

Dear Investors,

- Sextant's assets total €5 million.

You can see Sextant's performance on the Boursorama website (code 98105). At 7 June, the unit price was €1,112. Sextant PEA has performed well since January 2002, up 11%, while the CAC 40 lost 14%. Less-good is the Fund's performance since 17 May. After hitting a high of €1,218, the unit price tumbled 10% in three weeks. Although this dip is quite annoying for those who bought at the high, it is nonetheless good news for us all, as it allows us to benefit from some very interesting investment opportunities.

### **HE WHO LOSES, WINS**

In my March letter I quoted Warren Buffett, who stated in 1974, "Now is the time to get rich." Rich, yes, but a few years later. 1974 was more the time to become poor. In August 1973, the Boston Globe floated at \$10 per share. Our friend Warren, convinced that the company's value was actually much higher, hastened to buy the stock. And to his great delight, his investment was down 50% a year and a half later, the stock price having steadily retreated to \$5. The same happened for his investment in the Washington Post, which plummeted 40%. Peanuts! But what luck for his future fortune! Of course, Warren continued to buy, and a few years later he became the richest man in the world. Simple, isn't it?

The moral of the story:

1. I am not Warren Buffett.
2. You will never be the richest man in the world.
3. The more a good investor "loses," the more he wins.

This last conclusion warrants a bit of explanation. If you spot a company that is undervalued by the market, it is because the latter is no longer operating as an "efficient market." And the more flagrant the undervaluation is, the more the market has clearly lost its way. If you buy stock in this company, you cannot hope that the market will suddenly come to its senses the next day, and that the stock price will go up. In fact, you could more confidently hope for the opposite. Specialists in market volatility explain that the more volatile a security is, the more dangerous it is to purchase. Which means that the more a security falls, the more likely it is to keep falling. Crazy! But it's better that way. After all, when you go to the market on Saturday to buy tomatoes for Sunday lunch, do you want their prices to be higher or lower than the week before? Why should making investments for your savings portfolio be any different? The Sextant PEA price is down. Great!

Even if I am not Warren Buffett, I have been able to produce a few capital gains. In fact, losing money in the short-term is logically the best way to gain overall. For example, in early 2000, I bought shares in Sodexo Marriot Services (SMS) at \$16 per share. A few months later, the CAC rose from 5,000 to 6,400 (30%), while SMS sank to \$10! Bravo, well done, lose 40% while the market climbs 30%, very smart! Perhaps, but although it was impossible for me to understand the jump in the CAC 40, I could easily determine the true value of SMS. Two years earlier, the

parent company (Sodexo) had announced it would take over its US subsidiary in 2001. Analysts covering Sodexo recommended buying this stock precisely because the takeover of the subsidiary would be highly accretive until \$30. Infected by WB's contagious enthusiasm, I was ecstatic to buy SMS stock at \$11. Then at the start of 2001, the takeover happened... at \$32. It is still too early to recount similar happy endings about your Fund, as it is only 5 months old, but be patient, happy endings will come (beginning, unfortunately, with a 40% decline).

### **Shortening the sails: the Alès Group convertible**

Since the end of May, 9% of Sextant PEA has been invested in convertible bonds, which will be exchanged in July 2004 at the latest. 1% in France Telecom, 1% in Vivendi Universal, and 7% in Alès Group. Alès Group is a highly profitable company known for its flagship brand, Phytolièrac. The company issued a convertible bond exchangeable in July 2004 at €80. We purchased 5,000 at €9.5, thereby securing an annual return of over 11%. Not glorious, but completely resistant to a slump in the CAC 40.

### **Navigation error?**

Long live lower prices, but beware of lower value. We are happy to buy when prices are down, provided we are certain of the true value of what we are purchasing. Every so often, our measuring instruments are off, our minds get hazy, and we have trouble making out the horizon and the sun's positioning. When this happens, lower prices are no longer laughing matter.

### **Medcost, Auféminin.com, and Business Interactif**

These three companies have a lot in common: (large) losses, (enormous) cash, well-educated employees with (too?) high IQs... and the ability to make you lose (a lot) of money. 11% of Sextant is invested in these 3 companies (after a 50% drop in the highest prices, and a 25% decline in our average purchase price). The equation is simple: cash equal to more than twice the market capitalisation, Himalayan tax loss carry-forwards (valuable for a buyer subject to corporate income tax, provided you have a good tax advisor, which amounts to a tax savings equal to 80% of Auféminin.com's capitalisation and 60% of Medcost's!), and a business plan that did not keep its promises. And add to that one very big word: INTERNET. I was clearly mistaken about these companies when I expected revenue growth that has not (yet?) occurred. Luckily for you, our sacrosanct principle of a large safety margin (see the investor guide) makes our fund management essentially foolproof (the fool being me, in this case). My valuations were most likely optimistic, but the safety margin (estimated value – market price) was sufficient to cushion the blow from my assessment errors. I remain bullish on Auféminin.com and Business Interactif, although I admit I lacked prudence in paying occasionally excessive prices (albeit for modest quantities). With Medcost, I am certain we will end up making some money (the stock is at €0.65 today, so making some money on our purchase price would mean a return to €1.20!), even if the company's strategy is not completely clear.

### **Sextant, Inc.**

Your Fund is 80% invested in equity, 9% in convertible bonds, and 11% in cash. Sextant, Inc. corresponds to the equity portion (see the investor guide). Sextant, Inc.'s financial ratios are as follows:

**P/E in 2002 = 21.5; P/E in 2003 = 10.3; EV/Revenue = 0.40; Net cash/Market cap = 38%;  
Earnings growth 2003/2002 = 109%**

Relative to April, Sextant, Inc. now has more cash (Net cash/Market cap = 38% versus 22%), but slightly lower earnings (for 2002 = 21.5 versus 16), simply because I thought it would be better to strengthen positions in Auféminin.com and Business Interactif, which are drowning in cash but making losses. I also started a position in a German company, Ad Pepper Media at €1.20, which helped shift the ratios. Ad Pepper, with a forecasted loss of around €0.2 per share in 2002, will only have €2.7 of cash per share in December! Sorry, but I like big piggy-banks, even if they have a few leaks...

#### **THE AMIRAL CLUB**

Let's meet again once more before the holidays, for lunch on Friday, 5 July, around 12:45, at the Financière de l'Echiquier premises, 7 place Vendôme, Cambon stairway. I will invite the managers of a Sextant, Inc. company to come defend its cause. Please note that you should let me know if you would like to come, because the time and place could change!

Talk to you again soon,

François