THE INTERNET BANDWAGON

Dear Investors,

- Sextant's assets total €5.2 million.
- You can see Sextant's performance on the Boursorama website (code 98105). At 13 September, the unit price was €1,046. The prices of financial assets plummeted this summer. Some for good reason, when investors realised that these assets had less value, or none at all. And some for bad. The fact that Messier is a bad manager doesn't necessarily make Michel Bon a good one. If you don't see the connection, don't worry, neither do I. In any case, nobody understands anything anymore. But one thing is certain; amongst the wreckage, there are good deals to be found.

TIMING: TAKING A STEP BACK (A FEW CENTURIES)

Should you invest in the stock market today? Considering it has fallen over 50% in two years, it's probably not a bad idea. Investors are paralysed by fears of an economic slowdown, a potential Iraq/oil war, and the next major Al-Qaeda attack. However, war will break out, and others will follow. Fanatics will kill and be killed, and be replaced by others, and the cycle will start all over again, as it has been for centuries. This is why the next bloody jolt will not sustainably drive down the financial markets; it is already largely expected by the collective unconscious. The probability of such an event occurring is 100%.

But even if the markets have collapsed, some oracles announce that the worst is yet to come. For example, the most dismal research findings, published by Peter Bernstein and Robert Arnott (guru-guru), can be found on Forbes.com; the most dire outlook, given by Bill Gross (one of the best bond fund managers in the world), on Pimco.com. Our friends are not making catastrophic macroeconomic forecasts. They are not speaking of war or terrorism. They are simply stating that equity is overpriced. And thus brilliantly tearing down what your financial advisor has been telling you for many years, "In the long-term, equity is always the best investment, which is proven by its systematic outperformance since 1825." (Your advisor's memory may not go back quite as far.) Bernstein and Arnott show that this victory is largely due to a variable that has regrettably depleted all its resources: a rising P/E ratio. Simply speaking, a company's stock price depends on both its net earnings, and the multiple of these earnings that the market is willing to pay. This multiple is called the P/E ratio (price-to-earnings ratio). So if the stock market has climbed since 1825, it partly because companies' earnings, and hence their dividends, have increased (reproducible element), and partly because P/E ratios are higher (irreproducible element; they have gone from less than 5 in 1825 to over 30 in 2000). Going forward, the stock market (or rather, the market indices) can no longer count only on earnings growth (this is difficult to explain in a few lines; there is an example at the end of this newsletter). It will not be

sufficient to outperform other, more secure investments, such as government bonds that return 4%.

At the risk of winning the Nobel Prize in economics, I will add to Bernstein and Arnott's theory the idea that the stock market, in order to make gains over the past two centuries, has acted like a huge value fund. That is, a fund that in 1825 bought stock in undervalued, generally dynamic companies (P/E ratios of 4), and patiently waited while their earnings grew and their P/E ratios rose (to over 30 in 2000). By the way, this beautifully confirms Sextant's management philosophy: in order to make money, you have to bet on higher P/E ratios and higher earnings. It is the same principle used by value funds; i.e., buy stock in undervalued companies, which, due to their good management and solid positioning, should see strong earnings growth and be revalued by the markets. Therefore, even if the indices did indeed finish their spectacular rally in 2000, there will still be undervalued companies with promising outlooks for many years to come, with plenty of market fads, waves of panic, and bouts of euphoria to spin the wheel.

This is why the timing for buying/strengthening/averaging in Sextant PEA is excellent. On the one hand, French equity has returned to reasonable valuations (the CAC 40 has a P/E ratio of 15), and the indices can increase, inevitably lifting the rest of the market. And on the other, the recent slump, which pulled everything down in its wake, has created wonderful investment opportunities. Some of the companies in your Fund have valuations reminiscent of the 19th century or 1932!

RELATIVE PERFORMANCE / ABSOLUTE PERFORMANCE

Sextant has considerably beat the indices since the start of the year. Below is the Fund's relative (with respect to the CAC 40) and absolute performance since 18 January 2002.

	SEXTANT		CAC 40		Relative perf.
13 Sept.	1,046.1	5%	3,156	-29%	**33.7%**
6 Sept.	1,042.0	4%	3,247	-27%	**31.2%**
2 Aug.	1,049.5	5%	3,245	-27%	**32.0%**
5 July	1,097.0	10%	3,863	-13%	**22.9%**
7 June	1,141.0	14%	4,020	-10%	**23.7%**
17 May	1,218.0	22%	4,443	0%	**21.9%**
3 May	1,159.1	16%	4,355	-2%	**18.0%**
5 April	1,137.5	14%	4,516	2%	**12.2%**
1 March	1,060.0	6%	4,486	1%	**5.2%**
1 Feb.	1,053.3	5%	4,449	0%	**5.3%**
18 Jan.	1,000		4,449	**0%**	

While the Fund's relative performance certainly boosts your Fund manager's ego, it in no way allows you to build reserves for the future. With regards to the absolute performance, we will need a bit of patience in order for it to be better appreciated. But let there be no doubt; that is what we are the most interested in.

SEXTANT, INC.

Sextant, Inc. companies can be divided into two groups. One, companies whose financial models have been well proven over several years, and which still have a great deal of potential (Camaïeu, ADLP, Gifi, Renault, etc.); and two, companies whose financial models have not yet lived up to all their promises, but which still have considerable financial resources. Below are the key valuation ratios for Sextant, Inc.

P/E ratio 02 26.1	**EV/Revenues 02 0.48**
P/E ratio 03 12.5	
Net earnings 03/02 108.8%	**% debt/KPI -34.4%**

The 2002 P/E ratio is still elevated, because some of our companies are making losses, but they have a lot of cash as a whole (enough to cover 34% of their market cap!). The earnings growth in 2003 is not the result of a miracle, but rather the elimination or reduction of losses in companies such as Auféminin.com (their headcount was cut from 50 to 25 in 16 months, revenues are on the rise, etc.).

A BIT OF READING

I have been an ADLP customer for a few months now, and congratulate myself for it. With one simple telephone call, I can subscribe or cancel my subscription to just about any magazine. At the best possible price, of course. ADLP offers a true service to its customers. For example, if you have an account with Crédit Lyonnais or BNP Paribas, you can subscribe to La Recherche (interesting but way over my head) or Maximal (intellectually much more palatable), by calling +33 (0)1 44 35 10 54. All at the lowest available rates, and without any long-term commitment. Furthermore, you are shareholders in the company, because 10% of Sextant's assets are invested in ADLP. So don't wait; tell all your friends! ADLP is seriously undervalued by a market who doesn't know this business. Thank you.

THE BANDWAGON WILL PASS THREE TIMES

Let's be honest, we all missed the internet bandwagon. You shouldn't be wasting your time reading this newsletter today; you should be ridiculously wealthy and living happily(?) ever after. Yes, if only you were a guru, you could have made 200X on Yahoo. But you didn't. You also missed the second internet bandwagon, a rocket-ship that one, moving in the other direction. You

could have made 100X or 1,000X by short selling France Telecom or Amazon. But again, you didn't, and this time you even saw it coming. You said so to all your friends.

Personally, I'm always missing these types of rocket-ship bandwagons. Because I prefer to know where I am going, and I hate jumping on and off while it is in motion. The internet bandwagon has come back home to roost. It has drawn to a halt, and nobody wants to get back on. Yet this time, the rules of the game are clearer. The winners have begun to step forth, and the losers are already dead. Some companies have generous financial reserves, with growing sales and business models that are showing their merit. Take advantage of it. There are plenty of empty seats up in first class.

THE AMIRAL CLUB

The event of the back-to-school season is the next Sextant lunch. I propose we meet on Friday, 11 October, around 12:45. We can review a portion of the portfolio, discuss Mr. Bernstein's ideas, and welcome a manager from a Sextant, Inc. company. I would be especially interested in hearing some of your investment ideas. However, please note that if you would like to attend, let me know. The location for this lunch has not yet been confirmed. And if you have any rich friends (€1,040 minimum long-term savings available), feel free to bring them along; hopefully, they will someday be grateful!

Talk to you again soon,

François

A Bernstein and Arnott example

In 1825, a company's stock price is $100, and it generates $25 of earnings. Therefore, its P/E ratio in 1825 is 4 ($100 stock price / $25 earnings = 4). In 2000, the company generates earnings of $100, and its P/E ratio is 40. Therefore, in 2000, its stock price is $4,000 ($100 earnings * 40 P/E ratio = $4,000 stock price). Note that this increase is due in larger part to a higher P/E ratio (up 10X), than higher earnings (up 4X). So for the stock price to generate the same performance over the next 177 years, the company's P/E ratio would have to climb to 400 by 2179. A bit pricey, no? Mind you, at this point I could very well be prosecuted by Mr. B & Mr. A, because my simplistic explanation is nowhere near their brilliant work. So in advance, I beg their forgiveness on bended knee.