlitz	Gainsco	Meadowcrft	SodexMarrSvc
BradleyRE	GenGrthProp	NCH	Stepan
BradleyRE pfA	Guilford	Norrell	StoneWeb
BrownShrp A	HlthplnSvc	Oakley	SunshMin
CSS Ind	HeclaMin	Omnicare	SuperTele s
CarriagScv A	HomeBase	OxfordInd	TNP Ent
CentlHudGE	HostMSvc	Pameco A	TramelCrow
ChespkeCp	InnkeperspfAn	PatAmHsp	Tremont
ColoniProp pfA	IntAlum	Pillowtex	UtdDomnRlty
CmfrtSysUSA	IntstBaker	PostProp pfA	UrbanShop
CompUSA	IpalcoEnt wi n	ProLogis pfB	WldnRsdpfDn
CompxInt A	JennyCraig	PblcStorg pfD	ZemexCp

s-Split or stock dividend of 25 percent or more in the past 52 weeks. High-low range is adjusted from old stock. n-New issue in past 52 weeks and does not cover the entire 52 week period.

NYSE HIGHS/LOWS

Monday, March 29, 1999

NEW 52-WK. HIGHS — 44

AMP	ChmpshpAuto	KingWorld	PharmUpjhn
Abercrombie A	Chevron	LeggMason s	ProctGamb
AlldSgnl	ClairStrs	LexmarkInt A	SchwabC s
AmOnline s	Corning	MedcoRsrch	ShawComm B
ArtraGp	DialCp	MSDW	SpeedwyMotr
Astra A	EMC Cp	MSDWDJBRIDG ESn	Tiffany
Astra B	FamilyDlr s	MortonInt	TimesMir PEPS
BCE Inc	FL RockInd	OrangeRkl	Univision A
BP Amoco ADS	GenDynam s	Petrofna ADS	VastarRes
CBS	Gerdau n		WalMart wi n
CIGNA s	JersyCntl pfE		WilliamsCos
CapOneFnl	JohnsJohns		

NEW 52-WK. LOWS — 88

AMB Prop	FBL Fnl A s	Laidlaw	PrimeRtl
Airlease	FrnklnMulti	MNEngFPRDS	ProviEngy
AmAnnuity	FruitLoom A	MagellnHlth	PutnmMstInco
AmBknote	GTEDEMIPSB	MaximGrp	REI Tr I n
AmHlthPrp pfB	GenGrthPropf	MidAmApt	Rouse pfB
Avista pfA	GenuinePart	Mikasa	SIGCORP
BattleMtn	GreenMtPwr	MSDW IMB	SL GrnRlty pfA
CBL Assoc	HlthcrRlty pfA	MnHldgCAIVn	SCANA
CHS Electro	HeiligMyrs	MuniHldgNJIIn	Scor ADR
CamdnProp p	HomeBase	NtlHlthInv	Smucker B
CamdenProp	Homestake	NtlRural QUICS	Solutia
CentlSoWest	HmstdVlg	NelsonThos	SouthernCo
ChespkeUtil	IN Mich A	Nicor	SpringsInd
Coeur dAMn	InnkeperspfAn	NordRes	Suncor pf n
ColonlProp pfA	Jackpot	NoStPwr s	TN Vly PARRS
CmwlthEd prK	JennyCraig	NwstrnCppfBn	TransamInco
CmntyBkSys	JoAnnStrs B	ONEOK	TransCan
ConagCap pfC	JrnlRgstr	Olin s	Tremont
Crawfrd B	KatyInd	PhilAuthInd28	WHX Cp
EdisonInt	Kollmrgn	PhilpsIntRlty n	WPS Res
EqResdntl pfD	Kranzco pfD	PostProp	WstGsRes pfA
EssexProp	LG&E Engy	PrimGpRlty	WitcoCp

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The average stock has taken a beating as the vogue of indexation and preference for mega-size has funneled monies increasingly into a handful of names. In fact, only 13 stocks were responsible for one-half of the gain in the S&P 500 in 1998. This narrowness of market "breadth" as it is called, continued unabated in the first quarter as well. The reasons for this include at least four notable factors.

1. "Momentum" investors are choosing from an ever narrowing list that serves to expand the difference between the average stock and those few being chased by momentum money.

2. Indexation has been sold to investors as a way to beat the market. Adequate recognition is not given to the ultimate affect of concentrations caused by market capitalized weightings. In this world, highly priced (and dare we say overpriced) stocks beget even more highly (and more overpriced) stocks as Peter is robbed to pay Paul (inexpensive stocks are sold off to buy more expensive stocks making the cheap cheaper and the expensive more expensive).

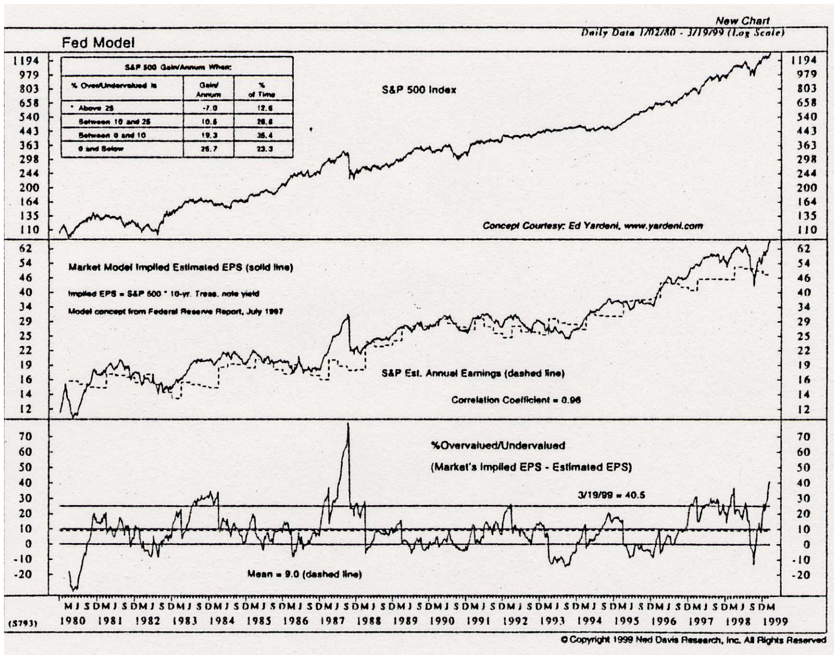
3. Money managers are forced by competitive pressures to become closet indexers as a result of points one and two above.

4. With the widespread notion that the yen and euro will become cheaper relative to the dollar, foreign investors, moving money into dollar dominated assets, prefer names they've "heard of".

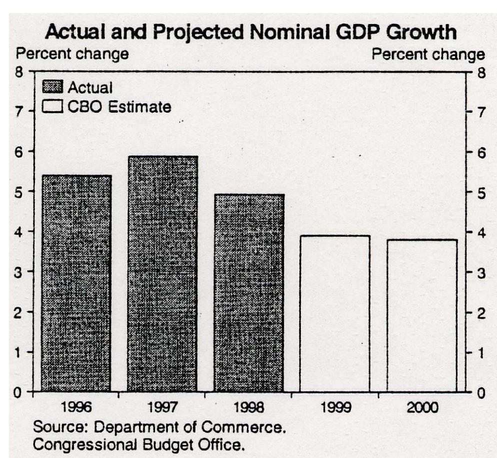
Some 35% of NASDAQ volume is "day trading". Two of the four most popular books sold by Amazon.com in January were titles on the topic of internet day trading! In fact, the average "investor" in Amazon.com stock owns the stock for… 2 ½ days! Strike the word "investor" and insert "speculator".

The internet and technology mania continues unabated, as reflected in the IPO (initial public offering) market. We all remember the folksy H. Ross Perot. In a short six (6) weeks, Perot Systems "went public" at 17, opened for NYSE trading at 34 the first day, went to 84 by the third day, and is now 25. Again, all in six weeks. The casino mentality is alive and well. Then there is Microsoft at a market capitalization of $470 billion, which, at its current rate of advance will surpass the GDP of the entire state of California by the fall of this year. Even venerable Fed Chairman Alan Greenspan, who admonished the "irrationally exuberant" at Dow 6300 two and a half years ago, is now noticeably reserved in any such assessment with the Dow 50% higher. Chastised by some for his unnecessary caution, he is made to look the fool by modern-day stock market gunslingers.

Mr. Greenspan, in congressional testimony during the summer of 1997, made reference to a model used by the Federal Reserve to determine if stocks, as measured by the S&P 500, were undervalued or overvalued. This model today shows the S&P 500 to be 31% overvalued.

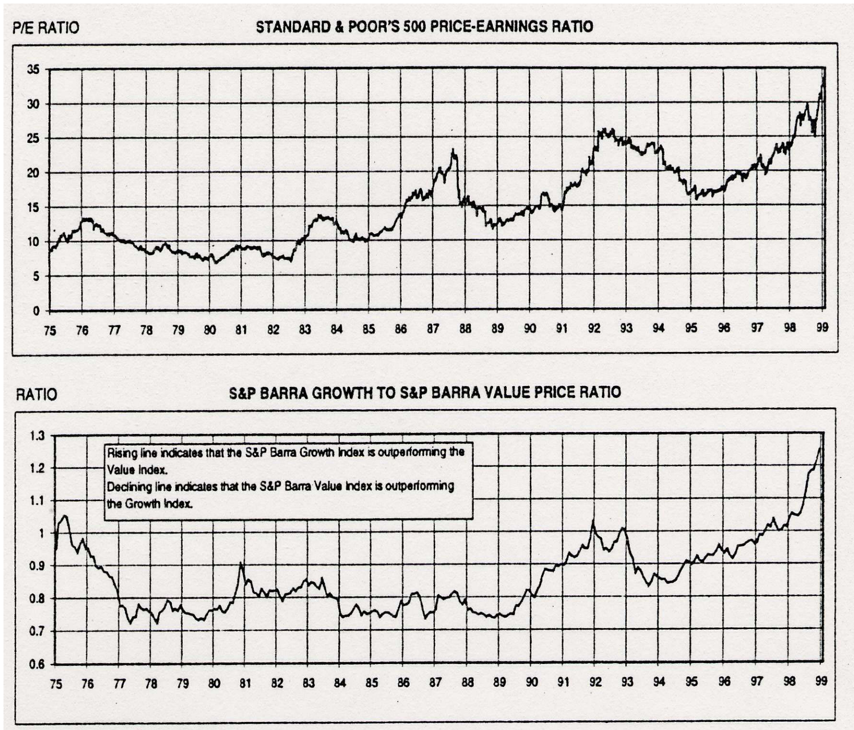


Japanese Vice Minister of Finance Eisuke Sakakibara recently referred to the U.S. economy as "bubble.com". The Japanese should know, having gone through this themselves a decade ago. The surprising aspect of this is that S&P 500 earnings could be down while the economy experiences 4% to 5% nominal GDP growth.



We are value managers, which is to say, that we search for businesses whose publicly traded stock is selling at low absolute and relative multiples to cash flow, earnings, sales, book value, etc. The endless debate as to whether growth stocks or value stocks will result in faster capital aggregation goes on, but most unbiased studies point to value stocks over long periods of time as providing the greater returns. Why is this? Growth stocks get all the press and create all the excitement. True. But it is also likely this "excitement" is the very factor that causes them to become valued beyond their intrinsic worth. Growth at high rates is mostly ephemeral. And valuations at correspondingly high levels also become ephemeral.

Growth stocks have outperformed for ten (10) years as can be seen below. It is not coincidental that during this period the P/E ratio of the S&P 500 has gone from 13X to 35X. Both go hand in hand. As can be seen, a resurgence of value stock outperfomance would likely be accompanied by a P/E shrinkage on the S&P 500.



Source: Standard & Poor's; Bear, Stearns & Co. Inc.

Consider the six (6) largest stocks in the NASDAQ average, which, by the way, account for 40% of the index. These six stocks are all "growth" stocks. They sport some hefty price/earnings ratios relative to their predicted earnings growth rates, even assuming these earnings growth rates do, in fact, materialize into the infinite future.

As of 4-5-99	P/E (trailing 12 mos.)	5 yr Forward Projected EPS Growth Rate
Microsoft	80	25
Intel	37	22
Cisco Systems	140	30
MCI Worldcomm	46	25
Reuters	33	14
Dell Computer	83	25
mean	70	24

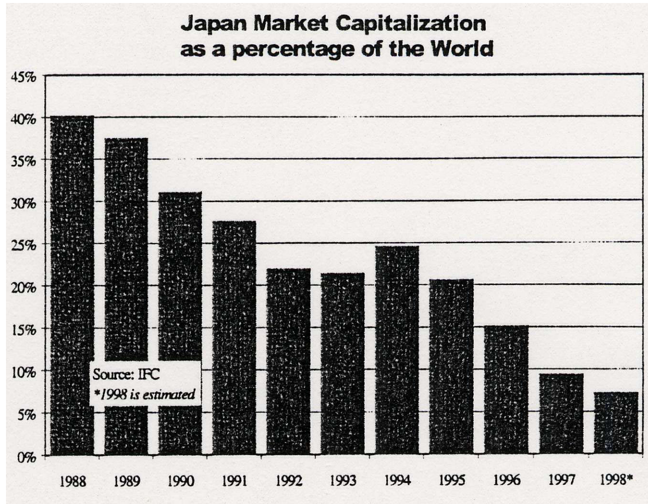
Lest one might be thinking an average P/E of 70 is high, the entire NASDAQ is selling at an aggregate all-time high P/E of 105! This astonishing number is arrived at by summing the capitalization-weighted prices and dividing by the sum of all trailing earnings. Since the broad historical average of P/E (15X) to EPS growth (6%) is a ratio of about 2.5/1 this would imply expectations for 42% (105/2.5) per annum earnings growth for all of NASDAQ. Clearly this is absurd. And yes, that's 105 times earnings!

This brings us to our portfolio and our quest for value which went largely unrewarded this quarter.

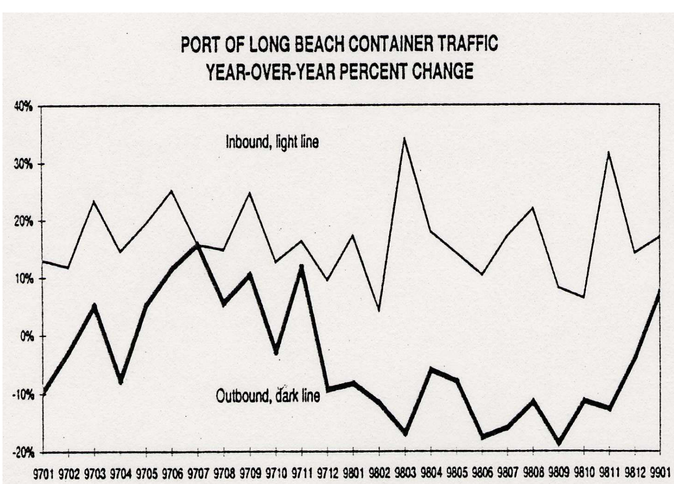
PennzEnergy announced two significant developments during the past quarter. Sonat will joint venture a methane from coal seam project in New Mexico, drilling thirty-five (35) wells on property owned by PennzEnergy. This project should ramp up to $70 million in cash flow to PennzEnergy in eight years. A second development will be their venture with the Brazilian oil company Petrobras to delineate 300 sq. km. of onshore and offshore property with the goal of drilling a single wildcat well within two (2) years. It is also a strong possibility that PennzEnergy may choose to sell one of their non-cash generating ventures such as their 4.8% participation in the giant Azerbaijan project, perhaps worth $400,000,000, to reduce their debt. This sale would probably reduce interest expense by one third and go a great distance toward strengthening PZE's balance sheet.

Genesis Health has been battered by industry disappointments. Of the seven (7) issues in the Bear Stearns universe of nursing home stocks, only one trades for more than $10 per share. Many still fear the potential profit-shrinking effects of new Medicare reimbursement policies put in place late last year. Some companies in this industry are struggling to maintain solvency. Particularly on the ropes are Vencor (VC, 7/8), Sun Healthcare (SHG, 1) and Mariner Post Acute Network (MPN, 1 ¾), one of which will most likely file Chapter 11 soon. Such an event may actually be helpful as the draconian outcome of the government's reimbursement policies may be brought back into focus. Genesis Health reported $.20 for the 4th quarter and is expected to earn $.80 to $.90 in 1999. Genesis is trading at 5X expected earnings per share in this ugly environment.

We remain committed to Asia, particularly Japan and Korea. We believe the odds of a major bull market starting in Japanese stocks is high, with Japanese banks reflating. Japanese market capitalization as a percentage of world market capitalization has dropped from 41% in 1988 to 7% at present. Yet Japan's share of world GDP is 17%. For comparative purposes, the UK market is 9.2% of world market cap, but the UK economy is only 5% of global output. This is just one of several reasons we want exposure in this part of the world. Morgan Stanley Asia Pacific, a closed-end fund, is 48% Japanese stocks and trades at a 15% discount to net asset value.

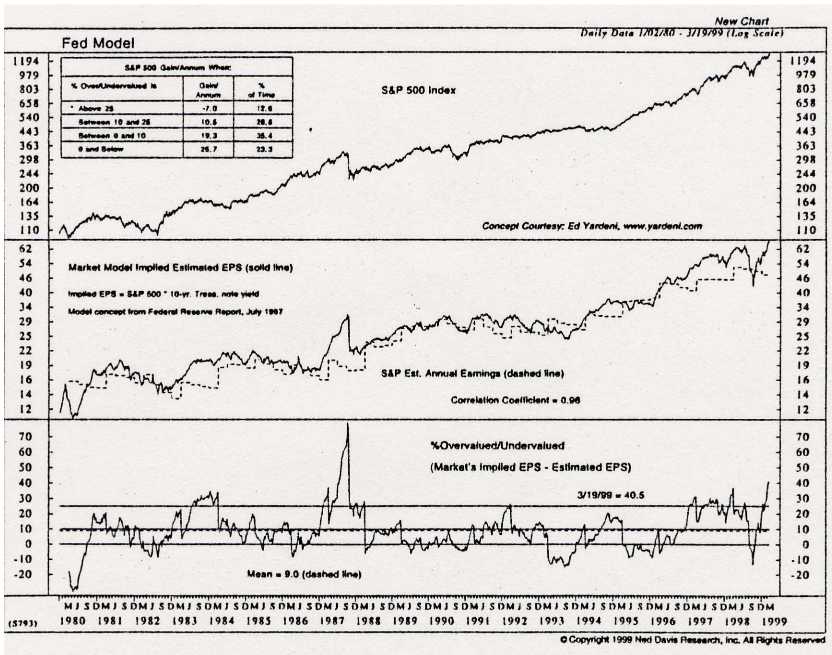


The Korean economy has made a strong turn. Korea Electric Power has further privatized itself and the Korean Government has reduced its holding from 73% to 58% in the past year. Last month's secondary offering to international investors, priced at $12 per share, depressed the value of our positions at quarter's end which have since rebounded to the $14 area. In time, this increased liquidity for shareholders will be a plus as is the turnaround in kilowatt-hour output with the Korean economy, up 5% in January and February over last year.



The Port of Long Beach, California is the largest in the U.S., and 80% of its traffic is with Asia. The pronounced upturn in outbound container cargo since last September, a good barometer for increasing trade with Asia, is cause for optimism.

Much has been made of Dow 10,000. It is interesting to note what happened at Dow 1000 and Dow 100. Although a statistical sample of three is not large and perhaps lacks conclusive validity, the observation is that in each case it took… hold on to your hat… twenty (20) years to get more than 10% above any of those levels. Quite a wait.



Now that the numbers are in, we see that S&P 500 earnings *declined* in 1998. Nevertheless, the P/E advanced from 26X earnings to 35X earnings in the March 1998 to March 1999 timeframe. We are concerned with the current market environment and the cavalier attitude of neophyte participants who are caught up in a clear speculative excess. So far, no one has been hurt, or so it seems. But sooner or later the recognition will dawn that investing in companies is not the same as playing a Nintendo game.

Trees do not grow to the sky, or do they? We remember when oil prices had gone so high that we waited in lines for our "odd or even" day's ration. In that era, crude oil was at $40 per barrel, soon to be $100, or so most thought. It was said that Saudi Arabia would have so much money that they could own all of Europe in a few years. This thinking signaled the top of the oil market for many years. That was twenty years ago.

Ten years ago they said that Japan would own Hawaii, achieving by peaceful means what they could not in World War II. The Emperor's Palace in Tokyo was worth more than the state of California. That signaled a top to the Japanese market.

EBAY, EPAY, "oy vey!" Today we have rampant speculation and greed disguised as investing in internet technology on the internet. Any new issue dubbed ".com" seems to automatically double once in the public market, bolstered by unsubstantiated hype in internet "chat rooms". We believe this speculation has a high probability of signaling a major market top… maybe not tomorrow but sooner rather than later. This is a treacherous environment and we will do our best to protect you from it while still investing for reasonable gains.

Our performance this quarter was noticeably influenced by the market's waning interest in mid-cap and small-cap stocks as well as the aforementioned secondary offering in Korea Electric Power. We continue to retain above normal levels of liquidity with a strong belief that the current environment is fraught with potential for disappointment, as evidenced by the S&P 500 trading at an unprecedented 35X trailing earnings.

The last quarter's environment has challenged all investors to keep their heads while many about them lose theirs and succumb to the siren song of rampant speculation. The irony is that this very speculation has caused a dichotomy of valuation within the market… the haves and the have-nots. Le Bon reminds us that the crowd is incapable of reasoning and deems improbable outcomes probable. One of our jobs is to not become embroiled in the hoopla of the moment and steer a steady course. We again thank you for your support.

Very truly yours,

Alan T. Beimfohr   John G. Prichard, CFA