ALDEBARAN CAPITAL, LLC
Registered Investment Advisors

***Value, Performance, & Service***

From the desk of:
Kenneth R. Skarbeck, CFA
ken@aldebarancapital.com
(317) 818-7827

---



---

Letter to Clients - July 2001

Enclosed are your portfolio reports for the first six months of 2001. We are pleased to report that we have come through the bursting of the market bubble in good shape. One of the many benefits of following a long-term value oriented approach is that, over a period of years, this investment style tends to lead to better-than-average results. This isn't to say that we won't have our rocky periods along the way. Generally, in periods where the market is on one of its speculative moves higher, we will most likely lag the broader market. However, in stable or declining markets, we would expect our investment style to turn in above-average performance. All of the analysis we have done on historical records in the stock market suggests that, on a cumulative basis over the long-term, value-based portfolio management will lead to a higher net worth. And that, after all, is our goal for your investment program.

During the second quarter of this year, the markets mounted a bit of a rally that has stemmed the decline in stock prices. In spite of this breather, the major averages are still down for the year with NASDAQ –15%, the S&P 500 –8%, and the DJIA –2%. But perhaps the most eye-opening statistic for technology investors is the unsettling fact that, over the past three years, long-term bonds (with a return of 5.4% per year) have outperformed the NASDAQ (4.5% per year). The notion that in the summer of 1998, just prior to the meteoric rise in technology shares, that a buyer of bonds would today have a greater net worth than a NASDAQ investor exposes the pitfalls of adopting a "New Era" doctrine in the stock market.

For our part, we will continue to seek out investments in securities that we believe are under-priced and offer attractive appreciation potential. Purchasing securities at a discount provides us with a "margin of safety" against downside risk while we wait for the market price to reflect a company's intrinsic value.

We will soon be sending you a separate communication that describes our experience at the Berkshire Hathaway annual meeting this spring. In the meantime, if you have any questions about your reports or would like to get together to discuss them in greater detail, please give us a call.

And finally, we would like to ask a favor. In your conversations with acquaintances, if the opportunity arises, please mention our name. We are finding many people who are generally unsatisfied with their investment program over the past few years. While we won't be the solution for everyone, we do offer a different perspective on money management that many people are not familiar with. We don't put any pressure on people to sign up with us. We simply offer a free look at our approach to investing and how we might fit into their investment program. After that, it is up to them to choose whether or not to hire us.

As always, we appreciate your business, and thank you in advance for your help.

Sincerely,

Kenneth R. Skarbeck, CFA          Edward A. Skarbeck

10291 North Meridian Street • Suite 150 • Indianapolis, Indiana 46290
PH 317-818-STAR (7827) • TOLL FREE 888-742-STAR (7827) • FAX 317-818-7830
E-MAIL info@aldebarancapital.com • www.aldebarancapital.com