Knightsbridge Asset Management
division of Canterbury Capital Services, Inc.

June 30, 1994

SECOND QUARTER COMMENTARY

"Never let the future disturb you. You will meet it with the same weapons of reason which today arm you against the present."

-Marcus Aurelius
Emperor of Rome, 161-180 A.D.
"Meditations"

So reflected Marcus Aurelius, warrior, philosopher, statesman, while administering from the banks of the Danube in the Roman Empire's northern provinces. The Fed, with it's "weapons of reason" and with the dollar under assault, barely mounted a defense worthy of mention as the Yen reached parity with the lowly penny for the first time in history. One hundred Yen to the dollar. Barely believable for those of us who are old enough to remember 300 Yen to the dollar or Deutschemarks worth 25c instead of today's 65c! Since Fed Chairman Alan Greenspan is no fool, we must surmise that his "weapons of reason" included the knowledge that defense of the dollar is futile against powerful market forces. In fact, one must conclude that the paltry $3 billion or so dedicated to that effort was merely fleeting window-dressing to placate the politicos who erroneously believe that monetary policy rather than fiscal policy should be the weapon of choice.

The bond and stock markets fearfully assume that further interest rate hikes lie ahead, if not to "support the dollar," then because the inflation monster surely must be lurking around the corner. In fact, there is some

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evidence to suggest that inflation may be rising. However, an almost 200 basis point (2%) rise within 10 months in long maturity treasuries (see chart #1) probably discounts most if not all of that altered expectation. An examination of yield changes occurring in the long bond would demonstrate that historically these rapid magnitudes of change are strong enough and fast enough to produce the contra-trend forces which cause directional reversal. In plain English, expect rates to start falling again… maybe not tomorrow, but sometime soon.

The most bullish case for the stock market rests on sentiment observations. Currently, only 23% of investment advisers are bullish, the lowest such reading in almost 6 years (see chart #2)… lower than anything registered at the bottom of the last bear market (1990). Although it is possible to be "early" in calling a market bottom from this, we must remind ourselves we are not seeking timing perfection rather just to align ourselves with the most statistically probable outcome. The most statistically probable outcome from the current market is for it to go higher, not lower, in the next several months. Therefore we soon will be increasing our equity exposure purposefully through this period. The 23% bullish Investor's Intelligence survey reading is confirmed by other surveys. The Market Vane survey on stock index futures shows a 35% reading (see chart #3) and the same statistic from Consensus, Inc. is at 26% (see chart #4), both very bullish levels.

Yet another bullish signpost is the fact that the ratio of insider sales to insider purchases (8 week moving average) is running one-to-one whereas normally it runs about two-to-one. This means that insiders are, in the aggregate, thinking very positively about the stocks of their own companies (see chart #5). This extreme reading normally signals a market bottom, though it can be early by up to four months.

If we are correct, then the market seems to be telling us that:

1. **Real (inflation adjusted) interest rates may remain high by historical standards. Two (2) percent real returns will be more likely three (3) or four (4) percent… 7 ½% bonds, 3 ½% inflation,**

2. Deflationary forces may reclaim leadership… high real rates practically guarantee this,

3. Rates are likely going lower and we will continue to have a large differential between short rates and long rates,

4. Although 1995 earnings estimates may be too optimistic, less pressure on the P/E ratio from interest rates may be more positive than earnings reductions are a negative. Bottom line?... perhaps not a negative.

As for individual stocks, we are looking hard at Lehman Brothers Holdings, Inc. right now which was spun-off from American Express (AXP) in May. Lehman Brothers (LEH) is a global investment banking firm of 9000 employees, with major offices in New York, London, Tokyo, Frankfurt, and Hong Kong. Lehman Brothers was the third ranked underwriter of equity and debt securities worldwide in 1993. Since 20% of AXP is owned by index funds, this means 20% of LEH will be liquidated in a compressed time frame by index funds who can no longer own LEH because it is not in the S&P 500 index whereas AXP was. That's about 21 million shares of surplus selling, enough to make sure LEH is ridiculously cheap. In fact, book value is $24.35 and the stock is now trading at 14-15 or so. This is 60% of book value, whereas investment banking firm equities normally trade at 140% of book, which would be $34 for LEH.

The average equity mutual fund is down 6% year-to-date, and the bond market has now experienced three (3) successive quarters of negative returns for the first time in 14 years. Our accounts are holding up through this period, perhaps attributable to, as so aptly stated by Marcus Aurelius, our "weapons of reason".

Thank you for your patience and equanimity… I look forward to your portfolio growth.

Best regards,

Alan T. Beimfohr

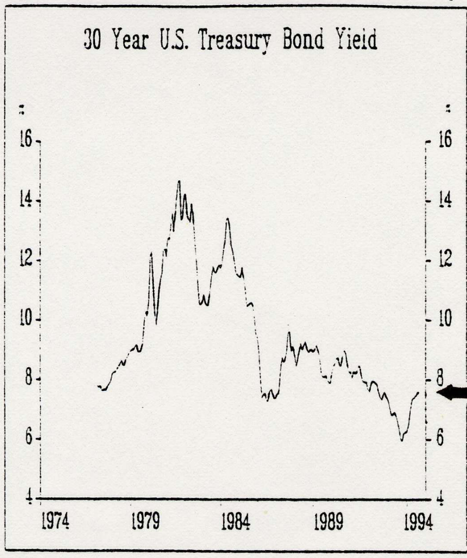
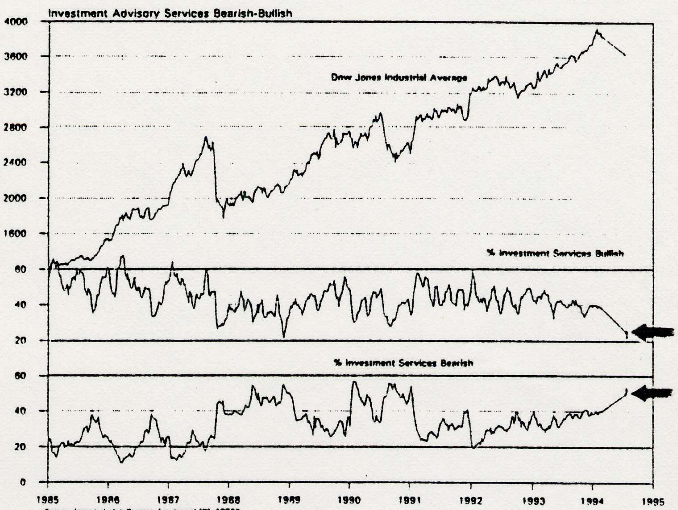


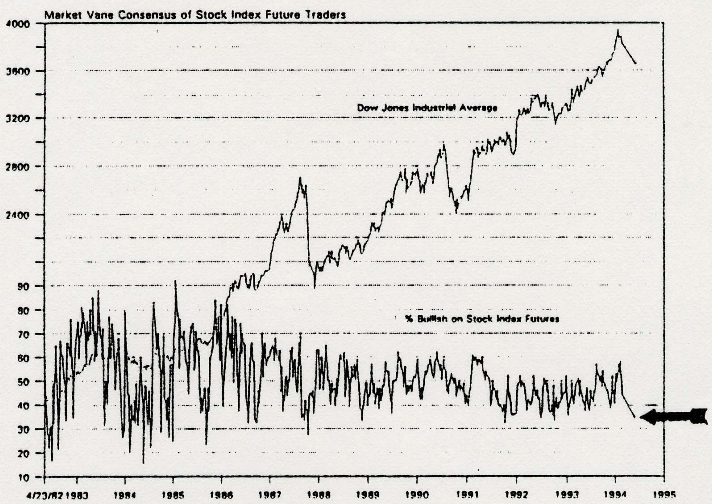
CHART 1

CHART 2



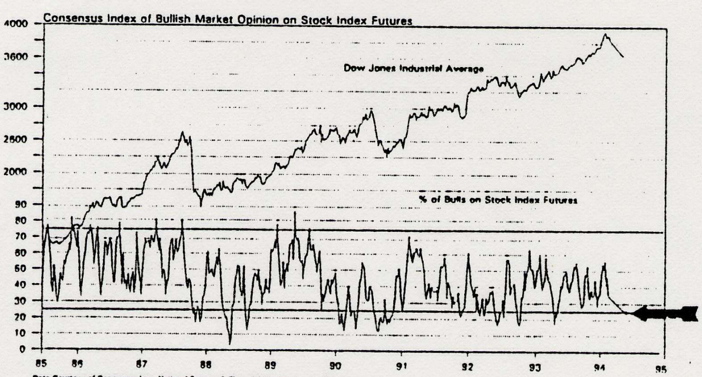
Source: Investor's Intelligence, Larchmont NY. 10538

CHART 3



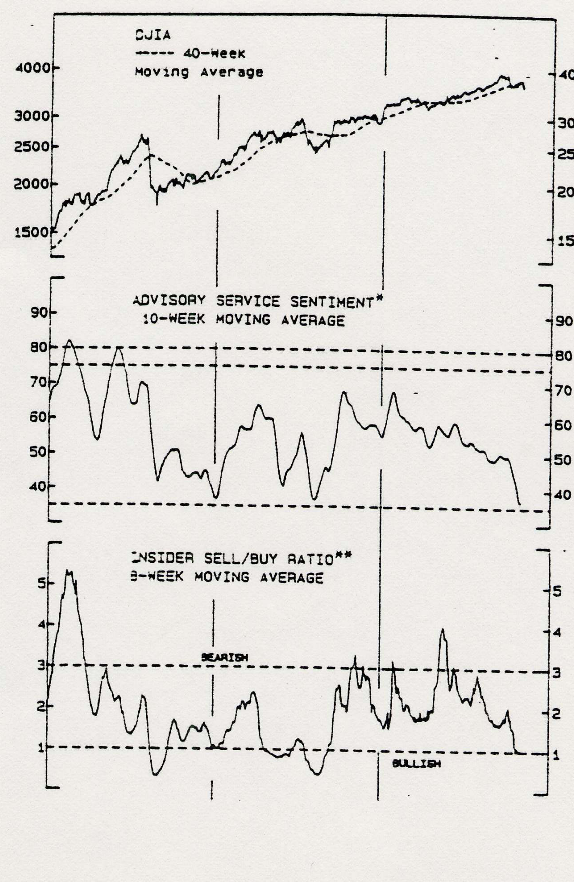
Data Courtesy of Market Vane

CHART 4



Data Courtesy of Consensus Inc., National Futures & Financial Weekly, Kansas City, Mo.

CHART 5



THE CONSENSUS INDEX OF BULLISH MARKET OPINION—The Consensus Index of Bullish Market Opinion is a measure of positions and attitudes of professional brokers and advisors as interpreted and recorded by Consensus, Inc. Although Consensus identifies the 75% level as the overbought level and the 25% level and as oversold level, these points should be interpreted not as absolute reversal points, but rather as approximate levels of potential market shifts. It is also important to note the trends in this data to get a fuller sense of the possible market directions indicated.

To compile these statistics, Consensus draws from an extensive mix of both brokerage house analyst and independent advisory services, to provide the strongest possible data base. This data covers a broad spectrum of approaches to the market, including the fundamental and technical. Consensus considers only opinions which have been committed to publication, and therefore have an influence on the trading public, and does not consider opinions which brokers or advisors may hold but do not disclose publicly.