The Commonsense INVESTLETTER

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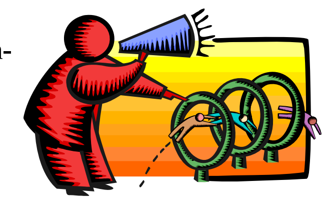
Wall Street

- DJ 11367
- S&P 500 1311
- NASDAQ 2323

Supply and Demand

Supply and demand are the two factors that explain nearly all that is economic. How we buy and sell items and the prices this occurs at are all affected by the supply and demand for products and services. There are many factors that affect supply and demand and can cause a change in supply, demand, or both. The dynamics with which these factors impact supply and demand determines what happens to the price. Occasionally supply and demand have little impact on a transaction but these instances are rare. (Donating an item to charity is somewhat removed from the impact of supply and demand.)



The demand we are talking about is not the same as the type that has you jumping through hoops.

The markets that products and services are sold in can be thought of as "one big continuous auction". Buyers and sellers line up to transact sales and the number of transactions completed depends on the price and availability of products and services. The more of a product or service available, the lower the price will be. Other factors affect supply like the price of labor. If companies have to pay more for labor then they will tend to produce less because their profits will be compressed. This lower supply will cause the price to rise. The availability of goods used in production will cause the supply to change. If you need to use oil in the production of your product (plastics), the price increase will cause the cost of producing your product to increase. The increase cost will cause producers to reduce their production. If producers sense that prices will rise in the near future they will increase production to capture the higher profits due to rising prices.

Demand is the other side of the equation. How much of a product or service consumers desire will affect the price. Think back to the auction paradigm. If more people want a product, the price will drift higher just as if more people are bidding on a product, the higher it will sell for. Housing is a good example. Prices tend to rise in the spring and summer as more people are looking to buy houses. In the middle of winter prices tend to be depressed with fewer consumers looking to buy a house. There are also multiple items that affect demand. One is the availability of substitutes. When the price of beef rises consumers will buy more chicken. Chicken serves as a substitute for beef. The availability of substitutes serves to limit the rise in prices of many goods. The less available substitutes are, the more sensitive pricing can be to changes in demand. Oil is a good example. Consumers have little choice but to use gas to fuel their car. If substitutes emerge, gas prices will not react as strongly to changes in supply and demand.

If you think about the factors that effect the supply and demand of products and services you can gain insight into what is causing changes in the marketplace. If supply is disrupted prices will rise. If new producers enter the market prices will fall, think LCD monitors. If demand is great, like it was for cabbage patch kids in the past, you can expect to pay more. Price changes do not happen at random. Sometimes you may have to search for the cause but eventually reason related to supply and demand will be at the root of the change.

Inside this issue:

Watch List

With the general rise in prices we have been unable to find any candidates worth buying. The oil and energy stocks and the commodities have shown tremendous strength over the past several years making many of those shares priced out of reach. Canadian Natural priced at $60 makes a lot of sense with oil near $70 but would look much less attractive with oil in the mid $50's. The longer oil prices remain high the greater the chances we will see capital spending on developing alternatives. In our opinion the best possible scenario is to have oil remain near $70 and gas near $3 for at least another year. If this does occur, the number of new ethanol facilities under construction will undoubtedly increase. A larger ethanol supply will put pressure on gas prices and cause them to drop. Just like that old quote says, "necessity is the mother of invention".

The current high gas prices are largely tied to ethanol. The government has required gas producers to replace the chemical mtbe in gasoline. In order to economically achieve the required octane level, ethanol has been the replacement of choice. This has greatly stressed our ethanol supplies. The difficulty of producers in obtaining ethanol supplies has led to lower gasoline supplies and as would be expected, higher prices. Combine this with low refinery availability due to overdue shutdown activity from the refiners. With the hurricanes last fall many of the refineries due to shutdown for maintenance were forced to continue running into the spring. An unusually large amount of capacity went offline in the spring impacting gasoline supplies and the price shot up. Our gas imports are still running nearly 100% higher than last year. The higher prices are beginning to have an effect and consumption is leveling off at levels equivalent ot what were seen at last year this time. Earlier this year consumption was running 2% to 3% higher than last year. The $3 per gallon level seems to be the magic number for gasoline, at least for now, as far as causing people to change their behavior.

As new ethanol plants come online ethanol prices can be expected to decline and become a cost effective alternative to gas for consumers whose vehicles can utilize it. When ethanol becomes cheaper consumers will migrate from gas and demand for gas will drop, With lower demand, the price of gas will be forced to drop in unison. The current high gas prices may be the stimulus that finally starts to move us away from our dependence on foreign oil. If tax incentives show up for ethanol consumption the process may gain even more momentum. While paying high gas prices is not a great deal of fun it is comforting to know it may help prevent a recurrence of high prices in the long run.

Company	April price	March price	Change from March	P/E	52 Week High	52 Week Low	Estimated '06 EPS	Dividend Yield
Altria Group, Inc./MO	$73.16	$70.86	3.25%	12.8	$78.68	$62.70	$5.28	4.36%
Bioanalytical Systems, Inc./BASI	$6.62	$6.30	5.08%	n/a	$10.37	$4.75	n/a	n/a
Canadian Natural Res./CNQ	$60.20	$55.39	8.68%	13.8	$64.38	$24.48	$4.03	0.38%
CSP Inc./CSPI	$7.25	$6.34	14.35%	n/a	$11.96	$5.59	n/a	n/a
Fresh Del Monte Produce/FDP	$18.81	$21.15	-11.06%	9.2	$31.99	$20.02	$1.42	3.80%
The St. Joe Co./JOE	$56.16	$62.84	-10.63%	27.8	$85.25	$58.67	$1.84	1.00%
Kensey Nash/KNSY	$30.17	$28.60	5.49%	27.1	$34.00	$19.32	$0.62	n/a
Landauer, Inc./LDR	$49.20	$50.22	-2.03%	21.6	$54.00	$43.90	$2.13	3.62%
ModPac/MPAC	$10.84	$11.60	-6.55%	n/a	$18.60	$10.02	n/a	n/a
QLT Inc./QLTI	$8.22	$7.69	6.89%	16.7	$13.37	$5.93	$0.54	n/a
Rayonier/RYN	$41.16	$45.59	-9.72%	25.6	$44.07	$31.70	$1.72	3.87%
Tejon Ranch Co./TRC	$45.13	$48.87	-7.65%	n/a	$62.72	$39.15	n/a	n/a
XTO Energy/XTO	$42.35	$43.57	-2.80%	12.1	$50.01	$26.00	$4.01	0.56%

The Investletter Portfolio (March)

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 some time 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.

March was another strong month for our portfolio. As shown in the chart below our investment in K-Tron International (KTII) performed extremely well in March. The company bought a smaller competitor that will increase 2006 earnings and reported strong Q4 2005 results. There is nothing flashy about their business, which suits us just fine. They are well run with solid 10% to 15 % sales growth and tight controls on costs. Before this past month they sold at a nice discount to what they were worth. With the coal industry booming (due to the high natural gas prices and power plants seeking the cheaper coal fuel), KTII should have another solid year in 2006. It is easy holding such a well run company in our portfolio. When management makes solid, shareholder friendly moves like making their recent acquisition with cash instead of debt or using stock, it is not hard to sit tight reap the rewards. The share price probably will not move up another 20% this year but we could still make a strong case for seeing the shares climb another 10% by year end. At that point we will be closing in on a 100% gain for the short time we have held them. Too bad yours truly was out performing his wishful thinking act with CSP Inc. Our portfolio would have been much better if we would have bought more KTII instead any CSPI. If only hindsight were foresight.

The performance of the two companies we own that benefit from section 29 tax credits both turned in strong performances last month. Headwaters (HW) and Gencor (GNCI) both had nice 7% plus gains in March. Legislation from the House and Senate currently in conference committee will help both companies lock in their section 29 credits for this year. That will probably provide a further boost in the companies share price. One final note regarding HW. In late January we sent out an alert stating that we were purchasing more HW. To this point we have not been able to add shares at the price we specified. For now we are going to sit tight and wait for another opportunity to pick up shares at an agreeable price.

Company	Porfolio Percentage	March price	February Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	14.40%	$45.44	$45.23	0.46%	$50.00	53.2	2.20%
Amgen/AMGN	4.20%	$72.75	$75.48	-3.62%	$60.00	24.9	n/a
Astronics Corporation/ATRO	9.80%	$13.49	$13.28	1.58%	$9.90	40.9	n/a
Berkshire Hathaway B/BRK.B	8.80%	$3,012.00	$2,888.00	4.29%	$2,900.00	16.3	n/a
Cash	20.40%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	3.50%	$7.98	$7.04	13.35%	$6.50	n/a	n/a
Culp/CFI	2.80%	$4.85	$4.95	-2.02%	$4.15	n/a	n/a
Gencor/GNCI	7.90%	$9.75	$9.05	7.73%	$8.50	3.0	n/a
Headwaters/HW	4.60%	$39.79	$37.12	7.19%	$34.00	13.1	n/a
K-Tron International/KTII	4.20%	$48.68	$39.90	22.01%	$40.00	18.2	n/a
OMI Corporation/OMM	16.70%	$18.02	$17.50	2.97%	$18.00	5.3	2.20%
Protein Design Labs/PDLI	1.90%	$32.80	$31.31	4.76%	$24.00	n/a	n/a
Terra Systems/TSYI	0.80%	$0.80	$0.80	0.00%	$0.70	n/a	n/a

The Investletter Portfolio (April)

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 some time 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.

The one constant over the past few years has been the rise in anything energy related and commodities. We have profited from our position in PetroKazahkstan (PKZ) and OMI (OMM). We have not had any exposure to commodities except maybe the oranges that Alico produces. Copper is up over 200% and oil is up over 100% over the past couple of years. As Warren Buffett aptly stated at the Berkshire Hathaway annual meeting earlier this month, "What the wise man does at the beginning the fool does at the end." Our job is to avoid being late to the party, not get there after the party is over. The next stock market winners can be found among this years most hated. That is not to say that every beaten down stock is going to rise to new highs someday (or at least soon enough to make it worthwhile) and act as a fool proof investing model.

Astronics was a classic example of a company that was beaten down and out of favor. After 9/11 the airline industry was in a state of shock. Only now has it begun to rebound. At the same time the industry is on the verge of structural changes that could significantly alter air travel with the introduction of a new line of light jets. Astronics has content on two of the main competitors. The have just started shipping production parts for the Eclipse 500 which is set to receive FAA certification in June, at which time the Eclipse company will start shipping production models. They have orders for about 2,500 jets. Astronics has what we guess is somewhere near $25k in content on each plane. This will be a huge piece of business for them. They have content on several other planes that are going into production shortly. Along with announcing solid first quarter earnings results the company upped their annual revenue guidance to $90MM to $100MM from $85MM to $90MM. They are very conservative when they make these statements and we suspect revenues will top $100mm this year. The share price could be considerably higher by the end of the year as 2007 is shaping up to be even stronger.

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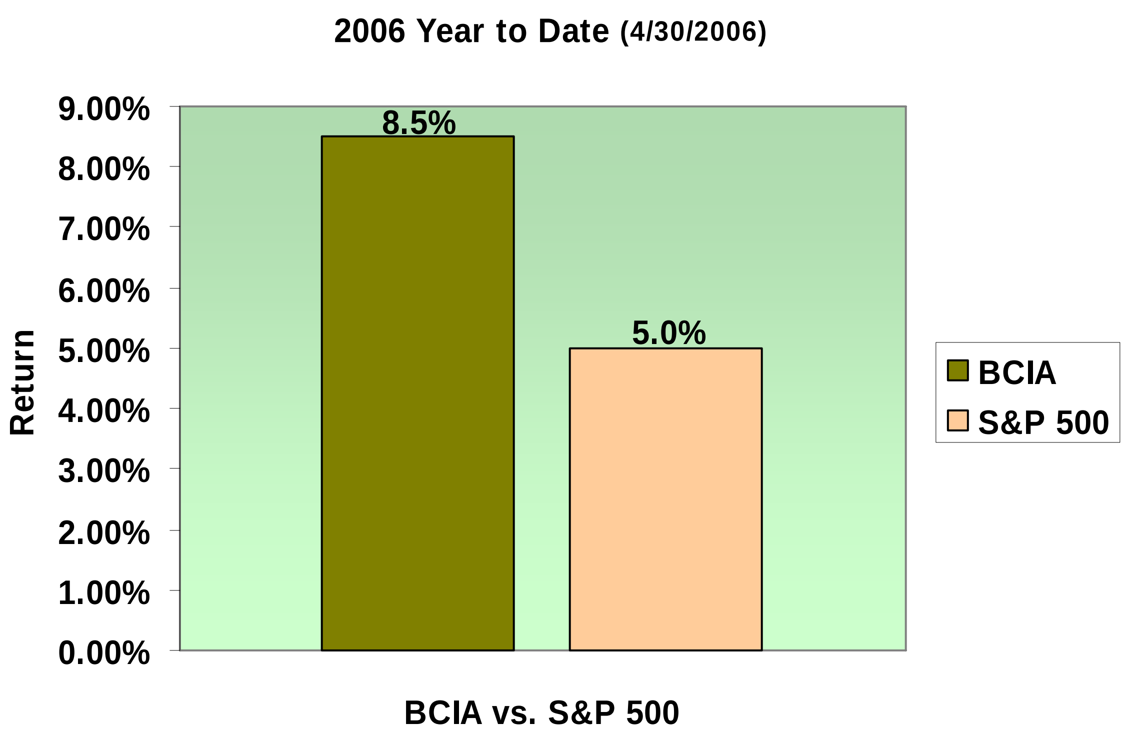
Alico/ALCO	15.70%	$50.20	$45.44	10.48%	$50.00	48.0	2.00%
Amgen/AMGN	3.90%	$67.70	$72.75	-6.94%	$60.00	22.5	n/a
Astronics Corporation/ATRO	11.60%	$14.45	$13.49	7.09%	$9.90	44.1	n/a
Berkshire Hathaway B/BRK.B	8.40%	$2,952.00	$3,012.00	-1.99%	$2,900.00	14.7	n/a
Cash	19.10%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.90%	$6.80	$7.98	-14.79%	$6.50	n/a	n/a
Culp/CFI	2.60%	$4.64	$4.85	-4.33%	$4.15	n/a	n/a
Gencor/GNCI	7.50%	$9.30	$9.75	-4.62%	$8.50	2.8	n/a
Headwaters/HW	3.90%	$33.68	$39.79	-15.36%	$34.00	12.0	n/a
K-Tron International/KTII	4.30%	$49.89	$48.68	2.49%	$40.00	19.5	n/a
OMI Corporation/OMM	17.70%	$19.28	$18.02	6.99%	$18.00	5.4	2.10%
Protein Design Labs/PDLI	1.70%	$28.78	$32.80	-12.26%	$24.00	n/a	n/a
Terra Systems/TSYI	0.70%	$0.70	$0.80	-12.50%	$0.70	n/a	n/a

Performance (March)

We added a bit of a cushion between our performance to date this year and the S&P 500's. Our portfolio has shown a 7.3% increase in value compared to an increase of 3.7% for the S&P 500. Our performance over the two years and 3 months we have published the newsletter is now up to more than 60%. Yeah! Unfortunately, this is about all the looking back we can afford to do. As the great Negro league baseball player wrote on his list of how to stay young "Don't look back, something might be gaining on you." That is the same attitude we are forced to take with our performance. What we have done has been nice, however, it don't mean a thing unless we can perform well going forward. So that is where our efforts will be. We have been continually pouring over company reports to uncover the next big opportunity. The haystack keeps getting smaller but we still haven't been able to find that needle yet. Maybe this will be this month we finally stick ourselves. Sort of like an "I found it" type moment. Thankfully, we already have a stable of fine companies to tide us over. (The discussion above concerns March while the chart below reflects the results as of the end of April.)



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