Volume 2 Number 3

March 2004

Blue Collar Investment Advisor

BCIA

Wall Street

- DJ 10240
- S&P 500 1121
- NASDAQ 1985

Chairman's Letter

At BCIA we are huge Warren Buffett fans. Each year at this time the Berkshire Hathaway annual report is released. Included in the annual report is the Chairman's letter written by the Chairman of the board of directors, Mr. Buffett. This letter is always insightful and gives a glimpse into the thoughts of the genius who has grown the investment of Berkshire shareholders at an amazing 22% annual return for the past 35 plus years. The letter not only covers his thoughts on investing but many other topics including economics, corporate governance, tax policy, government debt and life in general. We consider it required reading.

Hopefully these sheep are being led to greener pastures and not...

This years letter has a wealth of information. It happens to be a little light on the folksy, homespun humor that it usually includes. You will still crack a few smiles while reading it. One the underlying tones of the newsletter is discipline and patience. Buffett has waited for decades before making an investment. A few years ago he took a large stake in silver. He reported that he had waited thirty years to pull the trigger. When sizing up a purchase, Buffett sticks to a discipline where he will buy no stock in a company he does not understand. In order to understand a stock he has to be able to comprehend how a company makes money. He takes into account barriers preventing them from continuing to make money. The barriers include things like how a company can defend its activity from competition, and how likely it can avoid its product or service becoming obsolete. He has never invested in technology stocks. You can see why. It is difficult to account for the previous issues with technology companies. Owning shares in a company that solely produced VCRs would have been catastrophic the past few years. This is a conclusion that would have not been very easy to reach in the early 1980's. Buffet's term for a company being able to defend its product or service in the marketplace is a "defensible moat."

One of these defensible moats is a toll bridge. A toll bridge can be thought of as a product or service that people have to have and are likely to purchase from one particular company. A newspaper is a great example. If you want to place a want ad to sell a car, most often you will use your local newspaper. In most places around the country you have only one choice. You have to use your local newspaper. The internet has the potential to change many of these protections. That does not mean it will be easy or fast. Just don't tell that to your local bookseller.

For more great insight on this years Berkshire Hathaway Chairman's Letter, see this article by Jim Jubak , a writer for Microsoft Money web site. Here is a link you can follow http://moneycentral.msn.com/content/P76789.asp.

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Consolidated Tomoka

Check our website for up to date performance figures for 2004 www.ebcia.com

Consolidated Tomoka is a masterpiece among investments. We feel that this company is so far under priced that it is worth overweighting in our portfolio. The company as a whole sells for approximately $200 million. We feel that a conservative estimate of its worth is $400 million dollars. The company has revenue from several different sources. Most comes from the sale of land. At one time CTO was the largest landowner in Florida. They now own approximately 14,100 acres in the Daytona Beach area. Of that acreage, 3,000 are currently approved for development. They also act as developer for some of their land and have developed office parks, residential sites, and industrial sites. The company owns subsurface oil and mineral rights on 524,000 acres throughout Florida. Recently they have drawn revenue from investments in income properties. This revenue stream will become more important as additional land is sold. The company also operates golf courses for the LPGA headquarters site.

Land sales make up the largest portion of the company's operations. In 2003, the company had land sales of $25.5 million and recorded a profit of $22.8 million. Virtually all of the proceeds from the land sales are profit. Here is the first little tickler that CTO has, much of the land they own is carried on their books at turn of the century prices. That is, turn of the twentieth century. In 2002 they showed land valued at $7.5 million on their books. Earlier we illustrated that they sold over $25.5 million dollars of land. How could that be? Land is carried on a company's books at its historical cost. Whatever the company paid for the land in the early 1900's is the value that it is carried on the books at. This has the effect of vastly understating the value of the companies land on their financial statements. They ended 2003 with their land account showing a balance of $11.7 million. They

	2003	2002	2001
Real Estate Operations:			
Real Estate Sales			
Sales and Other Income	$25,495,664	$20,626,879	$3,351,893
Costs and Other Expenses	-2,721,624	-4,277,367	-2,100,264
	22,774,040	16,349,512	1,251,629

	2003	2002
Assets		
Cash	$1,026,210	$1,019,976
Restricted Cash (Note 1)	$19,359,098	$12,339,527
Investment Securities (Note 2)	$3,891,697	$5,013,224
Notes Receivable (Note 4)	$9,150,217	$9,640,676
Real Estate Held for Development and Sale (Note 5)	$11,659,581	$7,453,628
Refundable Income Taxes (Note 3)	--	$815,503
Intangible Assets, Net (Note 1)	$1,270,307	--
Other Assets	$2,665,653	$3,684,860
	$49,022,763	$39,967,394

Consolidated Tomoka

sold land valued at less than $2.7 million and purchased 946 acres for no more than $7.1 million. The net result would be a $4.2 million change in the value of the land account. In effect, they sold assets valued on their books at roughly $2.7 million for $25.5 million.

Sales and development activity in 2002 and 2003 have been very strong. Sale closings and development activity tend to spur additional interest by prospective buyers and developers. Interest in company owned properties remains strong with a backlog of contracts in place for closing in 2004. Using data posted on the companies web site for a short time last year, we were able to get an idea of what the company valued their land at based on asking prices for their various properties. Depending on the accuracy of the information, we have determined that the company has asking prices totaling over $400 million. For contracts on pending sales we estimate the total sum of $32 million. This is based on asking price, so the amount may be lower when the deals finally close. The company has also announced a $19 million dollar sale in early February. If the company does generate $30 million in sales you can expect that to result in profits of at least $25 million. Again, this will be selling $30 million of land from an account that is valued at $11.7 million. Unless a stock analyst catches this fact, the company does not appear to be worth very much.

Another useful piece of information comes from the fact that the per acre value of the land sold has been increasing. In 2002 the average sale price per acre of the 621 acres sold was $31,390. In 2003 the average sale price of the 653 acres sold jumped to $39,091. This information is useful when trying to determine what the companies land is worth.

The next major area of income is from income properties that the company has invested in. There is another stroke of genius in this facet of the company's business plan. Proceeds from the land sales are reinvested into income properties. The properties are leased to drug stores and booksellers. The company leases to Walgreens, Eckerds and Barnes and Noble among others. Returns of 8%-9% are generated by leasing these properties. In 2003, the company ended the year with income properties valued at $38.4 million. This generated income of $2.7 million dollars. In 2004 the company expects to close on another $22 million dollars in income property. When the value of the income properties reaches the $60 million dollar mark it is expected to generate income of $5 million. The $22 million that the company will use to close on the purchases was generated through last years land sales. In 2004, the company could easily generate more land sales then last years figure. Those proceeds will be invested into income properties in 2005. By the end of 2005 the company could easily have $90 million in income properties.

Here comes the second tickler the company provides its owners. All of the land sales that are used to purchase investment properties are done so tax deferred. The company pays no income tax because of like-kind exchange tax treatment. The IRS allows the sale of the companies land to be treated on a tax deferred basis as long as the money is invested into similar type assets. The income properties qualify for this purpose. A similar example would occur if you had a vacation home in Arizona . Lets say you decided you no longer wanted a vacation home in Arizona, now you want one in Wyoming. You could find an owner of a similar priced property in Wyoming who wanted a vacation home in Arizona and swap homes tax deferred. The taxes would be deferred until you sold your Wyoming property. CTO gets to use all of the money from its land sales to generate income for many years to come. At some point in time when it disposes its income properties the company will have to pay the taxes it owes. This may not be for many, many years. Last year the company had a tax benefit of $169,420. They received money from taxes. This is even better than paying no taxes. A charge of $8.4 million was recorded to cover the future cost of taxes whenever they may occur. So far we have a company that sells land recorded on its books at pennies on the dollar and pays no taxes. What else do they do?

Consolidated Tomoka

The other areas of operations are much less profitable. Income generated from timber sales from the company owned land and the oil and mineral rights is minor. The company also runs the clubhouse and golf course operations for the LPGA. This so far has proven to be a money losing operation to the tune of about $1 million per year.

How do we value the company? We invest in Consolidated Tomoka based on the extreme under pricing of the value of its assets. This is a value play. We are waiting for the investment community to recognize the true worth of the company. To some extent this has started to happen. We feel it still has quite a ways to go. You might ask how do we know that the company's price will rise? Consider this, we originally purchased shares in the company in 2001 near $20 per share. At that price the company was valued at $110 million dollars. In the past three years the company has sold land and purchased investment property. Nothing was created, no new widget, just an exchange of one asset for another. What happens is that the value of the under-priced assets is made apparent. When you look at the financials you see (or will soon see in this case) investment property worth $60 million instead of land valued at $2 million or less. Upon this revelation everyone on Wall Street gets giddy and bids the price up. The net result is that the market value has climbed $95 million (from $110 million to $205 million) as land has been sold and investment property purchased.

	Past 3 Years
Property Sold	$49 million
Income Property Purchased	$60 million

CTO still has a great deal of land that is carried on the books at ridiculously low prices. Is it worth any less because it has not been converted to income property? No, which is why we value the company based on the hidden value of the land it owns. Earlier we said that the company has 14,100 acres of land. At a conservative value of $25k per acre the company's land is worth $350 million. This assumes that the company can eventually sell all of its land and it sells for less than the average 2003 selling price of $39k per acre. The company will also receive income from its growing portfolio of investment properties. Presently the company is worth $205 million based on a $36 per share price and 5.6 million shares total. We feel that in five years the company could easily double in price. You could see a company with 8,000 acres of land and $210 million in investment properties. Whatever the outcome, we feel the company can easily support a market value of $400 million. If future land sales average close to the $39k value of 2003, the worth of the company could be much greater.

Earnings Season Part II

Berkshire Hathaway– Had another great quarter of earnings. We will convert all numbers to "B" share values. A "B" share is 1/30 of an "A" share. BRK.b earned $51.77 per share for the fourth quarter of 2003 compared to $25.73 in 2002. This represents a 100% increase in earnings. A large portion of this increase was due to investment gains. For many companies these gains are insignificant and should not be included as part of a companies operating earnings. Operating earnings are the earnings a company has from selling goods or performing services. Net earnings includes all earnings no matter how they are produced. Berkshire regularly reports investment gains because this is an integral part of their business. However, they will vary widely from quarter to quarter. For the year 2003 earnings were $177 per share compared to $93 in 2002. This represents a 90% increase. Strong results in the insurance business of the company and the previously mentioned investment gains led to these great results. 2004 should be another strong year.

OMI Corporation– Reported fabulous earning for the fourth quarter and the year in 2003. In the fourth quarter the company earned 34 cents per share from operations and for the year the company earned $1.27 per share. This compares very favorably with the 15 cents and 22 cents for the respective time periods in 2002. Strong shipping rates due to in creased demand and low supply fueled the increase in earnings. This strong demand has continued into the early part of this year. Oil prices have risen

and gasoline prices are near record highs as evidence of this greater demand. The day rates for the companies tankers should remain strong through most of this year. The company has projected earning at least 66 cents in the first quarter of 2004. I love the “at least” part, it means there is room on the upside for this quarter to be even more amazing. The company also announced that it will start paying a quarterly dividend of 5 cents per share. This is nice bonus for the shareholders and yields approximately 1.8%. Instituting a dividend is usually a sign of confidence by management. It means they will have extra cash flow over what they can put to productive use in the business.

Company	Ticker Symbol	Portfolio Percentage	Current price	Buy Price (less than)
Aflac	AFL	3.50%	$40.03	Hold
Amgen	AMGN	5.00%	$61.40	$60.00
Astronics Corporation	ATRO	5.00%	$5.02	$5.05
Berkshire Hathaway B	BRK.B	18.50%	$3054.00	$3050.00
Cash		12.00%	$1.00	n/a
Cell Genesys, Inc.	CEGE	3.00%	$12.57	$12.75
Consolidated-Tomoka Land Co.	CTO	27.00%	$37.26	$36.00
Freddie Mac	FRE	10.00%	$59.70	$60.00
OMI Corporation	OMM	12.50%	$10.25	$10.00
Ultralife Batteries	ULBI	3.50%	$20.65	$21.00

The BCIA Portfolio

In the past month we have seen a small drop in prices and have added a new position to the portfolio. The company, Ultralife Batteries (ULBI), makes high tech batteries for consumer products and military use.

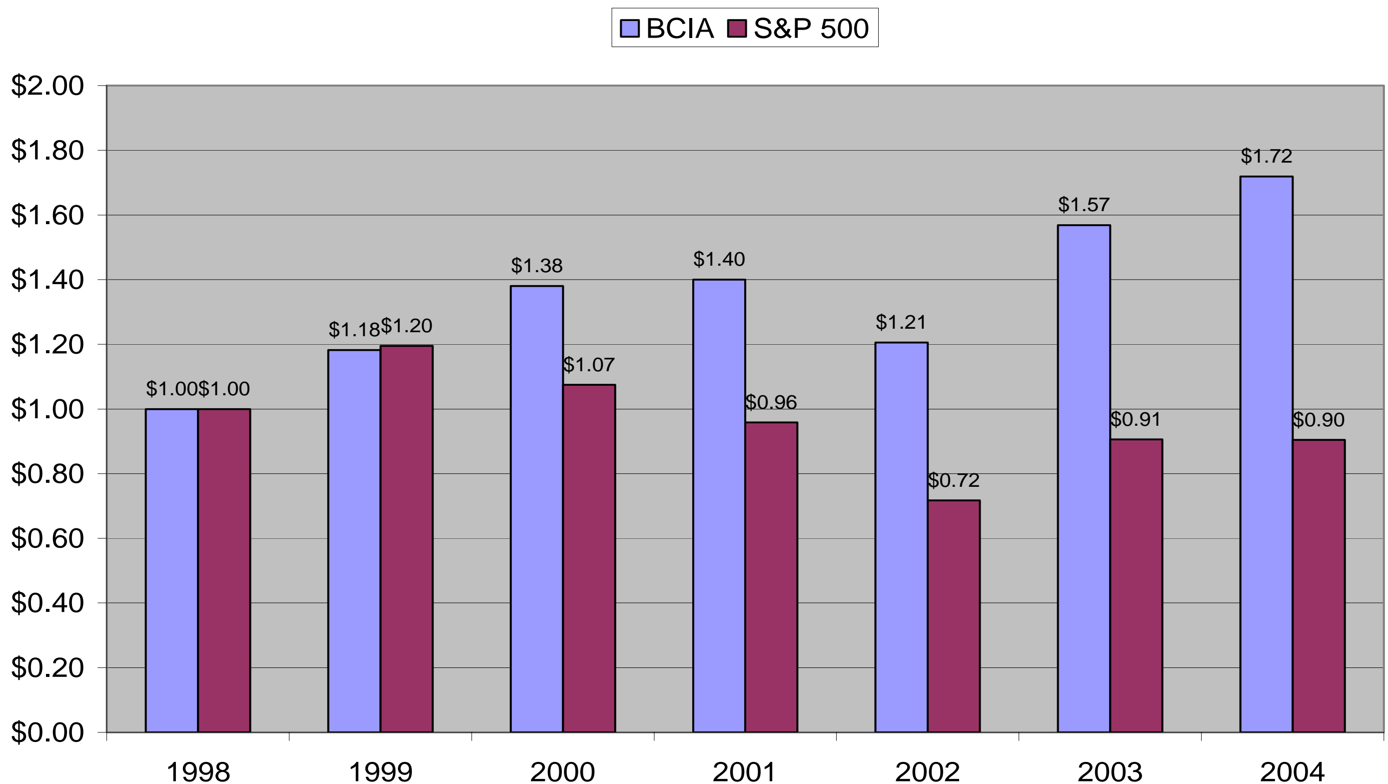
Several of the stocks in our portfolio have had significant drops in price over the last several weeks. Astronics and Cell Genesys are both in our buy range. Several are trading just above the prices we feel comfortable buying at.

A recent development at Freddie Mac has changed our outlook on that company. It has less to do with earnings per share and the value of the stock than it does with our ability to understand it. I recently received the companies 2002 annual report. It is over 200 pages long. The complexity is staggering. When one person can no longer understand a company’s annual report, it is time to sell the stock. We will probably be sending out an alert in the next couple of months regarding the sale of Freddie Mac. We are in no hurry to sell and do not feel that we have much risk on the downside. When we find an agreeable price, we will make our move. Preferably this will be at a price of at least $65. Before then, as and old country song says, “If the phone don’t ring, you’ll know it is me.” The same applies to our emails.

The table 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

So far this year we have been able to outpace the return of the S&P 500. We have a return of 9.6% compared to a –0.2 percent return for the market (S&P 500). If we manage to finish the year ahead of the S&P 500, it will mark the 5th straight year we have beaten the market. This has a dramatic effect on the value of a dollar invested following our investment principles compared to investing in the S&P. We have turned every dollar invested at the beginning of 1999 into $1.72. As a comparison a dollar invested in the S&P 500 is worth $.90 now. We have calculated the odds of beating the S&P 5 years straight to be no greater than 1%. This makes the assumption that only 40% of mutual fund managers beat the market on a yearly basis. In reality, the number of fund managers that beat the market in a given year may be as low as 25-30%.



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On The Radar

Principles Don't Change.

We will take a great business with poor management over a poor business with fabulous management any day.

We have several companies that we are interested in purchasing if the price is right. Unfortunately the price has not been right yet or we held shares in the company and the price became too right and we sold. There are several companies that are in the later category that we would be more than happy to own again. We will go through the list.

Company	Current Price
Allergan, Inc. (AGN)	$85.46
Bioanalytical Systems, Inc. (BASI)	$4.64
Genentech, Inc. (DNA)	$104.85
Gentex Corporation (GNTX)	$40.74
Landauer, Inc. (LDR)	$40.41
Altria Group, Inc. (MO)	$54.67
Protein Design Labs, Inc. (PDLI)	$23.68
USG Corporation (USG)	$15.96
Paychex, Inc. (PAYX)	$34.01

It can be assumed that each of these companies is selling for more than we are willing to pay for them. You never know when the price will drop into an area we feel comfortable purchasing shares at. Some may never satisfy this criteria. For some of the companies, our opinion of their business prospects may change and they will fade away without us ever having owned them.

Allergan, Inc.– Is a pharmaceutical company that makes most of its money from ophthalmic drugs. They have a great product that is used in treating glaucoma. The company trades very high in relation to its earnings. We have followed them for the last three or four years and have never been able to pull the trigger.

Bioanalytical Systems– Is a small company that manufactures equipment for the pharmaceutical industry. They also provide contract research to those companies. The management of this company is excellent. The CEO is very honest and forthright about the companies business prospects. He provides regular insight into his management style through regular communications with the investing public. He seems to be the kind of guy you would want your daughter to marry. We place a high value on the honesty of management in the companies we buy. Like many other tech companies, they have hit a rough patch since they economy turned south.

Genentech– Provides an interesting look into a prolific missed opportunity. Last year we were looking at purchasing shares in this biotech company. We were waiting for the shares to drop a bit below $40. They never did for a time long enough for us to grab shares. We had been waiting for an approval of a drug they had submitted to the FDA. We figured that the drug would be approved and the stock would get a nice little bump up. The stock has not finished bumping up yet and now the price is $105. They manufacture several drugs of their own and have arrangements were they receive royalties on several other products that other companies brought to market.

Gentex– is the type of company we love to invest in. They make their money from pretty much one product. That helps make them easy to understand. They make mirrors for automobile. The manufacture all of those fancy mirrors that self dim and have all of those elec-

On The Radar

Aim to act on certainty.

tronic gadgets built in. You can get a mirror that will monitor your tire pressure. This is another company with great management. For the past five or six years we have followed them they have always traded at premium prices.

Landauer, Inc.– Makes badges that monitor exposure to x-ray radiation and other penetrating radiations. They provide these product to over 25% of this market. This company possesses one of the truly great traits we look for in a business, repeat customers. Their product wear out rapidly and need to be replaced often. With net profit margins exceeding 20% they have plenty of money to pay out their 4% dividend.

Altria Group- This is the company that used to be Phillip Morris. They make cigarettes and own Kraft Foods. We feel most comfortable buying them when they are feared to be going out of business. Last time we bought them their shares were trading around $20 per share and their dividend yield was 7%. Maybe someday they will be cheap again.

Protein Design Labs– We sold them in January at less than they are trading at now. I am going to go out on a limb and predict that we will be able to buy them at less than $20 per share sometime in the future. Another biotech with what we feel is a bright future.

USG Corporation- It may be easier to understand this company if we tell you that USG stand for United States Gypsum. The sheetrock people. As long as houses are being built and people remodel this company will do well. Both tend to happen when interest rates are this low. This company is the low cost producer for drywall. They also happen to be in bankruptcy to sort out their liability from asbestos lawsuits. The company is selling at five times their 2003 earnings. This is dirt cheap (get it) thanks to the liability lawsuits.

Paychex, Inc.– This is the payroll processing company whose founder just purchased the Buffalo Sabres. If you could buy shares of either, don't pick the sports franchise. The company has had a meteoric rise and so has its share price. It is a low cost business from an asset standpoint and has lots of repeat business, weekly as a matter of fact.

One recent company that we recently removed from this list was Ultralife Batteries. They have a highly volatile price which we just love. We may buy and sell this stock a couple of times if the opportunity presents itself over the next month. We feel that this company has good long term potential. Everything we buy uses batteries it seems. Look forward to nice growth from ULBI.

There will be periodic updates to these companies and changes to the list. Stay tuned and talk to you next month.

Brett Davidson

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