



**Value, Performance, & Service**

From the desk of:  
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*\* The following is a reproduction of the letter sent to clients of Aldebaran Capital, LLC with their portfolio reports. Past performance is not a guarantee of future results. Nothing within these writings, directly or indirectly, should be construed as a solicitation of an offer to buy or sell any particular securities mentioned. While we stand by our commentary and opinions, readers should not view these writings as personal investment advice, and should individually determine whether anything we say is suitable for them.*

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#### Letter to Clients - April 2000

We have enclosed reports as of March 31, 2000, on your Aldebaran Capital, LLC investment portfolio.

The first quarter of the year began much like last year ended. But as the quarter wore on, "new economy" investors took their lumps in March. Since then, market volatility is the prime focus on investors' minds these days. It is quite remarkable to see stocks that only a couple of months ago were "the ones to own," trading at prices that in some cases reflect a decline of 75% from their high. Of course, the media is having a field day with the violent swings. You will notice that on the up-days a stream of analysts are paraded in front of the cameras who say investors are being given a great buying opportunity with this "correction." Conversely, on down-days the doomsayers come out of the closet to say look out below. For our own part, the swings don't bother us much. On the whole we still believe many stocks are overpriced, particularly in the favored sectors of the market. However, we do occasionally find the volatility beneficial to us. At times, the emotional selling of a security that we already own or a new company we find interesting, allows us the opportunity to acquire stock at attractive valuations. (This we distinguish from the "buy anything on any dip" crowd.)

In our January letter we mentioned that we were working on a comprehensive piece regarding our views on this "new-era" of investing. The market shake-up in the technology sector that began in March has led us to add some material to our report. We anticipate that we will be sending the final copy soon.

Going forward, we expect the rough seas to continue. Interest rates appear to be on the rise and higher inflation signs are popping up. In the near term, we can't tell you what will happen. However, if things continue to be difficult we are comfortable with the holdings in our portfolios. Our goal is to properly position your investments for the long haul. In the meantime, we are content not to be in the shoes of a market speculator. In other words, if the going gets rough, light a candle for the new-era investor.

If you have any questions or comments, please feel free to give us a call. We look forward to the challenges ahead.

Sincerely,

Kenneth R. Skarbeck, CFA

Edward A. Skarbeck

Letter to Clients - October 2000

Enclosed are various portfolio reports on your Aldebaran Capital, LLC investment account, as of September 30, 2000.

Overall, your investment account experienced a relatively strong third quarter. The market finally took notice of companies like **Standard Pacific** selling with a P/E multiple of 5 and whose earnings over the past five years have compounded at 64% annually (that is a growth rate even an internet optical switch maker could love!) Also, the excellent financial fundamentals of **Southdown**, the second largest cement company in the U.S., enticed CEMEX to acquire the company for \$73 per share or a 30% premium over the market price. These positive results are being achieved as the market appears to be undergoing a massive revaluation, where many of the overpriced tech stocks are dropping significantly and stocks selling at discounts to corporate value are being marked up in price.

Earlier this year, we suggested that if the going got rough in the stock market that we should "light a candle" for the new-era investor. Well, the melted wax is starting to pile up. The market excesses in technology and "new economy" stocks are in the process of correcting. Over the past couple of years, we watched from the sidelines as newly minted tech companies were bid up to unconscionable levels. At the time, we commented that the gulf in valuation between the so-called old economy and new economy stocks had probably never been greater.

Until recently, the market has favored the investor who bought stocks in companies displaying high growth rates in revenues or sales (bottom line earnings were ignored on the belief that in time they would materialize.) This so-called "momentum investing" works for awhile because it feeds on itself. Like a chain letter, more and more investors are attracted into the game fueling the run up in stock prices. The participants were not only the newly ordained investor who could trade stocks online with a point and a click, but included mutual fund managers, venture capitalists and brokerage firm analysts (a good many not even 30 years of age.) As the speculative bubble expanded, it was only a matter of time before the flaws of this investment casino were exposed.

Students of stock market history are well aware that the market retains an amazing self-correcting mechanism over the long haul. In his 1934 classic investment text Security Analysis, Ben Graham described how *in the short run the market is a voting machine, but in the long run it is a weighing machine*. What Graham was saying was that anything can happen in the market in the short term, particularly when you have periods of euphoria (like last year) or conversely periods of despair. During short periods of time, which may be measured in months or even a few years, investors will often vote on certain stocks without regard to their valuation. Yet these bursts of manic-depressive behavior in the stock market eventually get resolved. And by resolved we mean that, over time, stocks tend to move more towards the true or intrinsic value of the business. As Graham would say, in the long run stocks get weighed or valued more closely to their real intrinsic worth.

We define intrinsic value as the price a rational person would pay to purchase the entire company, given all the relevant facts. Earlier this year, we could not imagine a rational investor paying the prices that many of the technology stocks were commanding. Just to pick on one of the many recent high-profile disasters, look at what happened to Priceline.com. Just six months ago, investors were valuing the entire company at \$16 billion. Sixteen billion dollars for a company that had recorded only \$200 million in sales, and was losing substantial amounts of money. An investor buying even one share of Priceline in March, at \$100 per share, was essentially agreeing with this valuation and presumably expecting its value to move even higher. Sadly, it has become apparent that Priceline, as a business, isn't all it was cracked up to be. Today the stock trades a tad north of \$5 per share, down 95% in just six months. The other day we fielded a call at the office from a person (a non-client) who was interested in buying Priceline at this "bargain" price level. We kindly gave him the name of a discount broker to call and place his trade. But after hanging up we shook our heads, for even at the seemingly bargain level of \$5.50 per share, the market still values Priceline at \$90 million (\$5.50 per share X 166,000,000 shares outstanding.) *Contrast that with Standard Pacific, valued at \$500 million by the stock market, with sales over \$1.2 billion and net income in excess of \$90 million*. We think the decision is clear.

Going forward, it appears that the economy is slowing somewhat. Under this scenario we think the market will continue its process of revaluing many of these overpriced stocks. At the same time, we feel confident that this process will present us with the occasional opportunity to make purchases at attractive prices. In the meantime, we endeavor to put into practice one of Warren Buffett's tidbits of wisdom, in that one key in investing is "to keep your head when everyone around you is losing theirs."

We appreciate your business and, as always, please feel free to call us anytime you have a question or would like to discuss your account in more detail.

Sincerely,

Kenneth R. Skarbeck, CFA

Edward A. Skarbeck

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