FIDUCIARY
MANAGEMENT, INC.
Investment Counsel

INVESTMENT STRATEGY OUTLOOK
LARGE CAP VALUE
October 2002

The third calendar quarter and year-to-date period was difficult for stocks, and one of the worst on record. Our large cap value portfolio fared better than the Standard & Poor's 500, however, which reported declines of 17.3% for the quarter and 28.1% year to date. Our investment approach continues to shield us from the worst of the bear market, but losses were significant and highly unpleasant. While most of the decline in the stock market over the past two and one half years was due to the precipitous fall of the technology, telecom and high valuation sectors, there was a sharp correction in almost all stocks in the last month or so of the September quarter and our portfolio was not spared.

Investors continue to be concerned about economic growth, terrorism, war and corporate malfeasance. These four issues beget fears of falling employment, consumer confidence, capital spending and higher energy prices. There is, at least as of this writing, widespread pessimism. In short, it looks like a classic bear market.

Use of the word "classic" with respect to a bear market might suggest a pattern and perhaps something predictable in nature. Unfortunately, that is not the case, however, we thought it would be instructive to illustrate past bear markets so as to put the current one in perspective.

Bear Markets Since 1900 (102.75 Years)
As Measured by the Dow Jones Industrial Average

Market Peak	Market Trough	Decline	Duration
February 5, 1900	September 24, 1900	-22.53%	7.6 Months
June 17, 1901	November 9, 1903	-46.14%	28.7 Months
January 19, 1906	November 15, 1907	-48.54%	21.8 Months
November 19, 1909	February 24, 1915	-46.07%	63.2 Months
November 21, 1916	December 19, 1917	-40.13%	12.9 Months
November 3, 1919	August 24, 1921	-46.58%	21.7 Months
September 3, 1929	July 8, 1932	-89.19%	34.1 Months
September 7, 1932	February 27, 1933	-37.25%	5.7 Months
July 18, 1933	October 21, 1933	-23.03%	3.1 Months
February 5, 1934	July 26, 1934	-22.78%	5.6 Months
March 10, 1937	April 28, 1942	-52.20%	61.6 Months
May 29, 1946	June 13, 1949	-23.95%	36.5 Months
December 13, 1961	June 26, 1962	-27.10%	6.4 Months
February 9, 1966	May 26, 1970	-36.58%	51.5 Months
January 11, 1973	December 6, 1974	-45.08%	22.8 Months
September 21, 1976	February 28, 1978	-26.87%	17.2 Months
April 27, 1981	August 12, 1982	-24.13%	15.5 Months
August 25, 1987	October 19, 1987	-36.13%	1.8 Months
July 17, 1990	October 11, 1990	-21.16%	2.8 Months
January 14, 2000	September 30, 2002	-35.24%	32.5 Months
Average		**-37.53%**	**22.7 Months**
Median		**-36.35%**	**19.5 Months**

Data as of 9/30/02. Sources: Dow Jones & Company; Copyright © Crandall, Pierce & Company

The table shows the Dow Jones Industrial Average peak to trough price data long with the duration of the twenty bear markets of the last century. The twentieth bear market may have ended on October 7, at the Dow Jones close of 7423. (As of this writing, the Dow is 7501). If the October 7th price proves to be the low for this cycle, then the Dow Jones decline of 36.7% will be about average and the duration of 33 months will be significantly longer than the average for past cycles. As the table illustrates, the average decline is 37.5% and the average duration is 22.7 months. The longest bear market was 63 months (1909-1915) and the shortest was less than two months (1987). The deepest decline was 89% (1929-1932), and the most shallow was 21% (1990). There have been only five bear markets that have lasted longer than the current one.

It is not our custom to make predictions about the market and we will not do so here. We will point out, however, that the previous bull market was much longer and more powerful than any prior bull market. Equity valuations are getting more attractive, but one could hardly argue that they are near the low end of historical averages. But they are now reasonable and given the low level of interest rates and inflation, the investment environment looks more positive then we have seen in awhile.

Many investors have asked about our views on the economy and the various issues mentioned in paragraph two. We have found over the years that the government statistics are usually late and often inaccurate. Throughout most of the summer the economic statistics suggested a nice, steady improvement in employment and the economy. Our opinion, based on anecdotal information and unscientific sampling, was that business was still very tough and that corporations and consumers were pulling in their horns. We continue to feel that excesses are still being wrung out of various industries and that certain sectors may not ever return to prominence. Despite heavy home refinancing activity, we are not expecting a big push from the consumer. Consumer and business indebtedness is very high and it will take time to buttress balance sheets. Business inventories are quite low, however, and this will aid in a potential cyclical recovery next year. Corporate cost structures have also been pared, which will help earnings when the economy recovers.

We think war and terrorism are issues not easily dismissed and could linger for years. We are not concerned about a military victory in Iraq. We are concerned about our Middle East policy, the NATO alliance and how the USA is perceived by the Muslim world. These issues are beyond the scope of an investment letter. Suffice it to say that these big issues will likely keep a lid on valuations over the foreseeable future.

Despite the pessimism that abounds in these times, money can be made buying and holding good companies at reasonable prices. We are optimistic about the prospects for the companies in our portfolio.

Thank you for your continued support of Fiduciary Management, Inc.