Volume 2 Number1

January 2004

Blue Collar Investment Advisor

BCIA

Wall Street

- DJ 10454
- S&P 500 1112
- NASDAQ 2103

Compounding

Wintertime and snow are synonymous in Buffalo and snow provides the inspiration for this article. Suppose you are standing on a snow capped mountain peak looking down toward the tree line several thousand feet below. Nearby is a boulder precariously balanced on a narrow ledge. You slide over and give that boulder a healthy push and it falls over the edge. At first it just pushes a little snow out of the way. Soon it is pushing snow about ten yards in front of it. Now it is moving closer to a drop off. You see it fall over the drop off and shortly after you hear a thunderous roar. You can see thousands of tons of snow, rocks and small trees hurtling down the mountain. What power exhibited by one person.

Large amounts of money accumulating ... Get out of the way!

An avalanche is a great analogy to the power that compound interest has. This is the most important weapon in your investing arsenal. The most important factor in the compound interest equation is time. Compound interest explains the affect that earning interest on your previously earned interest has on the value of your investment account. For arguments sake lets suppose that you have a $10,000 investment earning 10%. At the end of one year you would have a $10,000 investment and $1,000 of interest in hand. The next year you would earn another $1,000. You would still have your $10,000 investment and would have earned $2,000.

Now lets change the scenario so that the first years interest is used to increase your investment to $11,000. The next year you would earn $1,100 (10% of $11,000). At the end of two years you would have an investment worth $11,000 and interest in hand of $1,100 for a total of $12,100. An extra hundred bucks is great, but you won't be planning an early retirement on it. So what is the big deal about compounding? Well this compounding effect is not real impressive the first five, ten or even the first fifteen years. However, before you know it has built up quite a bit of momentum behind it. In the example that will be displayed next, fifteen years will result in your $10,000 investment throwing off a $14,000 return.

This example uses our goal at BCIA of generating 15% yearly investment returns. We are going to talk about four different variations of this example. Each example starts with $10,000. In the first variation we add a new variable, age. This will help make our discussion more real. Our subject is a twenty one year old who just happens to have $10,000 to invest and that is just what he does. (He probably is a BCIA newsletter subscriber also.) He invests and is able to earn 15% return and does not touch this money for the next thirty five years. After ten years he has himself a whopping $40,456. Not bad for a thirty year old but still no early retirement. Maybe a one year sabbatical. At twenty years he has $163,000. This is starting to look a little better. This is still not enough for a

Inside this issue:

forty year old to retire on. Now the power of compounding is starting to take over. At the end of thirty years our now fifty year old has $662,000. This is quite a healthy nest egg for dropping ten grand into an account and never adding a dime to it. In five more years our fifty five year old is contemplating taking an early retirement with his $1.33 million dollar windfall. Wow, things started to happen fast.

Check our website for year-end performance results.
www.ebcia.com

Next we are going to take our twenty one year old and have him delay investing until he is thirty one. At thirty one he puts his $10,000 dollars away and is able to earn the same 15% annual return. At the end of ten years, when he is forty he has the same $40,456 however he is ten years older than in the last example. At fifty five he has $329,000. He is looking at another ten years before he can retire. So much for an early retirement. This is why time is the most important variable in the compounding equation. The sooner you start and the longer you have to let those investments run, the better your chances of reaching your goal.

Scenario 1: $10,000 Invested earning 15% for 35 years

Scenario 2: $10,000 Invested ten years later earning 15%

Scenario 3: $10,000 plus $2,000 added yearly at 15% for 35 years

Age	Amount Invested	Year End Value	Age	Amount Invested	Year End Value	Age	Amount Invested	Year End Value
21	$10,000	$11,500	21	$0	$0	21	10000	$11,500
22	$0	$13,225	22	$0	$0	22	2000	$15,525
23	$0	$15,209	23	$0	$0	23	2000	$20,154
24	$0	$17,490	24	$0	$0	24	2000	$25,477
25	$0	$20,114	25	$0	$0	25	2000	$31,598
26	$0	$23,131	26	$0	$0	26	2000	$38,638
27	$0	$26,600	27	$0	$0	27	2000	$46,734
28	$0	$30,590	28	$0	$0	28	2000	$56,044
29	$0	$35,179	29	$0	$0	29	2000	$66,750
30	$0	$40,456	30	$0	$0	30	2000	$79,063
31	$0	$46,524	31	$10,000	$11,500	31	2000	$93,222
32	$0	$53,503	32	$0	$13,225	32	2000	$109,506
33	$0	$61,528	33	$0	$15,209	33	2000	$128,232
34	$0	$70,757	34	$0	$17,490	34	2000	$149,766
35	$0	$81,371	35	$0	$20,114	35	2000	$174,531
36	$0	$93,576	36	$0	$23,131	36	2000	$203,011
37	$0	$107,613	37	$0	$26,600	37	2000	$235,763
38	$0	$123,755	38	$0	$30,590	38	2000	$273,427
39	$0	$142,318	39	$0	$35,179	39	2000	$316,741
40	$0	$163,665	40	$0	$40,456	40	2000	$366,553
41	$0	$188,215	41	$0	$46,524	41	2000	$423,835
42	$0	$216,447	42	$0	$53,503	42	2000	$489,711
43	$0	$248,915	43	$0	$61,528	43	2000	$565,467
44	$0	$286,252	44	$0	$70,757	44	2000	$652,587
45	$0	$329,190	45	$0	$81,371	45	2000	$752,776
46	$0	$378,568	46	$0	$93,576	46	2000	$867,992
47	$0	$435,353	47	$0	$107,613	47	2000	$1,000,491
48	$0	$500,656	48	$0	$123,755	48	2000	$1,152,864
49	$0	$575,755	49	$0	$142,318	49	2000	$1,328,094
50	$0	$662,118	50	$0	$163,665	50	2000	$1,529,608
51	$0	$761,435	51	$0	$188,215	51	2000	$1,761,349
52	$0	$875,651	52	$0	$216,447	52	2000	$2,027,852
53	$0	$1,006,998	53	$0	$248,915	53	2000	$2,334,329
54	$0	$1,158,048	54	$0	$286,252	54	2000	$2,686,779
55	$0	$1,331,755	55	$0	$329,190	55	2000	$3,092,096

The third scenario we have our young man adding $2,000 a year to his initial $10,000. This is an additional $68,000 dollars contributed over the thirty four additional years. This manages to net an additional $1.7 million at retirement time. This is a much larger overall contribution than the $10,000 in the first example and so is the payout.

The difference in these three investment scenarios is nothing short of staggering. Nothing is more important than time and the next important factor would be rate of return. A one percentage point difference in your rate of return will also have a huge affect on how well you do. I re-ran the first scenario using 14% as the rate of return. It resulted in a $350,000 difference over thirty five years.

Astronics

In this month's issue the stock we are going to cover is Astronics. Astronics is a small aerospace company located near Buffalo, New York. We have had an investment in this company since 1999. The performance has been a roller coaster ride. The company rose to double what we paid for it and then proceeded to drop back down to less than we paid. A huge government contract drove up their revenues and profits in the first few years we held them. They had trouble replacing that contract when it had run its course and then the wheels came off when 9/11 happened. They are priced real cheap and their business has started to pick up.

Astronics presents themselves as a leader in advanced lighting and electronic systems for the global aerospace industry. They are a principal designer and manufacturer of external, cockpit and cabin lighting systems and the supporting electronics and power supplies. They provide these products to the military, commercial transport and general aviation industries by supplying major aircraft manufacturers, avionics companies and operators around the world.

The company generated $52 million in sales in 2001. That has dropped to the approximately $33 million this year. The company sells for $40 million dollars. This is their market capitalization, which is determined by multiplying a companies share price by its number of shares outstanding. Astronics has a share price of $5.25 and 7.7 million shares outstanding. It is helpful when you can buy a company that is selling for nearly the yearly amount of sales it can generate, if the company has good prospects. Last year they earned $4.0 million. This year the will earn even less, somewhere around $1.0 million. It has been just a dreadful couple of years. Earnings are way down from their peak of $5.8 million in 2001.

What makes Astronics interesting now? They landed a contract to supply the external lighting on the new Joint Strike Fighter (JSF) that will service the Air Force, Navy and Marines. In the past year they have won contracts to supply night vision conversion kits for the Bradley fighting vehicle and Abrams tank, control panels for the C-130 and the A-10 among others. They have had a small contract rolling in every couple of months.

If they can even return to half of their peak earnings this company is a great bargain. If they were to earn $2.9 million, this would translate to a 7% return on their market capitalization ($40 million). Very few companies sell this cheap. Intel returns 1.5% on their market capitalization.

There is not much downside in this stock. All the bad news appears to be priced into it. I recommend that you purchase it up to $5.50 per share. I would limit it to 5% of your portfolio. The company may not show much price movement for the next year or so. The JSF program does not start shipping until 2007 or 2008. Shortly before this timeframe this company could really start to take off. Presently Astronics is selling for $5.26. It trades on the NASDAQ and its symbol is ATRO. You can gain more information on Astronics by visiting their website at www.astronics.com. I have shares of Astronics representing approximately 5% of my portfolio.

The BCIA Portfolio

Here it is the BCIA portfolio. It is small in the number of stock and high in quality. I do not prescribe to Wall Streets ideal of diversification and I do not feel that massive diversification would decrease my risk. I disagree with the whole concept of risk as it is presented in popular finance theory. My idea of reducing risk is to only invest in companies who you have a great deal of certainty in. I keep the number under 15 and sometimes as low as four or five. I make sure I understand the business' I am buying and avoid those I do not. At a later date I will explain more fully my ideas on risk and diversification. For now here are the ten companies I presently own. I say own because when you buy stock in a company you become a part owner along with all other shareholders. Here they are.

AFLAC- Better know as the duck company. Really they are an insurance company that generates most of their business in Japan. They are the largest foreign Insurance company in Japan. Their most successful product in the Japanese market is supplemental cancer insurance. In the United States their primary product is group disability insurance. They also carry group dental and life insurance. AFLAC is a extremely consistent performer that has easily averaged more than 15% annual returns for the last ten years. If you do not have AFLAC's products offered through your workplace now you may sometime in the near future. They are rapidly growing the U.S. portion of their business.

Amgen– Was the first profitable biotechnology company. They market three wildly successful drugs. One is used in the kidney dialysis market, another is in the cancer market and the third is for arthritis. These three drugs generate more than $7 billion in sales. The company is wildly profitable with more than $2.0 billion of this money making its way to the bottom line. They also spend huge amounts on research and development, more than a billion dollars. This company has projected 20% plus growth rates for quite some time.

Astronics– See the article in this issue.

Berkshire Hathaway– This is the crème of the crop. This company managed by Warren Buffet has been outperforming the market for more than thirty years. It is a huge conglomerate that owns everything from the company that makes ginsu knives to Geico insurance, Dairy Queen, Acme Bricks, Fruit of the Loom and the Buffalo News. This is just the tip of the iceberg. Owning this company is like owning a mutual fund. It is a collection of some of the finest managed companies overseen by one of the all time great businessmen. Warren Buffet is a living legend. Besides being a great company, the annual report is great reading and a yearly lesson in finance and economics. This company takes up a huge amount of our portfolio for good reason.

Calpine– Is the low cost electrical energy producer. They have the largest, cleanest and most fuel efficient fleet of natural gas fired and geothermal power generating facilities in North America. Calpine has had a miserable time over the past few years trying to stay solvent, as have most power producers. They have an aggressive construction program and have had a hard time raising enough capital to fund it. Since the Enron debacle, banks and investors have cut off lending to power producers. This has only recently started to change. The upside is that this company is worth way more than it is selling for. New power plants do not come cheap and Calpine has recently finished building a lot of them. The value of all of the companies assets (power plants mostly) minus their liabilities (mostly their construction debt) give you their book value. Calpine's book value is $10.68 per share. The company is selling in the $5.25 range. I love the opportunity to buy assets at 50% off. I feel that there is a good chance that sometime in the next couple of years that the company will sell for something much closer to their book value.

Cell Genesys- Is one of the two speculative companies in the portfolio, and both are biotechnology companies. I have a soft spot for biotech companies. Cell Genesys is developing cancer vaccines for several types of cancers. They are sev-

The BCIA Portfolio

eral years off from having a product which is why they only represent a small portion of the portfolio. I have owned them since 1999 and am real impressed with their technology.

Consolidated Tomoka– This is the best kept secret on Wall Street that I have been able to uncover. When you have something that comes as close as you can get to a sure winner you buy lots. That is what I have done with Consolidated Tomoka. They are a simple company that has a great business model and is worth way more than they are selling for. They own land that they sell off and re-invest into income properties. I am so excited about this company I have trouble containing myself. We will talk more about them very soon.

Freddie Mac– Is a mortgage aggregator that combines them and splits them back up as investment vehicles. They are sold as government backed mortgage securities. This company is selling at real low valuation levels. See last months article for an in depth look at Freddie Mac.

OMI Corporation– OMI is a shipping company providing seaborne transportation of primarily crude oil and petroleum products. They have fleet of 36 ships that transport product all over the world. They have an extremely young fleet which gives them some advantage and a great business model.

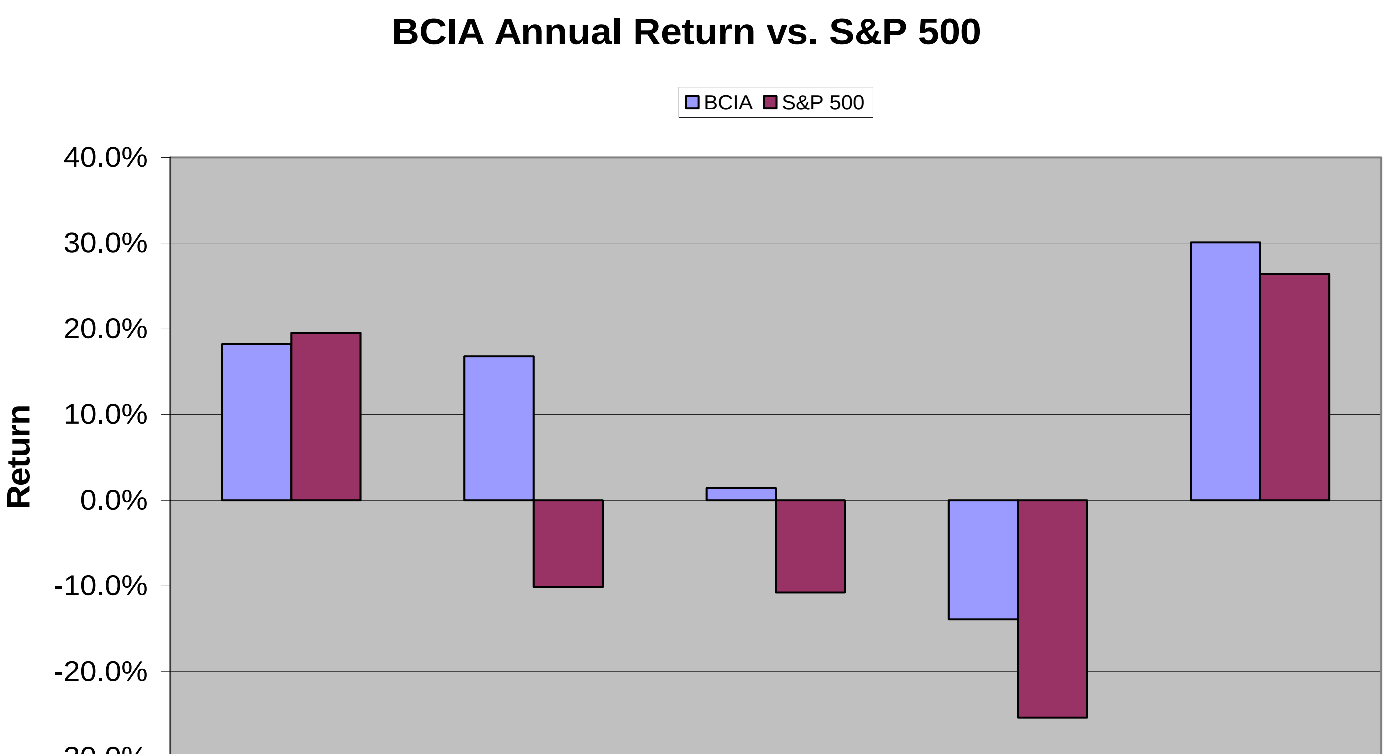
Protein Design Labs– This company is also a biotech company. They are another more speculative company. They are developing drugs for autoimmune diseases like asthma and organ transplant rejection. They generate considerable revenue from licensing their patented technology. They also have revenue from royalties from drugs that incorporate their technology that are already on the market.

Company	Ticker Symbol	Porfolio Percentage	Current price	Buy Price (less than)
Aflac	AFL	3.50%	$35.40	Hold
Amgen	AMGN	6.00%	$63.38	$60.00
Astronics Corporation	ATRO	5.00%	$5.12	$5.05
Berkshire Hathaway B	BRK.B	20.00%	$2,874.00	$2,800.00
Cash		10.00%	$1.00	
Cell Genesys, Inc.	CEGE	3.50%	$13.57	Hold
Calpine Corporation	CPN	5.50%	$5.38	$5.50
Consolidated-Tomoka Land Co.	CTO	23.00%	$32.40	$35.00
Freddie Mac	FRE	10.50%	$59.37	$60.00
OMI Corporation	OMM	11.00%	$9.00	$9.00
Protein Design Labs, Inc.	PDLI	2.00%	$18.42	Hold

The chart above 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. Our trial issue on the website briefly delves into the issue of how you should build your portfolio. To achieve the same returns we will receive, you can buy all of the stocks we own in roughly the same proportion. You may be able to do better by purchasing the stocks we feel are worthy buys presently. These stocks are represented as the companies that are selling for less than our buy price. With the recent run up in prices, you may need to have a little patience to grab some of these stocks at reasonable prices.

Annual Return

For the fourth straight year The Blue Collar Investment advisors have beaten the market. When we talk about the market, we are referring to the S&P stock market average. The S&P average returned 26.4% in 2003. It feels great to have an up year after our negative performance last year, even if it is not very useful. It would be great to be able to buy stocks at depressed 2002 values for years to come but it does nothing for the ego. Over the past five years following the BCIA investment picks would have resulted in a 57% gain while investing in the S&P 500 would have left you with a 9% loss.



	1999	2000	2001	2002	2003
BCIA	**18.2%**	**16.8%**	**1.4%**	**-13.9%**	**30.1%**
S&P 500	**19.5%**	**-10.1%**	**-10.8%**	**-25.4%**	**26.4%**

Year

Subscription Information

To subscribe to the Blue Collar Investment Advisor visit our web site at www.ebcia.com. Click on the subscribe link to enter your subscription. Or, you can contact us at subscribe@ebcia.com. A subscription cost $95 for 12 monthly issues. We feel very confident that we can easily justify your subscription cost by helping you beat the market averages.

Executing A Trade

Principles Don't Change.

Before placing an order take a quick note of the companies trading volume.

This months article on Astronics provides a good place to talk about trade execution. When buying or selling shares in small, or what Wall Street would call microcap companies, you are dealing with what are referred to as thinly traded companies.

Executing a online trade involves filling out a short form and submitting it to the market. Below is a sample online order form. In the first section, Order to:, is where you designate whether you want to buy or sell shares. The next section involves the number of shares you wish to transact. Next to the number of shares is a check box titled “All or None”. This can be important for thinly traded stocks. If this box is checked, all of the shares you specified will trade or your trade will not happen. Symbol speaks to the stock ticker symbol of the company whose shares you are buying or selling. In the order type box you can choose between four different options. We will discuss two, market order and limit order. A market order will specify that your order takes place at the market price at the time you submit your order. A limit order happens if the price of the stock you are trying to buy is equal to or less than the limit price that you entered. If the price stays above your limit price your trade will never occur. We are not going to concern ourselves with the stop price box and the limit price box is where you would enter the limit price we just discussed.

Order to:	Select Action
Number of Shares:	☐ All or None
Symbol:	
Order Type:	Select an Or
Stop Price:	
Limit Price:	
Time Limit:	Good for the
Account Type:	Please Selec
Telephone #:	**Ext.**

Next is the time limit box. Here you can choose whether your trade is good only for the remainder of the day or until you cancel it. I always use good for the day. I do not trust my memory well enough to leave a order open until it is filled. Account type lets you select the account the proceeds to settle the trade will come from. As far as I know it is always the cash account that is linked to your brokerage account. From this brokerage, the only other piece of information you need to provide is a telephone number.

Now we return to thinly traded companies. If we were to execute an order to buy 1000 shares of Astronics at the market price, good for the day, we could be in for a surprise. Many days Astronics trades in the neighborhood of 5,000 shares. An order for 1,000 would represent 20% of the daily activity. If this trade was not sent with the all or none check box marked, the order could be executed 200 shares at $5.30, 400 shares at $5.40 and 400 shares at $5.50. The breakdown of the shares amounts was randomly chosen. This example illustrates that an order this size can be enough to drive up the price of a thinly traded stock.

Choosing a broker with low commissions will help maximize your return

Executing a Trade (cont. from pg. 7)

The trade is completed by what is called a market maker. When a customer puts in a order to buy stock it is sent to the market maker. This market maker matches the trade up to sellers of the stock. If there are no sellers of a 1,000 share lot or larger, a trade may be satisfied with smaller lots of stock at separate times until all 1,000 shares are filled. If the market closes before this happens you may only get 200 shares. You will still owe the same commission. If the trade was done using Scottrade, the commission for an online trade is $7. It is $7 for a trade of one share or all 1,000 shares of an order. The $7 commission applies to more than 1,000 share, although many brokerages have a limit at some number of shares. I am not sure what Scottrade's limits are. I have never bumped up against them. This problem can be solved by checking the all or none box.

You can run into another problem with thinly traded stocks. If you put in a large order in on a thinly traded stock, your order can drive up the price of the stock. I will almost always place a limit order when purchasing these type of companies. Limit orders are not as necessary on large actively traded companies like Amgen. You may still want to place a limit order if you place your order the night before or you are looking to pick up shares at less than their current market price. If the market price never drops below your limit price (and sometimes even if it does) you will not have your order filled.

When you are trading stocks that routinely have 3-5% daily swings or that can jump around 20-30% on big news, like small biotech stocks, limit orders will help keep you from overpaying. Both Cell Genesys and Protein Design Labs and other small companies like Astronics fit this definition.

How important is all of this information. Not real important most of the time. Most trades you will be able to transact at the price you see when you place your trade. This is good information to be aware of and to consider when you place trades. I have been burnt placing an order the night before the market opened without a limit order. There was news on the company and the next morning it opened 10 or 15% higher the next morning. My order was filled shortly after the market opened. By the end of the day the share price had dropped down to the previous days closing price. I had a 10 or 15% loss after the first day. I don't remember what company it was, but I sure remember that price drop.

If you have any questions regarding executing trades, make sure to contact the Blue Collar Investment Advisors at contact@ebcia.com.

We look forward to speaking with you again next month.

Brett Davidson

BCIA

100 Burgundy Terrace Amherst, New York 14228