We have been spending much of our time prospecting for new investments. Each time we uncover a promising company the price is more than we are willing to pay. CFC International is the most recent example. We like the outlook for this company over the next few years and are interested in taking a position. We think the company is worth somewhere near $20 currently and they are trading at $17. We would love to pick them up somewhere near the $16 mark. Other companies have presented us with the same problem. Why is it that this keeps repeating itself?

The last time we moved a large amount of money back into stocks was in late 2001 and early 2002. Each time we bought, the price seemed to drop even further. It is very difficult making investments and watching part of it methodically disappear over the next several months. The feeling that it stirs up inside you are not very pleasant. You feel as if it would be easier to just sell everything and just sit on the sidelines. In September 2001 the Dow Jones Industrial average dropped down to 8,200. By the end of the year it had rebounded to 10,000. In September 2001 nobody had an easy time putting up good money for stocks that had already dropped 20% and looked poised to fall even further. By the end of the year those who did buy looked pretty smart. By July the following year, the Dow had dropped back down to 7,700. This was even lower than the prices right after 9/11. By now if you were not completely worn down by the tech crash and the drop after 9/11 you finally were forced to succumb to the helplessness that 30% market drops brings on.

Now we struggle to deploy capital in a fashion that will allow us to sleep at night and make a tidy profit. The big difference is that the Dow is back at 10,800. If you started investing by putting all of your money into the stocks that make up the Dow Jones average at the $7,700 low back in 2002 you would have earned a handsome 50% return. You did not have to know anything about the 30 stocks that make up the average in order to make your investment all you had to do was click a mouse button to send in your buy order.

The fact that nobody was interested in buying stocks was a classic indicator that it was a good time to invest. When the time is perfect it feels absolutely horrible to be deploying large amounts of money into stocks. Presently, nobody seems to be having a hard time purchasing stocks. Rising prices always attract attention and more money and rising prices are exactly what we have had. The only stock we have come across recently that we viewed as a can’t miss was Petrokazakhstan and they have other problems that kept us from loading up our portfolio with them. They have to deal with political instability that results from a government that is new to capitalism and democracy and does not exactly have its act together. If this stock was in a more stable political environ-
ment we would have made the company a major holding. On the other hand, it is likely that 
they would have been trading at a much higher price. This would have put them into the group 
with all of the other stocks we would like to buy, but don’t want to pay full price for.

The past two years have been extremely enjoyable as you watched the value of your portfolio 
rise. The flip side is that it the high general pricing level removes many stocks from our consider-
eration. This leaves us where we are now. With trouble putting our money to work.

One thing we are avoiding doing in this article is preaching about the impending drop in the stock market. We have no idea what will happen next with market price levels. Our main concern is that we are having trouble finding companies that are at agreeable prices. This is an indicator that prices are at higher levels and we have become more inclined to become sellers than buyers. The time to raise cash is when prices are high and the time to invest in stocks is when prices are low. None of what we have said can be used to predict our next move it just serves as an indicator of which way we are leaning.

Our sale of Mod Pac has served to raise our cash level to over 20%. When we compare our re-
results to the market representative S&P average, our cash position serves as a handicap when prices are rising and as a benefit when prices are falling. The past few years we have handily overcome this handicap. The 80% to 90% of our portfolio in stocks has generated more returns that the S&P 500 average which is 100% in stocks. With more money in cash we are now in a better position if prices decline and have a greater handicap if prices rise.

Waiting is still not an easy task. Investing often feels better when there is a flurry of activity. It is no guarantee of better returns but it gives the appearance that at least you are doing something to increase your worth. If your flurry of activity is at lower relative price levels you may be well rewarded, if at higher price levels you may be penalized by your higher transaction costs. In practice more activity almost always comes when prices are higher; the time when it is least beneficial. Sitting on your hands and doing nothing seems counterintuitive when everybody is so cheery about the market’s performance.

Prices may continue to rise and if they do we are in good shape. Our companies, especially OMI will do well in a healthy economy with a rising stock market. If the economy stumbles and the market declines we should also be in pretty good shape. Our 20% cash cushion will help insure our decline is less than the markets. Consolidated Tomoka is a great example of why we have outperformed the market. They have land whose value will not change much when the economy falters and they are under no obligation to sell it. They can hold onto the land and wait until the value rises before they sell it. The company is still selling for a little more than half of what we value their assets at. This stock will not drop as much as the market in general in a time of fal-
ling prices.

This article is not intended to serve as a warning or to predict and impending decline or anything like that. It is our attempt to explain how we are positioned and how we view recent moves in the stock market. Our lack of activity is dictated to us. We seeks to invest in only the best oppor-
portunities that are offered to us; we are not interested in settling for any old investment opportu-
nity. In regards to our recent level of activity: “When your phone don’t ring you’ll know its us.”
4th Quarter Earnings

Amgen - has had very strong earnings growth which has been overshadowed by uncertainty surrounding Medicaid reimbursement rates for their drugs. Amgen’s earnings per share for the fourth quarter of 2004 were 58 cents versus 46 cents during the fourth quarter of 2003, an increase of 26 percent. During the fourth quarter, total product sales increased 24 percent to $2.8 billion from $2.2 billion in the fourth quarter in 2003. Total revenue increased 26 percent for the full year to $10.6 billion from $8.4 billion in 2003. The company showed very strong sales gains in each of their 3 main products.

Combined 2004 fourth quarter sales of EPOGEN(R) (Epoetin alfa), Amgen's anemia therapy for patients on dialysis, and worldwide sales of Aranesp(R) (darbepoetin alfa), its latest anemia product for the treatment of anemia associated with chronic kidney disease (CKD) and chemotherapy-induced anemia, increased 21 percent to $1.4 billion from $1.2 billion during the same quarter of the previous year. For the full year 2004, combined EPOGEN and worldwide Aranesp sales were $5.1 billion versus $4.0 billion for 2003, an increase of 28 percent over the prior year's combined sales.

Combined worldwide sales of Neulasta(R) (pegfilgrastim), Amgen's once-per-cycle product for decreasing the incidence of neutropenic infections associated with many types of cancer chemotherapy treatments and NEUPOGEN(R) (Filgrastim) used to decrease the incidence of many types of chemotherapy-related infections, were $778 million in the fourth quarter of 2004 versus $689 million for the fourth quarter of 2003, an increase of 13 percent. Combined sales growth for Neulasta and NEUPOGEN was driven by demand for Neulasta. For the full year 2004, combined worldwide sales of Neulasta and NEUPOGEN were $2.9 billion versus $2.5 billion for the full year 2003, an increase of 16 percent.

Sales of ENBREL(R) (etanercept), Amgen's leading biologic for inflammation, increased 49 percent during the fourth quarter to $567 million versus $380 million during the same period in 2003, driven by demand. For the full year 2004, ENBREL sales increased 46 percent to $1.9 billion versus $1.3 billion in 2003.

The Company also began generating revenue from two recently approved drugs. A larger impact from these products will be seen in the next several years. Amgen announced that they expect 2005 earnings to be in the range of $2.70 to $2.85. This represents a 12% to 19% increase in earnings. They expect total sales to rise in a range from low single digits to mid teens this year. The drug industry has been hard hit by a series of product problems and this has had an effect on all drug stocks. Amgen has held up well and should be a solid performer in 2005. It helps that none of their top products are due to come off of patent in the next few years.

Astronics - has continued to struggle as they have the since 9/11 but that soon may change. They announced a major acquisition that will increase their revenue by about 75%. Sales for the fourth quarter were flat with the prior year period at $8.3 million. Net loss for the fourth quarter 2004 of $0.7 million, or $.08 per diluted share, compared with last year's fourth quarter net income of $0.6 million, or $.07 per diluted share. Peter J. Gundermann, President and CEO of Astronics Corporation, noted, "2004 was a year of significant investment for Astronics as we focused on winning and developing new contracts to expand our lighting and control content on the new breed of military, commercial and business jet aircraft under development. We are making great strides in the development programs and several
Watch List

CFC International, who we added to the list this past month has become an attractive candidate for addition to our portfolio. We are hoping to add them at somewhere near $16 per share. They have had a tremendous increase in earnings that is likely to continue into 2005. Their price recently jumped as they pre-announced earnings. We hesitated on making a call due to the fact that we were unsure they would be able to keep up their sales growth in 2005. Fortunately they tend to trade over a wide range. In the past several weeks they have traded from around $15 up to somewhere near $17. We would love to jump in near $15. Patience may be needed as we wait for a downturn.

Rayonier is another interesting company. We do not intend to add any at this time but if you are looking for current income they may make a nice acquisition. The company has recently raised their dividend by 10.7% to $.62 per quarter. They have a very stable business and have large timber holdings that are not subject to sudden drops in price. They are organized as a real estate investment trust so they are required to pay out the majority of their income in the form of dividends. If you have money sitting in a bank account earnings 2% Rayonier may offer you a much healthier return. You are subject to much more uncertainty but you also will earn much more on your money. If the money is not needed for the next few years you can make an argument for accepting a bit more risk to earn much better returns.

If you wait and the price of Rayonier drops before you buy you obviously will earn an even higher return because the dividend will stay the same. Currently the stock has a dividend yield of 5.22%. The big unknown is how much of the timber lands they can sell of for what they call “higher and better use.” The land they own could be worth much more than it is on the books for. If they can realize some of this value the share price could get a nice boost also. In the meantime you get paid more than 5% to sit and wait.

<table>
<thead>
<tr>
<th>Company</th>
<th>Current price</th>
<th>Last Month price</th>
<th>Change from Prev Month</th>
<th>P/E</th>
<th>52 Week High</th>
<th>52 Week Low</th>
<th>Estimated '05 EPS</th>
<th>Dividend Yield</th>
</tr>
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<tbody>
<tr>
<td>Altria Group, Inc./MO</td>
<td>$65.70</td>
<td>$62.29</td>
<td>5.47%</td>
<td>12.6</td>
<td>$65.70</td>
<td>$44.50</td>
<td>$5.15</td>
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<tr>
<td>Allergan/AGN</td>
<td>$75.45</td>
<td>$77.76</td>
<td>-2.97%</td>
<td>23.8</td>
<td>$92.61</td>
<td>$66.78</td>
<td>$3.14</td>
<td>0.54%</td>
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<td>Bioanalytical Systems, Inc./BASI</td>
<td>$6.25</td>
<td>$5.13</td>
<td>21.83%</td>
<td>n/a</td>
<td>$6.70</td>
<td>$3.40</td>
<td>n/a</td>
<td>n/a</td>
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<td>CFC International/CFCI</td>
<td>$16.90</td>
<td>$14.95</td>
<td>13.04%</td>
<td>34.5</td>
<td>$18.00</td>
<td>$5.58</td>
<td>$1.10</td>
<td>n/a</td>
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<tr>
<td>Fresh Del Monte Produce/FDP</td>
<td>$29.71</td>
<td>$29.12</td>
<td>2.03%</td>
<td>12.6</td>
<td>$33.94</td>
<td>$22.62</td>
<td>$2.38</td>
<td>2.70%</td>
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<tr>
<td>Genentech, Inc./DNA</td>
<td>$48.24</td>
<td>$47.46</td>
<td>1.64%</td>
<td>14.4</td>
<td>$68.25</td>
<td>$38.15</td>
<td>$0.81</td>
<td>2.67%</td>
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<tr>
<td>Gentex Corporation/GNTX</td>
<td>$33.94</td>
<td>$33.13</td>
<td>2.44%</td>
<td>23.1</td>
<td>$46.91</td>
<td>$30.19</td>
<td>$1.51</td>
<td>2.03%</td>
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<tr>
<td>The St. Joe Co./JOE</td>
<td>$73.65</td>
<td>$68.24</td>
<td>7.93%</td>
<td>60.8</td>
<td>$75.41</td>
<td>$35.06</td>
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<td>Landauer, Inc./LDR</td>
<td>$47.34</td>
<td>$45.46</td>
<td>4.14%</td>
<td>20.0</td>
<td>$50.30</td>
<td>$38.71</td>
<td>$2.14</td>
<td>3.66%</td>
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<td>Paychex, Inc./PAYX</td>
<td>$31.53</td>
<td>$30.51</td>
<td>3.34%</td>
<td>28.7</td>
<td>$39.12</td>
<td>$28.83</td>
<td>$0.94</td>
<td>1.66%</td>
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<td>QLT Inc./QLTI</td>
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<td>Rayonier/RYN</td>
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<td>Sanderson Farms/SAFM</td>
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<td>2.81%</td>
<td>9.6</td>
<td>$55.18</td>
<td>$30.81</td>
<td>$4.28</td>
<td>0.89%</td>
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<td>Tejon Ranch Co./TRC</td>
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<td>$43.50</td>
<td>19.08%</td>
<td>n/a</td>
<td>$55.90</td>
<td>$32.12</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>USG Corporation/USG</td>
<td>$32.47</td>
<td>$33.71</td>
<td>-3.68%</td>
<td>9.0</td>
<td>$41.67</td>
<td>$12.30</td>
<td>$6.00</td>
<td>n/a</td>
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<tr>
<td>The Washington Post Co./WPO</td>
<td>$908.98</td>
<td>$911.00</td>
<td>-0.22%</td>
<td>23.7</td>
<td>$999.50</td>
<td>$830.00</td>
<td>$34.80</td>
<td>80.00%</td>
</tr>
</tbody>
</table>
The chart below shows our investments and the proportion of our portfolio they represent. As you can see we are heavily weighted towards four 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 priced compared to what the company is worth and used in making short term purchasing decisions. Some of the stocks that have traded below our buy price for the past year have been some of our worst performers. So much for being able to predict short term price actions. Long term our accuracy is much better.

We keep tweaking the chart below and the information that we provide on our companies. This month you will see we have added a column for last months price and the percentage change in the last month. This information is purely for entertainment value. Our focus remains on finding companies that will have superior performance over the long term. Short term our crystal ball is as cloudy (as ever) as everyone else's.

You may say to yourself how convenient that a column for monthly performance has been added in a month when several of our stocks have had superlative gains. How does the old saying go…”timing is everything.” We had planned on making this change anyway after making the same change to our watch list. The big gains sealed the deal. As we said earlier the information verges on useless, however, it sure feels good.

One final note regarding the sale of ModPac. The price has been all over since we put out our sell signal on ModPac. Some of the move has been in an upward direction. This is always a possibility when we sell a stock. We feel that the company is worth something closer to $13. If the price drops back down we may be interested in becoming owners again. The same dynamics that caused the 50% jump over the last 6 months will be in effect for the next quarterly report. We would be more than willing to accommodate the markets ignorance by buying at $13 and selling at say $15.

You will notice below that we changed the buy price for CTO, OMM, and PKZ. The prices we had listed last month may not be seen again for some time. Use these prices as a general guideline, not a set in stone definitive standard.
Newsletter Performance

Through the first thirteen months of publication the Investletter newsletter has soundly outperformed the S&P 500 market average. Small gains in performance can have a huge impact on long term returns. A portfolio that begins with $10,000 that outperforms the market by as little as 1% per year can accumulate a much larger sum of money over 30 years. Over a 25 year period earning 15% return will help you accumulate $329,190. Earning 16% will give you $408,742. This simple 1% difference over 25 years leaves you with an extra $79,552. Stated another way, a 1% greater return yearly over a 25 year term will help you accumulate 24% more money. If you have spreadsheet software on your computer you can download the compounding spreadsheet on the content page of our web site and create your own scenario. Change the box titled “Int. Rate” to see the change. You can also customize the beginning dollar amount to personalize the results for the size of your portfolio.

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should transition to production programs during 2005. We see the market strengthening in certain areas and are focused on adding more value for our customers as demand picks up.” Backlog, or firm purchase orders for production, at the end of 2004 was $27.2 million, up 45% from $18.7 million at the end of 2003.

**Cell Genesys** - has suffered through many of the same problems that other small biotech’s have gone through. They are running out of money while they try to negotiate the tremendously time consuming task of bringing a viable drug to market. In the 4th quarter the company posted a loss of $26.5 million, or 59 cents per share, compared to $17.3 million, or 43 cents per share, last year. Revenue was $3.2 million, up from last year’s $1.4 million. The company reported a full-year loss of $97.5 million, or $2.23 per share, compared to $56.6 million, or $1.48 per share, last year. Revenue dropped to $11.5 million from $18.1 million. The company has raised money by selling bonds to help finance their product development. The ability to convert these bonds into stock has had a negative impact on the share price.

**Consolidated Tomoka** - reported record net income of $14,651,739 or $2.60 per share for the year ended December 31, 2004 and record earnings before depreciation, amortization, and deferred taxes (EBDDT) of $24,586,030 or $4.36 per share for such period. The company reports the EBDDT partly to show the earnings minus the impact of the deferred tax liability that is created when they sell land and invest the proceeds in income properties. They will eventually have to pay taxes on this money but not at the time that the transaction occurs. This means the get to use all of the sale proceeds from their land sales, not just the after tax portion, to generate more income.

Real estate sales for the year were in excess of $32.0 million, an all-time high, including an approximate $18.0 million sale of acreage around the Legends golf course, several commercial parcels, and a hotel resort parcel. Five additional properties were acquired during 2004, and a Lowe’s Home Improvement Center was acquired in January of this year. Our portfolio of net lease properties now totals over $70.0 million and soon to be $85 million when the Lowe’s property closes. As usual we can’t say enough good things about Consolidated.

The company is worth nearly $500 million by our calculations and still sells for about half of that. We will enjoy the next $50 million in property sales over the next few years. The value of several other land stocks like St. Joe and Tejon Ranch have taken off in the past 6 months. CTO has been less affected than some. If they benefit from the same revaluation that other land companies have had and have a year of solid sales, we expect year end 2005 share values to be strongly higher from where they are now.

**Kensey Nash** - reported a 11% increase in revenue and a 18% increase in income from last years second quarter. The company second fiscal quarter was led by strong product
4th Quarter Earnings

sales with a modest 7% growth in royalty revenues. They ended the quarter with $52.7 million in cash and investments. This is very favorable for a company that is worth $375 million.

Kensey Nash also updated shareholders on the approval process and impending launch of their next major product if it receives FDA approval. Joseph W. Kaufmann, President and CEO of Kensey Nash Corporation commented "We are very excited about our planned US launch of the TriActiv. While we are awaiting FDA clearance to begin marketing, we have expanded our US sales organization, completed our initial sales training program and will be ready to launch once approval is obtained. When we receive FDA approval we will provide further TriActiv sales guidance for fiscal 2005."

The company also offered guidance for the rest of the year. For the third quarter, guidance for earnings is $0.30 to $0.31 per share, an increase of 7% to 11% over the prior year comparable period. Our projections for total revenue are $16.0 to $16.3 million, including forecasts for net sales of $10.6 to $10.8 million and royalty income of $5.4 to $5.5 million. For the fiscal year 2005, the Company continues to estimate earnings per share of $1.18 to $1.21. Total fiscal year revenues are currently estimated to be in a range of $66 to $69 million, an approximate increase of 13% to 19% over the previous fiscal year. Included in this estimate are net sales of $45 to $47 million and royalties of approximately $21 to $22 million.

Out of Step But Not Out of Touch

Before you think we are a bunch of whacko nut jobs at Investletter. We would like to frame our comments last month on business men wearing suits. We harbor no ill feelings towards those wearing suits. It just raises our level of suspicion. We are also intrigued by the credibility (warranted or not) wearing one gives. We personally intentionally avoid attaching superior skills to those wearing suits and inferior skills to those who do not. This view is different than what you will find in the general population. Just one more example of us being out of step with society.

Being out of step however, plays a prominent role in the success of our stockpicking. We are always looking for companies that have poor ratings from other rating services and companies that the crowd has abandoned. Great values are not found in the stocks that are everyone else's darlings. The price will already reflect the fact that everyone loves them. The best stock picks are often found in Wall Street’s gutter. Of course you need to be careful about what you pick up. Our approach to picking stocks will not win us any popularity contests. We would rather let our results do the talking.

We keep abreast of what is happening on Wall Street and will focus our search where others do not.

BD