The Commonsense

INVESTLETTER

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Different Color Cars

Buying vehicle like buying into a company is dictated by a myriad of reason. Not all of them make a great deal of sense.

Every so often some of you may head out to buy a new car. You may have your eye a new red pick up truck. Red is a sporty aggressive color that exemplifies vigor and speed. Your wife (or husband) may have their eye on a pristine white compact. You come home to mull your decision over and you decide to call your buddy and he tells you red...are you nuts, you will get pulled over weekly for speeding tickets. He says black is the way to go. You come back with black will show every scratch and swirl from polishing.

At the same time you were looking at that sporty red pick up, another customer was looking at a forest green model. Why? Because he is a hunter and it will be least visible to passers by when he is pulled off the road during hunting season. The spot won't attract additional hunters as a result of seeing his truck parked on the side of the road serving as an indication that the spot might be a desirable location. Yet another customer was looking at a orange version of the same truck, because his wife's favorite color is orange and it was the only way she would let him buy a pick up instead of a minivan.

I could go on and present an unending chain of scenarios. The reason is obviously because people have as many reason for choosing a vehicle as there are vehicles for choosing. A color may pick you by being the last available vehicle of a particular model on the lot. Sort of choosing by not choosing.

The above is a microcosm of what occurs in the stock market. A small company like CSP, Inc. (CSPI) may have several thousand owners. The reason for owning shares in the company may be as varied as the number of owners. Some may plan on holding the shares until they retire in twenty years. Some may hold the shares until the price crosses $4 per share and then plan on dumping them.

Now add all of the publicly traded companies and all of the different reason investors buy or sell shares and you can imagine the web gets pretty complex. Think of it a giant network with connections that can be broken and reconnected someplace else depending on the day, the price of a company's shares, an investors mood or whatever. Compare this to consumers buying vehicles and all of the different vehicles and all of the different reason for buying them. Cont. p3

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Still Saving After all These Years

Saving for retirement is always a great idea. You get more bang for your buck when assets are on sale.

In the Employee Benefits Research Institute's 2009 Retirement Confidence Survey (RCS) documenting retirement savings in America, workers confidence in their ability to retire with enough money to live comfortably in retirement dropped to an all time low. These are not very surprising results. Only 13% of workers were very confident they would be able to retire comfortably. This was down from 27% just two years ago. Only 26% of workers 55 and older have more than $250,000 saved for retirement. In general, only 28% of workers feel they will need less than $250,000 to retire on and 40% feel they will need more than $500,000. Maybe this is where the lack of confidence begins to creep in. Many of the 74% of workers who have less than $250,000 for retirement feel they need to have at least double that by retirement age, roughly ten years down the road. For the 26% with $250,000 already it implies that they need 7% return or less to reach the $500,000 mark if they don't add another penny to their retirement accounts. Those with much less will really need to step up their savings.

Saving for retirement is exactly what appears to be happening. Savings in retirement plans has dropped very little considering what has recently occurred. Now that investments are cheaper, retirement savers should find them much more desirable.

Sadly the outlook almost continually runs 180 degrees from this viewpoint. When assets are priced near their highest is when investors find them most appealing. Take a look at all of the real estate investors buying condos in Florida with plans to sell them for a quick profit a few months later. I know friends of friends who got sucked into this "guaranteed" quick profit. Needless to say they didn't make out to well.

Investments into public companies can be made at much better prices than two years ago. Unfortunately, much of their profit generating ability has been temporarily reduced. Although, the share prices of many of these companies has dropped much faster than their ability to generate earnings.

While we would all be better off having never had our country put us in this situation, some good may result. The recent 6% plus savings rate and reduction in debt levels may strengthen the nation in the long run. The low asset prices leave the opportunity for solid growth on the upside and it appear that the rising confidence will lead to resumed growth in the economy.

While workers confidence in their ability to retire comfortably is at an all time low, it is on the heels of the worst economy since the Great Depression. The future has a reasonably good chance of seeing both worker's feelings about retiring comfortably and the strength of the economy showing strong rebounds. The next climb always begins when things look the worst. With workers increasing their savings and reducing debt, they are helping to boost consumer confidence by boosting their own confidence, leading to the stabilization and resumed growth in the economy.

Cont. from 1

Imagine now I ask you to develop a model to explain it all.

In the physical sciences you have models built on rather immutable laws. A pitcher throws a 90 mile and hour fastball and it crosses home plate in a set amount of time. Compare that to the stock market. Joe Snuffy sells some of his General Electric stock because he is a bit short of cash and his refrigerator just broke and needs replacing. Try plugging that into a model. It certainly will affect the share price. You had no way of predicting it yesterday. I have no idea how you can adjust for it.

The physical sciences lend themselves to modeling. The soft sciences aren't quite so cooperative. How well would you do predicting the number of car sales next year. At the beginning of 2008 nobody was predicting 2009 would see about 10 to 12 million vehicle sales.

Science is predictable, people are completely unpredictable, yet practitioners think they can tame this unpredictability and use all kinds complex math to prove their point. There are all kinds of finance programs in Colleges and Universities across the country to carry on this folly, and that is where the models are best left.

Evidence is piling up at how bad the models that make up modern finance perform in the real world. For many it is no real surprise. Professors are given a free pass when it comes to the suitability of complex models. They have been rewarded for the complexity at the expense of the practical. Professional designations are based on their fallacies. Too few have questioned the practicality of their models. Add to that a certain segment of society values their complexity at the expense of reality approach. Our response is to question everything and many more are joining this movement after the recent financial debacle. Some things, like modern finance, can't survive serious scrutiny.

Company	June price	May price	Change from May	P/E	52 Week High	52 Week Low	Estimated '09 EPS	Dividend Yield
Alico/ALCO	$30.02	$25.55	17.50%	71.3	$50.32	$20.24	n/a	2.00%
American Pacific/APFC	$6.37	$6.28	1.43%	7.4	$17.50	$3.90	$0.15	n/a
Arbitron/ARB	$15.89	$19.91	-20.19%	13.2	$50.87	$9.90	$1.45	2.50%
Arch Coal/ACI	$15.37	$18.53	-17.05%	9.7	$68.73	$10.43	$0.42	2.50%
Astro Med/ALOT	$5.25	$6.24	-15.87%	21.1	$10.00	$3.50	n/a	4.50%
Atrion/ATRI	$134.09	$110.20	21.68%	15.0	$136.77	$63.00	n/a	1.00%
Consolidate Tomoka/CTO	$35.08	$31.53	11.26%	37.2	$50.57	$21.56	n/a	1.20%
Culp/CFI	$5.00	$3.82	30.89%	n/a	$7.57	$1.30	$0.50	n/a
Diamond Mgmt & Technology/DTPI	$4.20	$3.75	12.00%	n/a	$6.33	$1.84	$0.08	1.60%
Graham Corp./GHM	$13.30	$13.01	2.23%	6.4	$54.91	$6.85	$0.41	0.70%
Landauer, Inc./LDR	$61.34	$57.63	6.44%	23.7	$74.51	$46.08	$2.69	3.60%
Mesa Labs/MLAB	$19.61	$20.00	-1.95%	13.5	$24.65	$14.50	n/a	2.00%
Rayonier/RYN	$36.35	$40.00	-9.13%	19.6	$49.54	$22.28	$1.33	5.90%
Servotronics Inc./SVT	$5.95	$6.10	-2.46%	5.8	$16.53	$4.53	n/a	2.30%
Span America Medial Sys/SPAN	$10.82	$10.87	-0.46%	6.9	$13.50	$7.76	n/a	3.40%
Torm/TRMD	$10.30	$10.35	-0.48%	0.8	$34.56	$7.50	n/a	n/a

The Investletter Portfolio

Currently we hold eight companies in the Investletter Portfolio. This is in the middle of the range we feel comfortable with. We try to keep the number of positions between 5 and 15 companies. Down near 5 companies we risk having too much of our portfolio exposed to too few securities and near 15 we have too many investments to follow with the attention we need to remain comfortable.

Currently we have three holding in excess of 10% of our portfolio. Two of them are selling at less than their net assets which provides a wide margin of safety. Astronics, the third position is a solid growth story. None of our remaining positions are too small to make an impact on our portfolio. If we had a position that represented 1% of our portfolio, the shares would need to rise 100% just to show a 1% increase in the value of the portfolio.

It is not uncommon for mutual funds to have in excess of 100 positions. There is no way a manager can be intimately familiar with 100 different businesses, understand their financials and keep up with all of the related press releases and regulatory filings. To top it off, no one position can have a sizable impact on the return of the fund. If a CSP, Inc. has a double in their share price it will be readily apparent in the Investletter Portfolio. And, we really don't care if the price drops 30% because their cash won't be any less valuable even if Wall Street marks down their share price. We just may have to wait a bit longer to get a realistic value placed on our investment, but it always happens.

We have reviewed other stocks with large cash and investment balances in relation to their market cap, but have not found any that we feel better about than CSPI or EDCI and we are not compelled to invest in them just to add needless diversification.

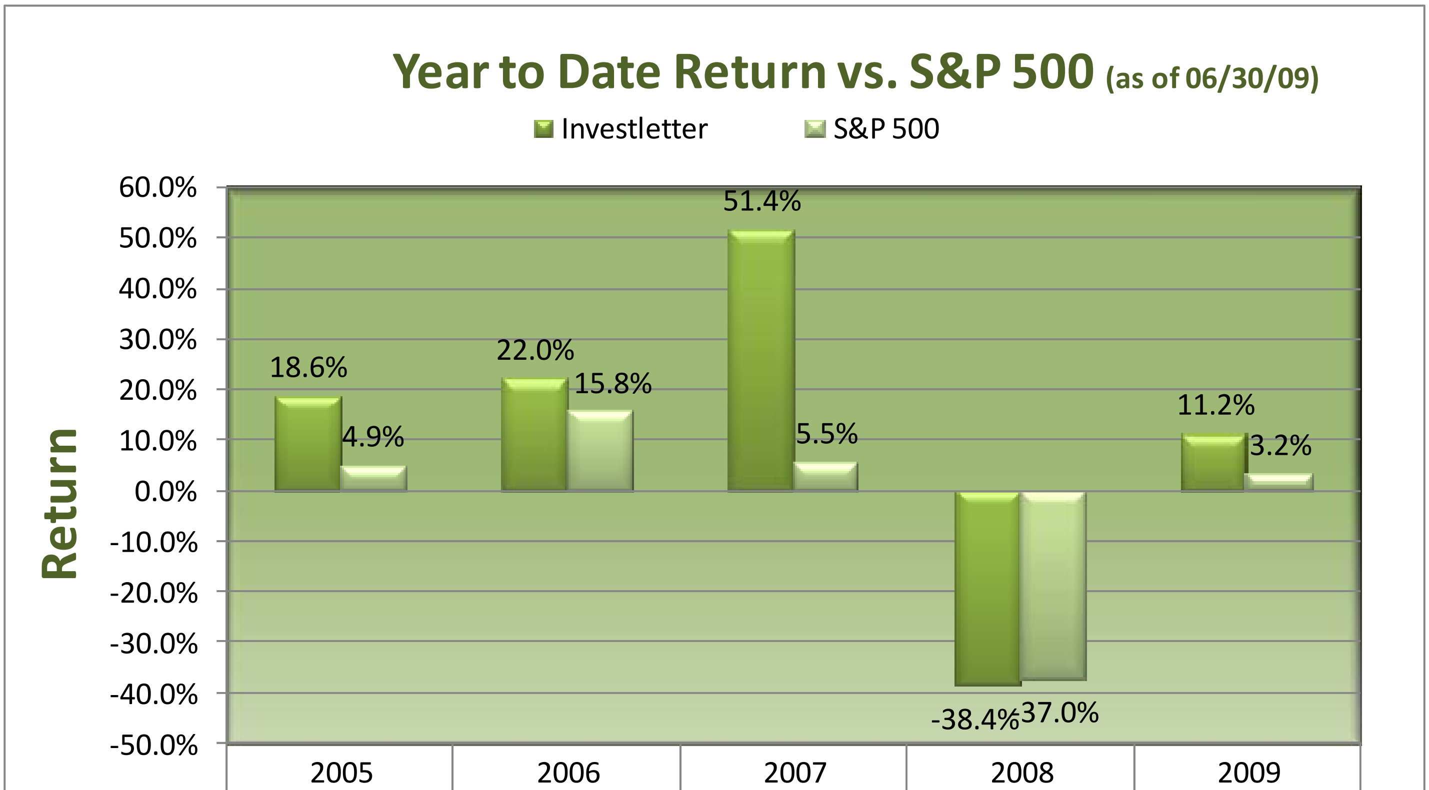
Date	Security	Symbol	Price	Order Type	Qualifiers	% Portfolio or Position	Outcome
4/30/2009	Gencor	GENC	$8.30	sell	limit	100%	filled
01/09/2009	Constellation Energy	CEG	$26.50-$26.65	sell	limit	50%	filled
1/2/2009	EDCI Holdings, Inc.	EDCI	$3.65-$4.50	buy	limit	5%	filled
12/30/2008	Rohm & Haas	ROH	$59.75	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	June price	May Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	**3.90%**	**$1.12**	**$1.12**	**0.00%**	**$1.10**	**n/a**	**n/a**
Astronics Corporation/ATRO	**15.50%**	**$10.39**	**$9.50**	**9.37%**	**$8.25**	**15.9**	**n/a**
Berkshire Hathaway B/BRK.B	**6.50%**	**$2,896.00**	**$2,972.00**	**-2.56%**	**$2,700.00**	**52.3**	**n/a**
Cash	**28.90%**	**$1.00**	**$1.00**	**n/a**	**n/a**	**n/a**	**n/a**
Chesapeake/CHK	**4.50%**	**$19.83**	**$22.66**	**-12.49%**	**$20.00**	**n/a**	**1.70%**
CSP Inc./CSPI	**14.40%**	**$3.55**	**$3.20**	**10.94%**	**$4.00**	**43.7**	**n/a**
EDCI Holdings, Inc./EDCI	**10.90%**	**$5.25**	**$5.15**	**1.94%**	**$4.70**	**n/a**	**n/a**
K-Tron International/KTII	**9.10%**	**$80.00**	**$86.19**	**-7.18%**	**$80.00**	**9.3**	**n/a**
QEP Corporation/QEPC	**6.30%**	**$2.60**	**$1.50**	**73.33%**	**$2.20**	**n/a**	**n/a**

Performance

This past month has seen us again overtake the performance of the S&P 500 market average. Our performance since the inception of the newsletter has resulted in an 96% increase compared to a 8% decline in the S&P 500 average. A 96% lead over the S&P 500 average over the next 5 1/2 years would be super. The returns on the S&P average should be much better than an 8% decline.

It is always difficult to see what the future holds, but even returning to historical averages would result in a solid boost for our portfolio. Our goal of around 15% yearly returns, on average, is intact and will be much easier when the markets in general can at least generate positive returns. With the past ten years being a lost decade for investors, the odds are becoming tilted to a greater degree in our favor. With investing, the longer things stay the same, the more likely they become to change. Ten years of crappy market performance will not continue forever.



	2005	2006	2007	2008	2009
Investletter	18.6%	22.0%	51.4%	-38.4%	11.2%
S&P 500	4.9%	15.8%	5.5%	-37.0%	3.2%

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