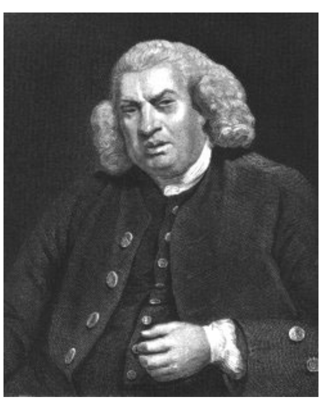
Knightsbridge Asset Management, LLC

February 5, 2002

FOURTH QUARTER COMMENTARY

"When any calamity has been suffered, the first thing to be remembered, is, how much has been escaped."

-Dr. Samuel Johnson, 1709-1784
English Author & Critic



Although Samuel Johnson's comment could easily apply to September 11th, we are beginning to believe it applies equally well to Enron. The collapse of Enron, though only one of 257 bankruptcies of public companies in 2001, has brought to light the complicity of accounting, legal artifice and aggressive corporate culture. How can a major and presumably financially healthy company such as Enron have gone bankrupt so suddenly? In the past, major bankruptcies were anticipated years ahead… Penn Central and Pan Am come immediately to mind.

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Years of deteriorating financials preceded insolvency. Press and analyst coverage forewarned of dangers inherent in speculative ownership, and shareholders were generally aware of heightened risks and potentially enlarged rewards. Not so with Enron. Moreover, how could Enron be paying no income taxes while reporting positive earnings year after year? And what justification is there for Enron executives to be making tens of millions of dollars in off-balance sheet partnerships… didn't these enormous returns achieved with corporate guarantees and little capital investment rightfully belong to Enron shareholders? It is likely that fallout from Enron will significantly alter corporate America in myriad ways. Already four of the 'big five' accounting firms are vowing to disallow their consulting businesses to work for the same corporate clients as their audit divisions. Certainly 401K legislation will be enacted to allow stock matches in employer sponsored plans to be more easily sold by the participants. This is just the beginning. Tyco, Elan, Entersys, Worldcom, and even possibly General Electric are feeling the pressure from market forces uncertain of accounting games. Moody's, S&P and Fitch are reacting with debt downgrades more quickly than ever.

Enron Center North, Houston, TX

The fallout is likely to mean cleaner, more transparent, more reliable and conservative reporting of earnings… and at a lower level. Potential restatements of the past loom ahead, and the market is now digesting this prospect.

We have believed the September 21st bottom would need to be tested. Such a test has not been forthcoming… until recently. We believe we are now in that test, and caution remains the byword.

If one accepts the Goldman Sachs forecast below, earnings and dividends will have been flat for four years by the end of 2002.

S&P 500 Forecasts

S&P 500 Earnings and Dividends

	1998	1999	2000	2001E	2002E
Operating EPS (a)	$45.79	$50.96	$52.84	$47.00	$52.00
Reported EPS	37.71	48.17	50.00	38.00	47.00
Dividends Per Share	16.20	16.69	16.27	15.75	16.25

(a) Earnings before writeoffs

We believe the consensus of market participants is assuming:

1. An end to the eleven Fed rate reductions over the past year, followed by no increases in 2002,

2. Low to moderate real GDP growth of 2% to 3% in 2002,

3. A rising stock market based on the observation that we've already had two consecutive negative return years and that the last time we had three negative years back-to-back was 1939, 1940 & 1941, and

4. A strong earnings rebound for the S&P 500 from a depressed $38 up to perhaps $50 (+ or - $3).

We are not as bullish as this consensus for the following reasons:

A) The P/E ratio structure of the S&P 500 is still, best case, 25X forward earnings for 2002, which, if we are entering a new bull market would be the highest P/E ratio for the start of any bull market ever. The average P/E for such beginnings is 11X. (See chart below)

Bear Bottoms

S&P Industrials

Date	P/E	Dividend Yield	Price to Book	Price to Sales	Bond Yield
6/13/49	5.4	7.6%	0.89	0.43	2.4%
10/22/57	12.0	4.4	1.43	0.75	3.7
10/25/60	16.3	3.6	1.64	0.93	3.9
6/26/62	14.9	3.9	1.54	0.85	3.9
1/3/67	14.9	3.5	1.85	0.93	4.4
5/26/70	12.9	4.4	1.45	0.66	6.9
12/6/74	7.5	5.1	1.07	0.38	6.8
2/28/78	8.3	5.3	1.14	0.40	7.6
4/21/80	6.8	5.7	1.08	0.34	10.8
8/12/82	7.9	6.3	0.97	0.33	12.2
7/24/84	9.4	4.4	1.36	0.44	12.8
10/19/87	12.7	3.4	1.92	0.58	9.6
10/11/90	13.9	3.6	2.24	0.60	8.9
Average	11.0	4.7	1.43	0.58	7.2
Current	**25-35(?)**	**1.3**	**6.70**	**1.47**	**4.6**

Source: ISI Group

B) We believe that the past recession has been comparatively mild because two of the most important economic sectors in the consumer economy, housing and autos, held up extremely well, stimulated by Fed rate easings in 2001. Therefore, these sectors are not available to be freshly stimulated by cheaper interest rates if the Fed is finished with rate cuts. Conversely, were the Fed to commence increasing rates, these sectors could weaken giving the U.S. economy the much-ballyhooed 'double dip'.

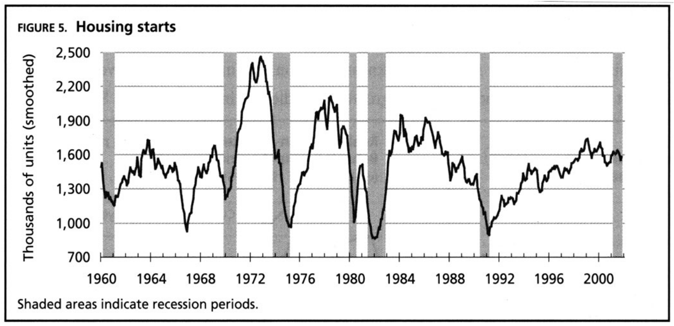


FIGURE 5. Housing starts

Shaded areas indicate recession periods.

C) At prior bear market lows, interest rates were generally high and therefore, the ratio of dividend yield (or earnings yield, the reciprocal of P/E ratio) to treasury bond yield was generally at a high as well. This is not currently the case as can be seen in the chart below.

Bear Market Recoveries and Market Valuation

During the Year of the Bear Market				At the Bear Market Low		In the Calendar Year After the Bear Market			
Market Bottom	Market Bottom Close	Year-End Close	Percent Change	Earnings[1] Yield Relative to 10-Yr. TBond Yield	Dividend Yield Relative to 10-Yr. TBond Yield	Year	Year-End Close	Percent Change	Percent Change from Bear Market Low
October 22, 1957	38.98	39.99	2.6%	2.32x	1.17x	1958	55.21	38.1%	41.6%
June 26, 1962	52.32	63.10	20.6%	1.67x	0.99x	1963	75.02	18.9%	43.4%
October 7, 1966	73.20	80.33	9.7%	1.50x	0.79x	1967	96.47	20.1%	31.8%
May 26, 1970	69.29	92.15	33.0%	0.97x	0.56x	1971	102.09	10.8%	47.3%
October 3, 1974	62.28	68.56	10.1%	1.82x	0.72x	1975	90.19	31.5%	44.8%
August 12, 1982	102.42	140.64	37.3%	0.98x	0.49x	1983	164.93	17.3%	61.0%
December 4, 1987	223.92	247.08	10.3%	0.87x	0.44x	1988	277.72	12.4%	24.0%
October 11, 1990	295.46	330.22	11.8%	0.82x	0.45x	1991	417.09	26.3%	41.2%
September 21, 2001	965.80	1148.08	18.9%	0.62x	0.35x				
Average (Excluding 9/21/01)			16.9%	1.37x	0.70x			21.9%	41.9%

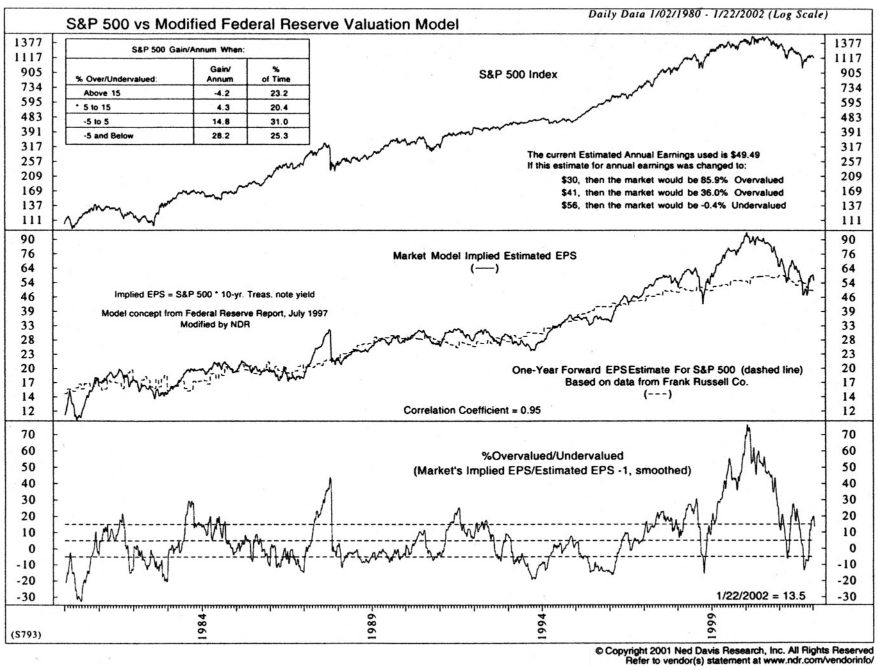
(1) Trailing four-quarter reported earnings per share.

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

For these reasons, we believe the market in the year ahead will be positive, but less positive than prior recession recovery years.

Investors only recently have been given a taste of Japanese-style interest rates. With 90 day T-bills at 1.6%, and the dividend yield on the S&P 500 1.4%, investors who only two years back were expecting perpetual 20% equity returns have been jolted into reality. Neither yield nor capital appreciation has been forthcoming, the worst of all worlds.

If we look at the Federal Reserve stock market valuation model (which attempts to divine when the market is overvalued/undervalued) we can see that the market was perhaps 10% undervalued on September 21st and rallied,



without a testing of that bottom, to a 15% overvaluation level almost immediately. Moreover, with 10-year treasuries yielding 5% (currently 4.85%) and the S&P 500 earning $50 (a reasonably optimistic guess for 2002), fair value of the S&P 500 is exactly 1000. As of this writing, the S&P 500 is 1094, about 9% overvalued.

FED MODEL (S793) - S&P 500 INDEX VALUES

	Fair Value (Risk) 10-Year Treasury Yield			25% Overvalued (Reward) 10-Year Treasury Yield		
Estimated EPS	4.50%	5.00%	5.50%	4.50%	5.00%	5.50%
$35.00	778	700	636	972	875	795
$40.00	889	800	727	1111	1000	909
$45.00	1000	900	818	1250	1125	1023
$50.00	1111	$\boxed{1000}$	909	1389	$\boxed{1250}$	1136
$55.00	1222	1100	1000	1528	1375	1250
$60.00	1333	1200	1091	1667	1500	1364
$65.00	1444	1300	1182	1806	1625	1477

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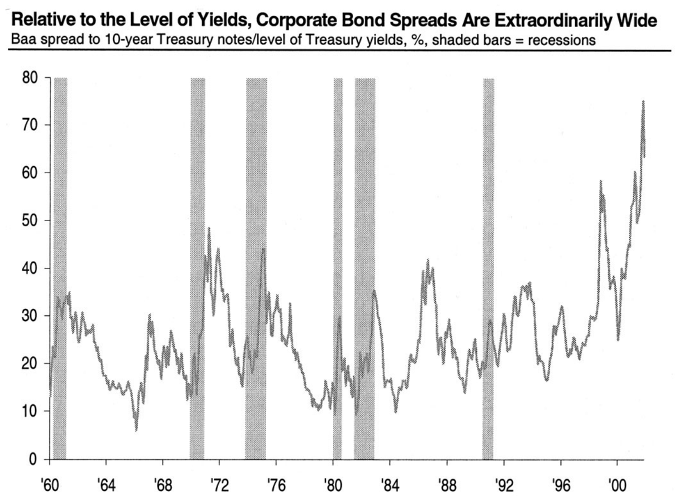
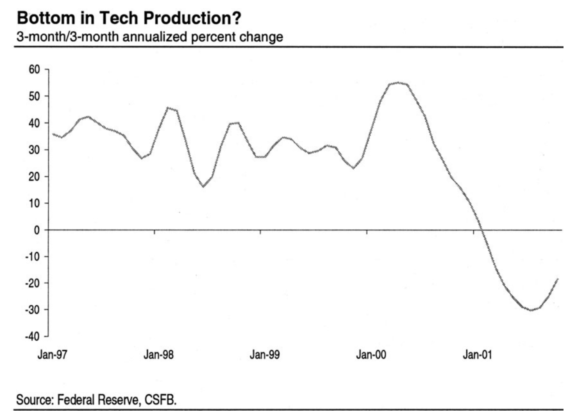


Reflective of the extreme drop in reported S&P 500 earnings in 2001 (from $50 to $38) is the extraordinarily wide spread in yield between lower investment grade BAA corporates over 10 year treasuries. However, we would judge that the recent reversal of spread extreme is a sign of anticipated economic recovery. Additionally, there is mounting evidence that technology may not be completely dead. In fact, one major Korean chip manufacturer (Hynix) raised DRAM (dynamic random access memory) prices three times in the month of December alone.



In conclusion, most evidence points toward economic recovery. Some believe this recovery is just a snap-back reflex from the September 11th events. We are inclined to believe that it has longer legs, but that the running will be difficult.

Our attention was recently drawn to a Merrill Lynch study regarding performance of NASDAQ since it's founding in 1971. Through the September 2001 quarter, some 30 ¾ years later, NASDAQ returned 11.2% per annum. And what about the S&P Utility Index? It returned 12.0% per annum. For those believers who think 'technology' must mean high growth and those stodgy utilities, regulated or not, must mean slow growth, this data is reason for pause and reflection. We dare not mention comparative volatility here.

Despite producing strong investment results in the fourth quarter of 2001 and achieving returns significantly better than the S&P 500 Index for the year, our equity portfolios experienced losses for 2001. Needless to say, it was an extremely difficult year for stock picking. Our attempt at maintaining a defensive stance helped, but not as much as we had hoped. Balanced accounts fared much better, with our non-callable corporate bonds aided by declining interest rates.

We are glad to see the year 2001 fade into history. Although the new year begins with its own challenges, we reflect on the multiple levels of meaning in Dr. Johnson's aphorism. Moreover, we *never* take our client's loyalty for granted, and we are ever mindful of our own imperfections, recognizing the opportunity for improvement is eternal. Again, we thank you for your sponsorship and look forward to the future.

Very truly yours,

Alan T. Beimfohr

John G. Prichard, CFA