

INVESTOR EXPRESS

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Respect for Investment Income is Revived in Slow Growth Environment

Throughout the 1990s, equity investors achieved most of their returns from the appreciation of stock prices, rather than from stock dividends. Companies were rewarded for reinvesting their earnings in future growth, rather than paying out dividends to shareholders. Accordingly, the dividend yield of the S&P 500 fell to 1.2% in 2000.

Dividends and interest income have always been an investment consideration to Adams Express, which adheres to a conservative investment philosophy and strives to pay its shareholders an attractive quarterly income distribution. We believe that investment income, in the form of stock dividends and interest from convertible securities, represents the predictable portion of total return that cushions our portfolio against periods of volatility. While good dividend-payers have been hard to find, Adams Express recently acquired Philadelphia Suburban when it offered a dividend yield of about 2.7%. Names like Duke Energy and Canadian National Railway Convertible Preferred are also attractive sources of investment income.

Conventional wisdom on Wall Street is coming full circle. Market prognosticators are now

forecasting slower earnings growth for American companies over the next several years. The world's economies are not robust enough to pull the U.S. out of the doldrums. U.S. investors are preparing for lackluster stock appreciation rather than double-digit returns. As a result, there is a renewed appreciation for dividends and other investment income.

Investors are recognizing that dividend-paying stocks provide a baseline of predictable return that assumes added importance in a slow-growth environment. For example, if the Standard & Poor's 500 offers a 4% return, a 1% dividend would represent one-quarter of the overall return. In the past decade, when returns of 12% were not unusual, many investors did not consider a dividend yield a significant factor in their investment decision.

As changes are made to the Fund portfolio, careful stock selection is as important as ever. We will continue to look for good managements, profitability and strong balance sheets, recognizing that now more than ever, weakly capitalized companies are unlikely to thrive. And, all things being equal, dividends do matter when valuing the companies we own.

Meet the Newest Member of the Boards



Edward J. Kelly, III, President and Chief Executive Officer of Mercantile Bankshares Corporation, has been named to the Boards of Directors of The Adams Express Company and Petroleum & Resources Corporation, as of October 1, 2001.

Mr. Kelly, who moved to Baltimore in March to accept the leadership position at Mercantile, was formerly co-head of Investment Banking Client Management and head of the global financial institutions group at J.P. Morgan Chase in New York. An attorney and former partner of Davis

Polk & Wardwell, Mr. Kelly earned his law degree from the University of Virginia School of Law and completed his undergraduate work at Princeton University. Mr. Kelly also serves on the boards of John Hopkins University and Hartford Financial Services Group.

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Meet the Analyst



NANCY J. F. PRUE
Vice President, Petroleum & Resources Corporation

Analysts conduct company research and analysis, generate investment ideas and present these recommendations to the Investment Committee. In this issue, we introduce analyst Nancy J. F. Prue, Vice President, Petroleum & Resources Corporation.

Ms. Prue joined Adams Express as an analyst in 1982, after analytical positions at Maryland National Bank and Fidelity & Deposit. Ms. Prue's areas of expertise include domestic and international oil and gas industries, exploration and production, chemicals, specialty retailing, independent power generators and utilities.

Despite the uncertain economic and commodity price environment, Ms. Prue believes there are opportunities in the market. Though the unusually high oil and gas commodity prices are not expected to continue, company specific stories of increasing production in the oil and gas industries provide opportunities. She finds selected water, gas and electric utilities attractive. Individual chemical companies also provide potential as the economy strengthens.

Ms. Prue graduated summa cum laude with a B.S. from Villanova University. She later earned an MBA and a Law Degree from the University of Baltimore. Ms. Prue is a Chartered Financial Analyst and a Member of the Maryland State Bar Association. The Baltimore-Washington native and mother of three is a marathon runner who is training for her 8th marathon to be run in October.



Companies Mark 25 Years in Baltimore

It was the mid-1970's and New York was on the brink of financial survival. To address its financial crisis, New York had initiated a string of new State and municipal taxes. At the same time, occupancy costs were high and the cost of living then was indexed at 120% of the national average. Higher costs would erode shareholders' returns for the Manhattan-based Adams Express Company and Petroleum & Resources Corporation. After evaluating locations accessible to New York by Amtrak Metroliner between Boston and Washington, the Companies, led by then-Chairman David MacCallan, moved to Baltimore in August of 1976. Recently the Companies marked their 25th Anniversary in Baltimore.

Chairman and Chief Executive Officer Doug Ober, who joined the Companies in 1980, succeeded Mr. MacCallan in 1991. Mr. MacCallan continues to serve on the Board of Directors. Mr. Ober credits the move as a contributing factor to the Fund's low expense ratio of .24% of assets last year, compared with an average mutual fund expense level of 1.43%, according to Morningstar Inc.

Of the 13 employees who relocated, only Joe Truta, now President of Adams Express, remains with the Companies. A native of Queens, New York, Mr. Truta had never lived outside of New York before moving that year with his wife and two sons. Thirteen more employees were hired following the move.

The corporate relocation of the New York Stock Exchange-listed companies was good news in Baltimore and pleased then-Mayor William Donald Schaefer, Mr. Truta remembers. "When the news spread that these investment funds were moving from New York City, there was talk that the move might be a harbinger of other firms following suit," Mr. Truta recalls.

At the 25-year mark in Baltimore, management has reflected that the years have been good to the Companies' shareholders. For Adams Express, for example, assets have grown significantly from the \$200 million at the time of the move. And both Funds have been recognized for keeping their expense ratios low. The move to Baltimore accomplished the Companies' objectives.

Frequently Asked Questions:

Should I use the Fund's net asset value or market value to measure my investment performance in the Fund?

Both. Net asset value (NAV) and market value are different measures of the Fund's performance. The NAV represents the collective values of all the stocks in the Fund's portfolio divided by the total number of the Fund's shares that are outstanding. It is perhaps the best gauge to measure the stock-picking and portfolio management ability of our investment team.

On any given day, the shares of Adams Express and Petroleum & Resources are traded on the New York Stock Exchange at the market price. That price is subject to the vagaries of supply and demand and market dynamics. As a result, your investment performance based on the Fund's market price will not always match that of the Fund's NAV.

This newsletter is sent to the stockholders of The Adams Express Company and of Petroleum & Resources Corporation for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Companies or of any securities mentioned in the newsletter. Past performance is not indicative of future investment results. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost.