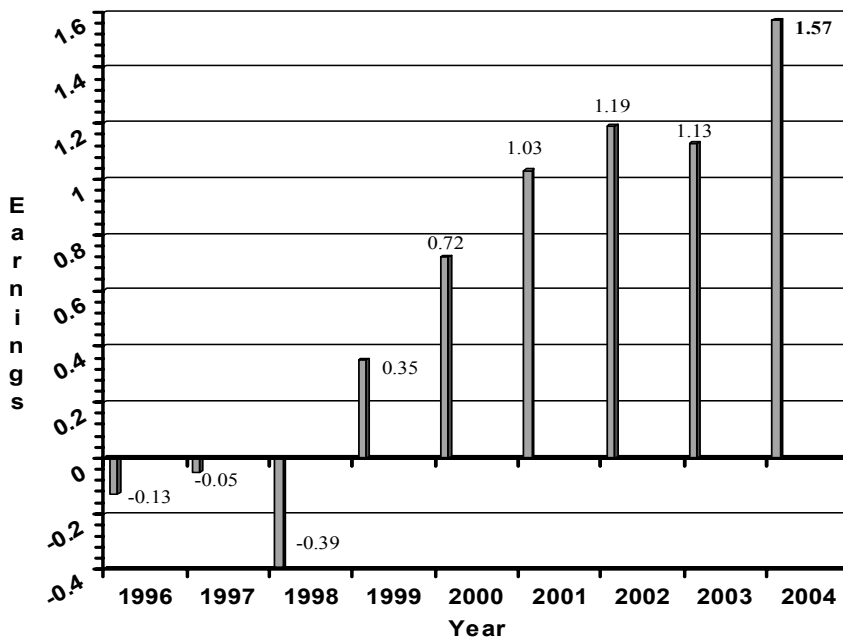


Asta Funding is a purchaser of consumer receivables, which it then manages and seeks to collect. Some of the receivables purchased may still be “performing” (receiving payments), but most have already been “charged-off” when the debtors stopped paying. While the line of business may sound unappealing (I mean, seriously, who wants to be the person to deal with bad debt?), the company has proven its ability to excel in this niche business. Asta’s strength is in its ability to buy at ideal prices and to receive partial payments on these “lost causes”.

Like most stocks in the recent period, Asta shares fell from their highs of only a few weeks ago. This company, however, is incredibly well-suited for dealing with the very events that led to the fears that caused the market to fall. The company buys portfolios of “distressed” receivables from credit card companies and other creditors at massive discounts, and negotiates “settlements” with the debtors. In a weakening economy, the firm finds new opportunities, and in improving economies, the firm achieves stronger collections rates. One might imagine the only bad time would be a stable and certain economy, something that no one is predicting now. The company appears optimistic, and has recently bought Option Card, itself a debt-buyer and debt management company, for \$13.5 million. In addition to a \$197 million portfolio of distressed receivables, Option Card brings with it a facility in Denver, two buyers with particularly strong experience, an ongoing contract with a major financial institution, and an improved software system that can be easily integrated into Asta’s existing computer system. Furthermore, 1st quarter profits rose 33%,



demonstrating the success of the company’s outstanding business model. The company has always been careful to buy only those receivables that it believes will yield strong earnings, and therefore only buys when it can get portfolios at good prices (they typically pay just pennies on the dollar). Thus, earnings may be more “choppy” than some of our recommendations in the past, but we commend management for holding out for the best deals. We’d rather see good profits than perfect consistency.

We continue to recommend these shares for purchase, and are particularly fond of buying at current prices. With the recent market dip, Asta can be had for a little over 12-times trailing earnings. Considering how fast this company is growing, and how much more expensive shares of its competitors are, we believe this is an excellent bargain.

Cause and Effect, from page 1

ment prints up more money, each dollar you already hold is devalued by the simple fact that more dollars are out there seeking to buy in a world which, at that moment, has no more actual production. Printing more money doesn’t make the world richer. Here’s an experiment in a small “civilization” – a classroom, perhaps. Observe how prices rise when you give 30 people growing amounts of money to purchase the same few candy bars. The situation becomes clear when you observe people willing to pay the equivalent of \$45 for a candy bar, simply because more “money” has been pumped into the classroom.

No amount of good intention can change the clear result of expanding the money supply. Through the years, every such effort has led to economic disaster, despite the various government-loving economists

who try to dispute the facts. The economic reputation of some Latin American nations stems from falling into this inflationary trap; in the U.S., the Jimmy Carter recession was clearly the result of this same catastrophic approach.

When you hear about the dollar falling consistently against virtually every foreign currency, it’s a pretty good guess that something is wrong with how our currency is being managed. This is especially true if we realize that most other world currencies are also victims of inflation. We must assume that ours is even more watered-down than most of the world’s.

So why aren’t we seeing the full impact of a falling dollar? We’ve only seen price increases in some select items. The reason is simple: we’ve reached a major turning point in history, where production costs are falling so fast that prices of most of the goods we

buy are falling faster than the dollar’s value. China’s clothing production, for example, has been so cheap that we don’t even observe the little impact that inflation is having on these prices. In fact, these prices are falling so fast that countries like Mexico, Morocco, Turkey, and Madagascar are “losing jobs” to China. The economic arguments related to this issue are much too deep to address here, (and aren’t the focus of this story) but the idea is that Chinese production will counter the effect of the broader price inflation in many categories. Everything – from clothing to appliances to electronics to toys to batteries – is seeing downward pressure on pricing due to cheaper overseas production. Still, a few types of items are not in position to fall in the newly globalized economy. Among these have been some packaged foods, books, real estate, oil, and metals.

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GLOSSARY OF TERMS

Buy Aggressively	This rating designates the best buys at the best prices. It does not indicate momentum.
Buy	Also a good buy, but not as exciting or certain as the above.
Speculative Buy	Stocks with great potential, that may not be great values. These certainly involve higher risk.
Nibble	This rating suggests buying a little at a time as prices become more favorable.
Hold Tightly	An attractive stock which is probably too high to buy but does not warrant selling.
Hold Loosely	Stock approaching excessive valuation that may be traded out selectively for better buys.
Harvest	This is a sell rating for quality stocks which seem to be inflated in price. This does not suggest any impending problems. These stocks may be held by those who cannot afford to take profits, but the risk of holding is greater. Selling a portion of such shares is often a good strategy.
Inconclusive	This term is used when news creates uncertainty, or action appears to be negative, even if news has not yet appeared. Most people prefer not to hold stocks in periods of uncertainty and this rating is similar to a clear sell rating. We make this distinction because such uncertainty can create outstanding valuations. We do not want to create the impression that we know something we do not.
Sell	The clear sell rating is reserved for stocks that have struck bad times and should be unloaded by all investors.