

INVESTLETTER



Volume 3 Number 12

Wall Street

- DJ 10966
- S&P 500 1287
- NASDAQ 2319

Beware of the Smiling Shark

I recently had an email exchange with a PR firm representing a particular company's stock. This is not the only company this firm represents, but is the one that they contacted me regarding their promotional activities. I am going to publish some of this exchange and explain how it can help you understand how BCIA deals with this sort of request. This email was sent to our contact@investletter.com address:

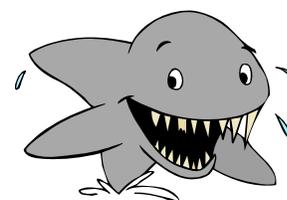
To Whom It May Concern:

Found your website and was interested in pitching you a deep value play called Whitney Information Network (RUSS.ob). My contact info is below and would enjoy a phone conversation to learn more about your newsletter/research.

Thanks,

Adam

*Adam P. Lowensteiner
Senior Account Executive
Wolfe Axelrod Weinberger Associates LLC
317 Madison Ave., Suite 515
New York, NY 10017
212-370-4500*



Watch out for the smiling shark.

This appears to be a rather benign request from someone looking to just help us out a bit. I do not mean to insinuate that there is anything illegal or corrupt about what is requested in the email. The only chance for corruption was contingent on our reaction to this request. How could I have a problem with someone looking to help me out, especially from such an important, professional sounding firm? The first tip off was the word pitching. Why would a employee from such an important sounding firm be "pitching" me with stock tips? It did not take much work to find out. A quick internet search using yahoo turned up numerous links to Wolfe, Axelrod, Weinberger Associates LLC. They happen to be a hired gun, who act as an investor relations consultant or public relations outfit to boost the "visibility" of a company's story and hopefully share price. In effect they are hoping to use me to do their bidding. They were hoping I would push their stock to help boost the share price.

Here is my response by email:

From: Brett Davidson [<mailto:contact@investletter.com>]
Sent: Thursday, January 12, 2006 12:18 AM
To: 'Adam Lowensteiner'
Subject: RE: RUSS.ob

Inside this issue:

- The Smiling Shark 1
- Watch List 3
- Investletter Portfolio 4
- Performance 5

Naked Shorts

No thanks,

Not interested in Whitney Information Network. In my opinion it involves a company with questionable ethics which I wish to avoid. I am not sure a phone conversation would be much use. Your act of pitching a company which appears to have a multitude of problems speaks volumes. We have carefully crafted our reputation over years of honest dealing backed by integrity. Without our reputation we have nothing. We guard it carefully because we know you eventually get the one you deserve.

Publisher

The company Mr. Lowenstein was pitching, RUSS.ob, is a company that sells stock courses using info-mercials, that will make you rich practically overnight. The company has serious accounting control issues, is run by a guy who last year was selling courses to tell you how to get rich quick buying real estate and doing something with it. I didn't care to read enough to find out. If this system he has is so successful why isn't he devoting more time to it instead of all of the distraction that come from running a multimillion dollar company? In that last question lies the answer. Why buy and sell real estate or invest in stocks when you can charge exorbitant fees for these courses and generate millions of dollars and sell the same suckers shares in his company that will make him even richer.

The bigger issue is the email from Mr. Lowenstein. Often financial service providers present themselves as helpful and friendly to get you to part with your money. Is this the intention of all of them? No, there are many honest and ethical providers and advisor. At first blush it is often not easy to tell the difference. In order to protect yourself from what one popular radio financial show broadcaster refers to as shark attacks. The sharks are swimming around out there waiting to pick off unsuspecting investors and swallow there cash.

All it took was a small bit of online research to find out what Mr. Lowenstein's probable intentions were. His follow up email just clinched it for me:

Brett:

Thanks for your response. I respect your opinions. I represent a dozen public companies and requested a phone call to get to know you better and understand your research process. My intentions were not to necessarily spam you about Whitney, but rather open a door and begin a dialogue. I'd still very much like to keep the lines of communication open and learn more about InvestLetter and how you go about finding winners.

-Adam

By offering me stock tips on crappy companies Adam was doing me no favors. I have little use for someone who does not present their true intentions up front I had to find out on my own why he sent me an email of the sort he did. Be careful out there, there are people who do not have your interests at heart. Question how these people are getting paid and whose interest they serve by having you take their advice.

Brett Davidson

Always question your financial service providers. Make sure the service they provide is aimed to help you, rather than just separate you from your money.

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Watch List

Our continued search for investment candidates has finally started to show some promise. As we look for unloved stocks, mis-pricings and securities others have given up on we rely on any source of material we come across to help give us the edge. Articles by business writers, technology publications, online message boards, personal conversations and a variety of other sources including mainstream investment research all provide candidates who may help us make increase our wealth. Often we miss out on opportunities based on our own ignorance. We find it difficult to invest in what we don't know or understand.

We have several investment we are interested in presently. One is Asta Funding (ASFI) which is in the business of acquiring, managing, collecting, and servicing consumer receivables, such as charged-off receivables, semiperforming receivables, and performing receivables. In other words they purchase past due debts from other companies and try and collect on them. After a company has given up trying to collect from deadbeat customers, they often sell these obligations to firms like Asta. If Asta manages to collect more than they paid combined with the cost of their collection efforts, they make a profit. This has been easily achieved over the past six years. The company has huge profit margins which we always find very favorable.

Before we make any investment ,we have numerous steps we complete. The steps are not always the same. We adjust our approach for each company we investigate. We thoroughly read the annual report, the most recent 10-k, 10-q (SEC filings) and proxy statements. Depending on the company and how we approach valuing it we will examine financial ratios, perform a discounted cash flow analysis, complete a SSG ,which is a growth stock analysis technique and some proprietary analysis depending on the industry. The shipping industry is a great example of where we use a proprietary analysis style. We investigate the market value of the ships, monitor the charter rates and other industry data like percentage increase in tonnage (the total shipping capacity at a point in time). None of this work is very complicated, but all of your investing work is cumulative. Things we learned about a company or industry 10 years ago still apply and all of it affects our judgment. Does this mean we will get better with age, good question, we will let you know when we get there.

Company	December price	November price	Change from November	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	\$74.72	\$72.79	2.65%	15.4	\$78.68	\$60.40	\$5.11	4.28%
Allergan/AGN	\$107.96	\$100.00	7.96%	38.2	\$110.50	\$69.01	\$3.27	0.37%
Bioanalytical Systems, Inc./BASI	\$5.62	\$5.27	6.64%	n/a	\$10.37	\$4.70	n/a	n/a
Fresh Del Monte Produce/FDP	\$22.77	\$25.97	-12.32%	9.6	\$33.94	\$21.90	\$1.94	3.38%
Hurco/HURC	\$30.82	\$22.67	35.95%	11.9	\$32.00	\$10.25	\$2.57	n/a
The St. Joe Co./JOE	\$67.22	\$66.40	1.23%	43.7	\$85.25	\$58.50	\$1.76	0.88%
Kensey Nash/KNSY	\$22.03	\$22.89	-3.76%	27.5	\$35.54	\$19.32	\$0.77	n/a
Landauer, Inc./LDR	\$46.09	\$48.90	-5.75%	24.2	\$54.00	\$42.88	\$2.09	3.68%
ModPac/MPAC	\$11.24	\$11.50	-2.26%	n/a	\$18.60	\$10.02	n/a	n/a
Paychex, Inc./PAYX	\$38.12	\$42.41	-10.12%	34.4	\$43.37	\$28.60	\$1.21	1.42%
QLT Inc./QLTI	\$6.36	\$6.51	-2.30%	n/a	\$17.30	\$5.97	\$0.64	n/a
Rayonier/RYN	\$39.85	\$39.74	0.28%	22.0	\$41.68	\$29.20	\$1.61	4.60%
Sanderson Farms/SAFM	\$30.53	\$35.62	-14.29%	8.9	\$49.19	\$30.50	\$3.61	1.57%
Tejon Ranch Co./TRC	\$39.92	\$41.35	-3.46%	n/a	\$62.72	\$38.81	n/a	n/a
USG Corporation/USG	\$65.00	\$61.20	6.21%	6.6	\$71.25	\$26.80	\$9.82	n/a
The Washington Post Co. /WPO	\$765.00	\$737.00	3.80%	33.0	\$991.00	\$716.00	\$29.62	0.97%

The Investletter Portfolio

The chart below shows our investments and the proportion of our portfolio they represent. As you can see, we are heavily weighted towards three stocks. This is considered extremely risky by the popular investment community. We feel perfectly comfortable with it. To achieve the same returns we will receive, you can buy all of the stocks we own in roughly the same proportion. After one year of considering how best to invest in the Investletter Portfolio, we have decided that it is best to just invest in all of the stocks we recommend immediately without picking and choosing. The buy price can serve as a target to guide you as to how we feel the shares are currently priced. This can be compared to what the company is currently selling for and be used in making short term purchasing decisions.

December was not kind to our portfolio. The value of most of our investments dropped which was no different than the market in general. Over the course of the year we performed much better. The S&P 500 average eked out a 3% gain while the Dow Jones average was down .6% and the tech laden NASDAQ was up a modest 1.4% in 2005. We are very satisfied with the 18.6% gain we were able to generate.

Astronics generated some positive news for us with a \$12m contract with Air Canada to supply power supplies. The contract will be completed over the next 18 months. This is great news for a company that was already targeted to have a good year in 2006. Next year could really be fantastic for them and us.

Gencor announced their fourth quarter earning which came in a bit weak. They did have a huge backlog which should be worked off in the early part of the year. Their revenues and profits should be solid in 2006. We are still waiting to hear that they have received their next payments from their partnerships related to section 29 tax credits. That could be the rocket fuel that finally lights a fire under their price.

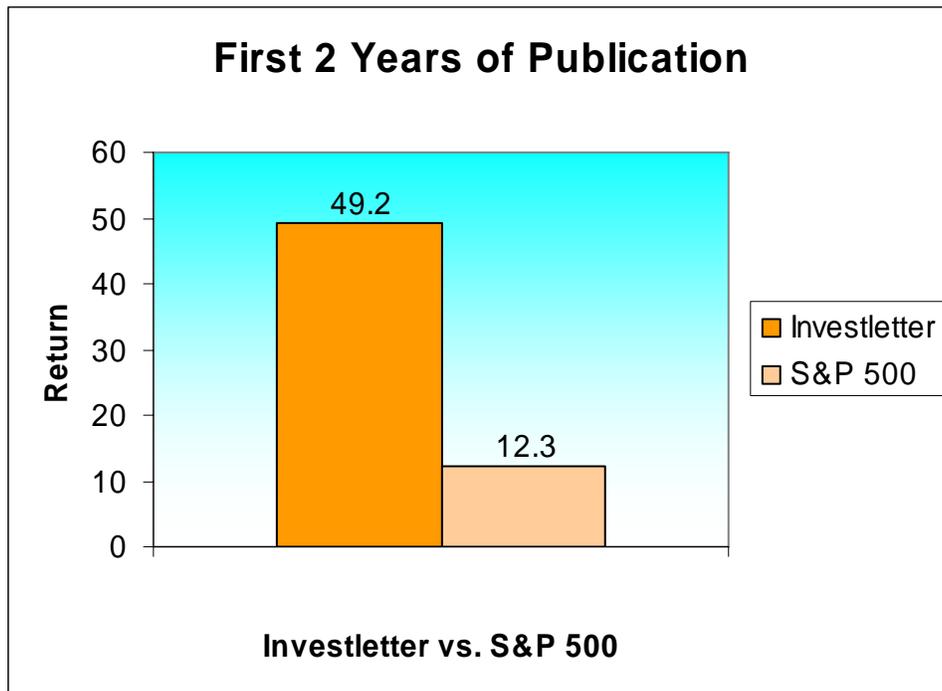
We are still aiming to unload CSPI. Our ample cash, plus any sale proceeds will provide us with the needed funds for any new candidates we may uncover. We are looking at a mortgage lender, Novastar Financial symbol NFI, that is arranged as a REIT (a Real Estate Investment Trust) which means they must pay out most of their earnings as cash dividends. The company is currently has more than an a 18% dividend yield. They are also a company that has had a problem with naked short sales with fail to delivers. This has helped artificially depress their price. If the shorts move on or regulatory changes are enacted, the share price could move up rapidly.

Company	Portfolio Percentage	December price	November Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	15.20%	\$45.19	\$46.00	-1.76%	\$50.00	54.5	2.21%
Amgen/AMGN	4.90%	\$78.86	\$81.64	-3.41%	\$60.00	28.3	n/a
Astronics Corporation/ATRO	8.30%	\$10.75	\$10.37	3.66%	\$9.90	n/a	n/a
Berkshire Hathaway B/BRK.B	18.10%	\$2,935.00	\$3,007.00	-2.39%	\$3,050.00	20.3	n/a
Cash	15.30%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.70%	\$5.93	\$5.76	2.95%	\$9.00	n/a	n/a
CSP Inc/CSPI	4.30%	\$7.05	\$7.26	-2.89%	n/a	15.5	n/a
Culp/CFI	3.00%	\$4.79	\$4.98	-3.82%	\$4.15	n/a	n/a
Gencor/GNCI	5.10%	\$8.25	\$7.35	12.24%	\$7.20	2.7	n/a
Headwaters/HW	4.40%	\$35.44	\$36.76	-3.59%	\$33.00	12.8	n/a
K-Tron International/KTII	3.40%	\$37.10	\$37.74	-1.70%	\$33.00	12.8	n/a
OMI Corporation/OMM	13.50%	\$18.15	\$19.72	-7.96%	\$18.00	5.7	1.74%
Protein Design Labs/PDLI	1.80%	\$28.42	\$27.75	2.41%	\$18.75	n/a	n/a

Performance

With our first two years of publication behind us, it is pleasing to look back and reflect on what we have accomplished. Through this time period we have had very strong returns from our portfolio. We have generated a 49.2% return, soundly outdistancing the 12.3% that the S&P 500 was responsible for over the same time period. Our results stand out even more when our average cash level is taken into account. The S&P 500 average has the advantage of always being 100% invested in stocks. (An advantage when stocks are rising like they have the past three years.)

This also marks our sixth consecutive year of outperforming the S&P average. We suggested before that we can justify the cost of our newsletter if we outperform the S&P average by 1%. In 2005 our return of 18.6% bettered the 3.0% return of the S&P 500 average by 15.6 points. A \$10,000 investment into our portfolio at the beginning of the year would have generated \$1,460 more than if you invested in an S&P 500 index mutual fund. Over two years the lead is much, much larger. Over two year your investment would be up nearly 50%. Of course, if your portfolio is larger than a \$10,000 you would have benefited much more. We are tickled with our returns over the past two years and hope you are too.



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