The Commonsense

INVESTLETTER

Volume 7 Number 6

Wall Street:

- DJ 9172
- S&P 500 987
- NASDAQ 1979

Comments Anyone

The Securities Act of 1933 and The Securities and Exchange Act of 1934 serves as the framework of the regulatory system for public companies and their securities that trade in the public markets. The complex rules covered by these legislative acts are not static. Anyone can submit a petition for rulemaking, requesting that the SEC issue, amend or repeal a rule. The commission itself has the authority to change and amend rules. When this happens a comment period is provided for, so that anyone, average citizens, the business community, academics and law experts can make recommendations as to the suitability of the changes.

The comments run the gamut from well researched, voluminous submissions to comments that are nearly all opinion based and have little bearing on the issue at hand. My comments submitted on August 16 are critical of prior comment letters and the process that should be used in vetting useful comments. Arguments based on could, should, might and may are nothing more than speculation and have no place in influencing the outcome of this process. Many of the small business owners used speculative arguments as their reason for opposing the changes. (Many of these comments were based on loosely arranged form letter language from the US Chamber of Commerce website.) Many of the same small business owners were ignorant to the fact that the rules do not have any bearing on privately owned businesses. They lamented the fact that the government was reaching ever deeper into their business operations.

Many commenter's you would expect more from, like lawyers and securities professionals, also put forward specious arguments. Those that did put in excellent comments often suggested minor changes and highlighted previously unseen conflicts that will arise with the rule changes proposed. Others, suggested changes that would be so far reaching that they would in effect render the rule change completely ineffective. The battle lines were pretty clearly drawn defining the two camps taking the opposing positions stated above. Shareholders, hedge funds, pension fund administrators, investor activist organizations, corporate governance experts and unions came down on the side of shareholder rights. Corporations, current and ex directors and small business fell on the side of corporate rights and maintaining the status quo. The academics and the lawyers were split. As business owners we certainly believe the playing field should be leveled. Those who don't own (or own much less of) the business are worried about protecting their jobs and the associated gravy train. Our comments are attached to the email bringing you this Newsletter.

Inside this issue:

Dogma

Theories are difficult to prove and easy to refute. All it takes is one instance to render a theory to the scrap bin. A theory can never be conclusively proven. A theory is not the law of nature, it is our attempt to understand the laws of nature using our language of mathematics. Newton's laws of mechanics were the gold standard until Einstein came along and provided a better tool. Empirical testing (experiment and observation) can show that a theory is not false to the extent tested. It cannot prove that a theory is true. Sometimes many, many tests can be run before a trial is run that does not work. For the past 40 years a theory that the men's one hundred meter sprint record could not be improved upon by .10 seconds or more would have lasted through thousands of races … until this year. Usain Bolt shaved .11 seconds off of the record. In a flash this theory would have been rendered useless. No amount of races (tests) could prove the theory true. There always existed the chance that someone would come along who could annihilate the previous record and he did.

Similar types of events occurred in the economy in the past year. Measures of bank risk using the model Value at Risk led bankers into a complacency that nearly caused a financial meltdown. This model had shown cracks before in the Long Term Capital Management Hedge fund debacle around the turn of the century. Everything was fine since the last big banking blowup in the early eighties during the Savings and Loan crises. Banks tool along for a while and about every 30 years flush all of their accumulated profits down the toilet. In the intervening time the models function very well. They just don't handle extreme stress very well. Much to the chagrin of the bank's investors. When a model can't predict what it is supposed to, it is nothing more than dogma. If you look around you, you will find dogma everywhere. Global warming, modern finance theory, lucky lottery numbers, extended bed rest after a heart attack are all theories that have not stood up very well. Be wary of those offering consensus or having great certainty in the face of a vast sea of imprecision. Many times in history have many agreed and then been proven wrong en mass. A vast agreement is not proof. Having a great deal of certainty regarding a theory is also no substitute for truth. One who looks to disprove their own theory is one who interested in seeking the truth. They may not have the answer, but are not interested in perpetuating the wrong answer.

Company	June price	June price	Change from June	P/E	52 Week High	52 Week Low	Estimated '09 EPS	Dividend Yield
Alico/ALCO	$31.64	$30.02	5.40%	82.8	$50.32	$20.24	n/a	1.70%
American Pacific/APFC	$8.10	$6.37	27.16%	9.2	$17.22	$3.90	$0.15	n/a
Arbitron/ARB	$17.28	$15.89	8.75%	12.0	$50.87	$9.90	$1.45	2.50%
Arch Coal/ACI	$17.41	$15.37	13.27%	14.2	$58.00	$10.43	$0.38	2.10%
Astro Med/ALOT	$5.56	$5.25	5.90%	22.2	$10.00	$3.50	n/a	4.30%
Atrion/ATRI	$130.19	$134.09	-2.91%	16.2	$136.77	$63.00	n/a	0.90%
Consolidate Tomoka/CTO	$37.28	$35.08	6.27%	70.7	$50.57	$21.56	n/a	0.50%
Culp/CFI	$6.59	$5.00	31.80%	13.2	$7.57	$1.30	$0.50	n/a
Diamond Mgmt & Technolog/DTPI	$5.36	$4.20	27.62%	n/a	$6.33	$1.96	$0.08	1.30%
Graham Corp./GHM	$13.68	$13.30	2.86%	8.0	$54.91	$6.85	$0.41	0.60%
Landauer, Inc./LDR	$66.92	$61.34	9.10%	25.0	$74.51	$46.08	$2.69	3.10%
Mesa Labs/MLAB	$22.00	$19.61	12.19%	14.9	$23.96	$14.50	n/a	1.80%
Rayonier/RYN	$38.11	$36.35	4.84%	27.4	$49.54	$22.28	$1.39	5.10%
Servotronics Inc./SVT	$6.05	$5.95	1.68%	5.4	$16.53	$4.53	n/a	2.50%
Span America Medial Sys/SPAN	$12.33	$10.82	13.96%	8.0	$13.50	$7.76	n/a	2.90%
Torm/TRMD	$10.23	$10.30	-0.68%	n/a	$34.56	$7.50	n/a	n/a

The Investletter Portfolio

Company	Portfolio Percentage	July price	June price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	**3.70%**	**$1.13**	**$1.12**	**0.89%**	**$1.10**	**n/a**	**n/a**
Astronics Corporation/ATRO	**15.40%**	**$10.95**	**$10.39**	**5.39%**	**$8.25**	**16.4**	**n/a**
Berkshire Hathaway B/BRK.B	**6.70%**	**$3,181.00**	**$2,896.00**	**9.84%**	**$2,700.00**	**59.6**	**n/a**
Cash	**26.70%**	**$1.00**	**$1.00**	**n/a**	**n/a**	**n/a**	**n/a**
Chesapeake/CHK	**4.60%**	**$21.44**	**$19.83**	**8.12%**	**$20.00**	**n/a**	**1.70%**
CSP Inc./CSPI	**15.00%**	**$3.77**	**$3.55**	**6.20%**	**$4.00**	**43.8**	**n/a**
EDCI Holdings, Inc./EDCI	**11.40%**	**$5.82**	**$5.25**	**10.86%**	**$4.70**	**39.0**	**n/a**
K-Tron International/KTII	**9.40%**	**$87.98**	**$80.00**	**9.98%**	**$80.00**	**10.2**	**n/a**
QEP Corporation/QEPC	**7.10%**	**$3.11**	**$2.60**	**19.62%**	**$2.20**	**n/a**	**n/a**

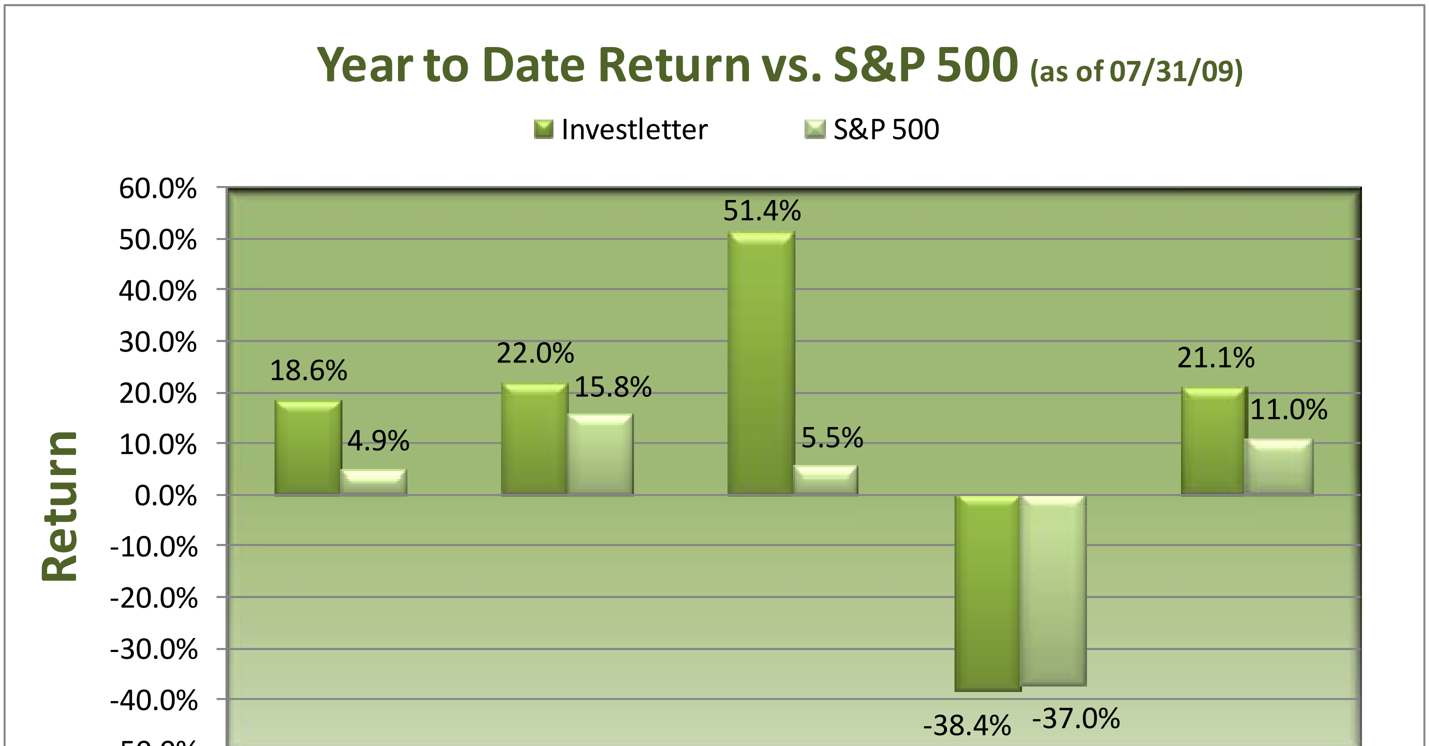
Here is how we think about the current direction of our portfolio. With the upheaval in the markets and the presentation of opportunities that haven't been seen in at least 35 years , we have changed our focus to companies that are selling for less than cash and investments or net nets as they were called by Benjamin Graham. Net nets are companies trading at less than their liquidation value. Opportunities like this are things that we previously have only been able to read about. Now they are in abundant supply. There is good reason these opportunities have not been seen in a generation. Decent companies selling at this price do not remain at this level. In normal functioning markets these situations are eliminated quickly or prevented from happening altogether. A good number of these companies are exploring liquidation to unlock their underlying value. We see an increase in the percentage of our portfolio targeted to these opportunities. Currently we have CSPI, EDCI and recently added TSRI meeting this criteria. This is now over 30% of our portfolio. Our cash balance is going to allow us to take another position or two and increase the amount of assets we have committed to these companies valued at rock bottom price, worth more dead than alive.

Ordinarily we lean towards investing in solid growth companies when they are selling cheap. Finding companies that the market has underestimated or, has failed to correctly value items like soon to begin contracts. We have at times liberally mixed in workouts, or arbitrage situations and have a taste for pure asset plays that in the past (and currently) have taken the form of investments in natural gas, oil tankers and land plays. Currently AMIN, ATRO, BRK.B, CHK, KTII and QEPC fall into this side of our portfolio. These companies currently make up over 40% of our portfolio.

Date	Security	Symbol	Price	Order Type	Qualifiers	% Portfolio or Position	Outcome
08/13/2009	CSP, Inc.	CSPI	$3.75	buy	limit	16%	filled
08/10/2008	TSR, Inc.	TSRI	$2.14	buy	limit	4%	filled
08/07/2009	American International	AMIN	$1.78	buy	limit	10%	filled
08/07/2009	EDCI Holdings, Inc.	EDCI	$5.25	buy	limit	10%	filled
08/07/2009	Berkshire Hathaway	BRK/B	$3,520.00	sell	limit	50%	filled
04/30/2009	Gencor	GENC	$8.30	sell	limit	100%	filled
01/09/2009	Constellation Energy	CEG	$26.50-$26.65	sell	limit	50%	filled
01/02/2009	EDCI Holdings, Inc.	EDCI	$3.65-$4.50	buy	limit	5%	filled

Performance

To date our performance has been led by two of our value plays, CSPI and EDCI. It is in part confirmation that a company can only trade so far below its liquidation value. Fear and uncertainty are probably the only legitimate reasons that a company could ever trade below their liquidation value. Both CSPI and EDCI still trade at about 70% of their liquidation value. With fear lessening, that only leaves uncertainty. EDCI should reach a conclusion by the end of the year as to what their next step will entail. The company has been looking to make an acquisition, but to date has been unsuccessful. If this does not occur we expect the company to liquidate. It would be no surprise to see a $5 per share dividend/return of capital be authorized. The company would them cease operations or preferably sell their operations for a small sum and distribute the remaining amount to shareholders. In the end we may end up with something close to $9 per share. If they do make an acquisition we would not be surprised to see $9 per share on expectations of better operating results.



	2005	2006	2007	2008	2009
Investletter	18.6%	22.0%	51.4%	-38.4%	21.1%
S&P 500	4.9%	15.8%	5.5%	-37.0%	11.0%

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