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How our on-site research benefits our clients

Part I

Editor's note: *Midwest Investment Management Partner Elmer L. (Al) Meszaros spent the last few weeks of 2003 traveling throughout the Northeast and Midwest, meeting with managers of corporations whose stocks are currently held in client portfolios at Midwest Investment Management, or are under consideration for purchase. We asked him to share some of his findings in this interview.*



Editor: *Al, even though so much information is available on the Internet and elsewhere today, you maintain that on-site research is necessary, and benefits clients in the long run. Can you elaborate?*

Meszaros: Our reasoning is simple. On-site visits fall into the category of “qualitative” research. Meeting with companies and visiting their facilities provides us with a greater understanding of their true advantages and their probability of future success. In fact, all of our analysts have been meeting face-to-face with corporate managements for decades. Although

the quantitative disciplines we apply are critical, our qualitative research—that is, personal visits to corporations and their facilities—is equally, if not more, important.



“On-site visits to corporations...provide us with a better understanding of a company's true advantages,” says Al Meszaros, a respected veteran stock analyst.

Our qualitative research process enables us to understand why a company has been successful and whether a durable advantage exists for the future. We attempt to understand managements' plans and thinking, and make a judgment about the feasibility of executing those plans. Strategies are sometimes similar, so execution is what sets the successful corporations apart.

Editor: *Can you offer any examples?*

Meszaros: Our meeting with Bob Tillman, the CEO of Lowes stores, convinced us that Lowes

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You Can't Afford Not To Be There

By Norman F. Klopp, Jr., CFA, Partner

“Eighty percent of success is showing up,” comedian Woody Allen once said. That certainly applies to long-term investing.

In fact, statistics support the fact that the greatest timing risk relative to the stock market is not being invested.

At Midwest Investment Management, we are not “market timers.” We do not know, nor do we try to know, what the market will do over the short term. However, we do know that over the long term, a well-selected portfolio of value stocks should outperform the market and provide less volatility (risk) than the market.

Risky temptation

What is the “siren song” of market timing that captures investors' psyches and lulls them into

thinking they will know when to be in the market and when to be on the sidelines? That temptation rests in the absolute knowledge that

Impact of Best Performance Days on S&P 500 Index

	Annual Gain	20 Years	10 Years	5 Years
Fully Invested		9.7%	7.3%	- 2.0%
Missed 10 Best Days		6.8%	2.3%	-10.7%
Missed 20 Best Days		4.7%	-1.4%	-17.0%
Missed 30 Best Days		2.9%	-4.5%	-22.0%

Source: Ned Davis Research, Inc. Data based on performance of S&P 500 Stock Index for the periods ending 12/31/2002. Days missed are for the total time periods, not annually.

if you could know “when to hold 'em and when to fold em” you could significantly outperform the market. That, however, is rather like saying if you know tomorrow's closing prices on the New York Stock Exchange you can make a fortune.

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4th Quarter Economic Review

Prediction: Economy will grow, strong companies will reap market gains in '04

By Joseph A. Harrison, CFA, Partner



After three years of one unfavorable economic surprise after another, the fourth quarter of 2003 witnessed a dramatic positive swing.

In October, a report of the nation's GDP concluded that the economy had grown a robust 8.2%—the strongest quarterly gain in nineteen years. All forces that would normally have come into play much earlier had remained harnessed by tensions surrounding the war in Iraq.

Tax cuts that began in July may have been the final lever to release pent-up inventory and capital spending. Strong consumer spending and residential construction activity that had been supported with mortgage refinancing also continued. A ten-point surge in November's Consumer Confidence Index reflected a change in public attitude. The Federal Reserve Board also maintained its low interest rate posture and predicted no immediate change.

Ongoing debates

Many argue that current rates are far too low, given the current pace of the economy and indications of price pressures. Others argue that the explosion in commodity and gold prices reflects the significant weakness in the dollar, noting that in terms of most foreign currencies, gold and commodity prices are steady.

A further argument is that deflation, with its adverse implications for debt repayment, is a greater risk than inflation and requires a longer period of low interest rates. We believe rates will move up in the first half of the year to a level consistent with strong economic gains in the 4% range. We expect short rates near 3% and a 10-year U.S. Treasury rate approaching 5% by next fall.

Bright outlook

The first half of 2004 will benefit from an expected large increase in tax refunds. Employment growth, continuing business

investment in capital goods and inventories, further productivity advances, and strong profitability are in place to secure sustained economic growth. The risk of inflation is greater than deflation.

Growing profits and the anticipation of accelerating growth turned the recent market rally into a very strong recovery. In the course of this shift from a severe bear market to bull market, the recovery in prices for companies with severely depressed earnings and high debt levels performed dramatically, yet remained well below previous peaks.

Common Equity Price Performance

As the data shows, price performance favored the smallest companies—with the rate of increase lessening as capitalizations increased. This structure of returns is perfectly natural as the high risk of failure in 2001 and 2002 turned less likely in a recovering economy.

Capitalization	Weighted Performance Through Nov. '03
< \$250 million	+ 84.3%
\$250 million - \$2 Billion	+ 42.1%
\$2 Billion - \$5 Billion	+ 31.9%
\$5 Billion - \$20 Billion	+ 28.2%
> \$20 Billion	+ 15.7%

Source Citicorp Global Markets' *Equity Strategy*, Dec. 1, 2003

Looking ahead

We expect continued but more measured equity performance in 2004. The almost fully corrected spread between high-quality and below-investment-grade debt suggests the adjustment for higher risk has largely been accomplished. Strong companies with improving profits should enjoy continued market gains.

With interest rates expected to rise during 2004, a short maturity range in the fixed income portion of portfolios is appropriate. We should be able to gradually improve yields as the shorter maturities are reinvested at higher rates.

If you have questions about this review, you may contact Joe Harrison at (216) 830-1131 or jah@mimllc.com

“We believe rates will move up in the first half ...”

“We expect continued but more measured equity performance ...”

Service To The Community...



Demonstrating his skills in the preparation of Japanese delicacies is Midwest Investment Management Partner Charles E. Nye, who worked as a “celebrity chef” at the second annual Northeast Ohio Dave Thomas Celebrity Cook-Off held in suburban Beachwood.

The fund-raising event is named in honor of the late Dave Thomas, founder of the Wendy's

restaurant chain and the Dave Thomas Foundation for Adoption, an organization that helps raise funds to defray costs of the adoption process.

Business leaders seek Klopp's insight

For the fourth consecutive year, Midwest Investment Management Partner Norman F. Klopp, Jr. was invited to offer his views on the current financial markets, at the annual Cleveland Association for Business Economics “Financial Markets Outlook” meeting on Dec. 15th. “Norm's appearance attests to the respect his peers in the region have for him,” said the firm's Managing Partner, J. Mark Wipper.

“In my opinion...”

By Norman F. Klopp, Jr., CFA, Partner



Data...Information...Knowledge...Decision

The progression of words in the diagram below is a concise depiction of the investment process.

But if I relate that progression to the massive increase in data and information, combined with accelerating regulatory changes designed to “help” professional and individual investors, the result is a massive increase in data and information with little regard for knowledge and decision.

At Midwest Investment Management, we seriously question the true value of these changes and believe that, in many cases, these changes have made the job of professional and individual investors more difficult.

While controversial, our opinion is reinforced every time we read about legal and regulatory attempts to create a “transparent” corporate environment.

So we ask: “What is the value of ‘seeing’ everything if you don’t know what you’re looking at, or looking for?”

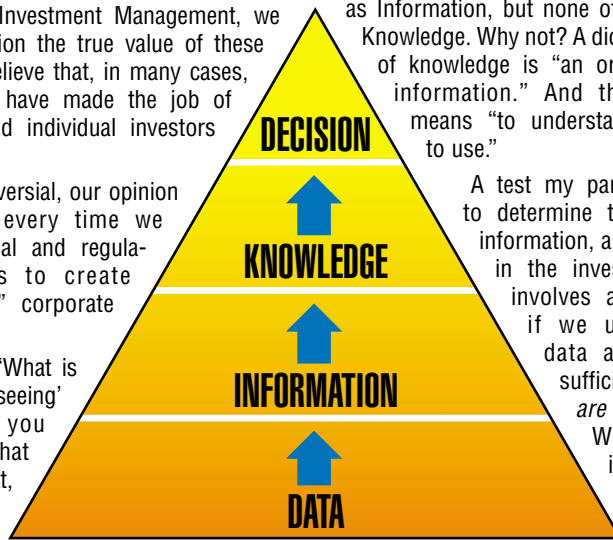
“investors” (I use that term loosely) communicate about companies and stocks.

I repeat: “What is the value of ‘seeing’ everything if you do not know what you are looking at, or looking for?”

Data is not knowledge

This abundance of information falls primarily into the Data category shown in the progression of our title above. Some Data could be classified as Information, but none of it can be called Knowledge. Why not? A dictionary definition of knowledge is “an organized body of information.” And the verb “know” means “to understand and be able to use.”

A test my partners and I use to determine the credibility of information, and its importance in the investment decision, involves asking ourselves if we understand the data and information sufficiently so that *we are able to use it*. With decades of individual and collective investment experience, we



Terse reports

To put all of this into perspective, I remember a time in the 1960’s when one northeast Ohio company I followed as an analyst published its quarterly earnings in the hometown newspaper, no place else. The report had three lines: sales, net income, and earnings per share. Today, individual and professional investors can locate a depth and breadth of data about companies that is unprecedented, and in many cases unfathomable.

Abundant information

We can go to the SEC’s Edgar website and read every required SEC document for every publicly held company. We can go to corporate websites and read volumes of information about products, history, finances, press releases, quarterly reports, and annual reports.

Many corporate websites offer webcasts of conference calls detailing quarterly earnings or other significant events. We can use a search engine such as Google, enter a topic, company, event, or product and get hundreds of “hits”—stories and information sources.

And if we *really* want to raise the risk level, we can enter internet “chat rooms” where

are constantly working to “organize the body of information;” to “understand” it; and then “use” it.

The final factor is “Decision.” Data and information are useless unless they can be organized and understood, thus becoming knowledge. Knowledge is useless in the investment process unless it results in “the ability to form clear opinions and act on them,” the dictionary’s definition of a “decision.”

For our clients’ benefit

At Midwest Investment Management, we combine decades of experience with a disciplined process. We focus on determining the credibility and importance of data and information that increases our knowledge while facilitating investment decisions for the benefit of our clients.



Norm Klopp’s disciplined approach to investment decision-making has produced attractive long-term results for clients with managed accounts. If your portfolio is not currently benefiting from Norm’s stock-selection process, you are invited to contact him at (216) 830-1135 or nfk@mimllc.com.

“At Midwest Investment Management, we seriously question the true value of these changes ...”

“We focus on determining the credibility and importance of data ...”

How To Reach Us.

You may contact the partners or staff members at Midwest Investment Management by phone or e-mail. Here is a complete listing for your convenience.

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On-site research... (Continued from page 1)

possessed superior merchandising skills, superior inventory systems versus its peers, and had feasible growth plans—advantages not likely to disappear soon! Countless meetings with Wells Fargo Bank, Charter One Financial, and U S Bank led us to conclude that those organizations had the ability to execute their business plan in a very crowded industry.

Editor: *Those are stocks you purchased for client portfolios. Tell me about companies whose stocks you did not purchase.*

Meszaros: Visits to numerous companies exposed us to managements who were thinking about profitability, capital expenditures, competitive advantages, or other issues. But many had weak strategies or not very credible action plans. So we pass on those stocks.

Editor: *What are some of the most interesting visits made by the firm's analysts?*

Meszaros: I have visited BP Oil's Prudhoe Bay oil field on the edge of the Arctic Ocean. I also flew in a helicopter far out into the Gulf of Mexico to meet with the crew on an oil rig. All of our analysts visit company facilities, no matter where they're located. My colleague, Norm Klopp, went into a remote town of Quebec to personally check on the progress of an iron ore pellet

processing plant. To borrow a metaphor about buying a used car, these were situations where we were out "kicking the tires." As the old saying goes, "you don't know what you don't know." Many of our visits uncover surprises that either confirm or cast doubt on our previous thinking.

Editor: *It sounds like qualitative research is vital to the prudent assessment of stocks for client portfolios.*

Meszaros: On-site visits to corporations are just as important as ever. They provide us with a better understanding of a company's true advantages and the probability of its future success. We're willing to go out of our way to verify the claims of corporate management. At Midwest Investment Management, my Partners and I have concluded that understanding the qualitative drivers inside a company, blended with quantitative discipline, continues to provide a rewarding approach for our clients.



Editor: *As this issue of PERSPECTIVE went to press, Norm Klopp was leaving for his round of visits with corporate managements. Norm will share his findings in our next issue.*

You can't afford... (Continued from page 1)

One of the biggest reasons to avoid market timing is the *risk* involved in being out of the market—even for a few days.

The chart on page 1 shows that the annual return of the S&P 500, over 20 years, was 9.7%. *This data dramatically shows that if you missed the 20 best days in the market (an average of 1 day per year), you would lose over half that average annual return and end up with a 4.7% return.* Missing the best 30 days takes the return down to 2.9%. Think about that! Miss only 30 days over 20 years and you miss over 70% of the performance the market provided over the last 20 years. The results for the shorter time periods are even more dramatic.

An impossibility

At Midwest Investment Management, we have concluded that market timing is impossible

to do consistently over the long term and the risks of trying, based upon these statistics, are much too great.

We develop investment portfolios that allow our clients to be invested in the market for the long term, using well-selected stocks in quality companies that can grow at sustainable rates. If we are disciplined about the price that we pay for such stocks, those portfolios should provide positive performance in good markets and provide some protection against bad markets. And, if we are there, we will catch those important 10 or 20 or 30 best days.



Norm Klopp's disciplined long-term investment horizon has produced enviable results. If you are not a Midwest Investment Management client, contact Norm to learn more about the benefits a managed account relationship offers. He can be reached at (216) 830-1135 or nfk@mimllc.com.

Firm celebrates 4th anniversary



Seated (clockwise, from left) are Partners Joseph A. Harrison, Norman F. Klopp, Jr., Charles E. Nye, Elmer (Al) Meszaros, Robert Yaroma, and Office Manager Mary Salzer.

Midwest Investment Management celebrated its 4th anniversary on January 5, 2004. Director of Portfolio Management, Meg Halloran (standing left), reported that assets under management and the number of clients served by the firm continued to grow significantly in 2003.

"It has been a great four years," exclaimed Managing Partner J. Mark Wipper (standing right). "My partners and I are gratified by the confidence our clients have shown in us."

We hope you enjoy reading our quarterly newsletter, which contains news about our firm, its investment philosophy, the economy and market trends. We suggest you retain these newsletters for future reference.

Perspective is published quarterly by Midwest Investment Management LLC, Cleveland, Ohio for its clients, friends and members of the business community. All information contained herein reflects the opinions of the authors and does not necessarily constitute investment advice. Past results are no guarantee of future performance.

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