COLBERT INVESTMENT MANAGEMENT CO.

Equity Portfolio Quarterly Report – December 2003

Now is a good time to remind ourselves that past performance does not guarantee future results.

Although we don't make economic forecasts, in this low inflation, low interest rate environment we believe it unlikely that the average S&P 500 company will grow its profits at much more than 4 to 6% per year in the next 10 years. If you add a dividend yield of under 2%, one should hope for total returns of 6% to 8% per annum in the stock market this decade.

While that doesn't seem like a lot, let's put these potential returns in perspective. Today you could put your money at a bank for one year at a safe 2% rate, or in a 10-year US government Note at a safe 4.25% rate. Please note that we do not recommend investors take more risk than their situation warrants. It is unfair (and risky) to simply compare an uncertain 8% return (maybe), including some good and some bad years, to a safe (guaranteed) 2% rate.

YEARS TO DOUBLE YOUR MONEY			
SAFE RATE		*RISKY RETURN*	
2% (1 year rate)	*4.25% (10 year rate)*	*6%*	*8%*
36 years	17 years	12 years	9 years

Warning: if anybody promises you much more, put both hands on your wallet and run.

Will the market go up or down in the next year? The answer is: both. Up <u>and</u> down. Our objective is to beat the S&P 500 index over a long period of time. As a "value" style manager we invest in a diversified portfolio of around 30 to 40 holdings that we believe is less risky than the S&P 500, but has more upside potential.

1221 Brickell Avenue, Suite 1600, Miami, Florida 33131 Telephone: (305) 400-9982 Facsimile: (305) 400-9994
www.colbertinvestment.com

Over the last 6 months we have sold some excellent performers such as Dun & Bradstreet, YUM Brands and Cott (in which we tripled our money since we bought it in June 1998). During that semester we have added some truly wonderful businesses selling at low prices compared to their intrinsic value.

The recent additions were Diageo (Smirnoff, Johnnie Walker), Freddie Mac (the 2^{nd} biggest mortgage finance company), DRS Technologies (a military equipment supplier), Papa John's Pizza (the 3^{rd} largest pizza chain), AON (the 2^{nd} largest insurance broker), BCGI (a leading provider of pre-paid cellular billing software), and Merck (Zocor, Pepcid, Vioxx). Those 7 companies trade at an average price-to-earnings ratio of about 12x compared to almost 20x for the S&P 500.

I have hereby enclosed a slightly more detailed description of the companies you own in your portfolio. Kindly take a few minutes to review them and let me know if you have questions or comments.

Sincerely yours,

Karim Armand
President