EDMP, Inc.

Quarterly Review 4th Quarter 2011

Positioned for Prosperity

EDMP portfolios are undervalued**.** At EDMP we believe in the long-term ownership of great businesses purchased at sound and attractive valuations. Consequently, we view the stock market as merely the store that we shop at in order to buy the businesses we want to own.

Furthermore, we do not rely on the market to set the price at which we are willing to buy or sell. Instead, we calculate the intrinsic value of the business based on the company's earnings power. If the market price is at or below that level of valuation we will be a buyer, if not, we either look elsewhere or patiently wait for the True Worth™ valuation to manifest.

Conversely, if the market significantly overprices a company, even one that we like very much, we will sell to avoid long-term risk. Based on years of research analyzing thousands of companies, we are confident that the proper value will inevitably be applied to a business by the market; it's only a matter of time.

Our name, EDMP, is an acronym for Earnings Determine Market Price, and was chosen to serve as a constant reminder of the above principles. It is an undeniable fact that the stock market can and will temporarily either over-price or under-price a business. It is also an undeniable fact that a company (business) derives its true value from its earnings power, in other words, the amount of cash flow it is capable of generating on its shareholders' behalf.

Therefore, contrary to what many people are willing to accept, is the indisputable reality that the business results of the company behind the common stock you own is far more important to wealth creation, than what the stock market may be mispricing it at over a short period of time.

Mispricing happens when emotions erode rational thinking thereby manifesting either greed or fear. It is important that investors maintain a reasoned and rational approach and avoid the emotional response at all costs.

When reviewing our EDMP portfolios in the context of market price versus intrinsic value, we emphatically state that the stock market is significantly undervaluing the majority of our holdings. We believe this is primarily due to extreme pessimism that has been promulgated by the masters of the media.

When you review the businesses we own from the perspective of operating results, i.e., earnings power, you would discover that in the aggregate, our portfolio holdings performed extremely well in calendar year 2011.

Stated more simply, our businesses grew at above-average rates for the most part during 2011, but alas, the stock market did not reward that growth according to what it should have. Therefore, based on price action, our growth portfolios had a down year. However, when you measure earnings power, our portfolio companies generated significant business growth. In time, we contend that it is inevitable that our fine businesses will be rewarded according to their business achievements.

Even more importantly, we further believe that the companies that you, our valued clients, own today offer the best combination of low risk and future growth possible. The opportunity to invest in and own best-of-breed companies trading at ridiculously low valuations is very rare. Common sense would dictate that it can only come when pessimism about our future is at its lowest.

Furthermore, we are also very confident that the companies we own are going to continue to generate above-average future earnings growth. As a result, we expect to see a double-barreled explosion in the future stock value of our fine businesses.

First, we expect a PE expansion as the market inevitably values our companies at more normal PE ratios. Second, we expect that each of our companies will continue to grow their businesses (earnings) at above-average rates over the next several years.

The combination of these two factors should generate significant future rewards at low levels of risk. We feel that our risk is reduced because our valuations are too low to be reasonable, and because our portfolios are well diversified.

The Case for a Positive View of Stocks

We have published an article that speaks to the theme of this newsletter over and above the individual companies that clients hold in their portfolios. In this article we listed 100 companies that are trading at historically low PE ratios based almost exclusively on negative investor sentiment. **(Click for full article.)**

A quick review of those companies will show that many of our portfolio holdings are included in this partial list. There are additional insights supporting a positive view that this article corroborates that come from an independent source. John Bodnar, a financial planner/registered investment advisor in Florham Park, New Jersey sent a letter to his clients, and with his permission we presented it in its entirety in our article.

What fascinated us was the following paragraph referencing an article in TIME magazine in 1992 that is eerily similar to even almost identical to the doom and gloom promoted by the media today:

"The U.S. economy remains almost comatose… the economy is staggering under many structural burdens, as opposed to familiar cyclical problems… The structural faults represent once in a lifetime dislocations that will take years to work out. Among them: job drought, debt hangover, the banking collapse, the real estate depression, the healthcare cost explosion, and the runaway federal deficit."

All of these worries, which reflect almost perfectly the exact worries we face today, were offered by TIME magazine just prior to one of the longest and strongest stock market advances in recorded history - 1992 to 2007. We highly encourage each of you to take the time out of your busy schedule to follow the above link and to carefully read the entire piece.

We believe that we are sitting on the threshold of extraordinary future returns from owning high-quality common stocks that can be bought at such low valuations. Billions upon billions of dollars have been fleeing the stock market as panicked investors seek the refuge of so-called safer alternatives such as bonds and other fixed income instruments.

However, we would caution you that interest rates are currently at all-time lows which imply that the future price of bonds could be just as volatile and fall just as far as stock prices did in 2008 when interest rates return to more normal levels. Moreover, the rates on these so-called safer investments are so low today as to almost guarantee the potential for loss given any level of future inflation.

It might also be comforting to know that EDMP is not alone regarding a positive view of the future. Most of us have heard or read Warren Buffett's famous refrain: *"Be fearful when others are greedy and greedy when others are fearful."*

With stock market fears at such a heightened state, and with billions of dollars on the sideline, it only seems logical that investors faced with few viable choices for an adequate return at reasonable risk levels might someday soon become attracted once again to blue-chip stocks.

This would especially apply to blue-chip dividend paying stocks with long histories of increasing their dividends every year. This is why we have been methodically building positions in names like Procter & Gamble, PepsiCo, Abbott Labs, Johnson & Johnson, Medtronic, Aflac and others that offer an attractive and growing dividend rate.

The following two excerpts, one from John Bodnar and another from a respected money manager Arne Alsin, share our sentiment.
First the concluding remarks from John Bodnar's article:

"Ready to wrap this up? Let's return to the 1992 Time cover story. Sounds eerily like the headlines we read today. And yet, the decade of the 1990s turned out to be a boom for investors. Odd considering all the negative headwinds reported in the Time article. I suggest we resurrect the American spirit and align ourselves with the economic realities instead of the political headlines. American businesses are doing well. They are well capitalized, sitting on loads of cash, increasing their dividends, and buying back their own stock. It is a great time to be an investor in some of the greatest companies in the world…… Significant market bottoms, when they finally occur, have less to do with fundamental economic and financial shifts than with crescendos of public panic. On this you can rely: the stock market remains an exceptionally efficient mechanism for the transfer of wealth from the impatient to the patient."

We would add that all the points that John makes regarding American businesses aptly apply to our portfolio holdings in the aggregate.

Next, the opening paragraph of an article written by Arne Alsin in the financial blog Seeking Alpha on November 29, 2011:

"*I'll make it crystal clear, in no uncertain terms: The asset class to own right now - for the rest of this decade, even – is stocks. Not only are investors set to earn multi-fold gains over the remainder of this decade, but those gains are achievable with low risk*."

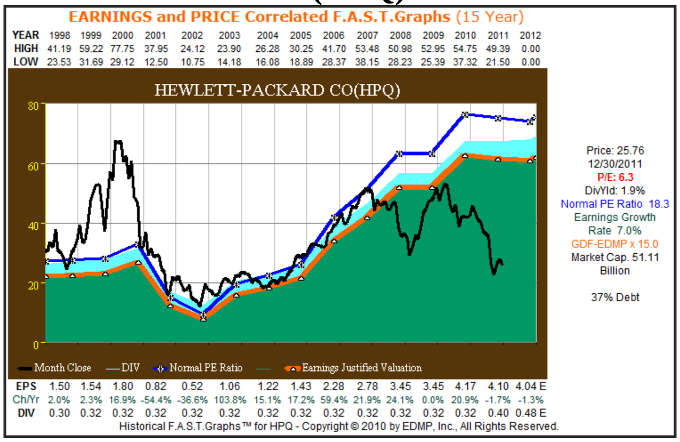
Low Valuation: A Significant Long-term Opportunity

We remain very frustrated by the low, and what we consider to be ridiculous, valuations that the market is applying to many of our great businesses. It is inconceivable to us that strongly above-average franchise names such as Hewlett-Packard or Aflac could be trading at single-digit PE ratios when the more than 150-year-old historical normal PE ratio for the S&P 500 has been 15, as it is today.

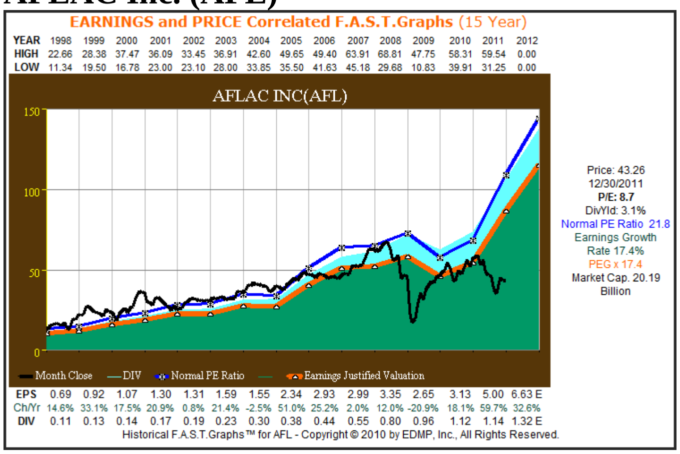
To be clear, many average companies with significantly lesser earnings power are trading at earnings multiples approaching 2 to 3 times greater than our above-average holdings are trading at. This makes no logical sense, and therefore, we believe it represents a rare and significant opportunity for those investors with the foresight to consider earnings power over what is often a very fickle stock market. We believe that these low prices simply mean that our stocks are currently illiquid, and not that they are poor or bad investments. In this context, we are suggesting they are illiquid because they cannot be currently sold for what they are truly worth. Selling a stock for less than it is worth is not a wise decision, in our opinion.

Notice how the black monthly closing stock price lines are uncharacteristically and significantly below the orange earnings justified valuation line on the following earnings and price correlated EDMP fundamental graphs. This vividly illustrates how undervalued these companies really are:

Hewlett-Packard Co. (HPQ)



AFLAC Inc. (AFL)



Conclusions

The above are but two examples of many that we could show. To be fair, each of our undervalued holdings have experienced moderate to even minor issues that spooked investors. After being traumatized by the 2008 market crash, investors remain fearful. Therefore, even the slightest bit of negative news can result in panic, even when it's mostly unjustified. We believe the reactions with the two examples cited in this newsletter, and others within our portfolio holdings, have been extreme. Consequently, we further believe that the opportunity that these reactions have created represent an incredible long-term opportunity.

Therefore, we encourage each of you to examine your portfolio holdings through the lens of our earnings and price correlated F.A.S.T. Graphs and see how the orange earnings lines remain significantly above current price. If you cannot locate your password or usernames, please contact our offices at donnam@edmpinc.com or call 813-960-9600 and they will be supplied.

And as always remember; in the long run ***Earnings Determine Market Price***, always have always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer

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