Knightsbridge Asset Management
division of Canterbury Capital Services, Inc.

February 7, 1996

FOURTH QUARTER COMMENTARY

"Nothing is so firmly believed as what is least known."

-Michel de Montaigne, 1533-1592
French Philosopher and Essayist
Essays, Book I, 1580, To the Reader

Firmly believed is the virtue of owning stocks and their mutual fund surrogates. Who challenges this conventional wisdom these days? Only fools, it seems. 1995 goes down in history as a year of valuation extremes. As measured by the S&P 500, we experienced the following:

1) The highest ratio of stock market capitalization to GDP (gross domestic product) this CENTURY (see chart #1).

2) The highest 10 year rate-of-return from equities (14.9%) this CENTURY (see chart #2).

3) The lowest yield on the S&P 500 this CENTURY.

4) The longest period (5 years) without more than a 10% correction in the S&P 500 this CENTURY.

5) A 2 ½ trillion dollar rise in bond and equity values (prices) representing 50% of disposable income, the largest one-year accumulation this CENTURY.

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Enormous complacency has been bred by these events, and the usual chorus of voices sing the rationalizations and justifications for why it should be different this time. Indeed, it is different! Who among us can remember such a time? Nevertheless, enthusiasm must be tempered by the reality that such speculative parties are always sooner or later, followed by bear market hangovers (see chart #3).

The big picture is this. The disinflation of the 80's (following the inflation of the 70's)… required enormous injections of liquidity to prevent asset values (banking system loan collateral) from falling further than they did. This was the lesson of the 30's Great Depression. Such excess liquidity prevented a banking system collapse in the early 90's, but found its way into the financial markets, bidding up financial asset prices. Until such time as there appears a catalyst to cause a draining of this liquidity, the basic environment is unlikely to provide for serious downward adjustment. So what could such a catalyst be? What could cause higher interest rates, a monetary squeeze, or a serious downward revision of earnings prospects? The following are possible trigger:

1) **No "soft landing" in the first half of 1996 following the slowdown experienced late in 1995… that is, a full-blown recession… the market currently expects a "soft landing", not a recession.**

2) **Large current account deficits leave the U.S. very dependent on foreign capital, which is not a problem as long as the global economy is weak (as are Japan and Germany). An easing of deflationary pressures and a stronger global economy would place the dollar under downward pressure which would require higher interest rates to defend its value. Such higher interest rates would be negative for the value of financial assets.**

Other events could be unsettling, such as no budget accord in the U.S., or a collapse of the European Monetary Union which is perilously close to this condition at present. But doubtful they would cause a domestic liquidity draining.

The majority of economists believe we are due for another of the magical soft landings in the first half of 1996 followed by a stronger second half. Likewise, the common prognostication is for the Fed to lower short term rates at this point to accommodate economic weaknesses that were beginning to accumulate in the second half of 1995. Nothing earth shattering here.

Because 1995 was such an unusual year with some indices up over 30%, I want everyone to know what it is we are trying to accomplish here.

NUMBER ONE: We try to NOT get our performance from the market. What this means is that we don't want our performance to be strongly linked to market performance… on the contrary, we try to get it from company specific characteristics rather than market specific characteristics.

NUMBER TWO: We are stating right up front that we are going to try to get 15% annual returns from the stock sector of the portfolio over a four (4) year market cycle. Some years may be more and some less (or none at all, or negative), but this is the benchmark by which we choose to measure ourselves.

NUMBER THREE: We do not want your account(s) to drop more than 15% from the high watermark of quarterly valuations. This too is an important goal… playing catch-up is never fun… and while not a guarantee, we will use our best judgment to ensure its becoming reality.

NUMBER FOUR: To the extent that we carry cash equivalents, they will retard both upside and downside performances and portfolio risks.

In 1995, it was our feeling… and continues to this day… that the market is relatively richly valued by any reasonable historical standard, and that capital protection should be accorded a higher priority than would normally otherwise be the case.

Although we believe our equity selection process has produced generally superiorly performing issues, not being fully invested has caused us to not realize performance in line with the popular averages in 1995. Just as we substantially outperformed in 1994, we substantially

underperformed in 1995. Of particular concern are accounts that came to me to be managed for the first time late in 1994 or in 1995. These accounts did not benefit from the upside drama of 1995 which seems to be continuing into 1996 so far… from those we ask forgiveness and patience.

Our equity strategy is to be invested in issues which do not, or will not, correlate highly with the overall U.S. equity market at this juncture. An example of this is the Morgan Stanley Emerging Markets Debt Fund, a closed-end fun on the NYSE we purchased at 11 ¼ last year. Defensive equity issues, such as drugs, tobacco, newspapers and utilities… those who typically exhibit demand inelasticity in the economic cycle, hold up well also. Then there are foreign stocks and gold stocks. So there are places to hide in a bear market.

A few words about gold. We had mentioned in past letters that we did not believe gold would enter a bull market until such time as it had penetrated to the upside the strong downward price pressure ceilings created by the Yen, DM and US Dollar currencies. This penetration was just completed this past week with an upside breakout in Yen price (see chart #4). The Deutschemark priced ceiling was broken last year and the vastly weaker US Dollar price ceiling in 1993. This terminates a 15 to 16 year bear market in gold, a watershed event. My read on this is that the disinflation/deflation of the past decade-and-a-half may be almost over. The CRB commodity index is at a five (5) year high. And let's face it… Japan threw in the towel and is desperately trying to reflate the Yen. This is required to prevent further damage to their financial institutions already reeling from excessive Yen strength and asset price deflation. However, it would be a mistake to look for a dramatic reacceleration of inflation. Most likely we will experience lower inflation for some time. Such forces, once set in motion, are difficult to reverse and take time to work through. It may also be that higher gold prices are simply a function of demand having exceeded mine production for some number of years and mines having sold future production at yesterday's higher prices which eventually comes home to roost in reducing current supply even further.

In any event, we will be watching these pieces to the market puzzle closely for further clues as to their import. In the shorter term, we look for gold (currently $415/oz) to correct back toward the $400/oz level prior to any renewed advance.

A few quips regarding stocks we own… depending on when you joined us… IBM 82 to 115 in one month? Must be Fidelity buying… Times Mirror… we see that George Soros owns 8%, but we can't figure out why he waited until 28 to start buying… maybe he's there to help the Chandler family take it private?... Caremark… we're happy to see those Q4 earnings but think there may be something besides the upward revision in earnings growth rate behind the recent upward move… Gabelli Global Multimedia… we're glad to see Mario himself making some insider buys, albeit modest ones… think large discount from N.A.V. not justified… Petrie Stores… now a liquidating trust trading OTC… despite short term ugliness, still have faith this will be good with a little help from TOYS-R-US and the attorneys… Morgan Stanley Emerging Market Debt… love that yield!... only question is, can they keep it up… looks great so far.

January has been a good month and we're looking forward to better relative performance this year. 1995 was the most powerful market since 1958, a thirty-eight (38) year stretch. History tells us not to be expecting a repeat. Such years on average are followed by years of mid-single digit performance. On average. In line with Monsieur Montaigne's comments regarding firm beliefs and the unknown, it may be useful to remind ourselves that recent times have been extraordinary.

We thank you for your sponsorship.

Very truly yours,

Alan T. Beimfohr

CHART #1

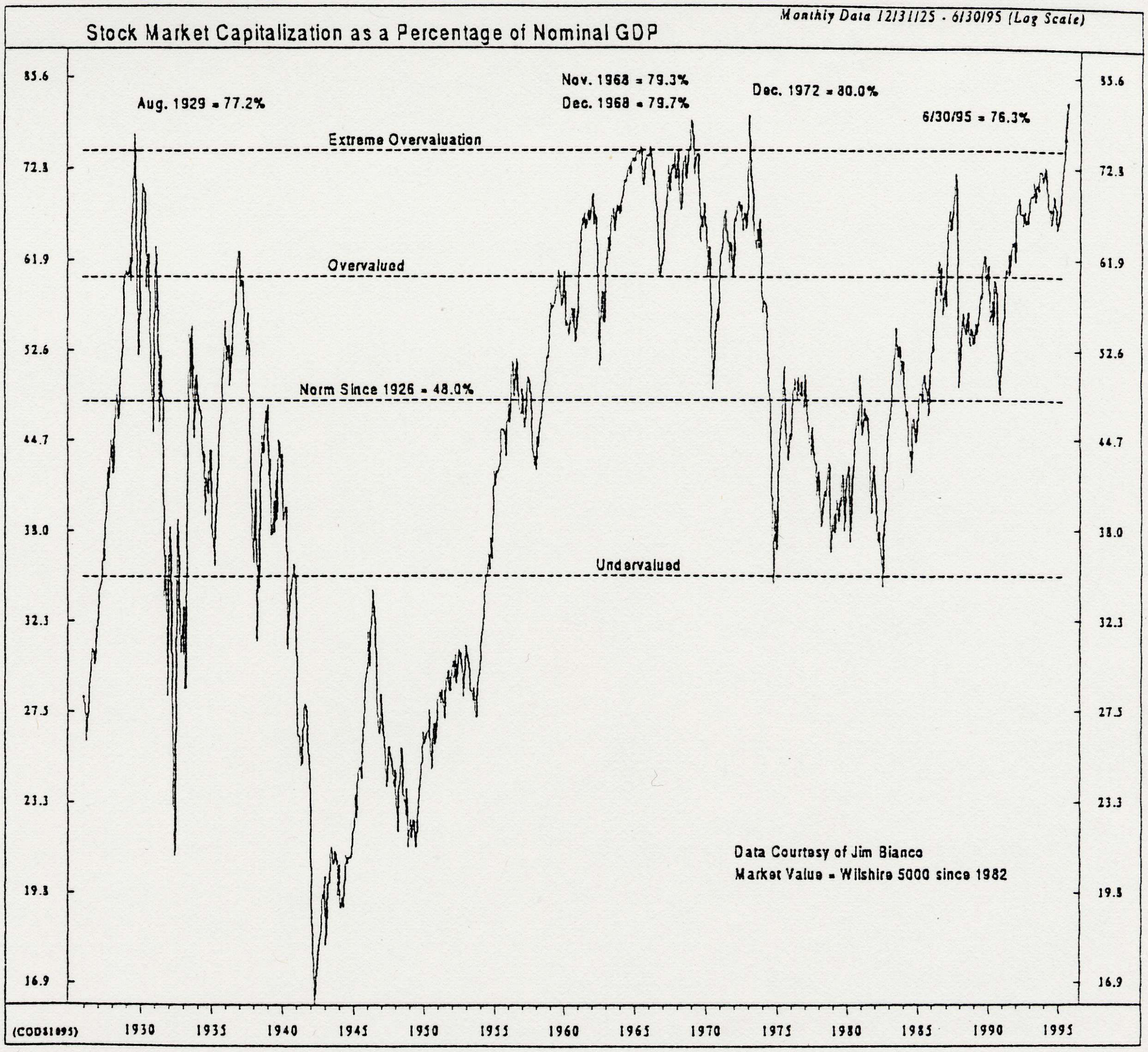


CHART #2

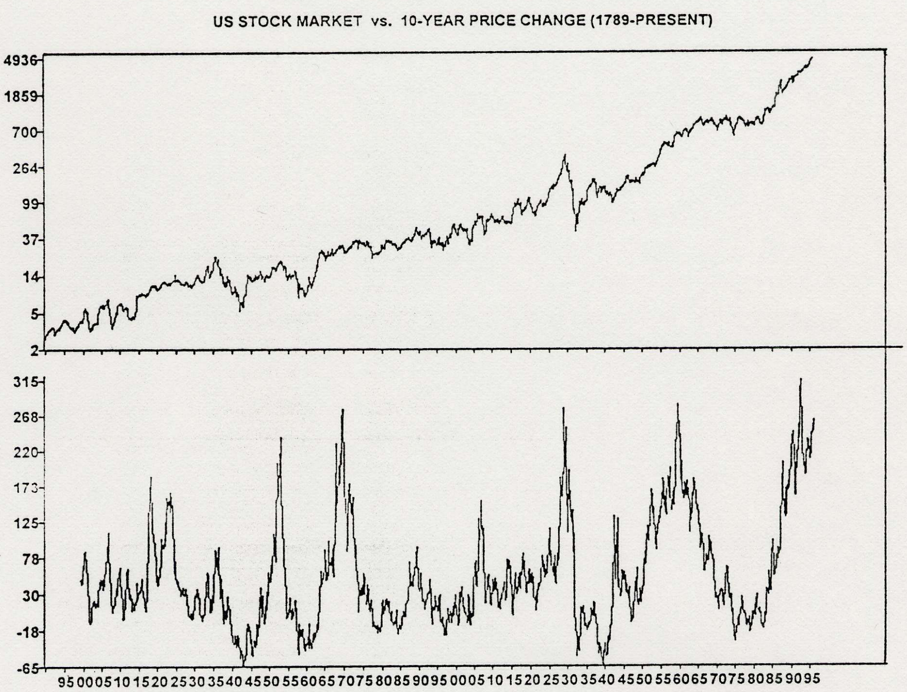
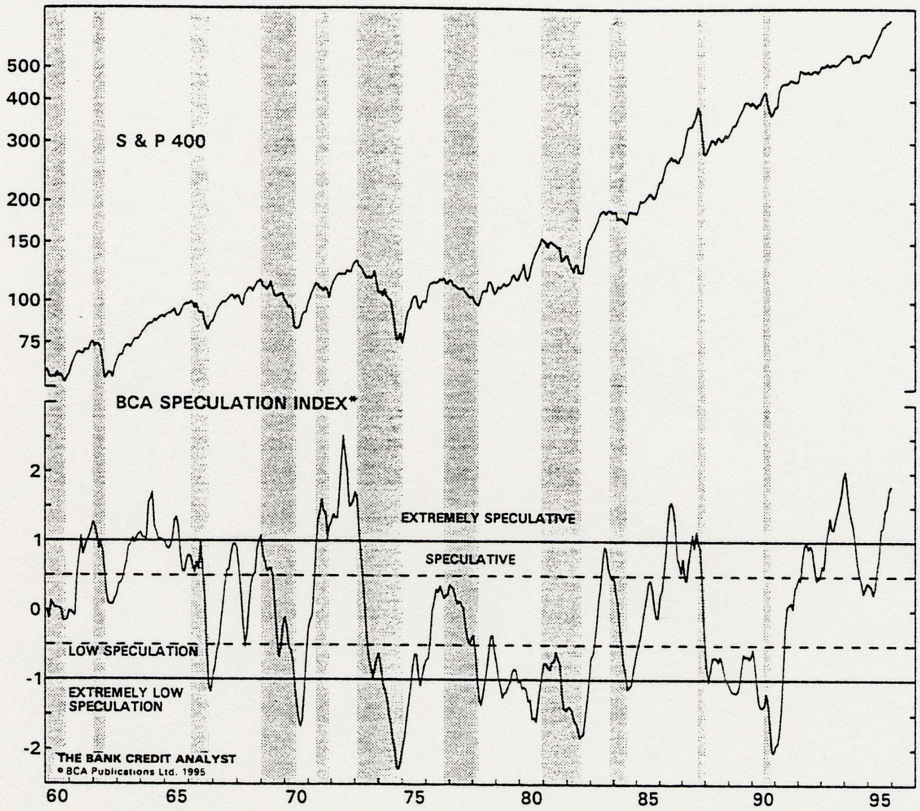


CHART #3

Equity Speculation Index



*INCORPORATES INDICATORS OF MARKET LEVERAGE, SUPPLY AND SENTIMENT.
NOTE: SHADED AREAS SHOW BEAR MARKETS.

CHART #4

D-Mark and Yen Price of Gold