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Passion Has Its Place

On Tuesday afternoon, January 13th, Michele Fletcher who is an administrator at the University of North Carolina e-mailed me. She offered me two mid-court tickets to this Saturday's basketball game when my alma mater plays the number one-ranked Connecticut Huskies in the Dean Dome. "Would you be interested in attending on such short notice?" "Interested?" I replied. "Absolutely!" I then immediately stopped working at that which pays me and spent two hours online making U.S. Airways, Doubletree Hotel and Hertz Rental reservations. Those reservations secured, Randy and I will enjoy the coming weekend in Chapel Hill.

Later that same Tuesday night when the dust had settled I asked myself "What causes a person to take actions that to others would clearly appear to be irrational or impetuous?" The answer, I've determined, may be found in one word: passion.

Passion involves the emotions, the heart and our feelings. It trumps our intellect, our brain and rational thought. Passion is a critically important element in the make up of the human animal. So while I am passionate about the University of North Carolina, I concluded I don't need to apologize for that. Passions have an important place in our lives. I'm also passionate about my wife, my family and my work for our clients at Westover Capital Advisors.

Jenn, my 26-year old assistant, recently asked her 58-year old boss how much longer he intended to work. "Until you're 55," I responded. That would make me 87. Why do I mention that? Because it indicates the passion I feel for my work. It's not a job to me. It's what I love.

Passion is why I'll drop everything traditionally done during a Tuesday workday to make arrangements to fly to Chapel Hill four days later. It's also why I'll do research on the best stocks for my clients to own on Saturdays or Sundays or weekday nights. You see, it's really not work. It's what I love.

Heads and Tails, or Every Coin has Two Sides

But passion cannot be the sole motivating emotion of investment advisors. Indeed, when analysis of stocks is done, one needs to be dispassionate. This is the other side of that human coin.

When researching stocks for clients, I must divorce myself from any feeling of loyalty or ownership regarding a company. One cannot live by passion alone. The heat of emotion must cool when events require rational, logical, dispassionate investigation. So it is with WCA's stock analysis.

As we have noted in previous newsletters, we look for various measures of value over a long-term horizon. Someone once said that if you don't intend to hold a stock for ten years that it's not worth owning for ten days. That's pretty accurate. And it's one of the biggest differences between Wall Street brokerage house sell-side research recommendations and those which WCA undertakes. We don't worry much about quarterly earnings or even annual ones.

We're primarily concerned with how much money a company can generate over a long period of time -- generally, a decade or more. Our discounted cash-flow model looks for specific cash flows for many years in the future.

Another factor most important to WCA which is also largely ignored by sell-side research is whether the companies have some defensible and sustainable competitive advantage over their competitors. That is, do they control a large part of the market as Microsoft or Cisco do. Do they have a hard-to-beat price advantage like Walmart. Do they have intellectual property protection similar to Pfizer's?

Stocks to Watch*

And what are our recommendations for the coming year? Well, two in particular you should keep your eyes on are CarMax Inc. (KMX) and First Data Corporation (FDC).

The former is a mid-cap specialty retailer of used cars and light trucks. It features a painless customer experience with a no-haggle price on its vehicles. Today it's selling at \$29.32. I think it can push \$60 and beyond. At its present price, I'd back up the truck.

I project it's five-year growth forecast as in excess of 20%, which would have it growing 33% faster than the industry average. It's projected earnings per share for the next year should be \$1.30; for the past two fiscal quarters it's stock reported EPS exceeding

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consensus estimates.

CarMax has built its business by eliminating the negative experience that so many of us have when purchasing used cars, not only through their no-dicker pricing but also by their practice of separating the trade-in sale from the purchase price. It's sales force is compensated for the number of vehicles they sell rather than for car price or dealer margin and this policy provides the salesman an incentive to keep buyers happy. It spun off from Circuit City in 2002, turns over its inventory 7.5 times per year and makes approximately \$1,600 on each used car. Car lending adds two points to overall gross margins. Sales growth over the past five years has been impressive at 35% annually -- a remarkable five times the rate at which the automobile dealership industry has been growing.

First Data Corporation is a large-cap data processor which provides credit card processing payment systems, electronic commerce and information-based services to both businesses and consumers. FDC's present stock price of \$39.90 makes it a true bargain when my crystal ball says its intrinsic value is \$53.

First Data boasts dominant market share, defensible competitive advantages and a large year-over-year cash flow. The crown jewel is Western Union which has 75% of the world's money-transfer business and a pre-tax cash flow of close to \$1 billion. This asset gives FDC a huge advantage over other payment processors. Industry forecasts put money-transfer revenue growth at 18% through the end of this decade. WU is aggressively adding agents in Asia, a region with more than 80 million overseas nationals who are prime candidates to use it's services.

In mid-December it cleared a major hurdle in the acquisition of Concord EFS when the Department of Justice approved the planned merger. The deal is expected to close in the first quarter of 2004.

FDC is also the dominant player in the merchant-card processing business. It handles more than 40% of all Visa and Mastercard purchases made in the United States, processing about three times as many transactions as it's nearest competitor.

This is the type of competitive advantage to which I made reference earlier.

Fly Iggles Fly!

The Eagles play the Carolina Panthers this Sunday. I love the passion with which Donovan McNabb plays. Let's hope for a Philly win.

Imagine for a moment that the selection of investment instruments can be analogized to putting together players on a football team. When you've been in my business long enough you're going to pick them right some of the time and miss some the other times. You just hope that the sum total of your draft picks and free agent selections gives your team a portfolio with a winning percentage which proves acceptable to your clients. So far our clients have been pleased with the players we've picked.

Let's hope the Eagles get to the Super Bowl this time. I would hate to miss seeing the smiles on the green-painted faces of those passionate fans.

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