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Gabelli Asset Management Company

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To Our Valued Clients,

Clearly, 2001 can be best described as a year of walking through mud. In the first three quarters, investors faced the challenges of the three "bubbles" - the NASDAQ bubble, the capital spending bubble and the dollar bubble. Our portfolios were positioned to avoid these bursting bubbles and to take advantage of a consumer-led economic recovery based on anticipated tax reform, lower interest rates and lower energy prices.

Then – 9/11…

For the second year in a row, we encountered a challenging market for stocks. Despite substantially trouncing the returns of mindless indexing, we fell short of attaining our goal of generating a return of ten percent plus inflation. From inception in 1977 through year-end 2001, GAMCO has provided 19.9% average annualized returns compared to the S&P 500's 14.7% annualized gains. We are proud of this performance track record, and we are dedicated to building on our success in the new year – our 25th Anniversary. Of equal or greater importance, your assets were exposed to less business risk and to less market risk, (volatility and referred to as beta by quantitatively-oriented market observers).

The Year In Review

Obviously, to reflect on the market in 2001, we have to view it in two perspectives. Pre- September 11, we had a period in which there were a number of elements that we were struggling with on the economic front. These were the collapsing NASDAQ bubble and its impact on consumer spending; the aftermath of the capital spending bubble – especially in the telecom sector; the balance of payments deficits created by consumer spending and the strength of the dollar. There was also the continued impact of higher energy costs on the consumer.

Post September 11, the economy swiftly changed gears. Companies moved aggressively to cut costs, Greenspan slashed interest rates, and energy prices fell sharply.

While there were no surprises on the upside in 2001, we were disappointed by the absence of a consumer led economic recovery. We believed the consumer would return, especially with oil prices and taxes down, but the consumer froze as a result of September 11.

As horrific as the events of September 11th were, the crisis in the financial markets was not unlike some of those we have experienced in the past. Indeed, we share with you our thoughts in our letter of October 20, 1987 that is attached.

Returning to 2001

In GAMCO's year-end letter last year, our forecast was for a broad-based market recovery. Oil prices would retreat and remain stable as reduced demand and increased production brought an equilibrium to prices in the low $20's per barrel range. The dollar would weaken against the Euro foreshadowing better reported earnings for U.S. based multinationals. After a slow start, we believed S&P 500 earnings growth would be a respectable 5% in 2001 and Russell 2000 (small cap stocks) earnings growth would be materially higher. Equities valuations were much more reasonable across the board. Finally, Wall Street's overly optimistic earnings estimates were rapidly being reduced to reflect economic reality, and limit widespread earnings disappointments. This should have eventually resulted in some pleasant earnings surprises, helping to renew investor confidence and revive the market.

The attacks on the World Trade Center and the Pentagon changed all this. It momentarily froze the consumer and helped to accelerate the economic slowdown. Businesses moved aggressively to cut costs in a weakening environment - writing off everything including the kitchen sink. The good news is that we are entering 2002 with a higher margin of safety. What is needed now are targeted booster shots to restore consumer and business confidence. While we are left somewhat short by the current leadership's ability to deliver the necessary booster shots, the combination of low interest rates, lower stock prices, the absence of the amortization of goodwill and the willingness of owners of businesses to sell their companies implies a more fertile environment for deal activity.

Looking Forward

For 2002, we anticipate that corporate earnings will be up in the range of 10-12% and stock prices - for the first time this century - will be on the plus side, albeit in modest single digits. Given our research strengths and bias towards small and mid cap stocks, we expect to deliver excess returns. Value investing should do well over the next several years.

However good earnings and lower interest rates imply a higher margin of safety in investing in stocks – a safety net. There are still challenges that have to be overcome. The impact of another shock to the consumer, whether in the form of another terrorist attack, a smallpox outbreak or an attack on a nuclear power plant, could send the already fragile consumer reeling. Consumer and business confidence is still shaken despite rate cuts by the Fed.

Having stated this, a number of wonderful company-specific dynamics give us increased optimism about our portfolios in the coming year. This coupled with easy money (low interest rates), low stock prices and the absence of goodwill are encouraging signs. Plus, owners of small businesses may sell. While they may have held out for a higher price over the past year, they may now capitulate. Why come to New York when they could enjoy a second house or a Ferrari?

The combination of research and our bias toward small and mid size companies have the ability to generate returns that are twice that of the unmanaged index. For instance, one of our core competencies as a research firm is in Media and Entertainment. As we stated in the past, the passing of the baton at the FCC to Michael Powell will result in regulatory change – lifting the limit on the number of television stations, the reach of a given company to the entire U.S. population or the limit of cable footprint – implies deals. In addition, TV/newspaper cross-ownership restrictions will also be lifted creating an M&A feeding frenzy as companies rush to consolidate and cluster properties. Since there is no longer the issue of the impact of amortization of goodwill on companies, the result is a fertile acquisition environment.

Indeed, we are starting to see the reemergence of deals as well. Vivendi is acquiring USA Networks' cable networks at a rich multiple; GE is buying Telemundo for a richer multiple. These deals are bullish for portfolio holdings such as Viacom, Scripps and Rainbow Media which own valuable cable television networks.

The auction process for AT&T's broadband (cable) concluded with Comcast's winning bid of $4,500 per subscriber. AOL Time Warner lost out but in the process signaled that they would like to expand their cable franchise. Bottom line - all roads lead to Bethpage, NY – home of Cablevision Systems. At $5,300 per subscriber, CVC is worth $98.

For our part, we remain truffle hounds for you. On the value side of the portfolio, the application of our analytical principles results in a focus on economic and stock market sectors that are often ignored. If the market were to move sideways for the next several years, and transactions unfold with the fervor we believe is likely, we think we will continue to generate our 10% real rate of return for you.

Our fundamental research approach allows us to ferret out undervalued stocks. As a subset of this, we tend to work in the small company category (companies that are below $1 billion in market capitalization) of which the Russell 2000 is Wall Street's often quoted surrogate. In addition, GAMCO historically attempts to get in front of companies that are either the subject of takeovers or likely to go through a form of financial engineering. This should provide us with both ballast and momentum in the year ahead.

Where We Have Been and Where We Are Going

GAMCO was formed in 1977. From the very beginning our philosophy has been to make money for our firm by making money for our clients. We proposed to do so through intensive securities research focused on identifying stocks trading well below our appraisal of their "real world" economic value. Initially, we invested almost exclusively in U.S. stocks. We are now investing all over the world—a reflection of the increasingly global economy and capital markets. We started as a pure all-cap value investor. GAMCO now offers growth and value products in the different market capitalization sectors. We have found that talented people with a commitment to research can excel regardless of the investment style they employ and the market cap sector they favor.

Over the last 25 years, our business philosophy and commitment to research has rewarded our clients and us. Since 1981, we have had the good fortune to be operating in a historic bull market. This has helped GAMCO generate exceptionally attractive annualized returns. We simply cannot expect the equities market to be as cooperative over the next several years. We do believe equities will continue to provide better long term annualized returns than other investment asset classes and are confident that GAMCO can continue to generate satisfactory returns for our clients.

In Closing

It is our privilege to begin each day thinking how we will earn money for you. At times, we may be faced with a challenge in reaching our objectives because of the irrationality of Mr. Market. And, while we cannot and will not ignore the overall price levels in the market, there are plenty of opportunities to meet our shared long-term objectives in the year and years ahead.   We thank you for entrusting a portion of your investment assets to GAMCO and we reaffirm our commitment to your financial well being. We are delighted to have this opportunity to serve you and we look forward to the next quarter century.