The Value Investor

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"In the pursuit of excellence in stock performance, we do not fear failure, we fear mediocrity."

— *Arnold Van Den Berg*

All of us at Century Management truly enjoyed the client review in February. We were gratified by the attendance of 500 participants in Austin and 500 more in Houston. These annual meetings give us a chance to update you about the company and provide you with more insight about our investment philosophy. It is also a chance to spend time directly with you as clients and friends. However, there are many developments that happen at Century Management during the year between the annual client reviews. It is our purpose in this newsletter to bring you up to date on some of the developments that have materialized since the client review. We would also like to address some issues raised by you as clients.

Written By:
Arnold Van Den Berg
and Scott Van Den Berg

Published & Edited By:
The Century Management Team

The Growth of Assets Under Management and the Client Base

A question has been raised by a number of our clients because of the rate of growth of the assets under management and the increased number of clients that we service: Can Century Management continue to perform in the future as it has in the past? This is a legitimate question and one that we have given a great deal of thought. There is no question that if an investment company or money manager becomes too big, size will eventually affect its performance. There have been very few exceptions to this rule. More important is how large an investment advisory firm can be and still maintain outstanding performance.

While Century Management has had tremendous growth over the past 4.5 years, we started from a small investment base.

Century Management Growth December 1999 - June 2003

Date	Total Assets Under Management
12/31/99	$120 Million
12/31/00	$232 Million
12/31/01	$470 Million
12/31/02	$817 Million
06/15/03	$1.1 Billion

Assets Rounded to Nearest Million

During this period of phenomenal growth in assets under management, we have maintained superior performance both relative to the market indices as well as to our peer group of other money managers. In the chart on page 2 you will see our performance returns relative to the S&P 500 for the past 4.5 years (12/31/99 through 6/15/03). It also shows you the growth of a $100 investment.

The next chart will show how we have performed relative to our peer group and other money managers. Peer group and money manager rankings can be seen in various databases that keep track of money management firms' statistics, perform-

Century Management vs. S&P 500				
Year Ending	**Century Management Standard Composite**	**S&P 500 ADJ**	**CM Basis = $100**	**S&P Basis = $100**
12/31/99	32.14%	21.03%	$132	$121
12/31/00	43.62%	-9.15%	$190	$110
12/31/01	10.00%	-11.92%	$209	$97
12/31/02	-0.43%	-22.14%	$208	$75
06/15/03	10.03%	13.37%	$229	$85
Annualized 4.5 Years	20.22%	-3.46%		

Performance numbers above are net of all fees and expenses. Century Management numbers through 12/31/02 have been verified to be in compliance with AIMR standards by Ernst & Young, LLP. The 2003 performance for Century Management has not yet been verified. All performance composites and our ADV form are available upon request or you can see them on our website at www.centman.com. See page 8 for the description of Century Management's Standard Composite.

ance, and company information. Most of these databases have hundreds of managers submitting data quarterly with the hopes of being at the top in their peer group. At Century Management, we submit our information to multiple databases on a quarterly basis. You can see the complete list on our website by clicking our "forms & links" navigation button. In the chart on this page we show the results from four of the major industry databases.

As you can see, the results shown here demonstrate that a company can grow both its client base and asset base and still perform well. The reason a manager's performance declines is not because of the rate of growth in assets, but rather due to the size of assets under management. While our current assets of $1.1 billion as of June 2003 is a large number, it is relatively small when you consider that the U.S. stock market alone is $11 trillion. If $1 billion in assets under management should not limit the opportunities to continue excellent performance in an $11 trillion market, what size of assets under management would? After thorough study, we believe, as we will demonstrate

Money Manager Database Rankings			
Database	**Century Mgmt. Rankings**	**Time Period**	**Manager Style**
PSN Effron (TOP GUNS)	#1	3 Year Return	US All Cap Value
PSN Effron (TOP GUNS)	#1	5 Year Return	US All Cap Value
Nelson Information	Top 1%	5 Year Return	US Value
Nelson Information	Top 2%	5 Year Return	US All Styles
Morningstar	Top 1%	3 Year Return	US All Styles
Morningstar	Top 1%	5 Year Return	US All Styles
Morningstar	Top 2%	10 Year Return	US All Styles
Money Manager Review	Top 1%	3 Year Return	US All Cap Value
Money Manager Review	Top 1%	5 Year Return	US All Cap Value

Database rankings are of the CM Standard Composite. See page 8 for description. Year end rankings above are through December 31, 2002. See our website www.centman.com for the PDF copies of these rankings.

below, that depending on market conditions this number is between $2.5 billion and $5 billion under management.

The reason the size of a money manager's assets eventually reduces performance is that the number of companies available with opportunities for growth becomes extremely limited. In addition to the lack of growth opportunities, the reduction of firm-wide liquidity also becomes an issue. In order to be able to sell a stock in a short period of time without unduly influencing the price of the shares when he is selling (i.e.: liquidity) for his collective clients, it would be ideal for a money manager not to own more than 3% to 5% of the total outstanding shares of any one company. This means that while an individual position in a client's personal portfolio may range from 1% to 5% of their account value, the money manager must also look to total assets under management so that his collective clients do not own more than 3% to 5% of the total outstanding shares of the company.

In a well-diversified client portfolio, it is not wrong to own a few companies where the manager's collective clients own more than 3% to 5% of the total outstanding shares; and we do. However, it is still a good rule of thumb to have as much liquidity as one can obtain in a portfolio. One of the best ways for a money manager to achieve this liquidity is to limit the number of outstanding shares he owns of any one company.

Key Definition
Market Capitalization = Number of Outstanding Shares x Market Price

Example: Let us use the $1 billion in assets under management that Century Management has to invest. Let us also assume the average client has 40 stocks in his/her personal portfolio ranging from 1% to 5% positions. However, as a company, Century Management needs to divide the $1 billion in total assets under management by these same 40 stocks. This means that we could theoretically have $25 million invested in each company for our collective clients. ($1 billion divided by 40 stocks = $25 million). If we did not want our collective clients total shares to represent more than 3% of the total outstanding shares in each company, we would need to own companies whose total market value (**market capitalization**) is $833 million or greater. ($25 million divided by 3% = $833 million). If we were willing to own 5% of the total outstanding shares in each company, the higher end of the range, we would need to own companies that have **market capitalizations** of at least $500 million or greater.

The next question is how many companies in the U.S. market have a capitalization of at least $833 million in which we can invest our clients' capital? The answer is plenty! There are over 1,276 companies that meet this criterion. However, as the assets under management grow at Century

". . . money managers and mutual funds with larger assets under management generally produce mediocre performance."

Limits of Growth: Market Capitalization and Optimum Performance					
Money Under Management	**Divide by 40 Stocks**	**Money in Each Stock**	**3% of Outstanding Shares**	**Market Cap Needed**	**Companies in Universe**
$1 Billion	40	$25,000,000	3%	$833,333,333	1276
$2 Billion	40	$50,000,000	3%	$1,666,666,667	818
$3 Billion	40	$75,000,000	3%	$2,500,000,000	609
$4 Billion	**40**	**$100,000,000**	**3%**	**$3,333,333,333**	**490**
$5 Billion	40	$125,000,000	3%	$4,166,666,667	420
$10 Billion	40	$250,000,000	3%	$8,333,333,333	244
$20 Billion	40	$500,000,000	3%	$16,666,666,667	124
$30 Billion	40	$750,000,000	3%	$25,000,000,000	87
$50 Billion	40	$1,250,000,000	3%	$41,666,666,667	53

Money Under Management	Divide by 40 Stocks	Money in Each Stock	5% of Outstanding Shares	Market Cap Needed	Companies in Universe
$1 Billion	40	$25,000,000	5%	$500,000,000	1668
$2 Billion	40	$50,000,000	5%	$1,000,000,000	1146
$3 Billion	40	$75,000,000	5%	$1,500,000,000	876
$4 Billion	40	$100,000,000	5%	$2,000,000,000	716
$5 Billion	**40**	**$125,000,000**	**5%**	**$2,500,000,000**	**609**
$10 Billion	40	$250,000,000	5%	$5,000,000,000	361
$20 Billion	40	$500,000,000	5%	$10,000,000,000	209
$30 Billion	40	$750,000,000	5%	$15,000,000,000	135
$50 Billion	40	$1,250,000,000	5%	$25,000,000,000	87

Management, the universe of stocks that will qualify in meeting our rule ("3% to 5% or less ownership of the total outstanding shares of a company") shrinks very dramatically. As a money manager's assets increase, the universe of stocks decreases, leading to a lack of opportunities that will eventually affect performance.

The chart above demonstrates how the universe of stocks decreases as assets under management increase. We believe that as long as we have a universe of approximately 500 stocks available to us and the market is reasonably valued, we will have no problem finding ample opportunities to continue performing at a high level for our clients. By looking at the chart here you can see that we can theoretically increase our assets under management to a level of $4 billion and still maintain a universe of approximately 500 stocks that will provide us with great opportunities if we only own 3% of the outstanding shares. However, even if we own 5% of the outstanding shares of companies, we believe we can successfully grow to $5 billion and still perform exceptionally well. Keep in mind that in an overvalued market there will be fewer opportunities; and in an undervalued market, there will be more opportunities. In other words, when the market is trading at fair value, we are likely to see about 500 stocks in the universe if we have $4 billion in assets under management. However, at times when the market is trading at a significant discount to fair value, as in October 2002, the universe of stocks will increase dramatically. Therefore, even with $4 billion in assets under management, our universe of stocks would increase significantly.

This chart also demonstrates why money managers and mutual funds with larger assets under management generally produce mediocre performance. Their universe of stocks in which to choose from becomes so limited that they cannot possibly invest your money in the best opportunities or the best values. Rather, their choices are only the best relative to the universe of stocks they have to choose from. Many of the largest managers and mutual funds look the same because their universe is highly limited to just a few companies. By the time a manager has $10 billion in assets under management, his universe of stocks has been reduced to 244 companies. At $50 billion in assets under management, there are only 53 companies left in the manager's universe.

As you can see, large money managers or mutual funds will end up owning the same stocks and performing like one of the broader market indexes. While there are always exceptions to every rule, very few money managers or mutual funds have great performance once their assets reach a base of $10 billion or more. It is rather ironic that the general public perceives bigger as better and will often choose a money manager or mutual fund because they have the largest assets under management, while this factor alone is the recipe for mediocrity.

In summary, you can see it is not the rate of growth that affects clients' performance but the size of the assets under management. Depending on market conditions, we believe that Century Management can continue to perform at high levels as long as we have at least 500 stocks in our universe to choose from. In the foreseeable future, we believe this represents between $2.5 billion and $5 billion in assets under management. **When we reach a level of assets where the number of stocks to choose from no longer provides us with enough opportunities, we will no longer accept new clients or new money for our management.** This decision will help us maintain our superior performance into the future.

"We also believe that by acting aggressively over corporate governance issues, we can increase our performance by shortening the time horizon between when we buy a depressed issue and when it reaches its full value."

Benefit of Reduced Investment Holding Period

Buy Price	Sell Price	Holding Period	Annualized Return
$10	$20	3 Years	25.99%
$10	**$20**	**4 Years**	**18.92%**
$10	**$20**	**5 Years**	**14.87%**
$10	$20	6 Years	12.25%
$10	$20	7 Years	10.41%

Positive Advantages Related to Asset Growth

While we have discussed the problems that occur with too much money under management, there are some very positive advantages related to asset growth. With the increased revenues that we have received from this asset growth, we have reinvested in every department of our company to strengthen the overall organization. We have literally doubled our research team to include specialists in technology, industries, and individual companies. We have also increased our client service staff with well trained professionals so that we can maintain individual service for each client.

We have also updated our computer systems with the best software available in the industry. In addition, we have developed a complete backup system that runs our portfolio management programs from an offsite location. In the event of a burglary, theft, fire, or terrorist activity, we can continue to operate without interruption.

With our increased assets under management, we are recognized as a potential buyer/seller of companies and are frequently offered blocks of stocks at discounts to the normal trading price offered in the market. This takes place as institutions need to buy and sell large blocks of stocks without unduly influencing the price. Often times this trading advantage will allow us to buy or sell companies at more favorable prices than if we just bought and sold a few shares at a time in the open market.

Another benefit to our asset growth is the influence we are able to have on the management of companies in which we are large shareholders. This means that our thoughts and opinions on how to create shareholder value are taken more seriously by the management of these companies. We are never shy about expressing our opinions or creating pressure, especially when we see that management is not working in the best interest of the shareholders.

The success of one of the best performing stocks in our company's history, NetOptix, was due in large part to the action that we took with other shareholders to remove an executive who was impeding the progress of the company. This made room for a new individual who transformed the business into the success that it became. In another incident, we sent a letter of protest addressed to the board of directors of a company that helped to block a board member from coming back into the company. We believed that the return of this board member would not have been in the best interest of the shareholders. Our most recent example took place this past quarter. Because of our stake in a company, we were able to call a special meeting with their board of directors and other like-minded shareholders and asked for the resignation of the Chairman of the Board. We believed he was not acting in the best interest of shareholders. His resignation was received the next day.

Because of our increased size and our success in these matters, we plan to vigorously pursue any company we feel is not acting in the best interest of its shareholders. We believe this so strongly that we have added an in-house attorney to help guide and assist us in these matters. We also believe that by acting aggressively over corporate governance issues, we can increase our performance by shortening the time horizon between when we buy a depressed issue and when it reaches its full value. This is accomplished by our gentle prodding and sympathetic persuasion. **The chart on page 5 shows the importance of reducing the investment holding period. As you can see, if we speed up the healing process in a company by even one year, it would increase the average return from 14.87% over a five-year holding period up to 18.92% over a four-year holding period.**

Last, we have used our increased revenues to strengthen our corporate balance sheet. Our company has no debt. We have significant cash reserves. While most companies in the financial industry are having significant layoffs, we have literally doubled our staff in recent years. **While we are extremely proud of our 28-year performance record, we are equally proud that we have never had to lay off an employee for economic reasons.** This has given our employees great confidence in our company and their job security. It has also allowed us to attract and maintain talented people in our industry and develop long-term working relationships.

In another effort to create employee confidence, we provide one of the best employee benefit programs available. For example, Century Management puts 25% of each employee's salary into a pension plan, which is invested in the same stocks as your portfolios. In addition, we require that all our employees' investable assets held outside the pension plan be invested in the same stocks as your portfolios.

This has created an alignment in thinking between our clients and our employees. This means that the financial future of our employees and the future of Century Management is dependent on the same stocks that are in your portfolio. We have not only put ourselves in the same boat as our clients, but we have tied our hands to the oars. **Having all our employees' company pension plan and corporate funds invested in the same way as your portfolios insures that the proper decisions on handling the future growth of Century Management will be made.**

Finally, we request your help in making sure that we deliver the superior service that you deserve as our client. In your quarterly reports, you will find client service questionnaires that will ask for your feedback to let us know how we are doing. If you have thoughts on how we can improve our service, we would appreciate hearing from you. If you would like to provide us with positive feedback, we would appreciate this as well, as your client service representative's year-end bonus is partially determined by your feedback. We have set up a client service questionnaire on our website that will go directly to our company Vice President, Scott Van Den Berg. Should you want to communicate directly with Arnold Van Den Berg, our company President, you can send your comments to PO Box 162165, Austin, Texas 78746.

Since this newsletter contains a major statement and commitment to our clients with regard to how we plan to manage our growth, we have asked each officer of Century Management to sign his name indicating their agreement and commitment to enforce this policy.

On behalf of the entire Century Management team, we thank you for your confidence and trust.

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Arnold Van Den Berg
President

Scott Van Den Berg, CFP, ChFC
Vice President

Jim Brilliant, CFA
Vice President

Aaron Buckholtz, CFA
Vice President

CENTURY MANAGEMENT

Century Management Investment Counselors
Corporate Office
1301 Capital of Texas Highway, Suite B228
Austin, TX 78746
Phone: 800-664-4888 or (512) 329-0050
Fax: (512) 329-6152
www.centman.com

CENTURY MANAGEMENT
Offices in Austin, Texas; Houston, Texas; Pasadena, California

Additional Century Management Standard Composite Disclosures

The Century Management Standard Value Composite was created on September 16, 1974. This Standard Composite allows Century Management complete discretion regarding the ratio of equity investments to bond investments within this composite. It includes all fee-paying portfolios in the presentation of performance. There is no minimum size account below which portfolios are excluded from the aggregate composite returns. However, all non-fee paying portfolios, regardless of size, are excluded from this presentation of performance. As of December 31, 2002, non-fee paying assets were $11,006,144. This composite is one of four at Century Management. Century Management has prepared and presented the Standard Composite in compliance with the Performance Presentation Standards of the Association for Investment Management & Research (AIMR-PPS), the U.S. and Canadian version of the Global Investment Performance Standards (GIP). The accounting firm of Ernst and Young, LLP has prepared and presented their AIMR verification of Century Management in compliance with the performance presentation standards of the Association for Investment Management and Research (AIMR-PPS) from September 16, 1974 through December 31, 2002. AIMR has not been involved with the preparation or review of the Ernst and Young AIMR verification report. There are various accounts included in this composite between 1976 through 2002 that periodically used leverage (margin) to purchase equities. The use of margin was limited to less than 5% of the market value for each of these various portfolios. The average time any account was on margin was less than 90 days. All performance figures have been calculated on an all cash basis with regards to the use of margin. Results have been time-weighted since inception. Interim performance results are linked monthly. All composites are valued on a monthly basis. Prior to 1998, settlement date is used if trade date information was not available. U.S. Dollars are used to express performance data for composite. PAST PERFORMANCE OF MARKETS, COMPOSITES, OR ANY INDIVIDUAL SECURITIES MAY NOT BE INDICATIVE OF FUTURE RESULTS.