

# INVESTLETTER



Volume 6 Number 5

## Gas Demand

### Wall Street:

- DJ 12820
- S&P 500 1386
- NASDAQ 2412

At what price are consumers impacted by the change in the price of gas? What price triggers consumers to change their behavior and use less gas? I was convinced we would see people change their behavior when gasoline hit \$3 per gallon. It made very little impact.

As prices rise you expect consumers to use less of a product. Gasoline tend to be somewhat inelastic. If gasoline prices double you don't expect to see gas usage drop 50%. Before \$4 per gallon gas usage hardly dropped at all. We decided to take a look and see if gas prices have affected demand. Only recently has demand started to soften.

If there is one thing the federal government does well, it is collect data. The Energy Information Administration is the statistical arm of the Department of Energy. They provide a plethora of data on all of the major types of energy we use in the U.S. Our interests are limited to natural gas, coal, gasoline and oil. You can also obtain information on nuclear, renewable energy, international data and much more. ([www.eia.com](http://www.eia.com))

The data we were interested in was gasoline demand. The spreadsheet we referenced contained weekly gas consumption (demand) data going back to 1990. Gas consumption has gone up each year since 1990, until this year. The data show that in January of '08 demand dropped 1% the same for February and March. In April the demand was only down .3%. The May figures show that demand was down 1.2% and through the first three weeks of June demand is off 2.2%. Even with this drop in demand, we're still using much more gas than we did not that long ago. As a nation we are consuming 24% more gasoline than we did in 1991 and 7% more than we used in 2001.

It was in late May when gas prices finally averaged more than \$4 per gallon nationwide. This also coincides with what appears to be a healthy drop in demand. It looks like \$4 gas is enough to change consumer's habits. I now find myself figuring out what it will cost to run down to the store or drive to pick up a prescription. Never in the past would it have occurred to your publisher to calculate what it would cost to pick up a pizza. I guess high gas prices will do that to you.

Oil demand in April sagged even more than gas demand. Oil demand was off 3.9% this April when compared to last year. The increased demand for oil and gasoline in developing countries is going to force us either to pay more, to continue to reduce our demand or suffer with continually rising prices. There is a limited supply of oil and the distribution between countries is going to be determined by how much each is willing to pay. Reducing our demand will help ease this pricing pressure.



**How much have rising prices affected the American consumer? Maybe less than you might think**

### Inside this issue:

- Gas Demand 1
- Watch List 3
- Investletter Portfolio 4
- Year to Date 5
- Performance 6

## Watch List

Of the two companies that we still plan to talk about below, only one has much worth writing about at this point in time. Span Medical Systems engages in the manufacture and distribution of various polyurethane foam products for the medical, consumer, and industrial markets in the United States and Canada. Its medical products consist of polyurethane foam mattress overlays; therapeutic support surfaces, which include non-powered and powered mattresses; patient positioners; seating products; and skin care products for health care settings, including acute care hospitals, long-term care facilities, and home health care providers. The company is in the process of transitioning away from a supply agreement with their largest customer. Until it is clear how this is going to resolve itself we are not willing to make any decision.

The other company, Schuff International (SHFK), is much more interesting. We saved what we feel is the best for last.

The big drawback with SHFK is that the company trades infrequently with some weeks seeing a couple of thousand shares change hands. Schuff International, Inc. operates as an integrated fabricator and erector of structural steel and heavy steel plate. It fabricates and erects structural steel for commercial and industrial construction projects, such as high and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines, and power plants. The company primarily operates in the Southwest.

Last year they had \$760 million in revenues and \$60 million in net income. The company has record backlogs currently and is sitting on a nice balance sheet with \$42 million in cash. Could some of the projects they have in their backlog be cancelled or delayed, without a doubt. It is still likely the company would remain profitable. The stock market places a value of \$210 million on the company. A growing company with fat profit margins, an excellent balance sheet and they have a rock bottom valuation placed on them.

With so few shares trading hands, the liquidity issue is concerning and hard to explain. It may make it difficult to take a position in the company. Further research is needed.

Company	May price	April price	Change from March	P/E	52 Week High	52 Week Low	Estimated '08 EPS	Dividend Yield
<b>Alico/ALCO</b>	<b>\$39.93</b>	<b>\$39.94</b>	<b>-0.03%</b>	<b>n/a</b>	<b>\$65.00</b>	<b>\$35.35</b>	<b>n/a</b>	<b>2.80%</b>
<b>Alliant Techsystems Inc./ATK</b>	<b>\$108.56</b>	<b>\$109.98</b>	<b>-1.29%</b>	<b>16.7</b>	<b>\$120.90</b>	<b>\$92.20</b>	<b>\$7.40</b>	<b>n/a</b>
<b>American Pacific/APFC</b>	<b>\$16.95</b>	<b>\$17.70</b>	<b>-4.24%</b>	<b>14.7</b>	<b>\$19.20</b>	<b>\$12.51</b>	<b>n/a</b>	<b>n/a</b>
<b>Arch Coal/ACI</b>	<b>\$64.91</b>	<b>\$57.36</b>	<b>13.16%</b>	<b>24.5</b>	<b>\$68.68</b>	<b>\$27.76</b>	<b>\$2.65</b>	<b>0.60%</b>
<b>Culp/CFI</b>	<b>\$7.20</b>	<b>\$7.03</b>	<b>2.42%</b>	<b>13.6</b>	<b>\$12.30</b>	<b>\$6.12</b>	<b>\$0.53</b>	<b>n/a</b>
<b>Gencor/GENC</b>	<b>\$14.35</b>	<b>\$26.33</b>	<b>-45.50%</b>	<b>6.6</b>	<b>\$32.88</b>	<b>\$8.50</b>	<b>n/a</b>	<b>n/a</b>
<b>Graham Corp./GHM</b>	<b>\$68.44</b>	<b>\$57.18</b>	<b>19.69%</b>	<b>25.0</b>	<b>\$71.58</b>	<b>\$13.88</b>	<b>\$2.74</b>	<b>0.20%</b>
<b>St. Joe Company/JOE</b>	<b>\$38.38</b>	<b>\$40.67</b>	<b>-5.63%</b>	<b>46.8</b>	<b>\$52.62</b>	<b>\$26.70</b>	<b>\$0.82</b>	<b>1.60%</b>
<b>Landauer, Inc./LDR</b>	<b>\$59.81</b>	<b>\$53.25</b>	<b>12.32%</b>	<b>24.2</b>	<b>\$61.13</b>	<b>\$45.50</b>	<b>\$2.47</b>	<b>3.40%</b>
<b>Mesa Labs/MLAB</b>	<b>\$20.10</b>	<b>\$21.80</b>	<b>-7.80%</b>	<b>13.4</b>	<b>\$27.00</b>	<b>\$17.90</b>	<b>n/a</b>	<b>2.00%</b>
<b>Park Ohio Holdings Corp/PKOH</b>	<b>\$15.02</b>	<b>\$16.68</b>	<b>-9.95%</b>	<b>7.0</b>	<b>\$32.00</b>	<b>\$13.70</b>	<b>\$2.15</b>	<b>n/a</b>
<b>Schuff International/SHFK</b>	<b>\$28.00</b>	<b>\$26.25</b>	<b>6.67%</b>	<b>4.1</b>	<b>\$35.00</b>	<b>\$20.00</b>	<b>n/a</b>	<b>n/a</b>
<b>Servotronics Inc./SVT</b>	<b>\$15.89</b>	<b>\$17.50</b>	<b>-9.20%</b>	<b>18.9</b>	<b>\$22.48</b>	<b>\$8.42</b>	<b>n/a</b>	<b>n/a</b>
<b>Span America Medial Sys/SPAN</b>	<b>\$12.01</b>	<b>\$11.50</b>	<b>4.43%</b>	<b>11.2</b>	<b>\$30.95</b>	<b>\$9.88</b>	<b>n/a</b>	<b>2.90%</b>
<b>Tejon Ranch Co./TRC</b>	<b>\$39.91</b>	<b>\$42.26</b>	<b>-5.56%</b>	<b>n/a</b>	<b>\$50.89</b>	<b>\$33.71</b>	<b>\$0.60</b>	<b>n/a</b>
<b>Torm/TRMD</b>	<b>\$33.08</b>	<b>\$32.95</b>	<b>0.39%</b>	<b>2.9</b>	<b>\$47.10</b>	<b>\$26.52</b>	<b>\$4.51</b>	<b>12.70%</b>
<b>Twin Disc/TWIN</b>	<b>\$19.00</b>	<b>\$17.98</b>	<b>5.67%</b>	<b>9.9</b>	<b>\$41.99</b>	<b>\$12.07</b>	<b>n/a</b>	<b>1.40%</b>

## The Investletter Portfolio

K-Tron International (KTII) is the beneficiary of a huge increase in demand for coal and a sea change in China. China's economy has been the low cost provider for the past decade or more. This is a similar story for developing nations throughout history. Countries are forced to start at the bottom of the value chain and work their way up. The story in China has been no different. If you have a problem with production in China you just throw more people at it. Labor is cheap and plentiful. It is the easiest way to increase their economic output. With extreme rapidity the Chinese have been laying the groundwork to modernize and upgrade their production capabilities as their cost for labor has begun to rise. Other less well developed countries have been stealing work from China competing solely on cost. China has started to increasingly modernize their capital equipment.

This is where KTII comes into the picture. The process handling equipment they manufacture makes production in the plastics, chemical, food and other industries much more efficient. KTII is the premier feeder company in the world. They are the leaders in both gravimetric feeders, based on feedstock weight, and volumetric feeders based on volume. The rapid growth KTII has experienced in this area is poised to continue. Add to this the rapidly increasing demand for energy to fuel the developing industrial complex and ordinary citizens increasing demand for energy, and KTII is well situated to capitalize on this activity. The company provides coal crushing and sizing equipment used both at the mine site and electric generation facilities. The number of coal mines is rapidly increasing world wide. Selling the equipment makes for excellent business for KTII. The real bonus is in the repair parts. The equipment is extremely long lived and requires frequent repair parts due to the nature of the work they perform. Whereas a company like Johnson & Johnson sells medical equipment like blood glucose monitors that require supplies that are continually consumed, KTII sells equipment that requires a constant supply of parts on a much slower scale, but at a much higher cost.

The more machines they sell, the more repair parts they sell. Highly profitable repair parts. With shrewd management and favorable industry conditions KTII should be a strong performer for years to come.

Shortly we should all be receiving our additional shares in American International. The shares are slated to be credited to accounts on July 17. The company has made no release regarding the shares of Hammonds Industries they had planned to spin out. AMIN also made a small acquisition of a company in the oil services industry. This has the potential to be a nice fit with their Delta Well Seaboard Services subsidiary. Now they need to get their large land deal closed and we all will benefit.

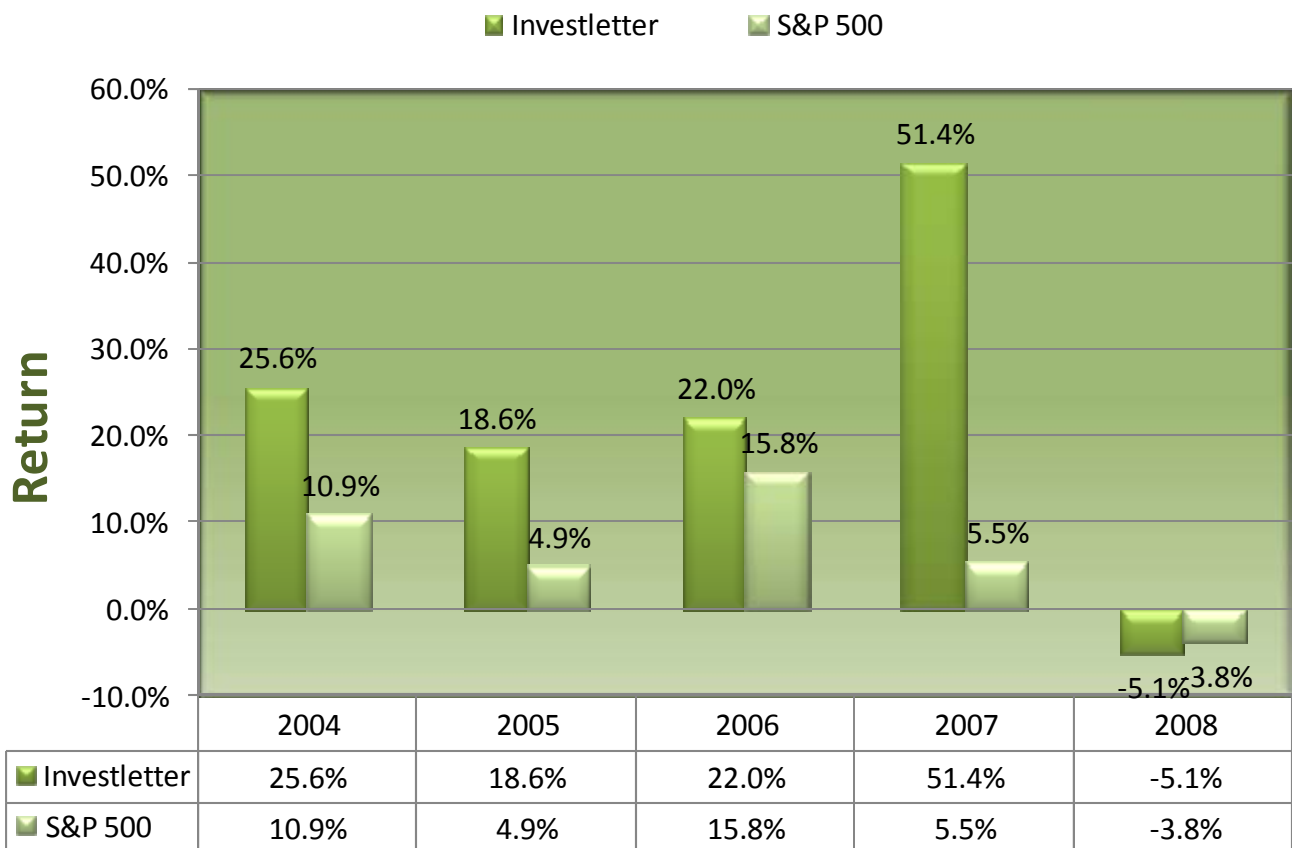
Company	Portfolio Percentage	May price	April Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	5.40%	\$3.71	\$4.50	-17.56%	\$3.50	n/a	n/a
Amtech Systems/ASYS	7.40%	\$9.85	\$12.44	-20.82%	n/a	36.5	n/a
Astronics Corporation/ATRO	9.50%	\$17.43	\$17.80	-2.08%	\$16.80	13.4	n/a
Atrion/ATRI	6.70%	\$108.50	\$111.90	-3.04%	\$93.00	14.9	0.90%
Berkshire Hathaway B/BRK.B	7.00%	\$4,498.00	\$4,457.00	0.92%	\$4,000.00	15.6	n/a
Cash	22.50%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Chesapeake/CHK	8.50%	\$54.77	\$51.70	5.94%	\$37.00	14.1	0.50%
CSP Inc./CSPI	6.80%	\$5.88	\$5.93	-0.84%	\$5.60	8.5	n/a
Headwaters/HW	0.70%	\$10.87	\$11.43	-4.90%	n/a	17.0	n/a
K-Tron International/KTII	10.60%	\$136.78	\$137.00	-0.16%	\$90.00	17.7	n/a
Protein Design Labs/PDLI	0.30%	\$10.25	\$9.01	13.76%	n/a	12.1	n/a
QEP Corporation/QEPC	7.40%	\$7.35	\$7.17	2.51%	\$6.50	11.6	n/a
Rayonier/RYN	8.80%	\$47.46	\$42.03	12.92%	\$41.00	20.9	4.50%

## Year to Date

May shows us continuing to lag the S&P 500 average. At times during the month we sneak ahead a few percentage points, at other times we slip back behind the S&P 500 average. We spent much of last year warning that all years would not be as good as 2007. At the time it seemed as if the amazing returns would never stop. Currently, it seems as if the economy will never turn back around and send the markets moving higher. Each time it is easy to project the current condition out as far as can be seen. It never works that way.

The boom and bust cycles happen and it is not necessary to even try and explain why. When things look sour better times are ahead. Always. Our time is spent looking for ways to protect against the downturns and position ourselves to profit from the upturns. Occasionally there are large shocks that nobody can see coming. What you own (or whether you own) may help determine how well you fare. Companies with large amounts of debt and exposure to fancy, poorly understood (yes, even by those who create them) derivatives can be even more risky, banks included. You never know what you don't know; ask Bear Stearns. A powerful investment bank brought to its knees over a weekend. The improbable is not likely to happen, but that does not mean it can't. If CSP Incorporated goes bankrupt they have \$20 million in cash to cover their \$22 million the company sells for. We would make out pretty good. That doesn't imply that in thinking about our portfolio we can possibly entertain every risk we face. It is still important to envision as many as we can.

### YTD Return vs. S&P 500 (as of 05/31/08)

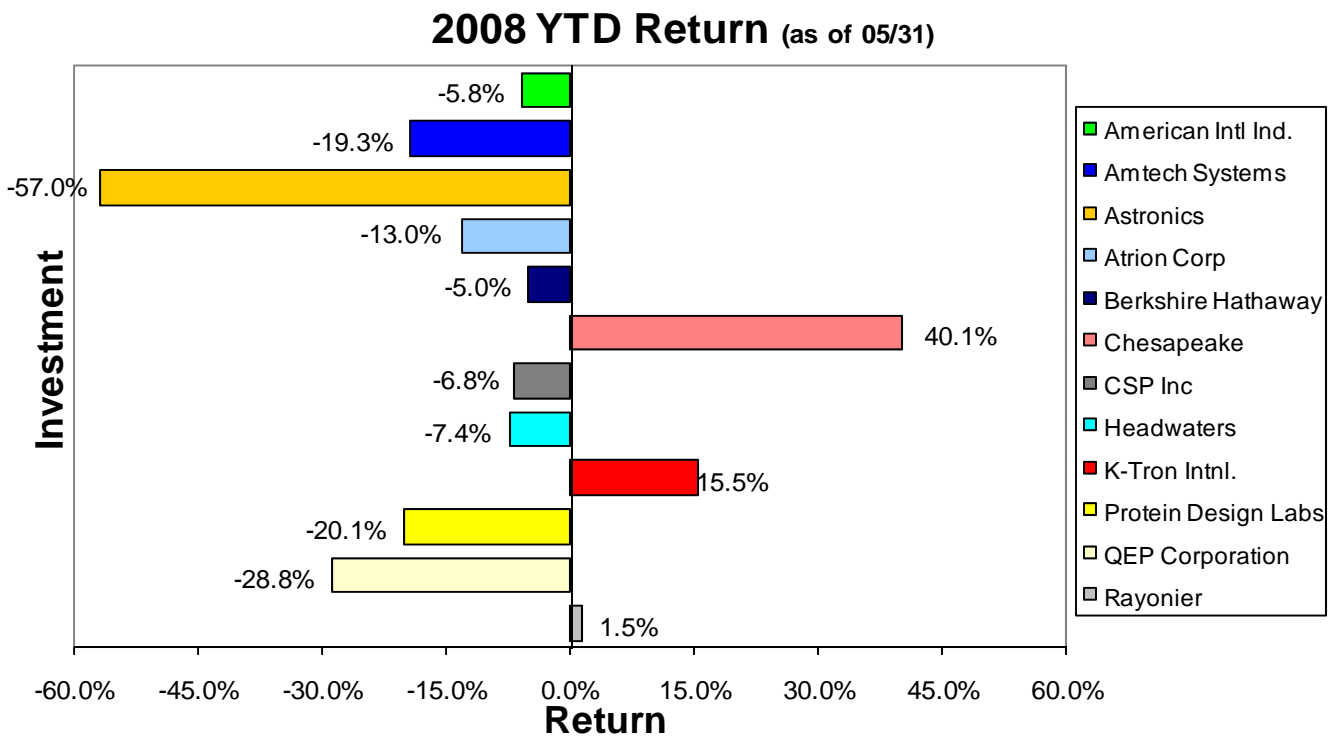


## Performance

The longer we suffer through this market weakness the sooner we return to a time of rising share prices. Reports in the media continually highlight the fact that markets do not like uncertainty. The prognosticators fails to grasp that markets are always uncertain and that the further prices are depressed, the less risk we are exposed to. Buying companies always involves uncertainty and the future of the economy is always uncertain. When you are writing a daily business column for a newspaper or business publication you have to have something to say to try and explain what is going on.

Humans have a desire bordering on a need to have a neat tidy explanation of why things occur. Experiments on patients who have had the connection between the right lobe of their brain severed from the left lobe provide interesting insight. When researchers isolated the half of the brain responsible for explaining what has happened and cause them to perform some action, the subjects would create an explanation to provide some rationale as to why they did what they did.

Immediately when you see something your brain starts to put together an explanation as to what is happening. This works great until you encounter something like the stock market that has no explanation. The reactions and interactions are too complex to be able to filter down to some specific, exact cause. That alone does not stop people from trying. We invest in businesses which are inherently easier to understand. The price in the stock market is a bellwether as to whether a company is worth buying or better off sold. The market price has no explanation it is only there to serve you.



## Subscription Information

To subscribe to The Commonsense Investletter visit our web site at [www.investletter.com](http://www.investletter.com). Click on the subscribe link to enter your subscription. Or, you can contact us at [contact@investletter.com](mailto:contact@investletter.com) with any questions. Checks made out to BCIA can be mailed to the address below. A subscription cost \$149 for 10 issues yearly. We aim to justify your subscription cost by helping you beat the market average.