

INVESTLETTER



Volume 7 Number 3

Research Revisited

Wall Street:

- DJ 8001
- S&P 500 826
- NASDAQ 1476

What do we look at to find interesting candidates to invest in? We look at everything. Some tools stand out in our search to find interesting opportunities and maintain our investments. Most of the information is on the internet and almost all of it is free.

Back in the pre-digital age I had to actually leave my house and go to the library to find useful information. Now it is obtained with the click of a mouse. No longer do I need a list of interesting candidates from the newspaper stock listing, a magazine, or trade journal before heading off to the library to research these companies. Libraries used to maintain subscriptions to the Standard and Poors (S&P) Stock Reports and the Value Line Stock Reports that were a great source to begin investigating a company. I would pull reports and photo copy the interesting ones to analyze in more detail at home. More time would be spent leafing through the reports to pick out additional interesting candidates for photocopying and further analysis. Then a long distance phone call would be placed to the investor relations department of any company deemed worthy of additional scrutiny. If the financial reports provided confirmation of the merits of a particular investment, shares would be purchased. This would entail another phone call to place an order with one of the new discount brokers at the greatly reduced fee of \$40 per trade, prompted by the deregulation of the brokerage industry.



The internet has greatly leveled the playing field when searching for great investments. Now everyone has access to more info than they need.

Now the amount of information is overwhelming. The number of companies that can be investigated magnified and the information to do it much easier to access; you don't even have to leave your bedroom. The core part of the process remains the same. We still analyze a company's financial reports before making any decision (almost all of the time). Now data is culled from multiple sources to find worthy candidates. It is almost taken for granted now that all of a company's SEC filings are available online. In the pre-digital age you had to make a trip to Washington to view much of this information. That made it out of the question for the small investor. I get all of my S&P Reports through online access to my Scottrade brokerage account. I can even sift the universe of publicly traded companies for a slice that meets certain criteria I specify. I could search for all companies who have a dividend yield greater than 5% and payout less than 50% of their profits while increasing earnings at a greater than 10% clip.

No longer do I call a company's investor relations department to receive their annual report or other filings, I just send an email. If they don't have a website, then I can resort to calling using my internet phone service.

Any company I am interested in now is tracked on an aggregator site for financial information

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that allows me to see any press releases and provides notification when any regulatory filings are made. If I get to the point where I actually want to make an investment I login to my account over the internet and place my trade for \$7. A lot has changed.

Here are some of the sources I find useful when hunting down the next great investment candidate, determining whether to keep it, figuring out whether management is doing an adequate job and how to best interact with management.

The millions of regulatory filings provide by the SEC's website is a treasure trove of information that was not accessible just a few short years ago.

Investor Village: Investor Village is an aggregator of investment information focused around message boards discussing particular companies. They also provide company news and access to regulatory filings. This is the part of Investor Village that has proved most valuable. They provide reports in both html, or “web language”, and Microsoft Word format. The SEC website only provides the reports in html or as a text file which is more difficult to work with. If you need friendly to use copies of a company’s regulatory filings, Investor Village is the place to get them. www.investorvillage.com

Yahoo Finance: Yahoo Finance is the best aggregator of financial information out there. The site allows you to create a portfolio or multiple portfolios of companies you own or would like to follow and track everything from company news to insider trading. The breadth of information available makes tracking the companies in our portfolio on yahoo a must. You get an overview of what is going on and serves as a great leaping off point for further research. <http://finance.yahoo.com/>

SEC: The Securities and Exchange Commissions website is the definitive source for regulatory filings. All public company filings are recorded in their database. You also can get information on management, directors and filings made by other insiders. A certain investment firm owns a large portion in the company you are invested; you can do a search to uncover what other positions this firm is invested in. The site also contains information on regulatory efforts like rule changes related to regulatory oversight and news about events like criminal investigations. www.sec.gov

Scottrade: Scottrade has given excellent customer service and has important research tools we use regularly. The S&P Reports on many individual companies are available using Scottrade and several other discount brokerage firms. They provide a wealth of information all free with your account. They also provide stock screens that allow you to choose stocks for further evaluation by sifting for companies meeting user defined parameters. One characteristic we like is companies with large cash balances and we have sifted for them from time to time. www.scottrade.com

Deep Capture: This site gives you everything you ever wanted to know about naked short selling and the illegal and deceptive practices that have been perpetrated on small investors and companies. Make sure you give yourself enough time after dinner to digest before checking out this site. Some of the stuff will turn your stomach. The dedicated folks who run the site and have provided much of the leadership in attacking these practices deserve major recognition for their efforts. They are true modern day heroes. We do go to lengths to avoid companies that may be subject to naked short selling. There is no reward for playing against a stacked deck. www.deepcapture.com

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Free fractal generating software can help you understand the hidden order in shapes like clouds and phenomena like the eddies and currents in a rapids

Chaoscope: Our interests also veer off into exploration of the function of markets and fractals are where it's at. This site provides our favorite fractal generator software and an excellent tutorial on how to use it. Even if you know very little about fractals (like us) you can still enjoy the beautiful shapes the software can generate. Fractal patterns are everywhere in life. They describe the point where systems spontaneously turn from unorganized into organized. The points inside the fractal shape explain when a system is organized and the points outside represent something more turbulent. The stock market exhibits strong fractal properties and the math involved shares similarities with many natural phenomena like the shape of coastlines, how high to build a dam and fern leaves. The stock chart graph of market prices can be replicated with a fractal model. If you do nothing else, take a look at the beautiful images on the site and be amazed that relatively simple mathematical formula can create such amazing shapes. <http://www.chaoscope.org/index.htm>

Committee of Concerned Shareholders: Again we stray from pure investment research, this time for corporate governance. A still important part of our search for quality companies and a guide to our interaction with management. The site design is abysmal but the message is amazing. Part of the site explains a small group of shareholders who attempted to slay a corporate giant... or at least part of their Board of Directors. This story along with a detailed account of numerous corporate governance problems is well documented on the site. <http://www.concernedshareholders.com/>

The Corporate Counsel.net: Another corporate governance site this time aimed at legal issues. Enough said. <http://www.thecorporatecounsel.net/blog/index.html>

Energy Information Administration: Investing in energy stocks creates a need to find out how the underlying energy market is performing. The EIA has it all: The storage of natural gas, think Chesapeake (CHK); the amount of kerosene produced last month; if it is tracked and related to energy the EIA site can provide information on it. We used the site regularly when we were involved with oil tankers to monitor the import levels of oil and gasoline. <http://www.eia.doe.gov/>

Financial Calculators 1040 Tax Estimator: Eventually the objective of any investor is to pay large amounts of taxes, but not any more than you have to. Starting your tax planning towards the end of the year gives you the opportunity to make adjustments to help minimize your tax bill. Count us as among those who would gladly pay a large tax bill if it came with an equally large multi million dollar gain. The more you make, the more you pay. I hope we all pay lots. <http://www.dinkytown.net/java/Tax1040.html>

Homestar Runner: And finally if all that is going in is getting to you; the bailouts, TARP, bankruptcies, unemployment, you can always head over and pay a visit to Homestar and his pals. The site is what would have become of the Looney Toons if they were a 21st century creation. The Strong Bad emails are particularly entertaining if your sense of humor tilts towards the unconventional. You may not find the site an instant hit as it is something of an acquired taste. If you have kids or grandkids they may take to it much faster. In all, you haven't lived until you have heard Cheat talk or seen Strong Bad make'n it with the ladies. <http://www.homestarrunner.com/>

Crosshairs

We have several new additions below. Numerous companies are selling cheap in today's environment. Not all of them have pristine balance sheets. In this tumultuous environment, a large cash and investment balance provides a welcome cushion against sharp price drops. Both of the new additions we added have healthy cash balances. Like several other companies we own they are both small companies that have a thin float. The small number of shares changing hands daily can make it difficult to get into or out of a position.

The first company Astro Med is led by their 80 plus year old founder. The company has a solid record of steady sales and profits. One of their units sell ruggedized measurement equipment to various industries and ruggedized printers used on aircraft. Another division sells short run label printers. The key feature we like is the company's sales of consumables, the labels and printer paper makes for nice repeat business. Their ruggedized printers are being installed on many new commercial and business class aircraft. Add to all of this a nice \$22 million cash and investment balance and the company is selling cheap at \$42 million. They earned \$3 million, \$4 million and \$6 million dollars in the past three years. Back out the cash and investments and the business is selling for \$20 million. To top it off they pay a \$.24 per share dividend. With their share price at \$6 that amounts to a 4% yield.

The other newcomer is Diamond Management & Technology. They provide management and technology consulting services to the financial service industry. Not exactly the hip business sector to be involved in and their most recent financial results show it. Sales were down 16.5% in their most recent fiscal year ending March 31. The company expects another sales drop this year, but fully expects to remain profitable. They sport a healthy \$46 million cash and investment balance matched against a market cap of \$122 million. They also bought back just shy of 10% of their shares last year. They have been steadily increasing the number of clients they serve. In the fourth quarter they increased the number of new clients by 17 compared to prior quarters increase of 10. With massive cuts in the financial service sector the company's services may see increasing demand to help support their thinned ranks.

Company	April price	March price	Change from March	P/E	52 Week High	52 Week Low	Estimated '09 EPS	Dividend Yield
Alico/ALCO	\$26.53	\$24.00	10.54%	71.3	\$50.32	\$20.24	n/a	2.00%
American Pacific/APFC	\$7.09	\$5.18	36.87%	7.4	\$18.89	\$3.90	\$0.89	n/a
Arbitron/ARB	\$20.82	\$15.01	38.71%	17.0	\$51.50	\$9.90	\$1.47	1.90%
Arch Coal/ACI	\$13.97	\$13.37	4.49%	8.7	\$77.40	\$10.43	\$0.45	1.90%
Astro Med/ALOT	\$5.51	\$5.43	1.47%	24.0	\$10.00	\$3.50	n/a	4.40%
Atrion/ATRI	\$89.56	\$88.24	1.00%	8.1	\$118.00	\$63.00	n/a	1.00%
Consolidate Tomoka/CTO	\$34.79	\$29.70	17.14%	40.4	\$53.50	\$21.56	n/a	1.10%
Culp/CFI	\$4.50	\$3.08	46.10%	n/a	\$7.74	\$1.30	\$0.29	n/a
Diamond Mgmt & Technology/DTP	\$2.78	\$2.55	9.02%	n/a	\$6.33	\$1.84	\$0.08	1.80%
Graham Corp./GHM	\$8.20	\$9.96	-17.67%	4.6	\$54.91	\$6.85	\$1.63	1.00%
Landauer, Inc./LDR	\$52.98	\$50.68	4.54%	25.2	\$74.51	\$46.08	\$2.69	3.70%
Mesa Labs/MLAB	\$20.00	\$15.40	29.87%	13.5	\$24.65	\$14.50	n/a	2.00%
Rayonier/RYN	\$38.62	\$30.22	27.80%	23.0	\$49.54	\$22.28	\$1.33	4.90%
Servotronics Inc./SVT	\$10.41	\$7.90	31.77%	5.8	\$17.60	\$4.53	n/a	2.40%
Span America Medial Sys/SPAN	\$11.10	\$8.58	29.37%	7.2	\$13.50	\$7.76	n/a	3.20%
Torm/TRMD	\$9.33	\$7.75	20.39%	0.8	\$37.97	\$7.50	n/a	n/a
Twin Disc/TWIN	\$6.82	\$6.92	-1.45%	5.0	\$23.34	\$4.02	\$0.94	3.70%

The Investletter Portfolio

April saw strong gains in each one of our investments mirroring the results of the market as a whole. Much of what we own remains significantly undervalued again mirroring much of the market in general. We have made one adjustment to our portfolio since the last issue of the newsletter, selling our position in Gencor. The company has seen a sharp drop in their backlog at the same time other participants in the road construction equipment market are beginning to see increases in order. When this is combined with the shareholder unfriendly actions of the company, the poor corporate governance and general poor track performance record it signaled time to get out. The company is not overvalued, however it is likely to remain that way for some time. The only real positive the company has is their oversized cash and investment balance. While we find it enticing, it is not enough to cause us to maintain our ownership stake.

The final nail in the coffin was brought upon by last years untimely death of the market maker in the company's shares and their largest shareholder. The company had proposals on their proxy statement the past two years to have shareholders approve a stock option program. Last year this proposal was soundly defeated. For whatever reason the heirs and or related parties to the deceased large shareholder either did not vote their shares or voted for the stock option proposal. The sole purpose of this proposal is to further aid in management transferring ownership from the shareholders to themselves. Management will make out exceedingly well. The company's shareholders will be relegated to the scraps as usual. When you enter into an ownership arrangement with management as partners it is wise to choose partners who value honesty, fairness and are willing to honor their fiduciary responsibility to their fellow owners. This behavior has been notably absent in Gencor. In the past we have made money on separate occasions in Gencor in spite of this atmosphere. In today's market environment the odds are greatly reduced that we would make out as well as we have in the past holding shares of Gencor. Fortunately there are plenty of opportunities to profit elsewhere.

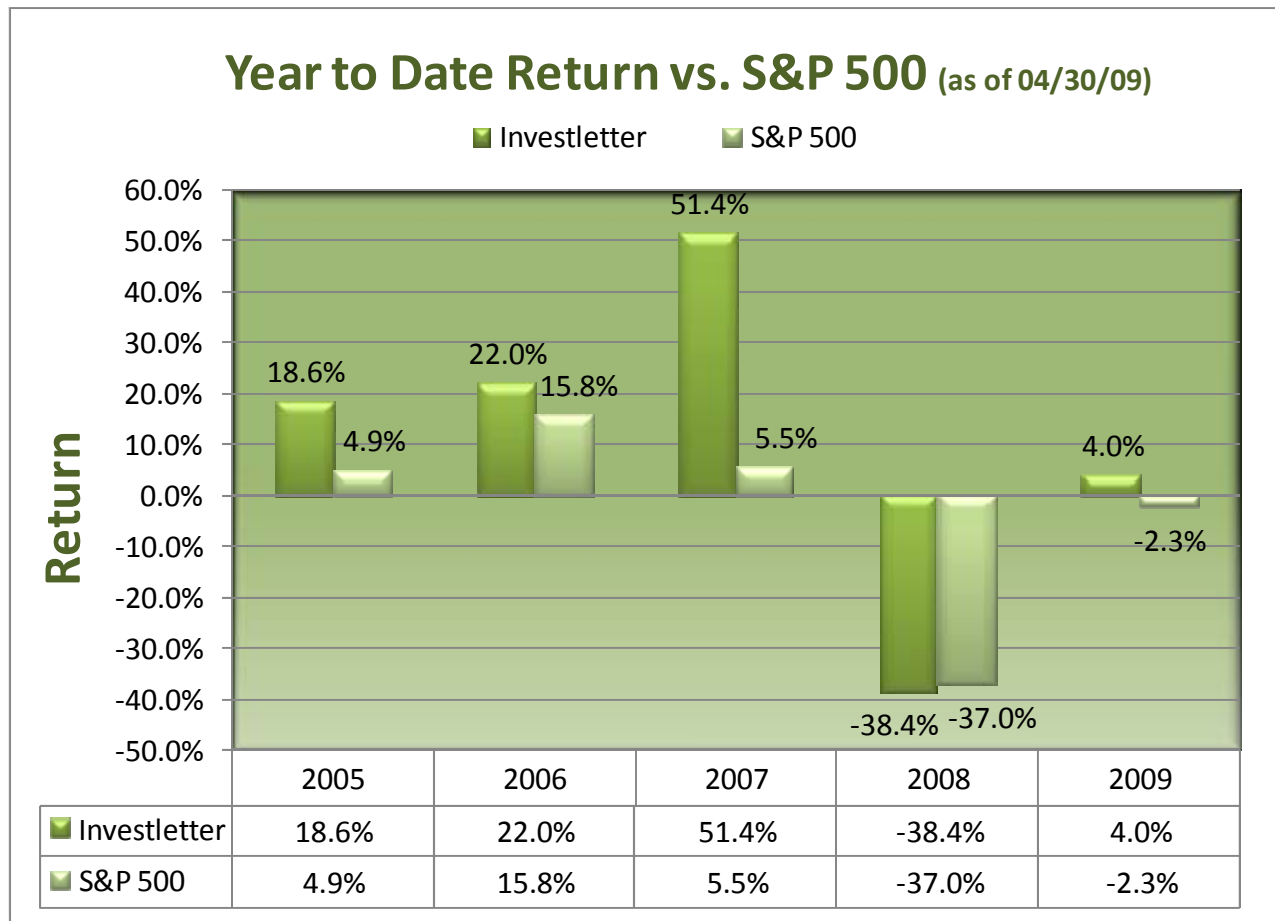
Date	Security	Symbol	Price	Order Type	Qualifiers	% Portfolio or Position	Outcome
4/30/2009	Gencor	GENC	\$8.30	sell	limit	100%	filled
01/09/2009	Constellation Energy	CEG	\$26.50-\$26.65	sell	limit	50%	filled
1/2/2009	EDCI Holdings, Inc.	EDCI	\$3.65-\$4.50	buy	limit	5%	filled
12/30/2008	Rohm & Haas	ROH	\$59.75	sell	limit	6%	filled
12/30/2008	CSP, Inc.	CSPI	\$2.65	buy	limit	2.5%	filled
12/18/2008	QLT, Inc.	QLTI	\$2.32	sell	limit	3%	filled
12/15/2008	QLT, Inc.	QLTI	\$2.09	buy	limit	3%	filled
12/03/2008	Constellation Energy	CEG	\$28.00	sell	limit	50%	filled

Company	Portfolio Percentage	April price	March Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	4.30%	\$1.19	\$1.05	13.33%	n/a	n/a	n/a
Astronics Corporation/ATRO	16.70%	\$10.93	\$10.25	6.63%	\$8.25	8.7	n/a
Berkshire Hathaway B/BRK.B	7.10%	\$3,065.00	\$2,820.00	8.69%	\$2,700.00	15.6	n/a
Cash	30.80%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Chesapeake/CHK	4.55%	\$19.71	\$17.06	15.53%	\$20.00	13.7	1.90%
CSP Inc./CSPI	12.50%	\$3.00	\$2.85	5.26%	\$4.00	45.9	n/a
EDCI Holdings, Inc./EDCI	8.90%	\$4.70	\$4.19	12.17%	\$4.70	n/a	n/a
Gencor/GENC	1.00%	\$8.34	\$6.78	23.01%	n/a	34.0	n/a
K-Tron International/KTII	9.30%	\$80.42	\$60.67	32.55%	\$80.00	6.1	n/a
QEP Corporation/QEPC	4.90%	\$2.45	\$1.00	145.00%	n/a	n/a	n/a

Performance

We expect much of this year to feature the economy rising from the ashes. The wreckage remains smoldering as companies have assessed the new reality and tried to react accordingly. Our portfolio has reflected the same. We have pared back on companies that we felt did not make the same sense they did before the meltdown. For example, with housing construction suffering a stunning drop and unemployment showing sharp increases, solar panel sales did not seem like a sure winner even with a company that has a bulletproof balance sheet like Amtech Systems, Inc. A poorly managed company like Gen-cor also has a bulletproof balance sheet, but we have no faith in management being able to navigate the new landscape. Sales of several positions has helped push up the balance of our cash account.

Even with a rising cash balance in our portfolio we have still managed to keep ahead of the S&P 500 average. Our cash account represents over 25% of our portfolio and our six plus percentage point lead over the S&P 500 shows that to this point it has not been a handicap.



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