

To the Friends and Clients of the Harvey Investment Company

On September 28, 2000, after twenty-nine years with Hilliard Lyons, I resigned to form the Harvey Investment Company. Shortly thereafter, Mary Herrmann and John Davis joined me. In the past three months, we have worked to launch the company. It is a good time to report to you on our progress, our purpose, and our aspirations.

The first order of business is an explanation of why the Harvey Investment Company should exist in a world already bewilderingly full of investment choices. There are three important reasons.

1. I believe that there is an investment discipline which, if practiced diligently, leaves wide open the opportunities for the tremendous financial benefits common stocks offer and also meaningfully reduces the risk of substantial, permanent loss of capital. The Holy Grail for investors is more reward and less risk. The approach that offers this is easy to describe and understand. Its tenets are specific, so the layman can easily understand the thought process that leads to the decisions made. As a practitioner of this approach for more than two decades, and having watched it applied by like-minded investment managers over this period, I have a deep conviction that the approach is likely to yield highly satisfactory long-term growth of capital. I feel that a firm should exist in our community that practices this discipline in its pure form. We intend to do that.
2. I believe organizations filled with the finest people can sink into mediocrity because of a structure that leads to competing agendas. As companies grow, so do their marketing, human resources, accounting, and other functional staffs. Each, with the best of intentions, seeks to extend its influence and power to advance the careers of its members. The result is loss of focus on the essential purpose of the enterprise. The Harvey Investment Company is organized to pursue its purpose free of competing agendas. This is very easy as a small company. The challenge comes with growth. We are dedicated to a work environment free of conflicting priorities. We want to provide extraordinary investment advice and extraordinary attention for our clients. That's all. I believe that the clarity of purpose that will guide our behavior is rare and will provide a superior experience for our clients.
3. I want to run a boutique of a size that enables us to have deeper relationships with our clients than other institutions provide. Unchecked growth leads to organizations where portfolio managers are responsible for hundreds of accounts. It is not their fault or their boss's. The business just grows. Sheer volume has a numbing effect on the importance of any one client and crowds out the dedication the manager can give to his investment work. In my view, individuals and organizations should have high quality smaller firms to choose from when selecting an investment manager. Such firms are able to realistically promise personal attention of the highest order and to provide understanding and sensitivity huge institutions simply can't manage because of swollen account loads. The Harvey Investment Company is dedicated to providing the most responsive attention to client needs available.

It has been a busy time for Mary, John, and me. Mary and John are creating the administrative infrastructure we need to conduct our business. I have devoted my time to describing our plans to prospective clients and doing the investment work that is my primary activity. It is noteworthy that, while we are a small company, our organization is supported by some of America's strongest financial institutions. They are the custodians and safe keepers of our clients assets, they provide us with a wealth of investment research, administrative support, and countless other services. We have at our command access to all the major services available at the "financial supermarkets". We have simply unbundled the investment advisory function so that it may receive special attention.

Approximately eight weeks ago we passed the final regulatory hurdles necessary for us to open for business. We have had an excellent response to our new enterprise. We are now processing the paperwork necessary to take advisory responsibility for a number of new clients and expect the next few months to be busy in this regard. Currently, our offices are at the Summit Building on the corner of Brownsboro and Hubbards Lane. Ultimately, we will reside farther east on U.S.42 in Fenley Office Park near the corner of U.S. 42 and Lime Kiln Lane. Our permanent space is being built to our specifications and is expected to be ready in early January. In the meantime the technology we need to operate and the investment information flows we require are in place. We are settling into the orderly routine necessary to do our best work after a hectic couple of months. In this regard, I want to acknowledge the immeasurable help of our partner and large shareholder Wealthtrust. Wealthtrust, through its principals M. Rush Benton and Ralph Illges, has provided us with help in matters that would likely have bogged us down considerably. Because of them we have been able to concentrate on those matters most vital to our start-up.

As we pass through these formative days, I have a firm eye on my long- term intentions for the business. Foremost, I want to develop an investment advisory business that provides extraordinarily intelligent advice. The company will be developed in such a way that its life extends far beyond the participation of its first employees. This vision may be best seen by the staff members we expect to hire in the future. When we move to our permanent headquarters, John and Mary anticipate hiring an assistant to aid them in their work in the varied areas of administration, compliance, marketing, and client services. In the late winter or early spring, I expect to recruit an additional security analyst who will join me in our investment research effort. As the initial demands of launching subside, I expect John to devote at least half his time in the research area.

Beyond the immediate additions, Mary will add administrative assistants as she sees the need for them. I plan to add at least two and perhaps three security analysts in addition to our planned hire this spring. Superior analytical judgment is key to

outstanding investment results, and we intend to build this core skill into our organization.

The great success stories in the stock market come from investors establishing and patiently holding positions in sound business for many years. These companies invariably provide goods and services that individuals or society collectively find desirable and helpful in daily life. The companies that succeed in expanding and maintaining profits at higher and higher levels are directed by dedicated, smart, honest managers. The press, whether it be print, on-line, or television, gives the impression that the market is a game where the spoils belong to best game player-that person who can best predict markets trends in the immediate future. In my view nothing could be farther from the truth. For example, if one thinks of the wealthiest people in one's community, almost always the wealth was created by long-term commitment to a single business. Our analysts will work to marry the core belief that a stock represents ownership in a business with the market savvy to utilize the emotional extremes market "games" cause to enhance the returns a long range focus provides. These core beliefs, and single-minded devotion to them, are the basis of the intelligence we hope will characterize our advice.

We would be hard pressed to fully express the gratitude we feel for the support we have received as we have embarked on our endeavor. It both validates our past work and makes the building of the new business especially exhilarating. We look forward to sharing with you our progress and our investment thinking in the future. We wish you the best in the coming new year.

Sincerely,

Samuel C. Harvey