Knightsbridge Asset Management
division of Canterbury Capital Services, Inc.

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THIRD QUARTER COMMENTARY

"Investors can only liquidate their equity positions by selling their shares to one another: everyone is at the mercy of everyone else's expectations and buying power. Such an environment provides a perfect setting for nonrational behavior… if the nonrational actors in the drama overwhelm the rational actors… asset prices are likely to depart far from equilibrium levels and to remain there for extended periods of time."

Peter L. Bernstein
Economist, author
Against the Gods

Professor Bernstein's excellent treatise on risk provides fresh insights into why we, as investors, think and act as we do. If investors were, by Fed Chairman Greenspan's claim, "irrationally exuberant" at Dow 6000, what then are they one year later at Dow 8000? If a rationally valued market is fourteen (14) times earnings, 2 ½ times book value and 4% in dividend yield, then what is a market valued at twenty-three (23) times earnings, five (5) times book value and 1.6% in dividend yield? Nobody wants to leave the party because it's just so much fun! But like the proverbial game of musical chairs, woe be to those who are without a chair when the music stops. It all seems so easy and it's been so wonderful for so long.

Some may say that we have been too cautious for too long and with the benefit of twenty-twenty hindsight, they are certainly correct, we sheepishly admit. Like the little boy who cried "wolf" one too

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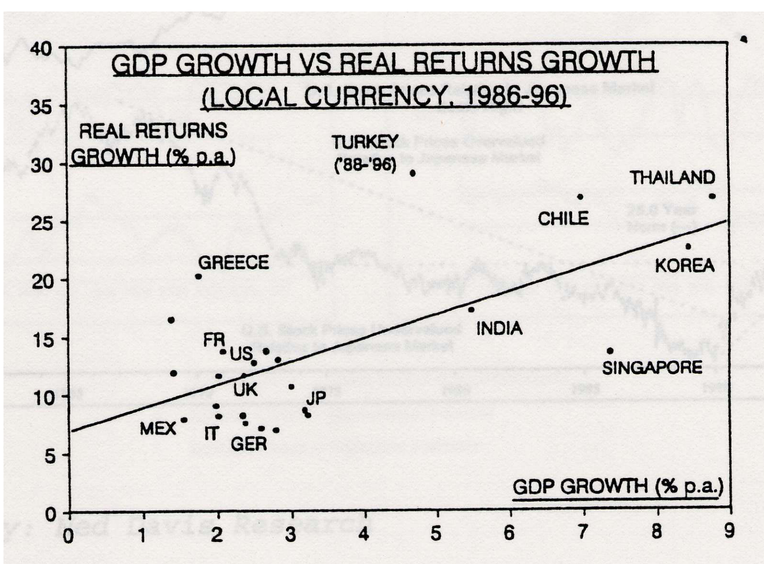
many times, we run a similar risk. However, consider the following. Montgomery Asset Management just completed a study which polled a sample of 750 non-retirement account mutual fund investors. When queried as to their performance expectations, the average response was an annual return of 34% per year over the coming ten (10) years! (a similar survey in January revealed a 22% per year expectation). The facts are that this performance expectation of 34% per annum is twice the return of the best historical experience of the best performing decade and three times the performance experience of the past seventy (70) years. Such a quantum leap in optimism clearly illustrates Prof. Bernstein's reference to nonrational behavior. That asset prices have departed far from equilibrium is equally clear. What is unclear is how long this condition shall remain. Such was the case in Japan in the late 1980's, as it is in the U.S. in the late 1990's.

We have just taken a position for equity accounts in Morgan Stanley Asia Pacific (APF) a closed-end fund trading on the NYSE at a 20% discount from net asset value. A healthy 42% of the underlying portfolio is in Japanese stocks with 14% in India, 8% in Hong Kong, 9% in Australia and 15% in the Singapore / Thailand / Malaysia / Korea / Indonesia / Philippine regions. We purchased this at the tail end of the Southeast Asian currency crisis, which has caused the equities of the entire region to be marked down severely.

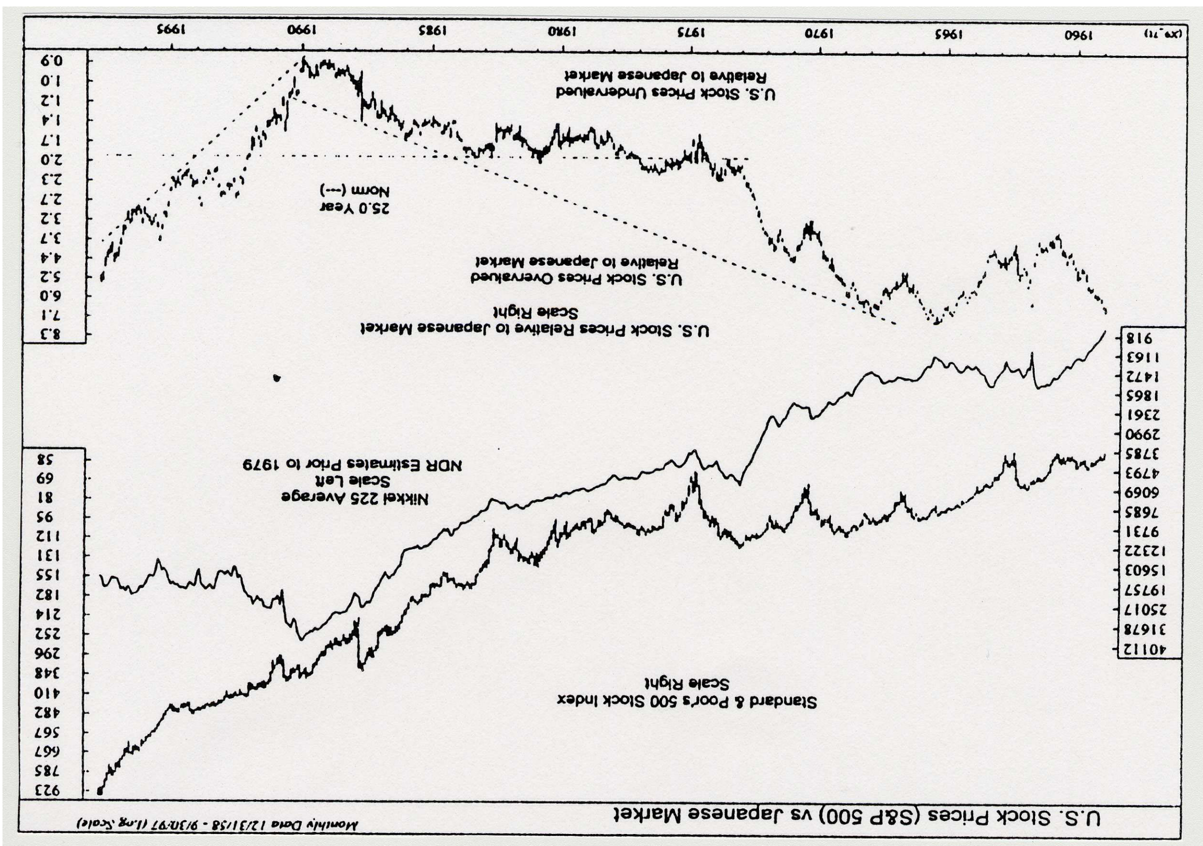
We feel there are several strong reasons for wanting to have exposure to this part of the world in general, and Japan specifically. First and foremost, strong GDP growth correlates positively with corporate earnings growth. On average, a 1% increase in GDP growth produces a 1.6% incremental stock market return, identified in this chart as "real returns growth." Although the GDP growth in Japan itself is not expected to be high, the other regions compensate.



Courtesy: Goldman Sachs Research

We believe there will be strongly positive GDP growth of perhaps 6-7%, and therefore strongly positive earnings growth, even after the expected recessions in Thailand etc. among the countries represented in APF's portfolio.

Secondly, we want exposure to Japan for a host of reasons which include 1) We believe that the Japanese market at 17000 on the NIKKEI, less than one half its 1989 price, 39000 on the NIKKEI, is a bargain, 2) that enough corrective time has elapsed, 8 years, since the 1989 peak, 3) that Japan will begin a positive corporate restructuring after many years of earnings stagnation, 4) that buying Japanese and other equities at a 20% discount is a real bargain when done through APF because the pure Japanese closed-end funds trade at parity or a premium to N.A.V., 5) performance divergence between the DJIA and the NIKKEI is so dramatic that on a relative basis, the valuation gap most likely will close over time,



Courtesy: Ned Davis Research

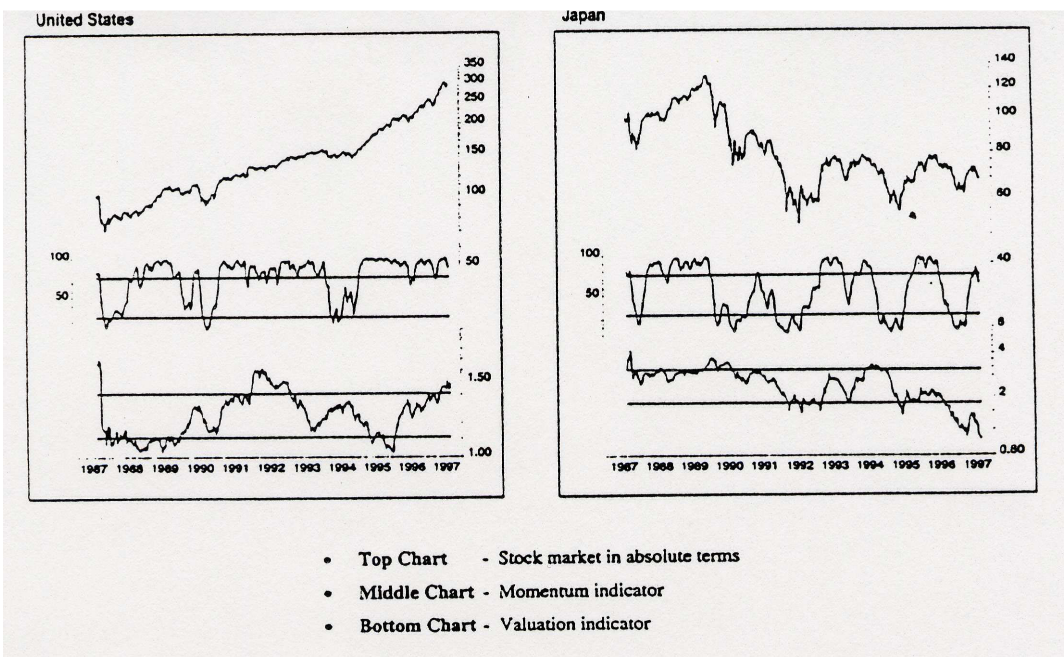
6) It is now desirable to have a portfolio component that will move contracyclically to the U.S. market, and that the correlation between the Japanese market and the U.S. markets is very very low, i.e., the two markets rarely move together (unlike the U.S. and the British, French, Swiss and German markets)

Correlations: Latest 52 weeks (July 7, 1996 - July 6, 1997)

	US30YEAR	SP500	NIKKEI	FTSE	MALAYSIA	THAILAND	SOUTH KOREA	INDO-NESIA	TAIWAN	INDIA	PHILIPPINES
US30YEAR	1	-0.19	-0.14	-0.14	-0.38	0.04	0.05	-0.24	0.16	0.56	-0.06
SP500		*1*	*-0.56*	*0.97*	*0.06*	*-0.94*	*-0.70*	*0.86*	*0.87*	*-0.28*	*-0.48*
NIKKEI			1	-0.60	-0.47	0.68	0.86	-0.69	-0.72	-0.31	-0.04
FTSE				1	0.04	-0.97	-0.77	0.82	0.87	-0.27	-0.53
MALAYSIA					1	-0.04	-0.41	0.44	-0.01	0.08	0.69
THAILAND						1	0.79	-0.80	-0.92	0.19	0.52
SOUTH KOREA							1	-0.76	-0.76	-0.06	0.13
INDONESIA								1	0.75	-0.14	-0.06
TAIWAN									1	0.02	-0.46
INDIA										1	0.26
PHILIPPINES											1

Courtesy: Bear Stearns Research

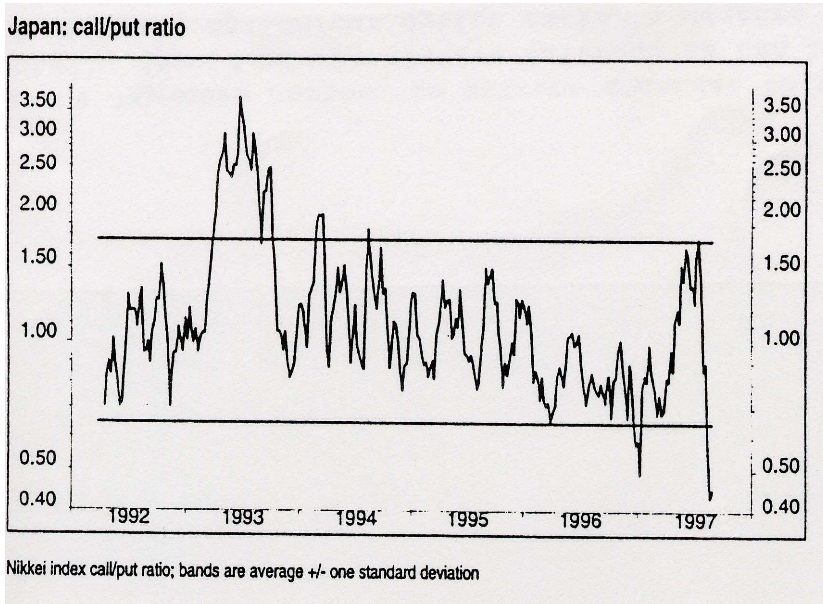
7) that in comparison to the U.S. market the Japanese market is truly inexpensive,



Courtesy: Merrill Lynch Research

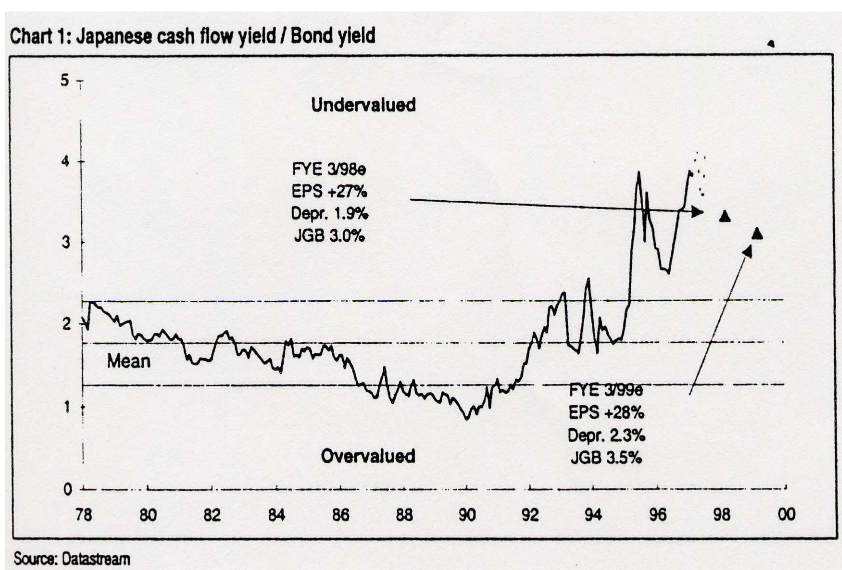
8) that the Japanese market, in extreme contrast to the U.S. market, is totally devoid of speculative interest as can be seen in this chart

of the call option/put option ratio, a measure of bullish expectations,



Courtesy: Merrill Lynch Research

9) the valuation measures have swung to extremes not seen in the Japanese market in twenty (20) years (see chart below).



10) we are mindful that insider Barton Biggs has purchased over 2 million shares for himself at an average price slightly above $10.00 per share. Now that's commitment! 11) Japanese companies are buying

back their own company's stock in increasing numbers, and 12) holdings by American and European institutions are at extreme lows.

We believe this to be an opportunity not to be missed that has the unusual portfolio characteristics of theoretical risk reduction simultaneous with return enhancement. It should be remembered that Japan alone has one-third of the world's savings. The currency crisis that began with the Thai Baht has ratcheted throughout the region affecting even strong currencies like the Korean Won and Hong Kong Dollar. The increases in interest rates that accompany the defense of a nation's currency inevitable bring economic slowdown. Even so, the resulting GDP growth rates of the region will still be twice that of the U.S. It has been about 1 ¾ years since the Mexican Peso meltdown, now long forgotten, and we can look to this example and it's favorable resolution as an example of how these situations resolve themselves. We believe similar outcomes await those with internal fortitude, patience, and the vision to see beyond the headlines of the moment. The U.S. and European markets have reacted strongly to the specter of the Hong Kong Dollar coming under attack. The question is whether it too will topple in its attempt to retain parity with the U.S. Dollar. Current thoughts are that the Peoples Republic of China will not allow an "unpegging" at this time, and that private speculators of the George Soros and Julian Robertson variety can be held at bay. History, however, is on the side of the speculators and not the governments. Irrespective of outcome, the most likely scenario is for temporary slowdown in economic growth followed by recovery, and life goes on.

Again, we thank you for your sponsorship.

Very truly yours,

Alan T. Beimfohr

P.S.: As this letter has gone to print, the markets are in a chaotic tumultuous meltdown and seem to have found a bottom on Tuesday, October 28th. We are protected by large cash equivalent positions. We generally feel that although the S&P 500 is down 13% or so, that stocks are still not cheap enough fundamentally to warrant wholesale commitments. Also we observe that the Japanese market as of this writing has shown the highest relative strength of all world markets which reinforces our belief that the next bull market climbing the proverbial "wall of worry" will be Japan.