



April 2006

Krispy Kreme

I wanted to start this newsletter off with the bad news first. We sold **Krispy Kreme** at a loss. Actually, some clients made a nice profit on **KKD** but the average client lost 12.5%. Some newer clients who opened up accounts when I was buying **KKD** in the \$5 range were fortunate enough to have made a 67% profit.

I sold **Krispy Kreme** because I was tired of hearing the bad news. News like management cooking the books, franchises going bankrupt, and the whole health care outlook on doughnuts.

Anytime you make an investment and your outlook on the investment has changed for the worse, it is time to sell. Don't hang on to investments that you don't like. There are many other good investments out there.

New Investments

Now for the good news. We have bought several new stocks. **Capital Lease Funding** owns the buildings where retailers like Home Depot and Best Buy are located. How their business works is that they will go to an investment bank like Citigroup and issue a series of bonds. They will then take the proceeds and construct a building. **LSE** then signs a long-term lease with the new tenant. Since they only

lease to financially sound companies like Home Depot and Lowe's, there is very little chance that these companies will not pay rent or try to break their lease. The best part of this investment is that it currently yields 7.4%!

The next company is **American Safety Insurance**. They specialize in writing insurance policies for hazardous material companies and writing bonds for construction companies. A few years ago, **ASI** got into some financial trouble when it loaned money to a Florida developer. The developer went bankrupt and **ASI** took over the property. The good news is that Florida real estate skyrocketed and **ASI** made a nice profit.

Since then the company has installed new management. **ASI** just recorded a 33% increase in quarterly earnings and the stock only trades at a price to earnings ratio of 8 (that is very low). I spoke with a hedge fund manager who owns 6% of the company and needless to say, he was very enthusiastic about their prospects.

The next new company is **Universal American Financial**. **UHCO** owns Pennsylvania Life, Union Bankers, and several companies specializing in insurance for seniors. This company has had great growth and is in a booming market. The first wave of Baby-Boomers turns 60 this year (Baby-

Boomers were born between 1946 and 1964). This group is going to be buying long-term care and Medicare plans. This is going to be a good market to invest in.

Current Investments

Toyota Motor Industries is up almost 94%. **United Dominion** is up 25%. **Finish Line** is at \$16 a share. Their revenues were flat for the year but I am holding this for the long term. **IDT** is down 8%. This is the company with \$9 a share in cash. **ING** is up almost 20%. **Joann Stores** is down 4%. Industry rival Michael Stores announced that it is selling itself so JAS has had a rise recently. **Mercury General** is up 2%. Its earnings were hurt with the tornadoes and hurricanes last year. **State Auto Insurance** is up 5%. Its earnings were hurt as well. Both are long term holds. **Pier One** is up almost 25%. It has had a nice rise since our last newsletter. **Peugeot** is up 5%. **UnumProvident** is up 27%. **Helen of Troy**, which at one time was down quite a bit, is only down 15% now. They are the makers of Brut, Old Spice, and Doctor Scholl's. HELE is a long-term hold as well. **CIT Group**, the industrial equipment lessor, is up 7%.

These profits reflect when I originally began buying these companies. They do not reflect profits from newer accounts which will be different.

Baby Boom

As mentioned earlier in this newsletter, the Baby Boomers have been driving this economy. A person's top earning years are between 40 and 60 years of age. You can probably think of many people who fit this mold. Not only do people earn more but they spend more too. The Baby Boomers drove the economy in the eighties, drove the stock market in the nineties, and are now driving the real estate boom.

When this demographic begins to retire, things might slow. The subsequent generation has a dearth of skilled employees to fill the shoes of the retiring Baby Boomers. Many Boomers will have to work into their 70's because they will not have enough savings to retire. So this will dampen the effect some. Also, we will probably turn to immigration for highly skilled workers. The two most important needs are in health care and technology. This is and will be the hottest industry for immigrants.

My guess is that the economy has enough gas for 7-10 years. After that, things will slow. However, two types of industries will be good investments: defensive and industries that cater to Boomers. Defensive stocks are companies like insurance, food, liquor, and things that never go out of style. Industries that cater to Boomers include health care, travel, entertainment, retirement communities and things of that nature.

In Good Company

Sometimes when you buy a stock it is nice to see top mutual funds are also holding the same company. Below is a list of some of our stocks and the top funds that hold them.

1. JoAnne's: Olstein Financial Alert. Top fund with a ten-year return of 15.43%.
2. Helen of Troy: Wasatch Small Cap Value. Almost 20% annual compound rate of return since 1997.
3. Pier One: Berkshire Hathaway. Famous Investor Warren Buffet bought in but so far, he has lost money. I have made money.
4. Capital Leasing: Third Avenue Real Estate. The fund has returned a 20% compound rate of return for the last five years.
5. Audiovoxx: Kahn Brothers. Irving Kahn is a top Wall Street investor and is 100 years old! He has seen the highs and lows of the market.
6. Toyota Industries: Third Avenue Value. Fund specializes in companies that are trading at a large discount. This fund has averaged over 16% over the last fifteen years. This is my favorite fund and has done well for my clients.
7. Finish Line: First Pacific Advisors. Top mutual fund for the last fifteen years according to *Barron's*.
8. IDT: Third Avenue Small Cap Value. Another top performing Third Avenue fund.
9. ING: Fisher Investments. Ken Fisher runs a successful money management firm and writes a column for *Forbes*.

Returns for First Quarter of 2006

Our returns for the first quarter of 2006 were 4.22%. The Dow Jones and S&P 500 both were up 3.7%. This computation is based upon one account that is fully invested in the market. It does not take into account all accounts because of different holdings and different lengths of time clients have been with me. This 4.22% is after all fees. All of the stocks in this newsletter are in this account.

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 also a member of the National Association of Business Economists.

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