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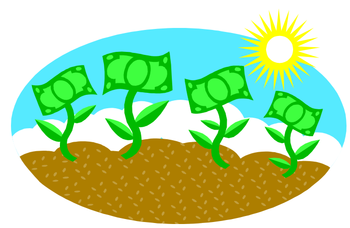
Everyone Can Invest: Keep Some of Your Dollars

I recently spoke with a friend who I had been urging to begin investing. I tried to impress upon him the great benefits he could accrue and how time would be his biggest ally. He read an article I wrote on the effects of compounding and was real receptive to the idea of starting investing. He is a younger guy in his mid twenties with a wife and a child, a house and a couple of cars; and he is still a long way off from retirement.



How many of your dollars do you plan to keep and grow?

Investing is laying out money now to get more back in the future. It sounds easy and it truly is. With every dollar you earn you get a choice. You can do one of two things with it. These two choices and in what proportion you choose, will have a profound effect on your wealth. You can either keep your dollar or spend it. This simple concept has proved very illusive for many in our society. If you spend that dollar it is gone forever. You will never get it back. If you choose to keep your dollar you can keep it for as long as you like. There is no rule for how long you can keep what you earn; you can keep it and make it labor for you for as long as you live if you like. This is where the story starts to get good.

A dollar can be used to purchase any of the goods and services available in society. You will be encouraged to purchase many of both with great frequency and many do. It is real difficult to invest when you are spending more than you make. If this describes you, then you are not keeping enough of your dollars. More than a few of my friends and neighbors have healthy upper middle class incomes. Many also live paycheck to paycheck. I have other friends who do not make nearly as much and save over 10% of their income. They have made a conscious choice to keep many of the dollars they earn. They also have enslaved these dollars for their own benefit.

This brings us to the investing part. When you spend less than you make you have money left to invest. As I implored my friend, I will implore you to begin investing if you do not already and congratulate you if you do. For me investing implicitly means the stock market. This is my method of choice for having my money toil for me. No matter what you choose you will experience the joy of growing your wealth through compounding.

Compounding can be thought of as the most important subject not taught in high school. We send our young people out into the world with a solid background in literature but nary a mention of personal finance. Is it any wonder that many people do not understand the basic principles of investing? I have always felt comfortable with equating the concept of compounding with a snowball rolling downhill. It probably comes from living in a suburb of Buffalo. Compounding is the

Inside this issue:

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process of growing your money at an ever accelerating rate. All the new money you make on your investments joins the cause and helps earn even more money in the future. I have a previously written article that covers compounding in a little more depth so I will not go into it in depth here.

I have just a few illustrations I would like to make concerning compounding. If you were to invest $10,000 and were able to earn a 14.1% annual return, you would be able to retire 35 years later with more than $1 million. You would never have to add a penny to your original investment. The 14.1% average long term rate of return has been accomplished by many investors. This does not imply that it is easy or can be expected. It has and can be done. Even more amazing, if you are able to compound your money for 50 years and can average 14.8% returns, you will be able to multiply your initial amount by a factor of 1,000. If this principle is worked in reverse it leads to a very peculiar concept. Each one of you that has a teenager in the 14, 15 or 16 year age range can impart this little tidbit of information to them. For each dollar they spend today, they may be forfeiting $1,000 fifty years down the road. This is the power of compounding. A youngster in his mid teens can turn a $1,000 inconvenience into a $1 million retirement. But first she or he has to make a choice: Do I keep my dollar or do I spend it? Again, your decision can have a profound effect on your wealth.

My friend spoke again with me a week later. He reported that his wife said that now is not a good time to start investing. You see, he is one of the group who spends more than he makes. Even though he and his wife both work and have a very respectable income he is a slave to his money. The money dictates where it must go and not my friend. I wanted to grab him by the shirt and shake him 'til the message found an opportunity to sneak in his head and take root while I purposefully distracted him. Neither ended up happening.

Saving an uncomfortably large amount of your money is not a worthy goal. As the famous economist John Maynard Keynes said "*In the long run we are all dead*." Balance is key. You need to enjoy the here and now while having enough discipline to plan for the later. With the concept of compounding working for you, it is not necessary to save until it hurts. All you have to do is start early. There is never a better time to start investing than right now.

Investing is for everyone. Many have not started as young as they should and others have yet to begin. Both will benefit from the gift of compounding as long as they do indeed invest. You do not even need large sums to start. When you begin early, even a small sum can grow into a great fortune. It all starts with a simple decision to keep some of the dollars you earn.

You can find the article on compounding also on our site. (Compounding article) It is accompanied by a spreadsheet that can be downloaded to help you better understand the concept of compounding. Visit us at www.ebcia.com.

Second Quarter Earnings

Second quarter earnings are out and we made out alright. We are still waiting for some big earnings numbers to come through for Consolidated Tomoka and ModPac. Our biotech's did well this past quarter led by Amgen. OMI has knocked the socks off their earnings from a year ago. Lets get started with our breakdown of earnings by company.

Amgen- Amgen had another of a long string of spectacular earnings reports. They earned $.62 which was $.02 more than their estimate. This was a 27% increase over the $.49 of last years second quarter. The increase is being driven by the strong growth of three of their drugs. Sales of Aranesp and Neulasta increased 78% and 40% respectively over last years second quarter. The other drug Enbrel increased 45% from last year. Each of these drugs should continue their strong growth for several more years. Amgen has recently seen their price run up from the low $50's to the high $50's. The price is being held back by concerns relating to changes to Medicare reimbursement.

Astronics- The best way to sum up Astronics earnings report is lackluster. The company is still struggling as business has been slow to return to pre 9/11 levels. Sales rose 4.4% over last year. Earnings were a paltry $.01 per share. Some of this can be explained by higher engineering and development costs related to major program wins over the past year. Astronics should perform well over the next few years. This will hold as long as the joint strike fighter program with the armed forces is not cancelled. Even so, we may have a much better opportunity with their sister company ModPac. We will keep you posted as usual with any changes we may make.

Berkshire Hathaway– Berkshire now holds over $35 billion in cash. Berkshire had a 9% increase in operating earnings on $18 billion in revenues. Steady as usual. Berkshire is selling at a very reasonable price right now. Buffett has been slow to put all of the cash they have to use. This is like an ace in the hole. When this money can be usefully deployed earnings will receive a nice boost.

Cell Genesys– Clinical trial results over the last several months have been extremely encouraging. Recently announced phase one trial results from their pancreatic cancer vaccine were nothing short of amazing. Three of the 14 patients in the trial remain alive and disease free 6.5 years after treatment. The five year survival rate for pancreatic cancer patients is 4%. The trial had a 21% survival rate at 6.5 years. The earnings picture is as bleak as usual. The company lost $.58 per share. The company is probably two more years away from having a product they can market, provided that it survives the approval process. Shares are trading near 5 year lows. Now is a great time to pick some up.

Consolidated Tomoka– We are still waiting for a big earnings quarter. The company earned $.08 per share on revenues of $4.5 million. They have several large transactions waiting to close. When they do there will be a quarter with huge earnings. The company increase their quarterly dividend to $.07 per share. This will be easy to pay with the income from income properties providing $1.0 million dollars of income the past quarter.

ModPac- The best is yet to come. Now is not too bad either. Earnings rose 36.5% from $.09 to $.12 per share. Revenues rose 21.5% from last year. Next quarter is when the fun begins. Next quarter will have an additional $.10 added to earnings from the recent contract buyout. The last quarter will have an additional $.30 added to earnings. We should see the share price move accordingly.

OMI Corporation– OMI posted great earnings the past quarter. They earned $.38 per share which was up 19% over last year. The third quarter will be even better as tanker rates remain extremely high. The company also has 7 more tankers than they had last year. The fourth quarter is usually the strongest quarter. Year end earnings should be spectacular.

Protein Design Labs– The third quarter loss of $.13 per share was much lower than '03's $.45 loss. Revenues rose 23% to $25.8 million mainly due to strong growth in royalty payments from other companies that market drugs based on PDLI's technology.

Watch List

We have added a few companies to our watch list in the past few months. Previously we mentioned that we were investigating more land holding companies. We found two interesting ones. Tejon Ranch located 65 miles outside of Los Angeles owns over 270,000 acres of which they plan to develop 5% over the next 20 to 25 years. The other land holding company we are interested in is St. Joe Company. St. Joe, Florida's largest landowner has over 300,000 acres within 15 miles of the Gulf of Mexico. Overall they own 850,000 acres or 2.4% of the available land in Florida. Presently we are not willing to pay the price offered to us. Tejon Ranch is having some trouble developing their land because of the difficulty of the permitting process in California. St. Joe is proving difficult to analyze because of the many facets of their business. They develop a lot of their own property for both residential and commercial projects, sell other land outright, have income properties, sell timber and have other revenue streams.

We have added another company to the list that sells chicken. Sanderson Farms is a very profitable chicken producer that manages to operate with very little debt. This is in contrast with other meat processors. We are in the beginning stages of exploring the suitability of Sanderson Farms as an investment opportunity. The last company we are going to mention is Kensey Nash (KNSY). They are a medical products company that operates in two primary segments. They have a device used in vascular closure that is used after a procedure such as an angiogram and products used in orthopedics known as biomaterials. The company is very profitable and is seeking U.S. approval for another product that is uses in treating patients who need repeat surgery after a bypass becomes clogged. KNSY is a company that we are all ready to invest in. We are just waiting for the right price. Unfortunately, after a recent steep drop it has been moving steadily back upwards. This past week it was announced that they will be added to the S&P SmallCap 600. The additional buying that will ensue will not help our cause. The net effect will be that the price will be driven higher.

Company	Current price	P/E	52 Week High	52 Week Low	Estimated '04 EPS	Dividend Yield
Altria Group, Inc./MO	**$49.00**	**62.7**	**$58.96**	**$39.60**	**$4.78**	**5.60%**
Allergan/AGN	**$73.71**	**30.3**	**$92.61**	**$69.05**	**$2.74**	**0.50%**
Bioanalytical Systems, Inc./BASI	**$4.73**	**10.7**	**$5.25**	**$3.40**	**n/a**	**n/a**
Genentech, Inc./DNA	**$48.32**	**n/a**	**$68.25**	**$38.15**	**$0.81**	**1.80%**
Gentex Corporation/GNTX	**$34.97**	**76.8**	**$47.08**	**$32.00**	**$1.47**	**n/a**
The St. Joe Co./JOE	**$48.18**	**41.4**	**$47.38**	**$31.10**	**$1.01**	**0.30%**
Kensey Nash/KNSY	**$27.71**	**26.5**	**$36.85**	**$19.71**	**$1.20**	**n/a**
Landauer, Inc./LDR	**$45.38**	**23**	**$45.60**	**$35.08**	**$2.03**	**3.50%**
Paychex, Inc./PAYX	**$30.12**	**37.6**	**$40.54**	**$28.83**	**$0.94**	**1.60%**
QLT Inc./QLTI	**$17.39**	**23.3**	**$30.70**	**$13.18**	**$0.85**	**n/a**
Sanderson Farms/SAFM	**$36.34**	**6.7**	**$55.18**	**$19.70**	**$6.05**	**0.90%**
Tejon Ranch Co./TRC	**$35.70**	**n/a**	**$43.21**	**$30.70**	**$0.00**	**n/a**
USG Corporation/USG	**$17.74**	**3.4**	**$20.17**	**$12.30**	**$6.09**	**n/a**
The Washington Post Co. /WPO	**$883.50**	**33.4**	**$983.50**	**$654.00**	**$34.69**	**0.80%**

The BCIA Portfolio

This past month has meant more of the same for the share price of our companies. Some have trended a little upwards and some have dropped a little. Amgen and ModPac are both up about 10% since last newsletter. Consolidated Tomoka, and Cell Genesys are both down about 10% over the same time frame.

This month we are still big fans of ModPac and have considered raising more cash for the purpose of purchasing more shares. We have been tossing around the idea of selling off some Astronics to fund more ModPac. We still feel that Astronics will perform well, just maybe not as well as ModPac. Astronics should experience a nice recovery over the next two to three years. ModPac is due to receive their $22 million contract buyout proceeds at the end of this month. Third quarter earnings will have the benefit of a $.10 boost from the buyout proceeds and the fourth quarter will receive a $.30 boost. Astronics will not earn $.30 in total this year. Towards the end of October when ModPac announces earnings investors will start to get an idea of the ramifications of the contract buyout. We aim to be ready by having a healthy inventory of ModPac stock. Keep an eye on your inbox for an alert related to any changes we may make.

Last month we mentioned that our biotech companies were presenting a nice buying opportunity. We already mentioned that Amgen rose in price and in addition Protein Design Labs also rose. However, Cell Genesys has continued its slide. This makes them an even better buying opportunity. If you have not already grabbed some shares now is a great time. They have been unaffected by any of the good news they have announced over the past several months. It will not last forever. At this price we do not see much downside risk.

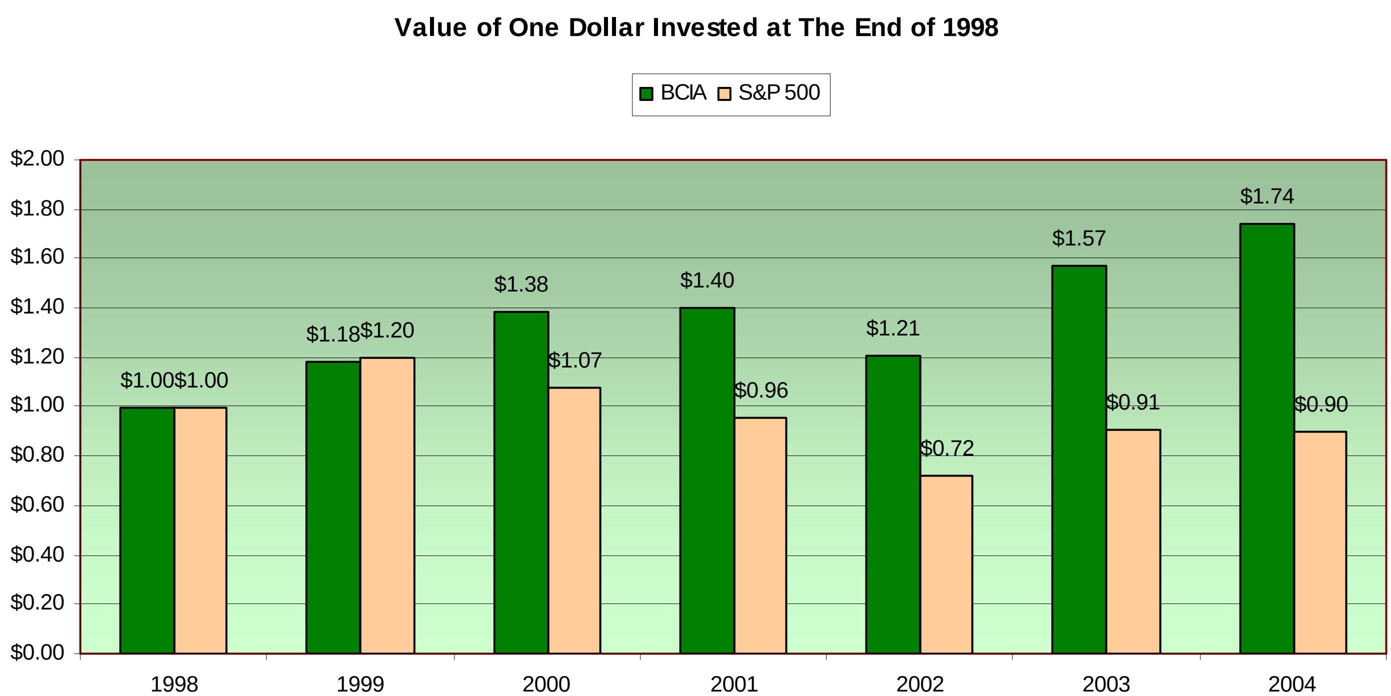
Company	Porfolio Percentage	Current price	Buy Price (less than)	P/E	Dividend Yield
Amgen/AMGN	**4.90%**	**$59.31**	**$60.00**	**30.3**	**n/a**
Astronics Corporation/ATRO	**5.50%**	**$4.93**	**$5.15**	**70.4**	**n/a**
Berkshire Hathaway B/BRK.B	**16.60%**	**$2,872.00**	**$3,050.00**	**n/a**	**n/a**
Cash	**17.10%**	**$1.00**	**n/a**	**n/a**	**n/a**
Cell Genesys, Inc./CEGE	**4.90%**	**$8.49**	**$9.00**	**n/a**	**n/a**
Consolidated-Tomoka Land Co./CTO	**25.10%**	**$35.85**	**$36.00**	**16.8**	**0.80%**
ModPac/MPAC	**9.30%**	**$10.29**	**$10.20**	**16.1**	**n/a**
OMI Corporation/OMM	**15.00%**	**$13.41**	**$13.00**	**9.6**	**0.40%**
Protein Design Labs/PDLI	**1.60%**	**$19.04**	**$18.75**	**n/a**	**n/a**

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.

Year to Date Return

The chart below will help to illustrate the effect that we highlighted in our article on compounding. Over the past almost six years we have grown every dollar invested into $1.74. If you were to add up our yearly returns for the six years listed you would see that we have earned a 64.1% return. This number does not take compounding into effect. When you include the effects of compounding you gain an extra dime. Over the long term the numbers will continue to diverge. Assuming you manage to make money. On a $100,000 investment it would amount to an extra $10,000 dollars.

When you look at the bars that represent the S&P 500 you can see that you would still be down $.10 or 10% after almost six years. Investing in the stock market can be extremely profitable over the long term. You can see that over the short term it is easy to show a loss.



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Google IPO

Principles Don't Change.

An IPO is virtually always risky business. Google's IPO is no exception.

Google's IPO has generated a great deal of hype the past several weeks. This is reminiscent of the dot com craze in the late 1990's. As with any IPO, an investor who bid for Google shares should be using high risk capital with a willingness to lose a significant portion of your investment. That risk profile changed little when the company announced that it would be slashing the value of its offering. Google came public at $85 per share after earlier estimates pegged the price to fall somewhere between $108 and $135. It also cut the number of shares being offered to about 19.6 million from 25.7 million.

Google used a modified version of a Dutch auction to sell its shares to the public. In a typical Dutch auction, the offering is launched at the highest price at which all of the shares offered can be sold to potential investors. But Google has left itself some wiggle room, saying it could price the IPO lower in order to get a wider distribution of its shares.

Ultimately a lack of interest caused the reduction in price. Bidders did not value the company as highly as the investment bankers did. Part of the reason was definitely self interest. The lower the shares sold for the better the chance for a quick pop when the shares hit the market. When all was said and done, Google shares rose 18 percent in their market debut on Thursday to $100.34. A week later the shares are trading for $106.15. This is a nice 25% gain for a week long investment. So, was participating in the Google IPO a good idea?

In our opinion the idea was a definite no. Sure you could have made a quick profit but that was no guarantee. Google's IPO brought plenty of buzz which is always a great tool for distorting the underlying reality. With a share price of $106, Google is worth just shy of $29 billion dollars. This values the company at more than the insurance company AFLAC who has over $800 million in earnings and is valued at $20 billion. GM who is valued at $24 billion who had nearly $4 billion in earnings and FedEx which is valued around $24 billion with earnings of more than $800 million. This past quarter Google earned $80 million dollars. This put them on pace for a possible $250 million dollar year. More concerning however is the fact that their revenues only grew by 7.5% from the first quarter to the second quarter.

We have some experience in the area of Google's revenues. BCIA has been advertising on Google without much success. We have spoken with other financial service companies who have reported the same. This is by no means intended to be measuring stick for the success for all advertisers on Google, however, we are pretty certain that others are probably experiencing the poor results we are. For the long haul we are skeptical of Google's ability to generate strong revenue growth. Without strong revenue growth there

Google IPO

goes the chance of strong earnings growth.

Another reason in support of our view is the unusually short lockup period. After an IPO, company executives and directors are restricted from selling shares. Usually, company insiders are barred from selling their stock within the first six months of an IPO. Limiting insider stock sales helps prop up the price of the shares. Savvy IPO traders, in fact, know to sell before the lockup expires, releasing a flood of new shares onto the market. The Google lockup expires unusually quickly. After 15 days, an additional 4.6 million shares are eligible for sale. After 90 days, an additional 38.5 million shares are eligible for sale. That's 43.1 million shares, or more than twice the 19.6 million shares that Google sold in its IPO. That potential supply will quickly satisfy any hunger for extra shares that may exist after the IPO.

A great search tool but not necessarily a great investment.

In short, there's so much supply -- and so little unsatisfied demand -- hanging over this IPO that it will be very, very tough for shares to rocket higher after the IPO.

An IPO is usually always risky business. Google's IPO is no exception. Just because a company has a great product does not guarantee that it will be a great investment. We enjoyed watching the Google IPO partly because of the way the investment bankers were squeezed. The key word is watching. We intend to remain on the sidelines and watching was the highest level of participation we were willing to commit to.

With all of the media attention this IPO generated sometimes it is easy to feel like you are being left out. Not to worry. If you really want to own Google our guess is that you will be able to pick up shares of Google at less than the $85 dollar offering price sometime in the next year. We will try to offer periodic updates on how this prediction is doing.

Long Term

Long term investing is best done with money that you will not need access to for a period of at least five years. We illustrated how the S&P 500 average can have negative results over a five year plus timeframe. This is not an often occurring event, but it is not so rare as to be unusual. It is important to have the right mindset in regards to the performance of your investments. You will very rarely be able to buy a stock at the bottom or sell one at the top. Over the long term you should do better investing in stocks than with most other types of investment. Thanks again for your support.

Brett Davidson

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