Volume 2 Number 4

April 2004

Blue Collar Investment Advisor

BCIA

Wall Street

- DJ 10442
- S&P 500 1139
- NASDAQ 2053

What Is Investing?

Investing is easy to talk about but what is it? What actually happens when you invest in a company? Companies sell stock to the public to generate funds to grow their business. The public contributes money in exchange for ownership. There are several other ways companies generate funds to expand their businesses. Sale of stock and bonds are the two means by which companies generate large amounts of capital.

Spring! The season of mailboxes stuffed with proxy material.

This pertains to public companies. Private companies have more limited options. Private companies can have stock, but it will not be publicly traded. Angel investors or venture capital is a more common way for private companies to attract capital. Venture capitalists pool money from large wealthy investors to invest in promising small or beginning stage companies. They usually invest in more than one of these companies to spread out their risk. They can make a large amount of money if one of these companies goes public. Going public involves selling shares of stock to the public for the first time. This is referred to as an (IPO) initial public offering. The venture capitalist profits because they will have obtained an ownership interest in the companies they invest in. When a company goes public it can sell off a percentage of itself to public investors and generate large amounts of capital. This can be many times the amount that a venture capital firm invested in the company. The venture capitalists can sell off their ownership interest and cash out. An angel investor is a single person who invests a large amount in a company for an ownership stake.

Public companies and private companies can borrow money from banks and other institutions to finance their growth. Only public companies can sell stock to the public or go to the bond market for capital. A public company can sell more stock after their initial public offering. This is called a follow on offering. The company can borrow money from many investors at once. This is accomplished through a bond offering. Bonds are usually sold in $1000 amounts. To the best of our knowledge the largest corporate bond offering is still WorldCom's $11.9 billion offering in 2001.

Investing in stock is the only means of gaining ownership of a company. A company has trade offs when it considers how to raise capital. A bond offering adds debt that requires interest payments. The sale of stock requires that a company give up some of its control. There are examples of an owner nurturing a company for years to get to the point where it is large enough to go public, only to be forced out as Chairman and/or CEO a few years later by the Board of Directors. Stock does not require any payments be made.

When you invest in the stock of a company you become an owner. It is important that you act and

Inside this issue:

What Is Investing?

think like an owner. All but the most wealthy investors will be incredibly small owners on a percentage basis. What ownership entails can best be illustrated by the corner 7-11. If you and a couple of buddies pooled some money and bought a 7-11 store you would be owners of a business. No less or no more an owner then when you buy shares of a public company. The only difference is in the ownership percentage you have. In Wall Street parlance, you would be taking on a large amount of risk if you invested a large portion of your wealth in a single investment. That may not be the actual case, however, that is not the topic of this article.

When you own a 7-11 you are not going to sell it a few days after you buy it if someone offers you a $1000 more than you paid for it. You will have put to much work into acquiring it to be willing to sell it for a measly $1000 more. When you initially look to purchase a 7-11 you are going to make sure you understand how they make their money and how profitable the store is you are looking to buy. You expect to receive a good return on your investment. You also must understand how the business is run if you stand to make any money at it. You also would not want to overpay for your store. After you figure out how much money the store is making and your estimation of how much it will make in the future, then you can figure how much you would be willing to pay for it.

Same with an investment in the stock of a company. You are going to buy into companies that you know and understand. You must have a good idea that they will be able to make money and be a good judge of how much they are worth. You are again trying not to overpay. Many people will buy the stock of a company that has had a sharp rise in price and has garnered a great deal of good publicity. Think of how much sense this makes in the context of the corner 7-11. Suppose that the store has just sold five or six times in the last month. Each time it was sold, the new owners paid more money for it. Is this fact going to make you want to pay even more for it? I don’t think so. You are more apt to think what fool paid the last sale price.

In the stock market these stocks are the darlings. The internet craze was a great example of this. It is an example of the greater fool theory. Each sale you need a greater fool to purchase the stock than the one before.

Acting like an owner means being able to ride out short term variations in the price and earnings of a stock. Stocks whose prices drop are often dropped from pundits recommended lists. Again, go back to the 7-11 example. Without having any idea of what a 7-11 sells for, lets assume one is for sale for $1 million. They have a bad year and only have $98,000 in profit instead of the expected $100,000 in profit. Would you expect the sale price to drop 40% to $600,000. This often happens on Wall Street.

As an owner you should expect to hold onto your company for many years. This is true if you have managed to accurately identify good opportunities and buy companies that are selling for a good deal less than you feel that they are worth. The same goes for buying a 7-11 (with far fewer free ho-ho’s.)

Sometimes we make mistakes in our ability to identify companies or the outlook these companies have. Other times the outlook for a company changes or our ability to understand a company

What Is Investing?

changes. Each often results in the sale of the company. Companies can sell at such a large premium to what we feel they are worth, that we will sell them to re-invest in a company that is selling at a much lower valuation.

Buffet On Mr. Market

We felt this article is appropriate to help further explain our investment philosophy. It expands on the thoughts we presented in the previous article. This is not our first mention of Warren Buffett, the Chairman and CEO of Berkshire Hathaway, and you will see many more. He relayed a parable that he was taught by his mentor Ben Graham. It discusses the mental attitude that proves most conducive for investment success. The article covers market fluctuations and how to see beyond those that will inevitably accompany any investment in a company.

Now it is time to meet Mr. Market who willingly gives you market quotations (prices) and who also happens to be your partner in a private business.

> "Each day Mr. Market appears and gives you a price at which he will either buy your interest or sell you his. Even thought the business that the two of you own may have economic characteristics that are very stable, Mr. Market's quotations will be anything but. For, sad to say, but the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting his business. When in that mood, he names a very high buy-sell price because he feels that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.
>
> Mr. Market has another endearing quality: he doesn't mind being ignored. If his quotation is uninteresting to you today, he will back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.
>
> But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice. Mr. Market is there to serve you, not guide you. It is his pocketbook, not his wisdom that you will find useful. If he shows up some day in a particular foolish mood you are free to ignore him or take advantage of him, but it will be disastrous if you fall under his influence. Indeed if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game."

If you haven't yet figured it out, this little story describes the daily fluctuations in the stock market and the people interacting with it. You will hear us stress the importance of buying companies cheap and sticking to what we understand. The only way we can do this is by being able to accurately value a company we are investing in and buying at less than the market is currently valuing it.

Another major point of the article is how the market is moved by emotion and this is not the most rational means of valuing a company. There are many companies whose prices who will vary 50% over the course of a year. The value of the business will not vary this much, just the price people are willing to pay for it. This is Mr. Market at work. Emotion overtaking reason. We do our best to filter out this "noise" and focus on a business' true worth. This minimizes overpaying for a company and losing your hard earned money.

Fat Mailboxes

Here are our recommendations for voting your proxy statements for this year. Overall it is a year with very few controversial proposals. We will include our recommendations for five of our nine companies this month with the other 4 to come next month. The only proposal we recommend voting against the company Directors recommendations is for Aflac's long term incentive plan. Aflac's executives are well paid and have been granted what we feel are an excessive amount of options in the recent past. We regularly vote against stock option programs put forth by the companies we own. Overall, it is our opinion that stock options are not the best form of compensation for executives. Failure to expense stock options only exacerbates the problem. We will tackle this topic in full in a future article.

Matter	Recommendation
Aflac–	
1. To elect seventeen Directors of the Company to serve until the next Annual Meeting and until their successors are duly elected and qualified;	For all
2. To consider and approve the 2004 AFLAC Incorporated Long-Term Incentive Plan;	Against
3. To consider and act upon the ratification of the appointment of KPMG LLP as Independent auditors of the Company for the year ending December 31, 2004.	For
Amgen–	
1. To elect four directors to a three-year term of office expiring at the 2007 Annual Meeting of Stockholders;	For
2. To ratify the selection of Ernst & Young LLP as independent auditors of the Company for the year ending December 31, 2004.	For
Astronics-	
1. The election of five directors of the Company to serve for the ensuing year and until the next annual meeting of Shareholders and the election and qualification of their successors.	For all
2. The selection of Ernst & Young LLP, independent certified public accountants, as auditors of the Company for the current fiscal year.	For
3. To consider and vote upon a shareholder proposal regarding rescission of the Company's Supplemental Retirement Plan and Related Post-Retirement Benefits.	Against
Berkshire Hathaway-	
1. To elect directors.	For all
2. To act on a shareholder proposal, if properly presented at the meeting.	Against
Consolidated Tomoka-	
1. Election of three Class I Directors for three-year terms ending in 2007 and one Class III Director for a two-year term ending in 2006.	For all

Matter	Recommendation
OMI-	
1. To elect two directors (Class III) for a three-year term, each to hold office until his successor shall be duly elected and qualified;	For all
2. To ratify the appointment of Deloitte & Touche LLP as auditors of OMI Corporation and subsidiaries for the year ending December 31, 2004.	For

Company	Ticker Symbol	Portfolio Percentage	Current price	Buy Price (less than)
Aflac	AFL	3.50%	$42.14	Hold
Amgen	AMGN	5.00%	$58.85	$60.00
Astronics Corporation	ATRO	5.00%	$5.22	$5.15
Berkshire Hathaway B	BRK.B	18.50%	$3184.00	$3050.00
Cash		14.50%	$1.00	n/a
Cell Genesys, Inc.	CEGE	3.00%	$12.38	$12.75
Consolidated-Tomoka Land Co.	CTO	27.00%	$37.76	$36.00
Freddie Mac	FRE	9.50%	$59.19	n/a
OMI Corporation	OMM	13.00%	$11.24	$10.00
Ultralife Batteries	ULBI	1.00%	$24.00	$21.00

The BCIA Portfolio

Price moves over the last month have been pretty uneventful. Our most recent addition, Ultralife Batteries is the only exception. It has been all over the place. We will make an exception for holding a company long term when we find activity of this sort. ULBI ranged between the high $18 range and the low $24 range. We issued an alert on 4/1 to sell ULBI. We are waiting to buy back in when the price drops to $21 or less. Of course we have no guarantee that this will happen. Just don't be surprised when it happen and plan on hearing from us.

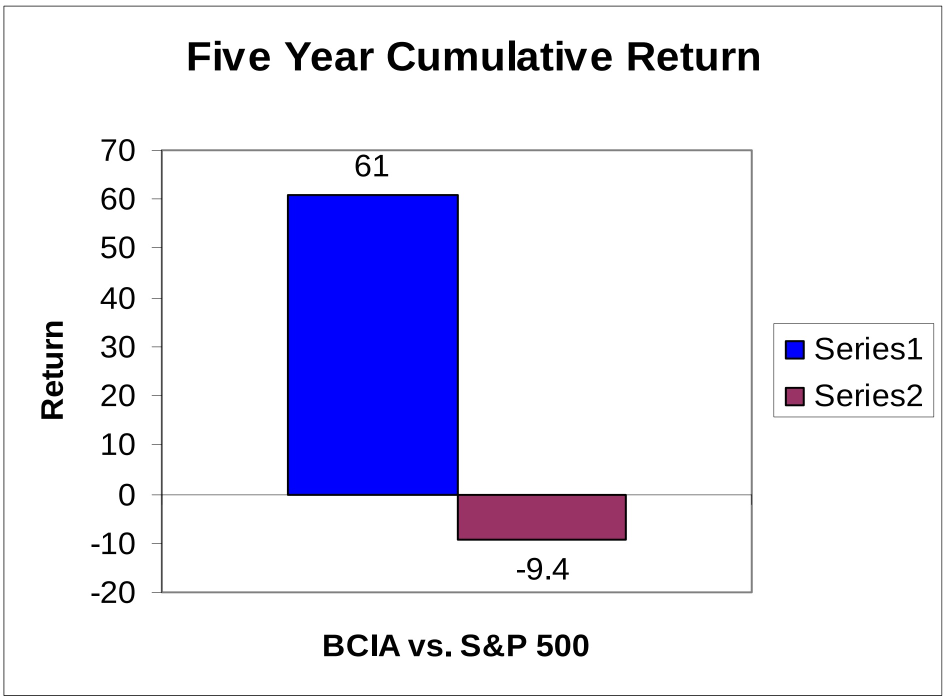
We have had no change in our sentiment towards Freddie Mac and here is a repeat of our explanation from last month. A recent development at Freddie Mac has changed our outlook on that company. It has less to do with earnings per share and the value of the stock than it does with our ability to understand it. I recently received the companies 2002 annual report. It is over 200 pages long. The complexity is staggering. When one person can no longer understand a company's annual report, it is time to sell the stock. We will probably be sending out an alert in the next couple of months regarding the sale of Freddie Mac. We are in no hurry to sell and do not feel that we have much risk on the downside. When we find an agreeable price, we will make our move. Preferably this will be at a price of at least $65. Before then, as and old country song says, "If the phone don't ring, you'll know it's me." The same applies to our emails.

The table 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.

Many Happy Returns

Over the past 5 years BCIA has handily outpaced the performance of the S&P 500 market average. The S&P 500 has returned a negative 9.4% while money invested using BCIA's selections has risen 61%. These returns include results over the last five years ending with 2003. The early part of 2004 has seen BCIA's lead widen further. We have a 12.4% return so far this year compared to 3.0% for the S&P 500. We need to average a return just below 15% to achieve our desired goal of doubling our money every five years. Over the past five years we have averaged only 10.0%. The three year bear market did us no favors. Be glad you did not invest in the S&P 500, you would still not be back in positive territory.

We need another strong year or two to get back on pace. I can't tell you when that will happen. What we can do is what we usually do, look to buy good companies cheap. At these price levels we are having a hard time finding anything that meets this criteria. Fortunately we excel at sitting on our hands. It is much better to wait until we know we are right than to be active just to be active. With so much information on the stock market and the urgency that it is created in the media, showing patience can be challenging. Filter out the noise and wait until everyone isn't so cheery about the stock market.



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.

Proxy Vote

Principles Don't Change.

We are the postal service's best friend this time of year.

As a shareholder you have certain rights and privileges. One of these is the ability to vote for the Board of Directors each year. The Board of Directors are representatives of the shareholders charged with overseeing the executive management team. Management is made up of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), a couple of other Chief positions depending on the company and employees with the title Executive Vice President of <u>fill in the blank</u>. If a change is needed in the management, it is the Boards job to fire the CEO and hire his replacement.

The Board also sets executive compensation and interacts with the outside auditors to prevent accounting fraud. The outside auditors come in once or more per year to make sure that the accounting information is reliable. This is in contrast to internal auditors which work for the company.

Executive compensation can be a very controversial area depending on the compensation policy that the Board subscribes to. Lavish stock option programs are often justified because everyone else does it and compensation consultants, that the Board hires, give their stamp of approval. How surprising, the consultants are telling the people that hired them what they want to hear. The stock option programs are often put to a vote of shareholders. Many pass with flying colors.

When we invest in a company we are interested in how a company compensates its executives. If the compensation appears excessive we may take any opportunity to help change it. This can be through votes on corporate matters or by submitting matters to the Board for inclusion in the proxy material.

Shareholders are allowed to submit proposals to the company for inclusion in the yearly proxy vote. At BCIA we have submitted one proposal regarding stock options to a company we owned shares in. This can be categorized as shareholder activism. Our proposal was omitted from the proxy materials due to a technicality. I am sure we will have another opportunity. There is no lack of outrageous compensation practices going on.

Another matter the Board has influence over is the selection of external auditor. All of the big accounting firms are significantly independent and capable of doing a good job auditing a company's books. Shareholders approve a companies choice of auditor. Many times this vote is insignificant. In the recent past this was not always true when companies had hired Arthur Anderson as their auditor.

This all leads to the discussion of proxy materials. Each year companies are required to make a report to their shareholders. This report is known the annual report, how original eh? The report consists of several parts. There is a letter from the Chairman of the Board and CEO to the shareholders. Many times there is slick overview of the company and other items of interest after this letter. Following those two parts is the financial information.

Also included is the proxy material, which includes a packet describing what matters are

Proxy Vote

Mail out the vote.

being put before a vote of the shareholder. You will also find information on the compensation philosophy of the Board and the compensation of the top five highest paid executives. The amount of the company that the Board and executives own and information of any shareholders owning more than five percent is included. You can also find information on the stock options granted (if the company grants them) and a report from the audit committee of the Board of Directors.

The last item is a form with an envelope that you can mark your votes on and return to the agent that tallies the votes for the company. Many companies also allow you to place your vote over the internet. Proxy means stand in. You are voting by proxy as opposed to voting at the annual meeting. Mailing in your votes functions as a stand in for you actually being at the annual meeting to place your vote.

If you attend the annual meeting you can revoke any vote that you mailed in and place your vote at the annual meeting, which you are invited to as a shareholder. Attendance at a companies annual meeting can give you unique insight into the products and functions of a company. You also have the opportunity to ask questions of management or compliment or criticize them.

As an owner you can influence actions the Board of Directors takes. It is important that you exercise your right and protect your interest as an owner. Before, we stated that the Board is supposed to protect the interests of the shareholders. There are many reasons why this does not always work in practice. The topic is quite involved and requires too much explanation to go into in this article. A recent example of the owners causing a Board to make changes is at Disney. Disney CEO Michael Eisner was also the Chairman of the Board of Directors. (This is one of the conflicts that we are not going to get into right now.)   The shareholders withheld a large percentage of votes for Eisner as a message that they though he should be removed. He wasn't fired (as he should have been) but he was removed as Chairman. In Europe the whole Board of the company that operates the chunnel between France and England was sacked.

You may not agree with how much a company pays its executive. You can vote against Board members on the compensation committee or vote against any compensation proposals that are brought to a vote. You can vote against authorizing more shares being issued. This can block the takeover of another company or short circuit a stock option plan.

Earlier we provided a synopsis of how we feel shares should be voted in the companies that we own shares in. Feel free to disagree with our recommendations. However, please vote.

Next month we will have the rest of our proxy vote recommendations and begin our coverage of first quarter earnings. Hopefully we will have some nice surprises to talk about. Until next time.

Brett Davidson