The Commonsense

INVESTLETTER

Volume 3 Number 5

... Is King

Wall Street

- DJ 10302
- S&P 500 1199
- NASDAQ 2076

Having added several new companies to our portfolio a trend has emerged. Each of these companies is defined as a micro-cap stock or one loosely defined as a company with a market capitalization of less than $250mm. Alico is slightly larger while Gencor, Culp, and CSP Inc. are all very small companies. One other common denominator is many of our companies are holding large amounts of cash. (Culp not included) Yes, cash is still king. It is easy to value and is not going out of style and offers great flexibility. Gencor is holding $30mm in cash and short term investments which are subject to income tax but $20mm after tax is still a lot of dough. For a company selling for $75mm having a $20mm cushion is a nice luxury. The company should be receiving additional payments of nearly this much quarterly for the next two years. Another $30mm after tax over the next two years would leave only $25mm of the $75mm market cap linked to the value of their asphalt plant manufacturing business. A business that had $60mm in revenue last year.

The area where opportunities present themselves is an ever moving target.

Alico is giving cash they have back to the shareholders. The company announced a special $1 per share dividend. It won't put much of a dent ($7mm) in the companies $100mm cash and investment hoard. The company also has $140 million in land contracts they are waiting to close. The whole company sells for $370mm. Cash represents roughly 25% of this amount. Remove the cash and subtract out $20 million for their agricultural business and you are left with $250mm to be spread over the 140,000 acres the company owns. This is a value of less than $2000 per acre. We like or odds waiting for this company to reach its true value.

You have heard many times from us about the large cash holdings of Berkshire Hathaway. The huge $48 billion sum is 38% of the companies total worth. The sheer magnitude of this large pile of cash is impressive. Our most recent addition, CSP Inc can't match this total dollar for dollar but percentage wise they trump even Berkshire. CSP has $15mm in cash and short term investments on a market cap of $31 million. Nearly 50% of the value of the company is represented by cash. The other $16mm represents the value assigned to the their IT, server manufacturing and software business which generates revenue of $60mm.

We have been pleasantly surprised that we can pick up companies with such strong balance sheets and profitable business' so cheap lately. It is always difficult predicting the next trend that will allow us to find so many great bargains. Large cash holding are not always in vogue but they do help make our analysis easier. We feel comfortable owning several of these small companies to help iron out any bumps each individual one may have along the way. Keep your money basket open because these companies are going to help keep the cash flowing in.

Inside this issue:

Watch List

The number of companies on our watch list is dropping as we move companies into our portfolio. With exciting changes taking place at Rayonier, they may be next. Rayonier owns several hundred thousand acres in Florida along the I-95 corridor, north of the land Consolidated Tomoka owns. They have recently formed a real estate company to help sell and develop this land. This is the companies third line of business along with timber sales and producing cellulose fiber. We are going to spend a bit more time analyzing their land holding and sizing up what the company is worth. The healthy 4.4% dividend the company pays is very attractive. Even if they take a few years to jump start the real estate sales, getting paid a healthy dividend would help keep it interesting while we wait. I don't see any CD's or savings accounts paying anything close to this type of return.

Fresh Del Monte also looks appealing at its current price. We would already be owners if it was not for all of the neat small companies we have been adding recently. As we approach or limit of 15 companies we can become much more discriminating towards any company we look to add to our portfolio. Another alternative is that we may be forced to unload one of our weaker companies to make room for a stronger new entrant. It is in our best interest to only hold the best investments we can find. We love Berkshire Hathaway but have contemplated divesting a few shares to free up some money to add to companies that may show much higher returns over the long term.

USG after rising over 700% over the past few years is still selling ridiculously cheap. Unfortunately, they are still in bankruptcy awaiting the resolution of the asbestos legislation moving through Congress. These bills have seen repeated delays and may never get voted on. We will patiently wait for our opportunity if and when they do get passed.

Company	Current price	May price	Change from Mar Month	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	$64.91	$68.00	-4.54%	12.7	$69.68	$44.50	$5.13	5.54%
Allergan/AGN	$84.68	$78.16	8.34%	26.4	$89.55	$66.78	$3.20	0.45%
Bioanalytical Systems, Inc./BASI	$5.71	$6.11	-6.55%	n/a	$10.37	$3.90	n/a	n/a
Fresh Del Monte Produce/FDP	$26.74	$29.63	-9.75%	11.2	$33.94	$24.36	$2.41	2.97%
The St. Joe Co./JOE	$81.21	$75.26	7.91%	48.7	$83.52	$39.55	$1.67	0.84%
Landauer, Inc./LDR	$53.97	$49.30	9.47%	24.9	$53.97	$41.45	$2.12	3.93%
Paychex, Inc./PAYX	$32.98	$29.55	11.61%	28.2	$34.69	$28.60	$1.16	1.56%
QLT Inc./QLTI	$10.76	$10.25	4.98%	14.8	$19.99	$9.38	$0.71	n/a
Rayonier/RYN	$53.63	$53.01	1.17%	24.3	$55.00	$43.29	$2.20	4.41%
Sanderson Farms/SAFM	$46.09	$38.10	20.97%	11.2	$53.89	$30.81	$4.10	1.92%
Tejon Ranch Co./TRC	$52.60	$50.95	3.24%	n/a	$55.90	$32.12	n/a	n/a
USG Corporation/USG	$43.49	$47.53	-8.50%	6.9	$50.00	$16.21	$6.16	n/a
The Washington Post Co. /WPO	$862.97	$838.50	2.92%	23.4	$999.50	$805.00	$36.24	0.85%

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 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.

Our holding are now up to 12 companies now that we have added CSP Inc. to our portfolio. You can plan on more changes in the near future. Last month we stated that we are still interested in increasing our Astronics stake, just not at the recent price level. There is another company we are finishing researching that will probably be added. The company is K-Tron International (KTII). KTII makes crushers, shredders, feeders and conveyors for multiple industries. They are the market leader in more than one product line. The company has excellent profit margins and is selling real cheap. Be waiting for the go ahead to purchase shares.

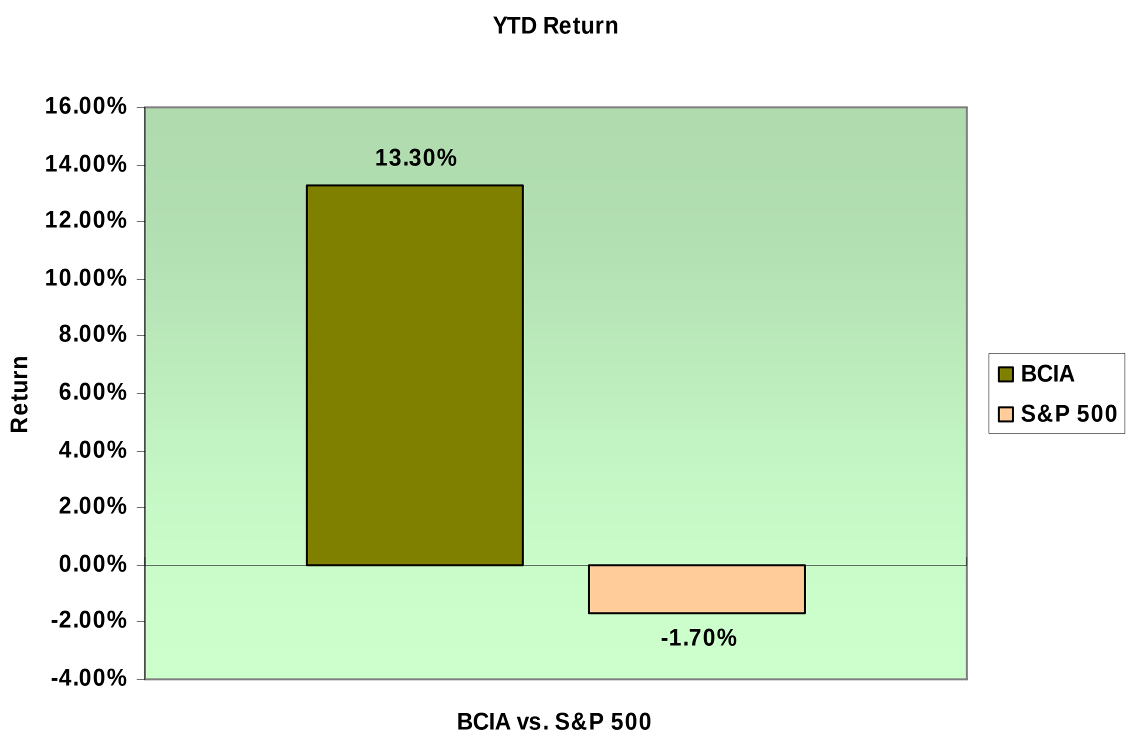
Last month we made a note on how dismal PetroKazakhstan had performed recently. All has now changed. The company has been courting buyout offers and the price has jumped back to levels near where we originally purchased. The stock may very well sell for more than $60. It would be a nice gain for a short time period but would force us to find another opportunity in the oil patch.

Along with looking to increase our Astronics holdings, we are looking to add to Gencor, CSP Inc. and even Alico on any weakness. If we do end up adding K-Tron it will be our 13th position. This is approaching our maximum of 15. In our opinion holding more than 15 companies is unnecessary and counterproductive. It is a difficult task to be intimately familiar with the financial structure and progress of 15 different operations, many of which have multiple operating divisions. We would much prefer a single near can't miss prospect like Consolidated Tomoka, but that is not the case currently. (I urge you not to look at Consolidated's current price. It is liable to upset your stomach. Sitting on our hands is one of our greatest investment weapons. Too bad we were not more successful in applying it in this case.)

Company	Porfolio Percentage	Current price	May Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	16.60%	$51.43	$49.93	3.00%	$50.00	21.2	1.98
Amgen/AMGN	3.90%	$60.46	$62.85	-3.80%	$60.00	21.2	n/a
Astronics Corporation/ATRO	6.50%	$9.05	$8.03	12.70%	$7.00	n/a	n/a
Berkshire Hathaway B/BRK.B	18.00%	$2,783.00	$2,840.00	-2.01%	$3,050.00	18	n/a
Cash	23.00%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.50%	$5.35	$5.88	-9.01%	$9.00	n/a	n/a
CSP Inc/CSPI	2.70%	$8.23	$8.52	-3.40%	$8.75	16.1	
Culp/CFI	2.90%	$4.40	$4.19	5.01%	$4.15	n/a	n/a
Gencor/GNC**I**	2.80%	$8.50	$9.25	-8.11%	$9.25	4.4	n/a
Kensey Nash	5.90%	$30.24	$27.17	11.30%	$26.50	27.6	n/a
OMI Corporation/OMM	10.40%	$19.01	$19.40	-2.01%	$18.00	6.6	1.70%
PetroKazakhstan	3.50%	$36.58	$27.62	32.44%	$41.00	6.2	2.59%
Protein Design Labs/PDLI	1.30%	$20.21	$19.39	4.23%	$18.75	n/a	n/a

Newsletter Performance

Our results have been very strong through the first half of this year. They could have been much stronger without the sale of CTO. As we have stated in the past our goal is to outperform the S&P 500. Through the halfway point this year we have a 15 point lead over the S&P 500 average. When making decisions to buy and sell companies it is always difficult determining whether you are selling close enough to the top and buying at a cheap enough price to allow for significant increase in value over time. One thing is constant, mistakes will be made. They are unavoidable. Overall you need only to be right with a couple of picks to make out real well. Consolidated Tomoka , OMI, Amgen, Astronics, and others have helped grow our portfolio significantly over time. Will selling CTO too early be a major missed opportunity five years down the road? Probably not, but as you have seen we have been wrong in the past. Alico should perform much better over the next five years. The land on Consolidated's books is valued at about $35k per acre. Alico has land that is valued at something closer to $2k per acre. In the real estate biz the mantra is location, location, location. Consolidated definitely has land that is much better situated. However, we do not feel that it is worth 17 times more in relation to being better located. We are prepared to wait 5 years or more to prove we are right. In the meantime here is to hoping that our margin of out performance over the S&P 500 increase over the next six months.



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