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BCIA

Wall Street

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- S&P 500 1125
- NASDAQ 1970

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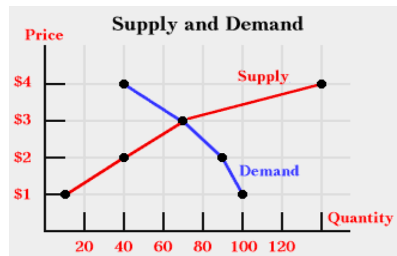
Oil & Gas Prices

Oil and gas prices have skyrocketed over the past year. Oil prices have risen from $30 last October to $51 per barrel this October. This represents a whopping 70% increase. Gasoline prices are up from $1.60 to $2.15, a 34% increase. Each one of us has been forced to divert money we otherwise spend on other goods and services to purchasing fuel. The full extent of natural gas price increases will not be known until the heating season kicks into high gear. Prices are already predicted to rise upwards of 60%. Fortunately this is not the only component of your gas bill so it will not rise to as great an extent. This increased burden on consumers could have negative economic implications for whoever occupies the White House next year.



Supply and demand strike again.

It can be argued that rising oil prices may trigger our next recession. The fact that people have less money to spend on other goods and services will by definition lessen the demand for those products. A drop in demand will lead to an oversupply of labor inputs. Translation: too many workers resulting in layoffs. If there are enough layoffs you could see a drop in consumer confidence which will lead to a delay in consumption. Consumers will wait to buy that new car or spend a little less at Christmas which can trigger a recession.

Consumer sentiment is a big driver in the likelihood of a recession. If enough people start to believe we will have a recession we probably will have a recession. It is the change in people spending habits that ultimately triggers a recession.

Can a recession be prevented? Yes if people go out and spend. Our economy has other problems like the trade deficit the may preclude consumers from being able to do this to any large extent. Business spending is also very important. We are not implying that we have a recession that needs to be prevented. We do not want to be part of the problem by adding fuel to the recession fire we are only interested in having our subscriber be aware of what changes may take place over the next 18 months.

Behind all of this discussion lies the principles of supply and demand. Oil is not the textbook case you would use to explain supply and demand. Oil prices involve elasticity. When demand for oil increases you can expect the price to rise. That is exactly what has happened. China and India

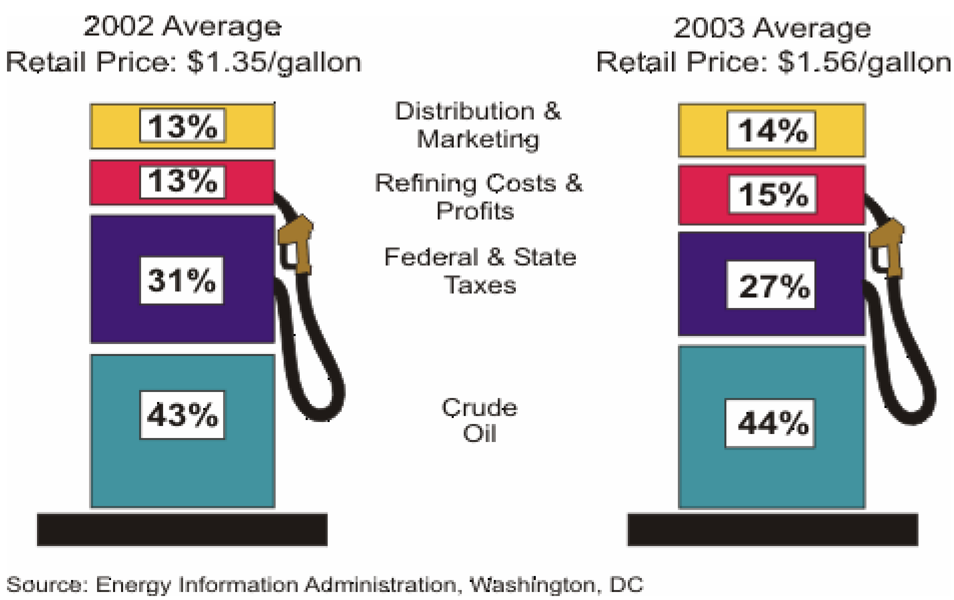
Oil & Gas Prices cont.

Oil only makes up 44% of the cost of gasoline.

have greatly increased their use of oil and oil products.   The oil market however, has some interesting characteristics that play out differently than a simple supply and demand scenario would. The demand for oil is rather inelastic. When the price of oil rises demand does not drop to as large an extent with inelastic goods. Even if the price rises people still have to buy gas for their car or truck to get to work. They still have to heat their houses. Another confounding factor is the existence of the OPEC cartel. They have an abnormally large effect on the price of oil.

When examining supply you can't go and produce more oil. Either you have it or you don't. The OPEC countries have it. Other countries who are not OPEC countries could lower their price that they sell oil at but this may not have a large effect on the overall price of oil. In order to meet the demand countries would still be forced to pay the cartels price. Oil supplies are a great unknown. Whispers have it that the Saudis may be at maximum production now and be depleting their reserves. We have no way of knowing for sure.

What could happen next with oil prices could be very interesting. If supply is maximized then any increase in demand would be met with further price increases. This could trigger a run on oil as customers try to ensure their supply at the cheapest possible price by buying as much as they can at current prices. If everyone does this prices will skyrocket until customers are no longer willing to pay higher prices.



Gas prices are not affected on a one to one basis by increases in oil prices. That is why the price of oil has risen much faster than the price of gas. From the chart on the right you can see that oil is only 44% of the price of gas. With oil up 70% you should have seen a 31% increase in the price of gas. We said that gas rose 34%. The extra 3% is due to increases in the cost of refining and distribution. Refining costs have increased due to a lack of refining capacity in the US.

To tie this all of this together increased demand for oil has led to a shortage of tanker capacity to transport it. OMI, the tanker company we own has profited wildly from this. Tanker rates are up $27k per day to $103k per day from the $76k rate of last October. This amounts to a 35% increase. Rates have been rising rapidly and could push $200k per day by the end of the winter. OMI has already earned more money in the first three quarters of this year than in any previous full year. The 4th quarter should be huge maybe even surpassing all of 2003's earnings. The tanker market should be strong for at least the next 18 months. Over this time we should rake in a nice profit.

Mod-Pac

Mod-Pac (MPAC) is a new, old company to our portfolio. We owned it as part of Astronics for several years. We sold in 2003 after it was spun off from Astronics. MPAC is a specialized full-color short run commercial printer and manufacturer of folding cartons. The company was established in 1881 as a paperboard packaging company. It was acquired by Astronics in 1972 and was spun off in 2003. The company is headquartered in Buffalo, New York.

The company specializes in short run full color printing of custom folding cartons. This area of the printing industry is the area with the largest growth prospects. Personalization and just in time delivery to customers is an added benefit of their business model. The company sells their product through a direct sales force, online and through distributors. They have a relationship with VistaPrint for their online sales that has grown from a $1 million business in 2000 to a $14 million business in 2003. Mod-Pac had a contract with VistaPrint that was terminated this past July. The company has received a huge $22 million payment to terminate this contract. Mod-Pac will still supply VistaPrint but will no longer act as the sole supplier after August 2005. Revenues from this customer may decline at some point in the future.

Sales have shown nice growth over the past five years nearly doubling from $22 million to $41.2 million. Last year the company earned $2.2 million. Net profit margins are 5.3%. This is still higher than its peers. We definitely did not buy the company because it is a great business. Mod-Pac has a 3.7 million shares outstanding that trade at $11.14. This gives the company a market value of $41.2 million, the same as last years sales. This gives us a trailing price to sales (p/s) ratio of exactly one. From a value standpoint this is considered low. The company could be considered fairly valued at these levels even before the $22 million payment.

Every couple of years you are handed a gift that is highly likely to make you money. Mod-Pac is one of these gifts. The $22 million is worth $14.3 million after tax. The company had approximately $1 million in cash on their books at the end of the second quarter. They could easily have more than $15 million in cash on the books at the end of the third quarter; provided they did not pay down debt seeing they received the payment before the end of the quarter. If you subtract this from the $41 market value it means that you could buy the packaging business for $26 million. That values the company at little over $7 per share. This would be a nice bargain for a company that has been growing earnings nicely that past two years and has over $40 million in sales.

Soon you will see the price that the company trades for start to move closer to its real value. You could see a price from $15 to $20 per share. Is this a guarantee? No. We still think the odds are in our favor. This quarters earnings will have a $.10 per share boost from the contract settlement. Last year the company earned $.14 per share in the third quarter. If they were able to grow earnings from operations to $.16 per share they will post an 86% increase in earnings. The $.16 plus $.10 will mean their earnings could come in somewhere around $.26. If the numbers are close to this investors will invariably drive the price up due to increased demand for the companies shares. Everyone wants to own companies who are increasing earnings at such a rapid rate. It will not matter to them if the earnings are not from operations. We will be more than happy to watch the rise and will be waiting to reach a level that we feel comfortable selling at.

The jump in fourth quarter earnings will be even greater. Good things are coming, provided there is no unforeseen bad news.

Watch List

Another company has caught our eye. WebMD is a dot.com company that has morphed into a legitimate business. Besides having the web health/medical portal, the company has become a major player in medical payment processing. This is a business that we like. They collect a fee for processing transactions in a business with a lot of repeat customers. Last year they processed over 2.5 billion transactions taking as much as 25 cents each time. As long as people keep going to the doctor and keep using hospitals this business should continue to generate growing revenue. Any business that has a steady stream of repeat customers interests us. The company also has $700 million in cash and investments on its balance sheet. We may move soon.

Most of the companies on our watch list were little changed from a month ago. There was no significant news from any of the companies. The most significant change we had was the move of Kensey Nash into our portfolio.

Company	Current price	P/E	52 Week High	52 Week Low	Estimated '04 EPS	Dividend Yield
Altria Group, Inc./MO	$47.36	9.7	$58.96	$39.60	$4.77	6.50%
Allergan/AGN	$70.07	59.6	$92.61	$68.59	$2.74	0.50%
Bioanalytical Systems, Inc./BASI	$5.65	n/a	$6.23	$3.40	n/a	n/a
Genentech, Inc./DNA	$48.26	56.7	$68.25	$38.15	$0.81	n/a
Gentex Corporation/GNTX	$33.50	22.9	$47.08	$32.00	$1.46	1.80%
The St. Joe Co./JOE	$48.00	46.9	$49.08	$31.10	$1.02	0.30%
Landauer, Inc./LDR	$47.76	23.0	$47.97	$35.08	$2.03	3.40%
Paychex, Inc./PAYX	$30.54	32.0	$40.54	$28.83	$0.94	1.60%
QLT Inc./QLTI	$15.85	19.5	$30.70	$13.18	$0.85	n/a
Sanderson Farms/SAFM	$33.15	6.6	$55.18	$19.70	$5.12	1.00%
Tejon Ranch Co./TRC	$36.02	n/a	$43.21	$30.70	$0.00	n/a
USG Corporation/USG	$21.22	3.1	$20.17	$12.30	$6.09	n/a
The Washington Post Co. /WPO	$886.00	22.4	$983.50	$654.00	$34.67	0.80%
Web MD	$6.94	72.3	$10.23	$6.46	$0.40	n/a

Subscription Information

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Company	Porfolio Percentage	Current price	Buy Price (less than)	P/E	Dividend Yield
Amgen/AMGN	**4.60%**	**$55.22**	**$60.00**	**22.4**	**n/a**
Astronics Corporation/ATRO	**5.50%**	**$4.88**	**$5.15**	**71.4**	**n/a**
Berkshire Hathaway B/BRK.B	**16.30%**	**$2,837.00**	**$3,050.00**	**n/a**	**n/a**
Cash	**17.00%**	**$1.00**	**n/a**	**n/a**	**n/a**
Cell Genesys, Inc./CEGE	**4.90%**	**$6.58**	**$9.00**	**n/a**	**n/a**
Consolidated-Tomoka Land Co./CTO	**23.80%**	**$36.17**	**$36.00**	**16.9**	**0.80%**
ModPac/MPAC	**9.00%**	**$11.14**	**$10.20**	**17.2**	**n/a**
OMI Corporation/OMM	**17.30%**	**$16.51**	**$16.90**	**7.3**	**1.30%**
Protein Design Labs/PDLI	**1.60%**	**$18.00**	**$18.75**	**n/a**	**n/a**

The chart above shows our investments and the proportion of our portfolio they represent. As you can see we are heavily weighted towards three 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.

The BCIA Portfolio

Again OMI has been our dominant performer the past month. US crude stockpiles have dropped again as the heating season has arrived. Another tropical storm has caused problems at the LOOP (Louisiana Offshore Oil Port). Oil production in The Gulf is still below pre hurricane levels. Shipping rates have jumped again this past month. Natural gas is also experiencing problems of its own. A natural gas pipeline in Louisiana was damaged during the last hurricane. It will not be back online until February.

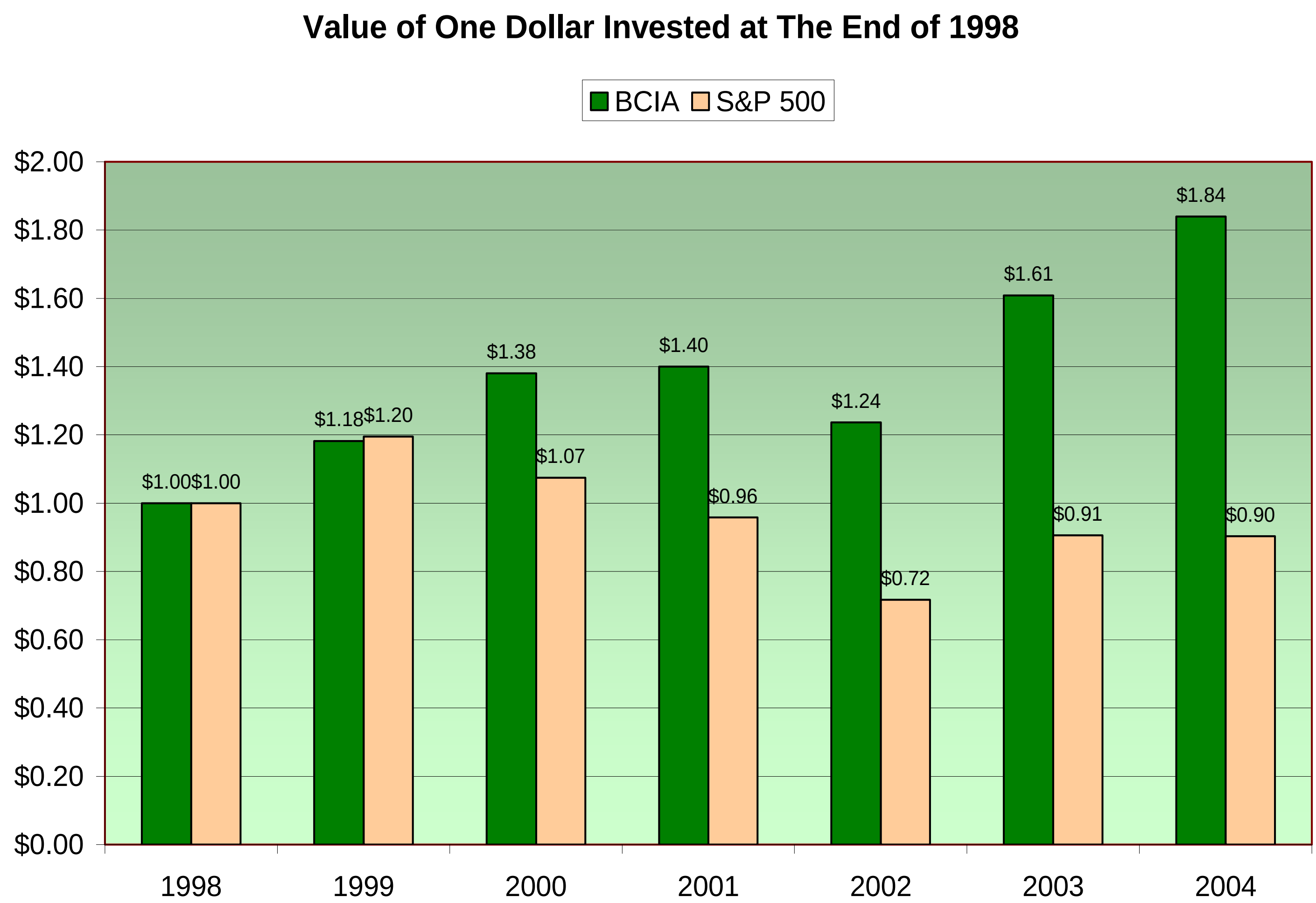
Last month we talked about higher heating oil prices. Now you can add natural gas and gasoline to the mix. Gasoline prices have jumped primarily due to hurricane Ivan. Many of the refineries lost a lot of production time during the hurricane season. Gas stockpile are low which is causing the price to rise. This is not over yet. Gas prices could easily hit $2.50 by the end of winter. People are going to be afraid to open their heating bills this winter. There is still time to cover windows in plastic and seal any drafty doors. Our investment in OMI can be thought of as heating bill insurance. The rise in value over the next several months should easily offset any jump in your heating bill. It will still not be any fun paying them.

Cell Genesys continues to get beaten down. They offered a convertible bond that has helped drive the stock price down further. Sometimes it is hard having conviction in your picks when all the price does is drop. Thankfully this holding is a very small percentage of our portfolio. We may make a move to free it up for tax loss selling.

Returns

The scale on a graph can vary how dramatic the author intends the results to look. We have chosen a scale that intentionally does not highlight the results we have had. We try to present fairly how we have performed. If we were to shorten the gap on the scale on the left hand side of the graph our results would appear much more dramatic. We feel that would be misleading. We will highlight however the net effect on the graph you are looking at.

One dollar invested with us at the end of 1998 would have grown to $1.84 or a 84% increase. If you had invested in an S&P index fund your $1 investment would now be worth 90 cents. Six years is a long time to wait to see your investment still worth less than you started. An investment with BCIA is now worth twice what an investment in the S&P 500 over the last nearly six years. Our next challenge is to widen our lead even more.



Circle of Competence

Invest in what you know.

You have heard us mention it before, we try to invest in companies that are in our circle of competence. A circle of competence describes the ability that you have to understand companies and how they make money. It takes into account factors like understanding competitors, barriers to entry and market that the company operates in. You need to understand a company's products and what motivates its customers to buy them. It requires that you take into account what type of competitive advantage a company has.

We will use some of our companies to highlight factors that explain how they fit into our circle of competence. Everyone will have a different circle of competence. Different education and different jobs along with differing life experiences give us all a unique view of some company that operates as a publicly traded company.

The drug industry is a great industry to examine competition. Amgen makes a drug that is used as a part of dialysis treatment. Due to patent protection this drug has no competitors. It is almost always better to have fewer competitors than more. Compare this to the automobile industry where you have about 20 competitors. The more competition the lower the profit margins.

More competition is a sign that barriers to entry are smaller. It is easy to start a business when it costs little to start. The internet has been a great equalizer in this regard. The latest figures peg the cost of bringing a drug to market at about $1 billion. This limits the number of competitors. Patents, high cost of entry, copyrights, a strong brand and government regulation are all barriers to entry. It is much easier to become good at stepping over one foot hurdles than it is to expend a Herculean effort to jump over ten foot hurdles. We like companies that have significant barriers to entry. OMI currently has a barrier to entry. The cost of a new ship may be only $50 million dollars. Due to the low cost the shipping industry is very fragmented with a lot of small 2 and 3 ship companies. The barrier to entry currently is the fact that the shipyards are booked for the next couple of years. If you want to order a ship you have to wait several years to take delivery.

We like companies that are easy to understand. Consolidated Tomoka is real easy to understand. They own land that they sell to make money. Subtract the cost of the land and you have the profit from that land sale. They take the proceeds and re-invest in income properties that throw off income from lease revenue. They also sell timber and mineral rights. Nobody else can sell the product they have in the area that they have it. Compare this to a company like Yahoo. How does Yahoo make its money and what gives them an advantage over their customers. This question is much more complex. We much prefer companies that have businesses that are easy to understand. You receive no extra benefit from investing in companies that are difficult to understand.

Understanding the market a company competes in is also important. Astronics is an aircraft component supplier. The will have a better chance of doing well if a lot of airplanes are being sold. The past few years has not been a real good climate for them. The next few years should be much better. With low cost carriers gaining more market share

Circle of Competence cont.

there will be a shift in the type of planes that are used to move people around. Airplane manufacturers will be selling a greater number of smaller planes. This will mean more opportunities for Astronics to sell their products. Another important driver of sales will be China and its dozens of airports under construction. There will be a need for more planes to service these airports. We aim to invest in companies with expanding markets. An example of a market that we would avoid would be the market for long distance phone service. The internet is stealing away much of their business. With many competitors prices have been driven to rock bottom levels.

Competition is great for consumers not for business owners

A common theme among our investments is that most of them have high barriers to entry and fit in well with what we understand. We do not own any fancy cutting edge high tech company that we can't predict what their earning will look like in 10 years. We are guilty of having two speculations in Cell Genesys and Protein Design Labs. We understand the science behind their products well enough to be comfortable with owning them. Unfortunately, they are not profitable yet. This is the primary reason they represent a small proportion of our portfolio.

Virtually everyone can understand a company like Coca Cola. This makes it real difficult to buy Coke for less than it is worth. That limits how much money we can make on them. We have to focus on companies like Consolidated Tomoka that we understand well that others do not.

Time, patience and a lot of investigative work go in to our attempt to discover companies that we find worthy to invest in. You may have more tools than you realize to begin to analyze companies that may fit in your own circle of competence. If you are a golfer or ride a Harley or eat at Red Lobster you have the beginnings of your own circle of competence. This does not make a company a worthy investment; it does make it one you can at least consider investing in. If you are willing, time and practice will help you find companies in your own circle of competence that may be worthy investments.

Check Clearing

Check 21 takes effect Thursday, October 28. The 21 refers to the 21st century. Presently in order for a check to be cashed it has to be present at the bank that the funds are on deposit with. This causes a delay from when your check arrives at the payee and when they receive the funds. All of this will change with Check 21. Now instead of mailing millions of checks around the country banks will be allowed to submit electronic images known as substitute checks.

The end result will be that banks will clear checks quicker. If you rely on lag time from when you send a check out to the time funds are removed from your account, you will need to shorten the expectation of the amount of time you have. Keep this in mind to avoid any unexpected fees from insufficient funds due to this new rule.

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