The Commonsense

INVESTLETTER

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Returns Matter

Over time the stock market has averaged something near 11% returns. While this is much better than the long term return on bonds, not all investors earn this return. Some do worse, some do better. What kind of effect can this have on the future value of your portfolio? Is a measly 1% difference in returns worth worrying about? These questions and others may have some surprising answers for you.

If you were to invest in the S&P 500 through an index mutual fund, you could expect to see this investment grow nicely over say a 30 year period. For arguments sake lets assume you invest $10,000 in this manner and earn market returns of, for simplicity, we will say is 11% return. In 30 years you would have a tidy $229 thousand . What would have happened if you only earned 10%? You would accumulate only $174 thousand . This is a whopping $55 thousand dollars difference or 24% less money. Earning a return that is one percentage point lower results in an investment that is worth 24% less over 30 years. Wow! This emphasizes the importance of maximizing your returns.

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

Many of you are already familiar with our goal of achieving 15% returns with the Investletter portfolio. If we succeed, we have a major impact on the wealth of those who invest with us. If is a key word here, for it is difficult to achieve. What will result if you earn 15% returns? You will amass $662 thousand. This is 189% percent more money on a four percentage point difference in return. Over shorter time periods these differences are not as dramatic, but are still notable. The point of this whole exercise is that even small differences in return can have a significant effect on the wealth you are able to accumulate over the long term.

When you are deciding how to invest your money, whether it is a 401k or a taxable account, you need to plan how to best utilize these assets. A 401k, IRA or other retirement account can shield your investments from tax consequences. This would make them a great place to hold large dividend paying stocks or stocks that are short term situations like our ModPac play earlier this year. If you plan to invest a sizable part of your portfolio in bonds, it is important to understand the ramifications.

Our returns over the past year and a half that we have published the newsletter have solidly outperformed the S&P 500 average. We take nothing for granted and are skeptical that we will be able to keep up this pace. On the other hand you can see that even if we can beat the market average by a small margin, things should workout pretty well.

Wall Street

- DJ 10698
- S&P 500 1245
- NASDAQ 2217

Inside this issue:

Watch List

July was a phenomenal month for the stocks in our portfolio. The stocks on the list below did not fair nearly as well. USG continued its upward climb. We would look brilliant if we had the guts to buy at $10 per share a little over a year ago. The bankruptcy issue still leaves too much uncertainty for us. The decline in the price of Fresh Del Monte still has us interested. Rayonier also posted nice earnings last quarter.

We also anticipate adding a few more companies to this list in the next month or so. ModPac has become interesting again. Their price recently dropped after they announced they are going to be losing a large amount of business from their largest customer. Hurco (HURC) is another company we like. They make machine tools and have shown rising sales and profits. At first glance the company appears cheap. Further investigation is warranted.

Another company that we are extremely interested in is Headwaters (HW). The company has several different vertically integrated lines of business. They dispose of fly ash from coal burning electric plants. Much of this fly ash is used in concrete and stucco products they manufacture. Fly ash is a great substitute for concrete due to its finer particle size which actually creates a stronger product. Concrete has been in short supply which has aided the acceptance of the companies products. They also make chemical reagents that are used to treat coal to make it less polluting. Another line of business is building coal to gas liquefaction plants in several locations in the U.S., China and India. The process converts coal to diesel fuel at a cost competitive with the current price. Headwaters also is planning on entering the ethanol business.

While the U.S. does not have large oil reserves, we have ample coal. We feel that coal is going to play a more important role in serving the energy needs of this country. Our investment in K-Tron industries was largely based on their exposure to the coal industry through their Pennsylvania Crusher subsidiary. It is our opinion that higher oil prices are here to stay. Maybe not as high as $65 a barrel, but at least $45. Over the next few years, companies involved in coal, ethanol production and other alternative energy sources should do well.

Company	Current price	June price	Change from June	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	**$66.96**	**$64.91**	**3.16%**	**13.1**	**$69.68**	**$44.50**	**$5.11**	**4.36%**
Allergan/AGN	**$89.37**	**$84.68**	**5.54%**	**28.6**	**$93.24**	**$66.78**	**$3.23**	**0.52%**
Bioanalytical Systems, Inc./BASI	**$5.69**	**$5.71**	**-0.35%**	**n/a**	**$10.37**	**$3.90**	**n/a**	**n/a**
Fresh Del Monte Produce/FDP	**$26.31**	**$26.74**	**-1.61%**	**11.2**	**$33.94**	**$24.36**	**$2.33**	**2.97%**
The St. Joe Co./JOE	**$81.39**	**$81.21**	**0.22%**	**41.6**	**$83.52**	**$39.55**	**$1.89**	**0.71%**
Landauer, Inc./LDR	**$49.80**	**$53.97**	**-7.73%**	**24.1**	**$54.00**	**$42.88**	**$2.12**	**4.10%**
Paychex, Inc./PAYX	**$34.91**	**$32.98**	**5.85%**	**30.1**	**$35.37**	**$28.60**	**$1.16**	**1.56%**
QLT Inc./QLTI	**$8.53**	**$10.76**	**-20.72%**	**12.4**	**$18.44**	**$8.70**	**$0.68**	**n/a**
Rayonier/RYN	**$57.04**	**$53.63**	**6.36%**	**23.0**	**$57.98**	**$43.29**	**$2.37**	**4.30%**
Sanderson Farms/SAFM	**$43.09**	**$46.09**	**-6.51%**	**9.8**	**$49.19**	**$30.81**	**$4.10**	**2.44%**
Tejon Ranch Co./TRC	**$61.37**	**$52.60**	**16.67%**	**n/a**	**$27.72**	**$33.65**	**n/a**	**n/a**
USG Corporation/USG	**$48.90**	**$43.49**	**12.44%**	**6.2**	**$56.81**	**$17.00**	**$8.65**	**n/a**
The Washington Post Co. /WPO	**$888.00**	**$862.97**	**2.90%**	**26.0**	**$999.50**	**$785.00**	**$33.20**	**0.91%**

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 be 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.

As we mentioned last month we added K-Tron International to our holdings. This increases our holdings to 13 companies. June was a whopper of a month as far as our holdings and the market in general. This month it was biotech's turn to shine. Back in the March newsletter we were lamenting the large losses we had experienced with our three biotech companies. Those losses were erased with the large gains all three showed in June. Amgen, Cell Genesys and Protein Design Labs had gains of 39%, 19%, and 29% in the past month respectively. Amgen is up 31% so far this year, Cell Genesys is down 21% and Protein Design Labs is up 27%. This helps illustrate a point we have made previously, that stock prices on average vary over 50% in a given year from the high point to the low point. Some may vary more, some less. PDLI’s price has varied from $13.85 to $26.24 nearly 100%. Amgen has varied from $56.19 to $84 which is right around 50%. Cell Genesys from $4.50 to $7.76 or about 75%. It is nearly impossible to buy at the low point and sell at the high point during the year. We don’t even try. What we do try to do is buy at a cheap enough price that we allow for a margin of error. It is hard to argue that the value of the companies vary this much over the course of a year. This implies that the price at times may be less than the value of the company, and at other times may be more than the company is worth. We prefer to buy the companies whose share price is less than the company is worth. This year we have done a pretty good job.

The small companies we have recently purchased have made a nice contribution to our portfolio already. Many prognosticators have predicted that small cap stocks may be at the end of their run. We feel strongly that our small companies will defy this prediction (if it happens at all.) With 7 small companies our portfolio is now heavily tilted to small cap stocks. We seek value wherever we can find it.

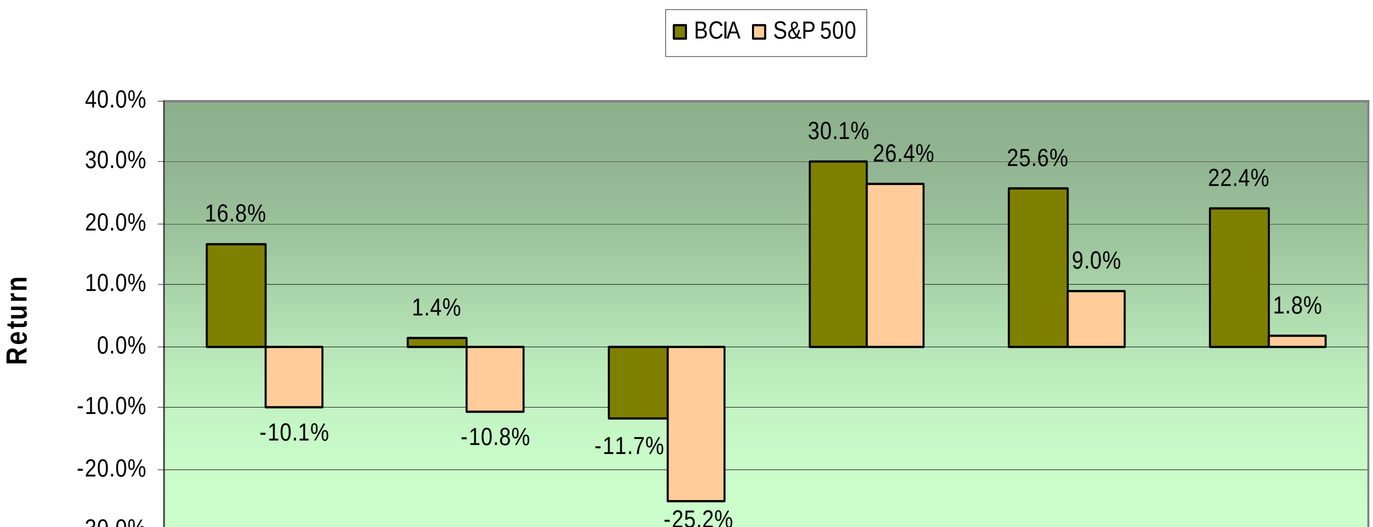
Company	Porfolio Percentage	Current price	June Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	17.80%	$54.67	$51.43	6.30%	$50.00	64.0	1.82
Amgen/AMGN	5.00%	$84.00	$60.46	38.93%	$60.00	26.2	n/a
Astronics Corporation/ATRO	6.70%	$10.10	$9.05	11.60%	$7.00	n/a	n/a
Berkshire Hathaway B/BRK.B	16.60%	$2,778.00	$2,783.00	-0.18%	$3,050.00	18.0	n/a
Cash	14.90%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.80%	$6.39	$5.35	19.44%	$9.00	n/a	n/a
CSP Inc/CSPI	6.40%	$10.66	$8.23	29.53%	$8.75	20.9	n/a
Culp/CFI	2.60%	$4.41	$4.40	0.23%	$4.15	n/a	n/a
Gencor/GNCI	4.10%	$9.00	$8.50	5.88%	$9.25	4.6	n/a
Kensey Nash/KNSY	5.90%	$32.63	$30.24	7.90%	$26.50	28.7	n/a
K-Tron International/KTII	3.00%	$33.67	$29.70	13.37%	$33.00	13.0	n/a
OMI Corporation/OMM	8.80%	$17.23	$19.01	-9.36%	$17.00	6.2	1.89%
PetroKazakhstan/PKZ	3.80%	$42.57	$36.58	16.38%	$41.00	6.2	1.90%
Protein Design Labs/PDLI	1.60%	$26.24	$20.21	29.84%	$18.75	n/a	n/a

Newsletter Performance

The past month saw our investment return jump 9 percentage points. We have further increased the gap between our return and the S&P 500. With a 20.6 point lead over the market average, we are on pace for one of our best years ever in terms outperforming the market. Over the past three years we have achieved a 100% return or doubled our money. Our Five year return is less (79%) due to our lackluster performance in 2001 and 2002. While we are pleased with this great run, it will be difficult to post three more years with such strong results. Any time you have the chance to double your money in three years take it. Unfortunately, you will have no advance warning.

We do hold out some hope that we can eke out decent returns in the next year or so. The S&P average has shown only modest gains the past two years. It would be nice to have another year of rising stock prices before any hint of a recession send prices back down. With strong corporate earnings it appears that we are not at the end of the business cycle yet.

BCIA Annual Return vs. S&P 500 7/31/2005



	2000	2001	2002	2003	2004	2005
BCIA	16.8%	1.4%	-11.7%	30.1%	25.6%	22.4%
S&P 500	-10.1%	-10.8%	-25.2%	26.4%	9.0%	1.8%

Year

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