doesn't look like much. As of September 30 it had $64,566 in total assets and a negative net worth of $1.68 million. Revenues for the first nine months of last year were $2,616. Nonetheless, Millenium's stock price has gone from 6¢ a share to $1.61 per share, giving the company a market cap of $22 million. A recent press release spells out Millenium's exciting plans:

> "Acquisitions are a core part of our growth strategy," said Richard Ham, CEO and president of Millenium Holding Group, Inc. "The 42-state licenses and more than 4,000 policyholders in First Continental's portfolio will form the platform for the virtual financial institution Millenium is building. The insurance arm of our company, along with the brokerage and banking businesses, will provide a much more nimble and responsive financial institution that seamlessly meets the needs of law firms, CPAs, financial planners and other constituencies that offer outsourced financial planning assistance."
>
> Millenium is in the process of securing additional funding for complimentary acquisitions, working capital, branding/marketing efforts, management additions and other growth initiatives. Future acquisitions may include a National Bank and/or Broker Dealer.

Perhaps it goes without saying, but you're probably not familiar with any of the accounting firms that have audited Millenium's books in recent years. And we won't bore you with the details of some of the company's prior names or the details of its reverse stock splits. Suffice it to say that widows and orphans may decide that it is more prudent to invest in China Life than in Millenium.

Baldwin & Lyons: Buy & Sell

If markets were rational, people would be willing to pay higher prices for triple-A rated reinsurance and unwilling to pay such high prices for China Life and Millenium Holdings. But markets are not especially rational. An example of a quirky discrepancy can be found in the shares of Baldwin & Lyons (OTC: BWINB, BWINA).

Baldwin & Lyons isn't flashy. It owns the Protective and the Sagamore insurance companies, both of which are rated "A+" by Best. It specializes in writing liability insurance for trucking fleets, and now that rates have improved it's writing a lot more business than it did a few years ago. The company has the kind of balance sheet we like: no debt. It's a cautious investor in high-quality bonds (average maturity is about 3.8 years), and an intelligent value investor in stocks. Shareholders equity is about $320 million and earned premiums were about $140 million or so last year.

Baldwin & Lyons is a good underwriter, has grown its book value at a respectable rate, has repurchased shares when they were cheap, and has paid a decent dividend. The company is controlled by the Shapiro family. Nate Shapiro, the largest shareholder, is a good fellow.

Several years ago *Schiff's* noted that Baldwin & Lyons was selling for less than its book value. The cheap price combined with the conservative balance sheet and the nice folks in charge made Baldwin seem like a low-risk investment with the likelihood of satisfactory returns, so we bought shares. (We bought the "B" shares, which are more liquid than the "A" shares, but have no voting rights. We don't usually buy non-voting or low-vote stock; it's almost like asking to be taken advantage of. But since we trusted Nate and since the stock was so cheap, we made an exception.)

We have now arrived at the part of this article where we can point out the lack of rationality in the market. Baldwin & Lyon's "B" shares (BWINB) closed at $29.25 on Thursday. The company's "A" shares (BWINA) closed at $23.92. The two classes of stock are identical except that the "B" shares have no vote. In theory, the "A" shares have a *greater* intrinsic value than the "B" shares since they control the company. In practice, one would expect the less liquid "A" shares (there are fewer outstanding), to trade around the same price as the "B" shares trade. In fact, this has generally been the case.

On November 21, for example, BWINB closed at $23.70 and BWINA closed at 23.08. (As is often the case, no BWINA shares traded that day.) Since then, the spread between the prices of the two classes of stock has grown so wide—it is now $5.38—that one wonders why any rational person who purchased BWINB recently didn't buy BWINA instead. (For the record, we've sold our "B" shares and bought "A" shares.)

At Thursday's closing price, BWINB is selling for 14.63 times this year's estimated earnings and 130% of book value. Its dividend yield is 1.37%. In contrast, BWINA is selling for 11.96 times this year's estimated earnings and 109% of book value. Its dividend yield is 1.67%.

An arbitrageur might want to short BWINB and buy BWINA. Of course, the prices of the two classes of stock do not *have* to come back into synch with each other; BWINB might trade at $35 and BWINA may trade at $20. We feel fairly certain, however, that over time BWINB will not continue to trade at a *22%* higher price than BWINA—that the spread between the two classes of stock will narrow. This should happen because intelligent investors will realize that BWINA is a much better buy than BWINB.

In the short term, people and markets are often irrational. Over the longer term, some semblance of rationality generally emerges. Be patient. Customers that won't pay up for triple-A rated reinsurance today will be willing to pay through the nose for it at some future date.

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