



October 2005

Shares in **UnumProvident** have been performing quite nicely. The insurance commissioner of California settled with UNM on claims that UNM did not pay benefits. The stock is at about \$20 a share.

In addition, the company's earnings and book value have risen. We will probably hold on until the stock reaches book value, which would be in the mid 20's.

Los Angeles insurer **Mercury General** has appreciated nicely as well. MCY is spreading rapidly across the country and entering new markets. MCY was not affected by the hurricane in Louisiana. We plan on holding MCY for many years to come.

Our third insurer, **Aegon**, has had a nice rise in addition to the dividend that it pays. AEG is the Dutch parent of American life insurer Transamerica. Its earnings have risen but the stock still sells at a discount to what we feel it is worth. We will probably hold this stock until it reaches the high teens.

Toyota Motor Industries is our biggest winner and has risen along with the Japanese stock market. As we have mentioned, TY-IDF.pk owns a large portfolio of Toyota stock. TYIDF.pk trades at a discount to what the break-up value of the company is.

Our shares in **Finish Line** have come back down to earth. The shoe retailer was up almost 50% at one time in some accounts. Because of the market's concerns about high oil prices and because FINL's growth slowed this quarter, the stock has dropped in value. The market feels that consumers will have less money to spend on shoes if they are spending more at the pump.

We feel that FINL is in a good business and continues to rapidly spread across the country. In addition, FINL is launching a division to concentrate on women's shoe stores. We feel that this could be very profitable.

Like FINL, **Helen of Troy** had an off quarter. The stock has depreciated because of this. We continue to buy HELE for new clients and plan on holding for many years. We feel that people will continue to buy Old Spice, Brut, Dr. Scholl's, and curling irons. Also, Wal-Mart, HELE's largest customer, is still expanding across the country.

People ask me if they should invest in Wal-Mart. I tell them that they are better off looking at Wal-Mart's suppliers like HELE. The growth potential for companies like the suppliers looks better than the potential for Wal-Mart.

State Auto Financial is one of the newest additions to our portfolio. STFC is a property and casualty insurer located in the Midwest. STFC has grown its revenues at over a 20% compounded rate of return over the last five years.

We like STFC for several reasons. People will keep making their insurance payments in a tough economy. As interest rates rise, insurance companies earn more on their fixed income investments. Because STFC is a small company, it has much room to grow. Right now, it is in only a few states in the Midwest. Over the years, you could see STFC spread into other states and its stock price respond.

Our shares in **Krispy Kreme** have not been performing well. KKD has a dark cloud over it. KKD has not been releasing its earnings reports because of past accounting irregularities. It is involved in a law suit from franchisees because they claim that KKD was not properly using the advertising dollars it charges them. The third problem is that their Philadelphia franchise recently declared bankruptcy.

We will hold KKD until this bad news passes. KKD has a strong name and would be a good takeover target for a larger company.

United Dominion Realty is down from where we initially bought it because investors are concerned that heating bills will rise this winter. Because UDR

owns many apartment buildings, they are responsible for the heating in the common areas and hallways.

We feel that UDR will do well if housing becomes less affordable. People entering the market will have to rent, vacancies will decrease, and landlords can raise rents.

Holmes Osborne consults as a research analyst for Singular Research

I have signed on as an independent analyst for Singular Research. Singular Research follows micro-cap companies. These are tiny, publicly traded companies often overlooked by Wall Street.

The first company that I have been assigned is Span-America. SPAN makes foam mattresses for the medical and consumer industry and is headquartered in South Carolina. SPAN has doubled its sales in the last five years.

The positive aspect of micro-caps is that because of their small size, it is easy for them to grow. If a bank has ten branches, it is easy to grow to twenty branches. It is difficult for Bank of America to double the number of branches it has because it is so large.

The negative aspect is that these companies can be risky. Often times, they depend on one product or one supplier. If that product falls out of favor or a retailer like Wal-Mart drops their contract, they are in trouble.



Kurt Russell, Holmes Osborne Jr., and Holmes Osborne III at the movie premier for *Dreamer* in Westwood, CA. Holmes Jr. plays the part of the veterinarian.



Tab Tillman, Jim Boeheim, and Holmes at a reception at the Downtown Athletic Club in Los Angeles. Jim Boeheim is the head basketball coach at Syracuse and was recently inducted into the Basketball Hall of Fame.

Experience for Holmes Osborne, CFA

Holmes Osborne began his career as a financial consultant for Merrill Lynch Private Client Group in Naples, Florida. At Merrill Lynch Mr. Osborne assisted clients in asset management and estate planning. After Naples, Mr. Osborne managed trust portfolios for Merrill Lynch Trust Company (a division of Merrill Lynch's mutual fund division) in Boca Raton, Florida. The trust department managed over \$1 billion in clients' assets. Upon leaving Florida, Mr. Osborne worked in management for Farmers Insurance Group in Los Angeles, California.

Mr. Osborne has a degree in finance from the Martin J. Whitman School of Management at Syracuse University. Licenses held are Series 7, 63, 65, and 26. Member of the CFA Society and Los Angeles Society of Financial Analysts and holder of the Chartered Financial Analyst designation. Mr. Osborne is President of the Syracuse University Alumni Association of Southern California and a member of the Malibu Chamber of Commerce.

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