The Commonsense

INVESTLETTER

Volume 3 Number 3

OMI

Last February (2004) we wrote about OMI in our second issue. Some of what we said still rings true. We originally said: *Presently we are trying to decide if the company or the industry has made a change that would make this company worthy of a long term commitment*. Ditto! This is a question we still have not answered. We said the answer would probably be no. We still are leaning that way. We also dread the thought of capital gains from shares that have risen so much. As we have said before, this is not a real good reason not to sell. Approaching the slow season for tankers may make a well timed sale that much more profitable. Here is some more commentary that we were lucky enough to get pretty close to right when we made it a year ago.

Large amounts of oil is still moved by tankers.

> *With this said, the company appears to be on the cuff of having a knockout year in terms of earnings. For now, we feel comfortable holding on to this stock and adding more shares at a price near $10. If you see earnings in the $1.60 to $1.70 area this year, you may see the price rise up to the $20 range. At $10 a share, there is probably little downside without a rapid change in shipping rates. (BCIA Feb. 2004)*

We also warned that we may sell this stock soon. Thankfully we did not make what would have been a huge error (about 100% to be exact) in judgment. We still see this company having little value as a long term holding. In the long term the shipping industry may be just too competitive. This is especially true if we are near peak oil production. The question is what is long term. In this instance we are talking about ten years out. This year the oil shipping pricing environment will probably not be as strong as last year. The company will still generate huge amounts of cash over this timeframe.

This little example will give you an idea of how much cash this company has thrown off over the past two years. You could have bought the entire company for $715 million at the beginning of 2004. In 2003 the company generated $142 million dollars in cash from operations. In 2004 this number jumped to $267 million dollars. Ultimately this is why we invest in common stocks, for the cash that a company can generate. A company has a variety of choices as to what they do with this cash. They can return it to the shareholders via dividend payments, reinvest it into the company (capital expenditures) and several other options. OMI generated over $400 million dollars in cash over two years. If you bought at the beginning of last year ($715 million) you already would have generated over 55% of your initial investment in cash ($409 million cash). This is a staggering number especially in light of the fact that the company may generate another $200 million plus this year. OMI has new ships coming into service in 2005 that will help increase revenues and rates should still be pretty strong.

Wall Street

- DJ 10461
- S&P 500 1181
- NASDAQ 1999

Inside this issue:

Suezmax day rates have dropped from near $200k per day in December to $35k per day presently.

OMI has strong management that has positioned the company to be profitable no matter what the rate environment. Their smaller product tankers that transport processed fuels like gasoline are mostly on time charter. These charters generate enough revenue to cover nearly all of the companies expenses. The larger aframax and suezmax tankers that carry crude oil are primarily on the spot market. Prices on the spot market change on a day to day basis and are not locked in in advance like the long term charters are. Arrival of new tankers in the industry this year have already helped drive down rates. Suezmax day rates had skyrocketed to $200,000 in December but have now dropped to $35,000 in early April. This is going on while the amount of crude being produced has risen. It is difficult to determine the effect on OMI's earnings without knowing what they have chartered their ships for. Overall the trend is not good. Fortunately rates can change rapidly. OMI announces earnings on April 21. This gives us all kinds of factors to consider when we make our decision.

Good management is an important part of a good investment. In this case it may not be enough to keep the share price climbing. We love the fact that the company is the low cost operator because the low average age of their tankers translates into lower operating costs. None of these factors can keep more new boats from being built or can increase the rate that oil can be pumped out of the ground. We will let you know when we know.

Recent Changes

Changes to our portfolio has signified several new directions we are heading in. Our increase in cash and shares of Berkshire both can be viewed as defensive moves. We did not make them to be defensive, however, that is the end result. Berkshire has been tainted by the recent insurance scandal regarding AIG. Guilt by association is not a great reason for a drop in share price. This gives us a great opportunity to pick up already undervalued shares at an even steeper discount. Cash is self explanatory from a defensive standpoint.

Increasing our investment in Petrokazakhstan is another bold shift. Recent political unrest in neighboring Kyrgyzstan (I'll let you take care of the pronunciation) has helped highlight the risks of international investing. The company is also facing monopoly charges from the Kazakh government. It is a complicated issue with no guarantee the rule of law or the application of reason will prevail. This is a major restraint on the shares until this matter is resolved. At present we still feel that the risk is worth taking. This company is selling so cheap the reward could be huge. We plan to monitor it closely.

We spent an inordinate amount of time investigating another company with real estate down in Florida. The company, Alico (symbol ALCO), has 140,000 acres in southwest Florida. The only problem is that management is a disaster. The company has changed CEO's twice in little over a year. Their CFO recently resigned and more than half of their directors resigned in protest in February. The company has similar characteristics to what attracted us to Consolidated Tomoka (except for the Addams Family style of management, they 're creepy and they 're kooky.) The company's fiscal year ends in August. We are waiting to see what kind of audit opinion their auditor gives them. We have good reason to feel that trouble may lie ahead. Once their problems are resolved we smell the chance to make nice profits.

4th Quarter Earnings Part II

Berkshire Hathaway - Berkshire turns in another quarter with extremely strong financial results. Net income rose from $3.34 billion, or $2,171 a Class A share, from $2.39 billion, or $1,553, a year earlier. This equates to about a 40% rise. (Class B shares represent 1/30 of a class A share.) For the full year the company reported a 10.3 percent drop in 2004 net earnings to $7.3 billion on revenue of $74.38 billion. In 2003, the company earned $8.15 billion on revenue of $63.86 billion. These results were in a year with four major hurricanes hitting the US. The insurance end of the business made out relatively well considering they were hit with $1.25 billion in losses.

Cash again showed an increased balance. Berkshire ended the year with $43 billion of cash equivalents, something CEO (Warren) Buffett called "not a happy position." In 2003, Berkshire had nearly $36 billion and the year before that, about $12.7 billion. Acquisitions become more difficult as a company becomes larger. The field is narrowed down by the size of acquisition that is needed to make an impact on the companies finances. The company is hunting acquisitions priced between $5 billion and $20 billion, CEO Buffett said in Berkshire's annual report. If no major acquisitions are made in the next year or two a sizable chunk of this money may be returned to shareholders via a special dividend in our opinion.

At year end the equity (stocks) side of the investment account had a value of $37.7 billion. It has since increased with the announcement that Gillette, a major holding is being bought by Procter and Gamble. That was worth a quick $800 million jump in value. The company also holds $31.2 billion in fixed income securities (bonds, etc.) along with $21.4 billion in foreign currency contracts.

Petrokazkhstan - The company announced fourth-quarter 2004 net income of $114.9 million ($1.51 per share) compared with $88.8 million ($1.14 per share) for the same period in 2003. Cash flow for the fourth quarter of 2004 was $118.9 million ($1.56 per share) versus $110.3 million ($1.42 per share) for the same period in 2003.

For the year ended December 31, 2004, net income was $500.7 million ($6.40 per share) compared with net income of $316.9 million ($4.06 per share) in 2003. Cash flow for the year was $560.5 million ($7.16 per share) compared to $400.0 million ($5.12 per share) for 2003.

The Company generated both record net income and cash flow in 2004. Improvements in the Company's transportation costs and higher prices contributed to these record results.

On February 23, 2005, PetroKazakhstan reported significant additions to its oil and gas reserves in 2004. As of January 1, 2005, Proved and Probable reserves totaled 549.8 million barrels oil equivalent ("mmboe"), compared to last year's total of 495.4 mmboe. This year's total comprises 502.9 million barrels of oil ("mmbo"), 32.1 mmboe of Natural Gas Liquids ("NGLs") and 88.4 billion cubic feet ("bcf") of natural gas representing a replacement of production of 197%.

Increased reserves signify that the company has discovered more oil by drilling wells on land they are authorized to explore. This helps ensure that they do not run out of oil to bring up out of the ground. If 2005 is anywhere near as successful as 2004 we should be in for a nice return on our investment.

continued p.7

Watch List

Last month we mentioned that we were interested in adding CFCI to our portfolio. You may have noticed you did not receive an email. After we sent out the last email the price of CFCI shot up. Since the last newsletter the share price rose to over $25 before retreating back to the $20 area. It is not the first time we have missed the boat and it will not be the last.

The recent drop in prices has been to our advantage as we look to put the ModPac and Consolidated Tomoka proceeds back to work. We are working overtime digesting annual reports at a rapid clip. This is getting tougher as they have gotten much longer with the recent regulatory reform put in place by the SEC.

You may have heard of Sarbanes Oxley. It is the curse of CFO's everywhere. It has been much more expensive implementing than was originally anticipated and is having some unintended consequences. Companies will have lower income as a result of this reform at least the first year or two. It is discouraging some companies from going public and keeping some foreign companies from listing on US stock exchanges (due to the fact that they need to comply and are reluctant to spend the money.) The real question is will all of this actually improve the quality of the information that companies provide. We certainly hope so. We can vouch that it has definitely created more of it.

So far we have had limited success uncovering new opportunities. On the bright side we have several dozen to go through yet. We are the postman's best buddy, sometimes generating $15 to $20 on sales of postage covering the packets being deposited in our mailbox on a given day.

Company	Current price	Last Months price	Change from Prev Month	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	$64.38	$65.70	-2.01%	12.5	$65.70	$44.50	$5.15	4.53%
Allergan/AGN	$70.41	$75.45	-6.68%	22.5	$92.61	$66.78	$3.14	0.57%
Bioanalytical Systems, Inc./BASI	$9.40	$6.25	50.40%	n/a	$9.49	$3.40	n/a	n/a
CFC International/CFCI	$20.67	$16.90	22.31%	23.2	$25.50	$5.58	$1.10	n/a
Fresh Del Monte Produce/FDP	$30.18	$29.71	1.58%	12.9	$33.94	$22.62	$2.38	2.61%
Genentech, Inc./DNA	$56.80	$48.24	17.74%	52.2	$68.25	$38.15	$0.81	n/a
Gentex Corporation/GNTX	$31.76	$33.94	-6.42%	21.8	$46.91	$30.19	$1.51	2.11%
The St. Joe Co./JOE	$67.07	$73.65	-8.93%	45.4	$75.41	$35.06	$1.47	0.83%
Landauer, Inc./LDR	$48.22	$47.34	1.86%	21.7	$50.30	$38.71	$2.14	3.65%
Paychex, Inc./PAYX	$32.64	$31.53	3.52%	34.5	$39.12	$28.83	$0.94	1.59%
QLT Inc./QLTI	$12.53	$13.99	-10.44%	17.2	$30.70	$12.08	$0.85	n/a
Rayonier/RYN	$48.56	$48.56	0.00%	24.2	$50.96	$37.51	$2.01	5.09%
Sanderson Farms/SAFM	$41.77	$45.03	-7.24%	10.0	$55.18	$30.81	$4.28	0.94%
Tejon Ranch Co./TRC	$44.00	$51.80	-15.06%	n/a	$55.90	$32.12	n/a	n/a
USG Corporation/USG	$31.80	$32.47	-2.06%	5.4	$41.67	$12.30	$6.00	n/a
The Washington Post Co. /WPO	$884.50	$908.98	-2.69%	23.0	$999.50	$830.00	$34.80	0.83%

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 two 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 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.

Over the past several months we have made wholesale changes to our portfolio. Consolidated Tomoka which was our largest holding has been cut to a minimal position. We had not anticipated it climbing as quickly as it did and had been planning on holding at least another year or more. The shares have not become fully valued yet. We sold because they are so close to being fairly valued that we feel we can no longer count on these shares doubling in value over the next five years. With our goal being to double the value of our portfolio every five years we can not have such a large portion of our portfolio in a stock that probably will not double in price in the next five years. We feel that a strong argument can be made for valuing the company at $70. However, we are not willing to wait five years or longer to realize this value. We would love to get back in somewhere less than $48 but this may never happen.

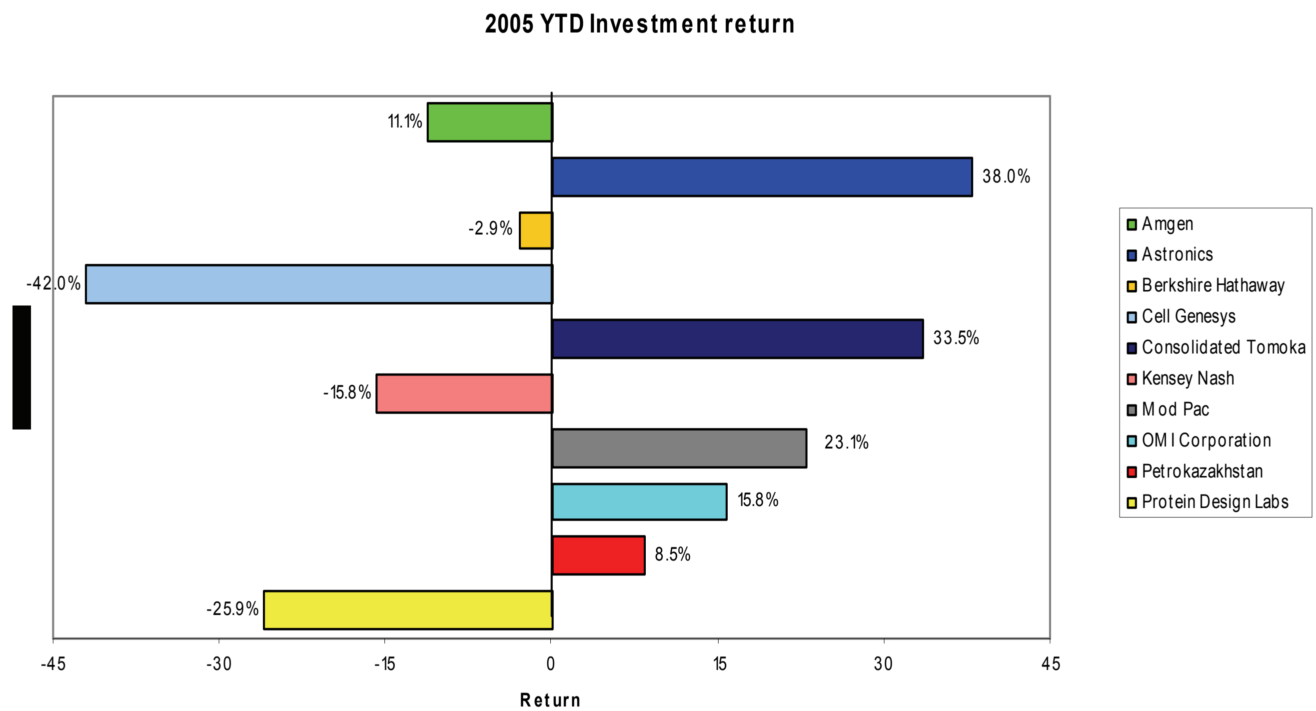
As you can see most of our investments are down in value over the past month. Astronics and Consolidated Tomoka have saved the day. During the month we added to two of our positions. Berkshire Hathaway had very solid earnings report and the stock promptly dropped. PetroKazakhstan has had their price beaten down by political unrest in a neighboring country. It can be argued that the price drop is a bit of a overreaction. We are happy to move in and buy on the cheap.

Our last big note is that Kensey Nash has received approval for their TriActiv medical device. The stock dropped a week before the approval was announced when the company announced a press conference. The concern was that they were going to announce that TriActiv was not approved. It turned out they announced that approval would probably be announced in the next thirty days. They also announced some slower than anticipated product launches that would negatively affect earnings. Down went the price. Again, we feel the reaction was overdone. At this point we recommend you increase your stake in Kensey Nash so it represents something close to 5% of your portfolio.

Company	Porfolio Percentage	Current price	Last Months Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Amgen/AMGN	4.00%	$59.14	$62.81	-5.84%	$60.00	20.9	n/a
Astronics Corporation/ATRO	5.60%	$7.20	$6.62	8.76%	$5.15	n/a	n/a
Berkshire Hathaway B/BRK.B	19.30%	$2,880.00	$3,016.00	-4.51%	$3,050.00	18.35	n/a
Cash	35.30%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.50%	$5.12	$6.30	-18.73%	$9.00	n/a	n/a
Consolidated-Tomoka Land Co./CTO	5.40%	$54.04	$45.30	19.29%	$41.50	21.2	0.52%
Kensey Nash	5.50%	$27.31	$31.81	-14.15%	$26.50	23.6	n/a
OMI Corporation/OMM	17.40%	$19.19	$20.83	-7.87%	$18.00	7.1	1.67%
PetroKazakhstan	3.90%	$38.49	$45.00	-14.47%	$41.00	5.5	1.64%
Protein Design Labs/PDLI	1.10%	$16.75	$17.33	-3.35%	$18.75	n/a	n/a

Newsletter Performance

This year's performance to date has been all over the place. Our first quarter results have been dominated by two stories. The first is oil prices. Oil prices have helped drive down the prices of stocks on the whole. The market, as measured by the S&P 500 average, is down 3.0% so far this year. It has helped our investment in OMI which has seen a nice 15.8% return so far this year. You can also see we have again seen a nice jump in the value of our Consolidated Tomoka. This has triggered us to sell about two thirds of our position. On the flip side we have been absolutely hammered on our biotechnology holdings. Amgen, Cell Genesys and Protein Design labs are down 11.1%, 42%, and 25.9% respectively. Our only relief is in the fact that they are a relatively small part of our portfolio. Overall we are up 9.4% so far this year. This gives us a 12.4% lead over the S&P 500 average through the first three months. We have found this recent market slide very helpful in identifying avenues to redeploy our swelling cash account. We have recently added to our Kensey Nash, Berkshire and Petrokazakhstan positions. Our large cash levels give us plenty of flexibility going forward.



Subscription Information

To subscribe to The Commonsense Investletter visit our web site at www.investletter.com. Click on the subscribe link to enter your subscription. Or, you can contact us at subscribe@investletter.com. A subscription cost $95 for 12 monthly issues. We aim to justify your subscription cost by helping you beat the market averages.

4th Quarter Earnings Part II

Principles Don't Change.

From our best estimate Consolidated Tomoka is selling for a little more than half of what it is worth.

Protein Design Labs - has had some very interesting developments over the past several months. They closed on an acquisition that they announced at the end of January. A drug that they are to receive royalties on had great trial results which should increase its sales. Another drug (Tysabri) for multiple sclerosis that they were to receive royalties on was pulled from the market. The removal of this product has played a large role in the drop of the share price of most biotech companies.

All this has gone on while the company has been busy raising revenue over 44% and narrowing their net loss to $53 million or $.56 per share from a loss of $129.8 million or $1.40 in 2003. Of the $96 million in revenue, $83.3 was generated from royalties. The company is still several years away from marketing a product of their own. With a nice product pipeline and healthy royalty revenue PDL is a possible takeover target. Their large cash balance only makes them more attractive.

As of December 31, 2004, PDL had cash, cash equivalents, marketable securities and restricted investments totaling approximately $397.1 million, compared with $505.0 million at December 31, 2003. The December 31, 2004 balances reflected approximately $95.7 million in capital expenditures made during 2004, primarily related to planned ongoing construction and validation of PDL's manufacturing plant at Brooklyn Park, Minn.

A biotech company has to spend large amounts on research and development and PDL is no exception. Research and development expenses increased 48% to $122.6 million in 2004, compared with $82.7 million in 2003. The increase in research and development expenses reflected additional headcount and associated costs required to pursue research and clinical development programs, contract manufacturing and direct scale-up and manufacturing expense, increased facility and equipment- related costs, and in-licensing of technology.

Their recent acquisition of ESP Pharma, a privately held, sales and marketing-focused pharmaceutical company will add competencies that the company currently does not have. ESP adds the marketed product Retavase® (reteplase) and an existing sales and distribution capabilities. Another exciting development had the company announcing that they are expecting to become cash-flow positive beginning in the second half of 2006. This is great news for a small biotech company that is still a few years away from bringing a product to market. The acquisition should give them a cash flow that they can use to further develop their candidates and avoid going to the capital markets for additional funding.

OMI Corporation - reported record earnings in what turned out to be an absolutely phenomenal year. Earnings in the fourth quarter ended December 31, 2004,

continued p.8

4th Quarter Earnings Part II

were $108,510,000 or $1.21 basic and diluted earnings per share ("EPS") and exceed the highest annual net income in the Company's history. For the quarter revenues increased $122 million or 141% over the fourth quarter last year. For the year ended December 31, 2004 net income was $245,695,000 or $2.87 basic and $2.86 diluted EPS. Net income for the year ended December 31, 2003 was $76,471,000 or $0.98 basic and diluted EPS. The primary reason for this dramatic increase was the large increase in demand for oil and oil products. The average OPEC oil production in the fourth quarter of 2004 totaled about 29.8 million barrels per day ("b/d"), an average increase of 2.0 million b/d, or 7.2% compared to the same period last year. This equated to a extremely busy year for shippers. Revenue was also up in the fourth quarter. Revenue of $207,898,000 for the three months ended December 31, 2004 increased $121,722,000 or 141 percent compared to revenue of $86,176,000 for the three months ended December 31, 2003. Revenue of $564,674,000 for the year ended December 31, 2004 increased $241,521,000 or 75 percent compared to revenue of $323,153,000 for the year ended December 31, 2003. Earnings of $109 million on revenues of $208 million in the fourth quarter represent a net profit margin of nearly 50%.

Product tanker, Aframax, Suezmax are different classes of ships.

This year looks to be another extremely profitable year for OMI. With a 50% larger Suezmax (called suezmax because they are the maximum size ship that can still fit through the suez canal) fleet than in the first quarter of 2004, the company anticipates greater earnings in this years first quarter than in last year's first quarter. As we look at 2005, they see continuing growth in world oil demand, which is expected to lead to a strong year overall, though with normal seasonal declines in the second and third quarters. The company also will take delivery of three product tankers in 2005. The soft spot rates through the summer may make a nice exit point for us.

With the sale of the last two non double hulled vessels in last years fourth quarter, OMI now has a fleet made up of entirely double hulled ships. With environmental concerns being the major driving force, more oil producers are moving to shipping with these tankers. Double hulls command a premium price and are also cheaper to operate than many older ships.

OMI has a tough act to follow this year. Last year everything went their way. Another perfect year would be an astonishing performance.

As always we thank you for your support.

BD