The Commonsense

INVESTLETTER

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- S&P 500 1221
- NASDAQ 2131

Don't Pull The Flowers and Water

Last month we sold our stake in Kensey Nash, even though we would like to hold this company long term. Are we violating our own rule of not pulling the flowers and watering the weeds? The short answer is no. Why then, did we sell? Our sale was based on the premise of recognizing the capital loss. Our position in Kensey Nash was worth less than we paid for it. Our sales earlier this year generated capital gains. By selling now we get to reduce the amount we report for capital gains. The end result is that we will pay less taxes.

Careful thinning is necessary to maintain our growth.

For arguments sake, lets say you have $10,000 in gains from Consolidated Tomoka and a $1,000 loss on Kensey Nash. If both of these transaction were generated in a taxable account, then it will result in tax consequences. The net gain you will report for tax purposes would be $9,000 from these two transactions. Have we really lost the $1,000 from selling Kensey Nash, yes. Do we get some benefit from it, yes. If you are a taxpayer in the 25% marginal tax bracket the loss will reduce your taxes by $250. Net effect is that you are only down $750. Losing $750 is not something to advertise on a billboard, but it is still better than losing $1,000.

How does this fit in with our plans to be a long term holder of Kensey Nash? Our $1,000 loss in this example cannot be recognized this year if we buy Kensey Nash stock back within 30 days. This will result in what is known as a wash sale. Therefore, it is very important that when we send an alert to purchase Kensey Nash shares, you make sure that you sold your shares over 30 days ago. We also anticipate being able to reacquire our stake at a lower price than we originally paid. Our view of Kensey Nash has not changed, but we could not pass up the chance to lower our tax bill this year.

We mentioned last month that we may sell some of our investments before the end of the year. Selling Kensey Nash was not exactly what we meant. However, the opportunity presented itself and we took it. We anticipate unloading CSPI and in the process, pruning away some of our less successful investments and keeping our more successful ones. We are making sure we pull out the weeds (CPSI) and keep all of our flowers, like OMI. It is much less profitable, in the long run, to sell the companies that are performing well and have had nice increase in share price than it is to sell the companies that have performed poorly. Investors often are way too quick to sell their winners and be left with a portfolio of dogs. We prefer to sell the dogs and let the strong companies continue to work their magic and increase our wealth. Sometimes we even catch a tax break for doing it.

Inside this issue:

Watch List

After further analysis we are going to pass on a investment in Hurco (HURC) at this time. Machine tools are a volatile business. At this point in the business cycle, the industry is in the midst of a strong upturn. That means the share price has also been in a strong upturn. We find businesses like this much more appealing when they are near the bottom of a downturn and their price is more accommodating.

An update on ModPac is also warranted. The company's share price has continued to slide. Their near term prospects are poor at best. The company will show a profit on an accepted accounting basis but will lose money on a recurring operations basis. While the price has plummeted into the mid $10 range, we still see it going lower. If the price gets cheap enough we may add shares again. If we do it will probably not be until late October or early November.

We have added ModPac, Hurco, and Headwaters to our watch list. Headwaters and Rayonier both stand to benefit from the fallout from hurricane Katrina. Rayonier will benefit from timber sales and Headwaters from its foray into ethanol production, diesel from coal projects and nano-catalyst research. Alternative energy will receive a boost from the high gas prices. The recently signed energy bill also has some nice benefits for ethanol production and the diesel from coal operations in the form of excise tax credits. The tax credits will go a long way towards making those two products very profitable. Headwaters currently benefits from section 29 tax credits, which will begin to phase out if the NYMEX crude oil price averages over $62 dollars this year and $63 next year.

Headwaters is has taken us quite some time to analyze. Last year they made two large acquisitions. They still don't have a full year of operations post acquisition, so it has been a bit difficult to get a handle on how the new company will perform. We are very close to finishing and coming to some sort of conclusion. By the time we send out this newsletter we may have made a decision to add them to our portfolio. They will help give us exposure to the energy sector.

Company	October price	September price	Change from September	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	$75.50	$73.71	2.43%	15.3	$75.60	$48.40	$5.12	3.98%
Allergan/AGN	$89.30	$91.62	-2.53%	27.7	$95.43	$69.01	$3.23	0.44%
Bioanalytical Systems, Inc./BASI	$5.60	$5.43	3.13%	n/a	$10.37	$4.56	n/a	n/a
Fresh Del Monte Produce/FDP	$26.07	$27.22	-4.22%	11.1	$33.94	$25.16	$2.33	2.99%
Hurco/HURC	$17.83	$16.35	9.05%	10.4	$20.00	$10.25	$2.00	n/a
The St. Joe Co./JOE	$65.95	$62.45	5.60%	35.5	$85.25	$50.52	$1.86	0.88%
Kensey Nash/KNSY	$22.93	$30.66	-25.21%	24.4	$35.54	$19.32	$2.23	n/a
Landauer, Inc./LDR	$50.00	$49.00	2.04%	24.4	$54.00	$42.88	$2.05	3.40%
ModPac/MPAC	$10.35	$10.88	-4.87%	n/a	$18.60	$10.02	n/a	n/a
Paychex, Inc./PAYX	$38.76	$37.09	4.50%	32.0	$39.01	$28.60	$1.21	1.42%
QLT Inc./QLTI	$7.07	$7.67	-7.82%	10.6	$17.30	$6.51	$0.67	n/a
Rayonier/RYN	$38.23	$38.41	-0.47%	23.8	$38.90	$29.20	$1.61	4.22%
Sanderson Farms/SAFM	$34.51	$37.16	-7.13%	9.8	$49.19	$31.97	$3.54	1.22%
Tejon Ranch Co./TRC	$44.40	$47.00	-5.53%	n/a	$62.72	$35.55	n/a	n/a
USG Corporation/USG	$59.12	$98.72	-40.11%	6.0	$71.25	$22.06	$9.82	n/a
The Washington Post Co. /WPO	$745.00	$802.50	-7.17%	22.3	$999.50	$737.50	$32.65	0.99%

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 three 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 be 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.

Our portfolio has undergone a few changes since our last writing. PetroKazakhstan is no longer one of our holdings and no longer a company. They were successfully taken over by a Chinese oil company after some unsuccessful legal wrangling by their Russian joint venture partner Lukoil. It was quite a rollercoaster ride while we owned them and also quite profitable.

Many of our stocks have been beaten down over the past several months. With stocks dropping on bad news and with good news we can only sit and wait until sanity returns. Alico, CSP, Gencor and Headwaters all had a rough time in October. Amgen, K-Tron International and OMI all had excellent earnings reports. Amgen had a real solid quarter with earnings rising 33% and the share price promptly dropping. OMI's results were so strong, we felt it was worthy to buy back our shares that we sold this past spring for $2 less than we sold them for. Fortunately, the shares have risen since we repurchased them. Our portfolio has fared worse than the market since the beginning of August. This is not surprising from the make-up of of the companies we own. Many are smaller companies that are much more volatile than the market as a whole. Knowing the reason still does not make it feel any better. For the year we still have a comfortable lead over the S&P 500 average.

Our positions still number near the upper end of the number of companies we feel comfortable holding. Our article, Don't Pick The Flowers and Water the Weeds , sums up our approach for the rest of the year. We are still planning on shedding at least one of our company's if not more. CSP is front and center. We have overestimated the management of this company and realize we made a mistake investing in them. All we are doing now is waiting for a convenient exit point. Hopefully it will come soon.

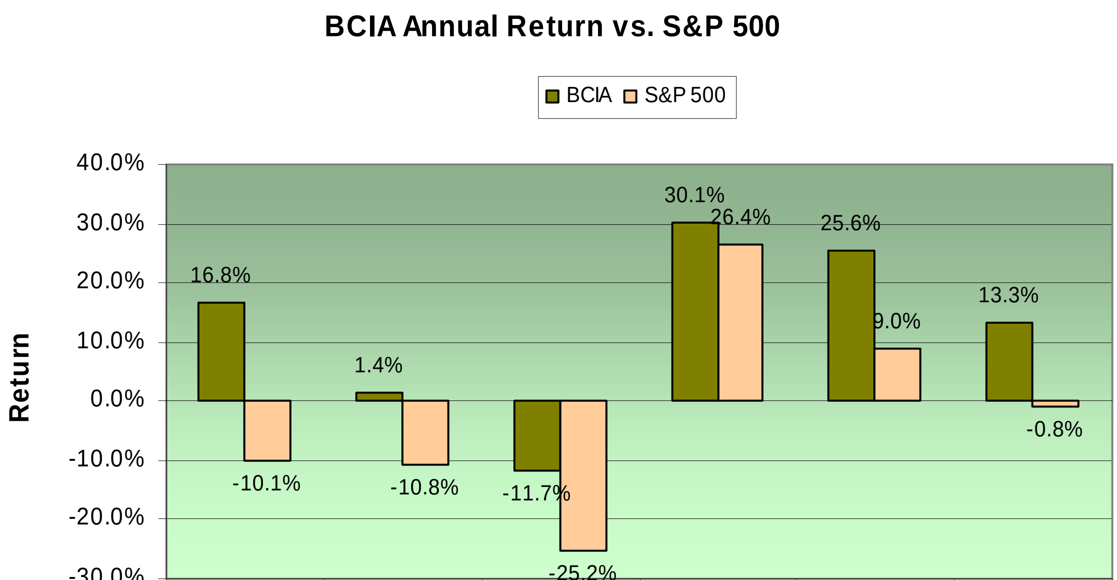
Company	Porfolio Percentage	October price	September Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	15.30%	$44.03	$51.30	-14.17%	$50.00	50.7	2.30%
Amgen/AMGN	4.90%	$75.62	$79.67	-5.08%	$60.00	23.6	n/a
Astronics Corporation/ATRO	6.80%	$9.25	$9.65	-4.15%	$7.00	n/a	n/a
Berkshire Hathaway B/BRK.B	18.40%	$2,815.00	$2,731.00	3.08%	$3,050.00	18.3	n/a
Cash	17.80%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.40%	$5.93	$5.48	8.21%	$9.00	n/a	n/a
CSP Inc/CSPI	4.20%	$6.35	$7.14	-11.06%	n/a	14.4	n/a
Culp/CFI	3.30%	$5.16	$4.68	10.26%	$4.15	n/a	n/a
Gencor/GNC**I**	4.60%	$7.10	$8.15	-12.88%	$7.20	2.6	n/a
Headwaters/HW	4.10%	$31.84	$37.40	-14.87%	$33.00	14.0	n/a
K-Tron International/KTII	3.40%	$34.82	$34.00	2.41%	$33.00	12.5	n/a
OMI Corporation/OMM	13.00%	$18.04	$17.87	0.95%	$17.00	5.7	1.71%
Protein Design Labs/PDLI	1.80%	$28.02	$28.00	0.07%	$18.75	n/a	n/a

Newsletter Performance

Recently our portfolio has been all over the place. At one point this year we were up over 20%. Lately the market has been gaining on us. Fortunately our healthy lead should get us through the year out in front. The market as a whole has not done real well either. It does not concern us much because most of our companies are performing well. The share price is not always reflecting this, but it will at some point.

Astronics is poised for a tremendous second half of 2006. They have some projects that they have been readying for, finally beginning to generate revenue in 2006. Their share price may move sharply higher as it did this year. Berkshire Hathaway has had another very strong year. They keep growing their cash level, making it much more likely that they are going to pay a large dividend. It would be a welcome sign. They continue to produce cash faster than they can put it to work.

We also are anticipating Gencor receiving another large cash payment from their partnership interest. Maybe this one will jumpstart the share price.



	2000	2001	2002	2003	2004	2005
BCIA	16.8%	1.4%	-11.7%	30.1%	25.6%	13.3%
S&P 500	-10.1%	-10.8%	-25.2%	26.4%	9.0%	-0.8%

Year

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