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PROFITS COURAGE FORESIGHT

TAIPAN

Put mob psychology to work for you

Buy the next new tech wave for a possible 500% gain in 23 months!

By Christian DeHaemer

In times of yore, a small elite group had the education, knowledge and disposable income to create a system of buying and selling shares in publicly owned companies. This clique created a system of valuation based on ratios: ev/sales, p/e, debt/equity, etc. Using these sometimes-clumsy methods you could melt down a company's assets into easily understandable numbers. You bought low p/e and high growth—simple.

There were other forms of investing, to be sure—technical analysis, momentum, and insider trading. However, the tried and true lifetime method has always been fundamental valuation. And a few years after this mania ends it will be again. But right now value investing in the United States will get you a fistful of frustration.

For a speculative play on the next mass mania buy Tivo (NASDAQ–TIVO) today under US$34!

Not your fathers' market

The latest jump in the top-tier Nasdaq was caused by small investors, not institutions. I know this because Schwab online increased its November volume by 40%—the second largest one-month jump by that company ever.

More than 50% of Americans are now invested in the equity market. That's up from 10% earlier in this century. This is important. And here's why: The new investor doesn't understand the rules of value nor does he care. He buys whatever tech he is using (AOL, YHOO, AMZN) or he is a tech guy making 70K with a lot of disposable income to throw at the next big thing.

These are people who don't know the definition of a market cap. (You find the market capitalization of a company by multiplying its share price by number of shares outstanding — to say AOL is US$105 a share is meaningless, to say its market cap. is US$180 billion provides comparative value.)

Getting ahead of the thundering herd

The point is that today's market is driven by industry segment momentum. What we are really after is a chance to get ahead of the next mass mania. The majority of stock selections in the *Taipan* portfolio were chosen based on long-term future trends. Business to business e-commerce, digital wireless, broadband and the confluence of all computerized things that you can put in your pocket have been extraordinarily hot segments of late.

These companies are flying for a number of reasons, not least of which is that the potential markets for these industries are large enough to be unquantifiable. For the next three to five years we know that more people will buy digital phones. More business will go online. Bandwidth will increase to the point where it will no longer be mentioned as a concern.

We know that the mobile phone will become a digital Swiss army knife encompassing personal digital assistants, e-mail, beeper, web surfer, MP3 player, GPS receiver, personal ATM, and television.

The high tech couch potato

It seems to me that if bandwidth is no longer a problem, interactive television (ITV) will

(over, please)

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become the major form of Internet activity. Let's face it, people are as lazy as they are demanding. They want what they want, when they want it, without any hassles. It's an instant gratification world and there is nothing that fits the bill quite like ITV.

ITV will emerge as a hybrid of Web and TV models. It is expected that ITV will be in 30 million households and generate US$10 billion in revenue by 2004. Some estimates run as high as US$15 billion in revenue.

More than 98 million U.S. households have a TV—most have 3. More than 75% of these folks subscribe to cable. Forrester Research estimates that there will be 16 million Personal Video Recorders (PVRs) by 2004. That's a substantial market. Globally there are 900 million television households and 150 million cable households.

The ITV market will expand beyond the few players who are now involved. That said, historically, the company which is first to market tends to lead the further development of the product. Furthermore, that company is able to build its brand and marketshare, thus enabling advertising revenue as well as economies of scale.

The next big thing

Taipan has discovered a company that has won accolades for the best product of 1999. **Tivo Inc. (TIVO–NASDAQ)** is TV on demand. Essentially you can watch what you want when you want it. You can scan the hundreds of channels to record the shows you want directly onto a hard drive, which means that there is no reduction in the quality of video. It does this through its Personal Video Receiver (PVR). This system is designed by Tivo and built by Philips and Sony.

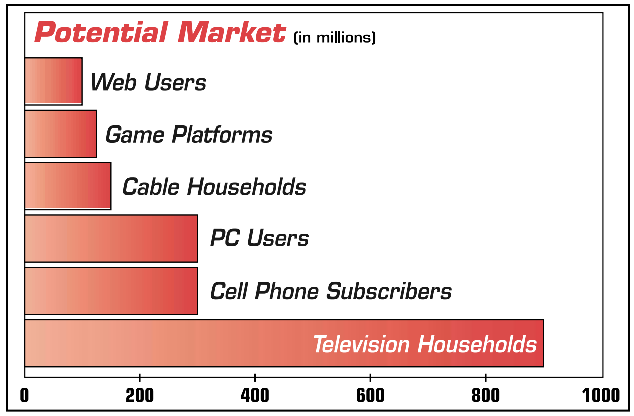
Now your average sofa spud can pause, record and replay live TV. Got to go to the bathroom—no problem. Need another beer during the touchdown drive—no problem. You can quickly see the benefits to such a device.

Couch commerce

Tivo's PVR gives content providers like television networks a whole new platform in which to deliver their product, advertising—and let's not forget about couch commerce.

The PVR allows direct customized marketing to the individual. Much like direct mail, TV advertisers will be able to quantitatively evaluate the success of their advertising. The consumer will be able to make impulse buys in real time by entering the e-commerce site of the advertiser and place an order in between television shows.

Furthermore, Tivo can avoid sending the same commercial over and over again to the same viewer, thus eliminating advertising burnout. The viewer can elect to "fast forward"' and skip the commercial altogether. That's an exciting development for the economy as a whole.



Size is everything

This new form of media distribution will also let the networks track the viewing and buying habits of customers in a way that Nielson never could. Tivo will make sweeps week unnecessary.

Like any new product that is marginally better than the old, there is always a significant portion of the market that wants to be the first one on their block with the new technology.

Will she want it?

As of last quarter, Tivo had 2,500 subscribers. In October they added another 1,800. It is estimated that Tivo will have 25,000 subscribers by the end of 1999 and 320,000 subscribers by the end of 2000 and 1.04 million by the end of 2001. If Tivo is able to maintain its lead and achieve this sort of growth, you could see massive share price appreciation.

Revenue streams include subscription, advertising and couch commerce. Subscription at US$10 a month will be US$1.9 billion in estimated revenue by 2004. Targeted, cost-effective advertising revenue could add another US$8 billion by the same period.

Features such as Ipreview which allow subscribers to record shows directly from a commercial of that show, as well as being able to record all new episodes of the X-files for instance, greatly expand the potential of this device.

Partners include Vulcan Ventures Inc., Showtime Networks, HBO, DirectTV, NBC

Multimedia, Philips, Advance/Newhouse, CBS Corp., and a slew of companies that may or may not compete directly against Tivo in the future. However, having such an impressive list of partners feeds into the hype driven market theory. Content providers will be able to offer pay for view packages and other services.

The primary competition comes from Replay Networks a private company that produces PVRs similar to Tivos. However, *Taipan* believes that Tivo offers a better product. Replay offers 10, 14 and 28 hour storage boxes. The three options cost US$699, US$899, and US$1499 respectively. They do not require a subscription.

Tivo offers a 14 hour box for US$499 and a lifetime subscription for US$199. (By the end of next year 100 hour boxes will be available.) Tivo is the only PVR that is available in large retail consumer electronic stores for the Christmas season. Tivo will have first branding opportunity.

Catalysts for growth.

The current share price of Tivo is US$32, with 42 million shares outstanding. With a float of only 5 million. I love small floats on hype-driven stocks.

Anyway, the current subscriber valuation for cable companies is US$4,000 per set of eyes. AOL is valued at US$8,000 per sub. (20 million current subs x 160 million recent market cap.) Based on 2001 estimated subscribers of 1.01 million—and assuming that Tivo should sport a per subscriber valuation somewhere in the middle of these two at US$6,000 per sub…

That would give you a market cap of US$7.14 billion. Or an even six times its current market cap. Or a share price of US$192 by the end of 2001.

For a speculative play on the next mass mania buy Tivo (NASDAQ–TIVO) today under US$34! Contact info: *894 Ross Drive, Suite 100, Sunnyvale, CA 94089 Phone: (408) 747-5080, Fax: (408) 747-5096.*

On behalf of *Taipan*, I would like to wish you and your family a merry Christmas. As you are swilling eggnog among the decadent toys you have provided for your family, give a little thought to *Taipan* and the six picks from this column alone that returned triple digit gains. Have a happy New Year.

WHAT TO BUY AT WHAT PRICE

Lukoil Preferred (LUKPY-OTC)	Buy	Strong buy under US$7
*Ventspils Nafta (VNFT-Riga)	Buy	Speculative buy under US$0.80
Computer Learning Centers (CLCX-NASDAQ)	Buy	Strong buy under US$4
Genus (GGNS-NASDAQ)	Buy	Strong buy under US$3
Fisher & Paykel (FAP-NZSE)	Buy	Strong buy under NZ$6.00 (US$3.30)
+ Uproar Ltd. (UPRA-Vienna OTC))	Hold	Speculative buy under €21 (US$21.85)
Herzfeld Caribbean Basin Fund (CUBA-OTC)	Buy	Strong buy under US$5.00
Uni-Charm (8113-Tokyo)	Buy	Buy under US$60
Commodity Trust Fund Ltd (CMT-London)	Buy	Strong buy under US$1.40
Elbit Ltd. (ELBTF-NASDAQ)	Buy	Strong buy under US$11
*TyumenAviaTrans ADR (TYAVY-OTC)	Hold	Hold
Hurricane Hydrocarbons Warrants (HUHY-TSE)	Hold	Hold
Restaurant Brands (RBD-NZSE)	Buy	Strong buy under NZUS$1.30 (US$0.70)
❑Sasol (SASOY-NASDAQ)	Buy	Strong buy under US$5
Avant Immunotherapeutics (AVAN-NASDAQ)	Buy	Buy under US$3.00
∆ Ashanti Goldfields (ASL-NYSE)	Buy	Strong buy under US$4
❑ Hurricane Hydrocarbons (HHLAF-NASDAQ)	Hold	Hold
*Orckit (ORCT-NASDAQ)	Hold	Speculative buy under US$30
❑ Mosenergo ADR (AOMOY-Pink Sheets, 037376308)	Hold	Strong buy up to US$2
Aramex (ARMX-NASDAQ)	Buy	Strong buy under US$11
Suez Cement (SZCD-LN, CUSIP: 864690102)	Buy	Strong buy under US$16
❑ Surgutneftegaz ADR (SGTZY-Pink Sheets, 46625F104)	Buy	Strong buy up to US$6
* Xoma (XOMA-NASDAQ)	Hold	Speculative buy under US$2.50
Elron Electronic Industries (ELRNF-NASDAQ)	Hold	Buy under US$20.00
Williams Controls (WMCO-NASDAQ)	Buy	Strong buy under US$3.50
❑ Exponent (EXPO-NASDAQ) (Formerly FAIL)	Buy	Strong buy under US$7

* Speculative — maintain adequate stop-loss provision.
∆ Sell covered calls against position
❑ Dollar-cost average during price weakness
\+ Recent stock split

What to buy at what price aims at giving you a handy, compact summary of how *Taipan's* stock picks are standing in relation to our initially recommended buying range.

• Positions may be modified in the free Weekly *Taipan* Hotline: 410-528-8228 and at http://www.taipanonline.com/htmlcode/members/hotline/hotline.html •

Prepare for a correction: raise cash and hold off new money buys

By James Passin

The Black Death was born Sicilian in October 1347. Within two years, the bubonic plague infected all major European cities, wiping out 30% of Europe's population. 200,000 villages were liquidated. The Black Death recurred in 1360 and 1369 to finish the job, triggering inflationary spirals and mass hysteria.

Helpless in the face of inevitable death, Parisians turned against the authority of the Church. Mock ceremonies were conducted on the city's overflowing mass graves. Wearing grotesque masks, the "Pope," "Bishop," and "Clergyman" led the "Parishioners" in the "Danse Macabre," or Dance of Death, a ritualistic orgy in which men, women, children, and corpses mingled their filthy organs to the feverish tunes of lunatic musicians.

Ironically, the Danse Macabre did not emerge until the plague had mostly run its course. The first documented depiction was painted in 1425. The participants in the Dance of Death were survivors who had somehow built up an immunity to the plague.

You can count on two things: The consensus is always wrong at key turning points in history. And the masses always turn to parades in times of extreme upheaval. The mirror image of the Dance of Death is the Carnival of Renaissance Europe, an orgiastic frenzy of tumbling dwarves, three-armed jugglers, and gypsy whores that traveled from village to village, offering the masses a chance to escape from the rigidities of the feudal hierarchy.

Edward Chancellor proposes in his book, *Devil Take the Hindmost*, that the Carnival is the origin of the modern stock market. During stock market manias, the spirit of Carnival is reborn. In the Carnival, the traditional social hierarchy is turned upside down, and the village idiot is named King of the Carnival.

The current parade of Internet IPOs, stock option millionaires, and daytraders is a reincarnation of the ancient Carnival. I won't bother to recite the familiar litany of ticker symbols. This market is out of control. The sentiment has turned from nervous to euphoric and arrogant. I believe that the market is setting up for a significant shakeout in the first quarter of 2000: When the Carnival leaves town, the King of the Carnival is burned in effigy.

Y2K surprise

In the October 1999 issue of *Taipan*, I predicted that "a massive rally in risky assets" was imminent. This rally would, in my view, be fueled by a "Y2K relief rally." The rally occurred in the fourth quarter. Internet and emerging market stocks exploded to the upside in a massive buying frenzy.

Investors are placing their chips for a post-Y2K rally. The common wisdom is that stocks will rebound once January 1st passes. Your neighbor will cash in his gold coins and buy CMGI.

Greenspan contributed to the pre-Y2K relief rally. The Fed wants to keep the banking system liquid over Y2K. Consequently, money supply has rapidly expanded—and is manifesting itself in ballooning equity prices. While there is no clear statistical evidence, I suspect that other major central banks are taking the same precautionary measures.

Mutual fund managers are contributing to the rally by "window dressing." This involves disposing of losers (like financials or small caps) and switching to winners (Internets). Daytraders sense the presence of large buyers and bid up internets even higher. And if you're sitting on a big profit in stocks in a taxable account, you probably want to defer profit taking until after January 1st to avoid a big tax bill.

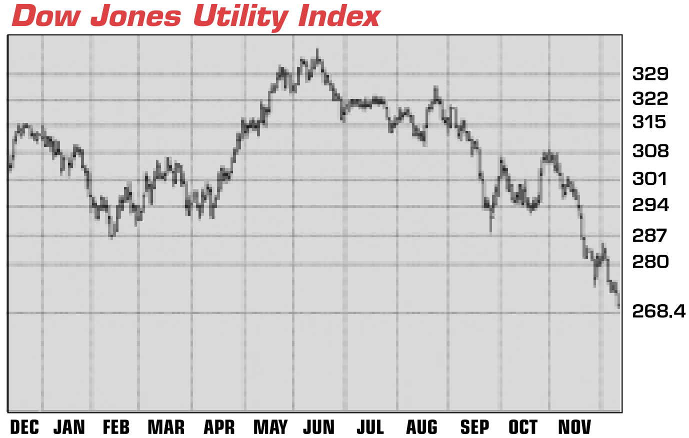
The whole constellation may unravel in the first quarter. The Fed is likely to withdraw liquidity by hiking rates in January. Since the market has discounted "nothing catastrophic happening," the market is unlikely to rally after Y2K—even if nothing catastrophic happens.

The best-case scenario for liquidity would be an apocalyptic social breakdown caused by Y2K disruptions. In this scenario, the Fed would continue to pump out money supply. However, the bullish effects of easy money may be sterilized by the possible damage to mass psychology.

Exercise in utilities

The Utility Index is my favorite leading indicator of the Dow. Since utilities are highly interest-rate sensitive, they tend to lead the broader market in a monetarily functional economy.

Dow Jones Utility Index



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The utilities kept me bullish in late 1997. The utilities led the broader market out of the 1998 deflation panic.

The Utility Index has topped out prior to every textbook "bear market" over the last two decades. A major peak in the Utility Index has occurred 4-7 months before each peak in the Dow. The Utility Index peaked in February 1987, December 1989, and September 1993 (the Dow declined by 20% or more from peak to trough during 1998, 1990, and 1994). *The last major peak in the Utility Index was set in June 1999...*

From the point of view of technical analysis, the Utility Index looks terrible. It has diverged from the other major indices, hitting new 52-week lows. The utilities are down 20% from the June peak.

Based on the 4-7 month rule, a bear market in the Dow should begin by January 2000.

The Utility Index has followed a 15-16 month cycle over the last ten years. Every 15 to 16 months, the utilities change direction. Trends can occur within this cycle (like the current bear market in utilities). Look at a monthly chart of the utilities and count the bars. The regularity of the pattern is amazing. I suspect that natural macro-economic cycles may be behind the phenomenon. Typically, the utilities are subject to violent swings in the final month of the 15-16 month cycle. January 2000 is the 16th month of the current cycle. This is consistent with the scenario of a January stock market correction followed by a rotation into "safe havens" like utilities.

What to do about it

Unlike 1998, 2000 should be a relatively good year for small-cap value stocks. While a market correction will hurt the real economy, it is unlikely to destroy it. As long as the economy withstands the shock of temporary financial asset deflation, then small, neglected value stocks should do all right. Bids will dry up. *But I don't anticipate another 40% drop in the Russell 2000 index.*

Who knows? Maybe the market will hold up in January. But given the "easy money" being made in the current Carnival atmosphere and the poor technical condition of the Utility Index, it is prudent to take precautions. I'll tell you what I'm doing: raising cash.

I don't recommend panicking and dumping good positions into the market. However, I am downgrading most NASDAQ-correlated recommendations to (temporary) Holds. I also recommend increasing exposure to (relatively) non-correlated markets as a hedge, including Russia, Kazakhstan, New Zealand, Japan, and the Middle East (ex-Israel).

700% profits from ELBTF—and more to come!

Elbit Ltd. (ELBTF-NASDAQ) has broken out into record territory. **ELBTF is currently trading around US$16—up 700% since my coverage in September 1998.** Despite the rally, ELBTF remains extremely undervalued.

As a high tech/telecommunications holding company, ELBTF should be analyzed in terms of Net Asset Value (NAV). Based on my revised estimate of the realizable value in ELBTF's assets, **I am raising my estimated NAV to US$44 per share.** Applying a conservative 30% discount to estimated NAV, ELBTF's fair value is over US$30 per share. The current share price represents a glaring 50% discount to fair value.

When I recommended the stock, ELTBF traded around US$2. And a self-righteous gaggle of Wall Street analysts and Israeli journalists predicted that the cellular operations of Partner (an ELBTF affiliate) would fail. They were dead wrong. The Partner IPO (PTNR-NASDAQ) was a resounding success. PTNR is up 37% since the IPO. ELBTF's 12.4% stake in PTNR is worth US$18.50 per share to ELBTF's NAV (while ELBTF would incur a 36% tax expense on the sale of its PTNR shares, the stake could be sold at a significant premium to another major shareholder). ELBTF is currently trading below the market value of its stake in PTNR!

I just met with ELBTF's management to get an update on the company's progress. I'm delighted that they're finally selling the Elbit story to U.S. institutional investors.

ELBTF's (60% held) Peach Networks subsidiary is commercializing a revolutionary digital set top box technology for low-cost Internet access. The competition (WGAT, OPTV, Liberate, Web TV) for set top box Internet solution is fierce; however, Peach's compression-based software solution lets cable operators piggyback their existing cable infrastructure by keeping the Windows NT/Internet servers in the cable central office and sending "mirror images" to the end user (competing technologies turn the set top box into a mini-computer).

I anticipate that Peach will go public within twelve months. As a public company, Peach will easily achieve a comparable market cap to **Worldgate (WGAT-NASDAQ)**,

(...continued on page 16)

Turn the tables on the Evil Market Maker!

Investors will pile into this company's stock... and we'll be waiting.

By Briton Ryle

Those dirty market makers. Investors who haven't learned their lesson about placing market orders by now deserve exactly what they get. I guarantee the 250% run-up by **Ariel Corp. (ADSP-NASDAQ)** the day after Thanksgiving was caused by market makers taking advantage of novice investors, high on some distant cousin's hot stock pick whispered secretively over the candied yams.

If you missed it, Ariel's moonshot was a classic. A vague association with Linux caused the stock to double from US$5 to US$10 on the Wednesday before Thanksgiving. During the short session following the holiday, Ariel inexplicably opened at US$20 and hit an intra-day high of US$57 before closing at US$37.

Drugged by tryptiphan and with an egg-nog hangover, these "investors" put in market orders and got reamed. I feel sorry for for the kids of people who bought Ariel over US$30. This stock will never see that price again. Daddy just blew Christmas for little Cletus and Jimmy Sue.

Far be it from me to change the relationship between a fool and his money. Re-directing mal-invested money is the job of the shorts. And the shorts jumped all over this no-brainer, taking it from US$37 to under US$15 in one day.

Ghost in the machine

In the automated age, which, they tell me, is now, every effort is made to remove human error from production and distribution. The ultimate goal is for commerce and manufacturing to perform like a Formula One racecar. And the final frontier is the financial markets. Ashton Technology Group is trying to change even that.

Their plan is to automate trading using the relationship between volume and price. Any one with the slightest understanding of technical analysis knows that price and volume are linked like Siamese twins. To my knowledge, Ashton is the first company that has attempted to create an entire trading system based on this fundamental relationship.

Competition is good

From phone service to utilities, from Internet access to banks and insurance companies, deregulation is opening doors to competition. Financial markets are next. The SEC has endorsed the competitive benefits of ECNs (Electronic Communication Network) like Island and Instinet. Recently, the SEC ruled that all stocks listed on the NYSE can be traded on ECNs, even if the particular ECN isn't a member of the NYSE.

The SEC has even made some rule changes to the Exchange Act of 1934. In a report from Dec. 1998, the SEC said it is "adopting a regulatory framework for alternative trading systems (ATS) to strengthen the public market for securities while encouraging innovative new markets."

The SEC has changed the definition of an exchange to include any organization that brings together buyers and sellers. And it has decreed that registered exchanges can operate for-profit. Hence NASDAQ's move to go public.

Amazingly enough, the SEC seems to recognize the benefits of ATSs and is trying to lower the barriers to entry into the market place. This change in attitude is very bullish for Ashton's success. Ashton is pioneering the use of ATSs for the pricing of stocks on ECNs. Ashton is building out its own ECN to support its proprietary ATS, Electronic Volume Weighted Average Pricing or eVWAP. Ashton's ECN is not an after-hours exchange like Instinet. It will exist alongside the "regular" exchanges.

Low-impact trading

Here's how eVWAP works. An order is put in before the open. The program calculates the fair price based on volume and price action for the day, and then matches the order with a seller or buyer, as the case may be. The company says this system will allow institutions to trade large blocks (minimum order is 5,000 shares) of stock anonymously and without affecting the market.

eVWAP is a proprietary system of Universal Trading Technologies Corporation (UTTC), a subsidiary of Ashton Technologies. The CEO tells me they will have all of the major brokerages and institutions lined up by this spring, when phase 3 is completed.

Ashton is not a software company. They aren't trying to get in on other exchanges' action. They're creating their own action. Schwab and others will offer eVWAP service to their clients, and take a small cut. Ashton will get 99% of revenues.

eVWAP is targeted to institutional buyers, funds and the like. And the benefits are tremendous. A fund can place an order, have it filled at the end of the day, and no one on the big exchanges (NASDAQ, NYSE, etc.) will be the wiser.

Ashton is going after the big players. Its system will be of little benefit to the small or retail investor. And a system just for the big dogs probably wouldn't attract the eye of the little guy except for one thing: the market maker. Cutting out the market maker will make Ashton the hero of the small investor. They will reward Ashton by buying stock like crazy people.

Confederacy of dunces

From time to time, I'll read the bulletin board for a stock because I like to get a feel for what people are saying about it. If you haven't done this you should. The level of idiocy boggles the mind. No matter what happens—can't get an order filled, price goes up, price goes down, price goes sideways—it's the market makers' fault.

I swear most investors think the market makers are omniscient gods of the stock market. I wouldn't be at all surprised if people started sacrificing virgins to appease the MMs.

Market makers can't control the price of a quality stock. But if you put money in a two-bit company on a Canadian exchange, you deserve what you get.

Of course, you can sidestep market maker shenanigans. If you put in a stop loss, prepare to have it triggered. Use a mental stop and watch your stock. If you use market orders, it's like walking through Rio de Janeiro, naked, with money taped all over your body. With luck, you'll only be severely beaten and left for dead.

Not exactly mainstream

My views are not in the mainstream. Neither are those of *Taipan's* publishers and researchers. This attitude gives us a distinct advantage over the members of the crowd. Besides the obvious that we have more fun.

We understand that the market maker is an important link in the investment chain. They are as prone to mistakes as anyone. We don't need to tip the playing field by cutting out a major source of profit competition. We keep the edge through research, connections and a clear vision of the future. But if there's a profit opportunity in cutting out the market maker, we'll personally show him the door.

For the average momentum investor, profits are a combination of luck and going with the flow. Anything that has the appearance of giving them an edge will be applauded wildly. **That's why I'm bullish on Ashton Technology Group's stock.**

Buy the rumor, sell the news

Profiting on a stock like Ashton is a clear case of "buy the rumor, sell the news." Investors will go ga-ga over the idea of trading without a market maker, even if it is for the big players. "Democracy hits the market," they'll say. Or, "Finally, an edge for the little guy."

Fools...

The idea of automated pricing based on some kind of volume weighted system sounds good. Its success will depend on attracting institutional investors. But the hype this stock gets will be amazing. And where there's hype, there's profit.

Ashton's technology is good enough for the Philadelphia stock exchange to give it a try, with the SEC's approval, of course. Initial trials began in March of '99 as a pre-open session involving 20 listed stocks. Phase three is supposed to begin this spring. More stocks will be covered and the system will be more widely available.

Keys to success

I think eVAWP will be successful for two reasons. The first is benefit. Fund managers and other large investors will jump at the chance to trade with anonymity and without moving the market.

The second reason I like Ashton's chances is that management is no stranger to ECNs. CEO Frederic Ritterieser helped make Instinet a fixture on Wall Street. He also engineered Instinet's buyout by Reuter's.

They say the measure of a great NFL coach is taking two teams to the Super Bowl. I think Rittereiser wants to be held to that measure of success. He did it once, why not do it again? I think it's reasonable to expect him to repeat the Instinet process here—build it out, show it off, sell it.

Right now, ECNs like Instinet and Island account for 20% of the volume on the NASDAQ. Clearly, there is a market for ATVs. Ashton is certain to carve out a sizable market share with a system that allows institutions and funds to trade anonymously and without moving the market. And when investors get wind of the new system they'll be buying this stock hand over fist. And then it'll get bought out at a premium. The key here is getting in early.

Don't believe the hype. Buy it!

Right now, the majority of revenues are being generated by subsidiary Gomez Advisors. Gomez provides research to consumers and businesses involved in e-commerce. A ratings system for e-commerce is available to consumers. Gomez also offers research and data on a subscription basis to e-businesses seeking to maximize their on-line sales efforts.

Other divisions are active in creating the security and e-commerce tools needed to make the eVWAP system a success. All in all, Ashton is a self-contained, proprietary e-commerce company focused on the financial markets.

Ashton has over US$32 million in assets. Revenues for the three months ending in September of 1999 were just over US$1 million while net loss for the same period was US$4.6 million. It should be no surprise that Ashton is operating at a loss. Getting a trading system up and

(...continued on page 10)

Y2K was a dud!

Here's how you can cash in on the Next Great Threat to Humanity!

By Briton Ryle

For all the build-up, for all the apocalyptic predictions and fear of worldwide riots, Y2K certainly turned out be a stinker. If I sound a little sad it's because we at *Taipan* were all set to do some serious bargain hunting. This was going to be the mother of all blood-in-the-streets plays.

But don't worry. We have a back-up plan to cash in on the next wave of fear that will sweep the country. Because let's face it, *people just aren't happy unless there's something to be afraid of.* And nothing is more satisfying than being able to allay your own fears by spending money.

Privacy "issues" will be the next great threat to public welfare. And we'll be ready to profit as the masses spend wildly to protect the last shreds of their anonymity, and corporations redirect Y2K IT spending to beefing up network security.

Who are the function creeps?

Throughout the 1990s, your privacy was under attack from "function creeps" on an almost daily basis—and you may not have even known it!

Take those Social Security numbers you have to give to get your paycheck or a membership to a video club. Or the forms they shove in front of you in hospital emergency rooms. The toll-booth cameras that videotape your license plate for the benefit of speed-traps and the automated toll collectors that became so popular at the end of 1999. Not to mention the "innocent" sweepstakes cards you fill out and drop in boxes and the probing questions you have to answer anytime you register for a website on-line.

Every one of these modes of data collection was created to serve one simple purpose. Giving away those tidbits of info should give you nothing to worry about—until now. Have you called the IRS lately? No more digging around in file cabinets for your forms. They're smiling, wired, and ready. And there's a reason they can afford to smile.

Because they've got you—the whole you—on-line. So do dozens of other government agencies, schlock pushers, scam artists, and undesirables. Thanks to faster computers and mass networks, your most personal information gets swapped across the nation many times every second. And that innocent data you shared years ago creeps into purposes and files not so innocent after all.

The threat to your privacy will only get worse

You see, the more technology encourages us to move around and the less we depend on paper forms of ID and records, the faster this trend will continue to unfold.

The next step? It's called biometrics.

Biometrics literally means the study of biological characteristics. In tech-ese, it's the use of unique characteristics for identification and authorization. The FBI popularized one form of biometrics—the fingerprint. But you can also be identified by your voice, eye, and even your face.

Some will want to use biometrics against you, to get information about you that you don't want to surrender. Just as much, you'll find yourself using some of these technologies to protect your privacy—especially where you want to keep out the uninvited.

Biometrics has been around for years, but has always been prohibitively expensive. But now, due to a combination of reduced cost and increasing need, biometrics is ready to emerge as an acceptable, effective solution to privacy/security needs.

Could teenage hackers broadcast your neighbor's bedroom antics on the World Wide Web?

Within the next year to two years, you'll have cheap access to security devices like video cameras in your home. In new homes, it will be standard equipment. That's the good news.

You'll be able to target the cameras where you like. And you'll be able to monitor a live video feed of what's happening all over the house—back porch, kitchen, your child's crib, garage, anywhere you have the security cameras—just by logging into a special website with your password in hand.

Convenient but dangerous.

Back in 1999, teenage hackers were breaking into the *New York Times* website and posting their own lead stories. They cracked C–Span's archives and Microsoft's Hotmail. They broke into AOL and read other people's email. Just for kicks, they even found their way into NASDAQ computers and computers at the Pentagon! If the world's largest and most secretive military complex can't keep these varmints out, will you be any safer?

Imagine the shock when you log onto the web, only to find live-action "home video" from a neighbor's surveillance cameras or your cameras, posted as a pay-per-view feature on a pirate-video website!

If you build it, they will come

They'll come all right. But I'm not talking about customers, I'm talking about criminals. Once there are massive Internet banks and huge corporate purchasing databases, the criminals will come out of the woodwork to steal from the weak. The most sophisticated computer networks are vulnerable to hackers. So far, hackers have been pretty courteous. But it's only a matter of time before the criminal element and the hacker community join forces.

But the biggest application for biometrics will come from businesses. More and more, business will be conducted on-line. I've seen estimates that on-line business spending will top US$1 trillion in the next few years. There's a lot of dough at stake. Security will be a priority.

SafLink, formerly known as The National Registry, has been at the forefront of the biometric industry for years. SafLink has worked with the Department of Defense to create biometric security applications. SafLink was hired by the government to standardize the biometric field. And the company has alliances with all of the biggest players. In other words, SafLink has the name and the contacts to lead the industry.

Now or never

Years of research and refinements in biometrics are about to pay off. The infrastructure is there, the hardware is efficient, there are industry standards, more participants, and more applications. Biometrics has reached critical mass.

Any emerging industry goes through a maturation process. Mobile phones, cable TV, the Internet—all had to get sophisticated and cheap enough to gain real acceptance. Biometrics has reached the final stage—acceptance.

The single biggest hurdle to overcome is the paranoia many have to documenting their fingerprints or retinal patterns. To most, fingerprinting is what happens after McGarret says "Book 'em, Dano." People fear they will become part of some giant database that tracks their every move. Well, I have news for them. Too late!

You can't move through cyberspace without leaving a trail. And it's virtually impossible to keep your PC unviolated. The company I work for just installed software to monitor our Internet use. Too much time at Naked Peruvian Co-eds and I'm out on the street. Again.

However unfortunate, convenience does have its costs. Biometric companies are very sensitive to how they are perceived. (Why else do you think SafLink dropped the Orwellian moniker National Registry in favor of SafLink?)

The dreaded acorn

Nothing's ever just born big. The market cap for the entire biometric sector is just US$470 million. Total revenues in 1998 were just US$290 million. From 1998 to 1999, outside investment from investment banks, venture capitalists, and the like, grew from US$87 million to US$216 million, nearly a 150% increase in one year. Clearly someone is betting on a bright future.

I've seen some pretty wild estimates for growth in the biometric sector. IDC reports that, between 1997 and 1998, security software in general grew 43% from US$2.2 billion to US$3.2 billion. If that trend continues, security software sales will hit US$6.2 billion in 2001.

For biometrics alone, Lehman Brothers sees US$400 million in sales by 2004. I like Soloman Smith Barney's estimate of US$1billion in sales by 2001 much better. The disparity only proves that no one has any idea. And that's why we have this opportunity. Taking action while others take naps is the key to making fantastic gains off emerging technology.

Fingerprints and software

SafLink began to create biometric devices and make them work. Now they concentrate on making them work. The money is in the software, as Bill Gates has proven. All the nifty gizmos in the world don't do you much good if your computer can't talk to them. And the profit margins on software are huge.

SafLink's flagship software package, SAF2000, is an out-of-the-box solution for running retinal scan, face scan, voice recognition and fingerprint hardware. The SAF2000 is designed for use the world's most used network infrastructure: Microsoft Windows, Novell NetWare and Computer Associates Unicenter.

SAF2000 also includes Public Key Infrastructure (PKI), the preferred method for securing on-line transactions. PKI ability comes through an alliance with security giant Entrust. SAF2000 is the first product on the market to combine biometrics with PKI and smart card capabilities.

Voice recognition technology comes via SafLink's long standing relationship with leading voice recognition company Lernout & Hauspie. A software package called SAFtyLatch is for voice-recognition only, and includes an inexpensive microphone. This makes an immediate investment in hardware unnecessary. SAFtyLatch has great potential in the consumer market.

However, voice recognition is the least reliable. For the height of security, you will want fingerprint recognition. And SafLink is partnered with a company called SecuGen that makes a mouse with a print recognition device built in. So you don't even have to pause to activate some extra device. You just click and the mouse reads the print and access is either accepted or denied.

SAF2000 is priced at US$199.95 for the basic package. Companies can add users at US$49.95 a head. SAF2000 is a cost-effective security measure for the consumer and corporate customer. The special mouse lists for underUS$100. Of course, large purchases come with a sizable discount to the retail price.

Two to Tango

Microsoft became a giant by convincing computer manufacturers to install Windows on their new machines. Getting the operating system along with the computer is a value-added selling point—it makes the computer more useful and, therefore, more desirable. This type of partnership is key to getting your software distributed on a massive scale.

At a time when virtually no computer came with biometric software, SafLink managed to get a deal with the Home Shopping Network. From the deal's inception in April of 1999 through July, 25,000 computers were sold through HSN, generating significant revenues. Clearly, more licensing agreements like this one are crucial to SafLink's success.

Competition in the PC market is fierce. Manufacturers already seek ways to make their own products more valuable to the consumer. A logical step is to include biometric security software as standard equipment.

SafLink is working hard to market its biometric solutions software. An exclusive marketing rights deal with Triton Resources for Australia contains a guaranteed minimum quarterly revenue clause. Triton wanted the rights badly enough to guarantee money, even if there are no sales. I look for more partnerships and a deal with a major manufacturer over the next few months.

Banking on acceptance

Of the business applications for biometrics, banking probably stands out as the most obvious. PIN numbers can be hacked relatively easily. On-line banks will need to guarantee a secure environment to their customers.

A recent Dataquest report estimates the number of on-line banking customers at more than 24 million by 2004. Add in a good percentage of people who will pay their bills on-line and you can see that just the on-line financial needs could be huge.

Anticipating this future source of demand, SafLink, along with partner SecuGen and Internet bank ING direct Canada, teamed up to offer secure on-line banking using fingerprint identification. This is the first test of biometrics in connection with on-line banking. Success will no doubt pave the way for many of the other on-line banks to offer similar security to their own customers.

The on-line banking application will no doubt increase the odds that biometrics becomes a profitable and respectable industry. If biometrics gains mainstream acceptance, SafLink will be one of the leaders. The company's products have won numerous awards, from the likes of PC World and Forbes.

I believe the first quarter of 2000 will be a pivotal time for biometrics. The federal government has already approved US$15 million for the implementation of biometric security. Look for other large organizations to make similar announcements.

All indications tell me that biometrics is going to be a successful security solution. And if it is going to be a success, we'll know soon. Many sources feel that, after Y2K, security is the next issue confronting corporate America. If biometrics doesn't gain a share of security spending early in 2000, it probably means biometrics is doomed to a life of obscurity. And when you're a public company with a responsibility to shareholder value, obscurity is not a good place to be.

I think risk in the biometrics sector is more than mitigated by SafLink's bargain-basement stock price. The potential rewards are such that having some position in SafLink is recommended, even encouraged. **I consider SafLink a strong speculative buy under US$2.** Failure of biometrics to gain acceptance could well mean bankruptcy for Saflink. Success of the industry could mean a US$6 price tag for SafLink by the end of 2000. You can contact SafLink at: *2502 Rocky Point Dr., Suite 100, Tampa, FL 33607; tel. 813-636-0099.*

TECHNOLOGY

(...continued from page 7)

running is expensive.

To get an idea of what the eVWAP system could be worth as far as revenues consider this: eVWAP contributed about US$13,000 in revenues for the three months ending Sept. 30, 1999. Not much, but eVWAP was only active since August 27, 1999. During that one month, eVWAP processed 7.5 million shares. And remember, as part of the trial phase the system was handling only 20 stocks.

Now let's say the NASDAQ averages 1 billion trades a day. ECNs account for about 20% of that 1 billion, or 200 million shares. If eVWAP can gain only 10% of the ECN market, which is a conservative estimate considering that eVWAP will not really be competing with the traditional after-hour exchanges, it will process 20 million shares a day. That means eVWAP could realistically bring in around US$30,000 a day. Based on a 256-day trading year, eVWAP alone should generate nearly US$8 million in revenues a year.

Of course, I believe the ultimate goal is not to run the business but to prove it will work and then sell it. I rate **Ashton Technology Group (ASTN-NASDAQ)** a buy under US$6.50. **This is a thinly traded stock so use a limit order.** You can contact Ashton Technology Group at *1900 Market St., Suite 701, Philadelphia, PA 19103; USA; tel. 215-751-1900.*

RealNames fulfills the need for speed and simplicity on the Net!

By Siu-Yee Ng

Back in 1984, the Domain Name System addressing system was established with the primary purpose of allowing user-friendly e-mail addresses, such as JOHNDOE@REALNAMES.COM, to run on top of IP addresses. As a result, users no longer had to remember a numeric address but could identify an e-mail address by a word or company name. DNS proved to be very effective as a platform for e-mail, which had used the Simple Mail Transfer Protocol but was difficult to use for locating other Internet resources.

While the domain name is a simple way of creating an e-mail address, the domain name and its extension, the uniform resource locator, is a relatively complex way of creating an address for Web pages. As companies add Web pages to the Internet, they must layer more and more prefixes and suffixes to their domain names to create URLs identifying those Web pages. As a result, URLs have become less intuitive and more difficult to remember.

Going senile?

Having trouble with www.??? Forget the exact site name? **RealNames Corp. (NAME-NASDAQ)** has developed a new addressing system based on Internet Keywords that simplifies navigation on the Internet. Internet Keywords are generally intuitive, familiar words and phrases, such as company, product, brand and personal names. They can be used instead of search engines, directories and even URLs, to navigate directly from any point on the Internet that recognizes Internet Keywords.

This simplifies Internet navigation for users and allows companies to promote their brands as direct connections to their Web pages. Internet Keywords are available to more than 60% of U.S. Internet users, according to the August 1999 Media Metrix data. This is a result of being integrated into search engines, directories and portals such as AltaVista, DogPile, GO Network, LookSmart and MSN.

Internet Keyword functionality is also integrated into Microsoft's Internet Explorer 5.0, which Stat Market estimates to have a greater than 30% share of the installed base of web browsers.

Web surfing for dummies

How many unique URL sites can the Internet have? With more sites popping up, URLs will only get longer and more complex to remember, making them an inefficient means of locating specific Internet resources and reaching online customers, businesses and communities. For example, Internet users who wish to navigate directly to the Honda Accord Web page through its URL must input the lengthy Web address WWW.HONDA2000.COM/MODELS/ACCORD_SEDAN/INDEX.HTML.

Search engines have been one way Web surfers have looked for sites. Search engines are great for research but when entering a specific topic, they generate many results, and usually only one, if any, is the Web page which the user wants to navigate to.

URLs have also generally been ineffective in promoting online brand identity. The limitations of navigating with URLs have created a challenge for companies seeking to bring their offline brands and identities onto the Internet and have made it difficult for them to promote their online existence to viewers, listeners and readers of their offline marketing activities. Just as domain names replaced long, difficult-to-remember numerical addresses for e-mail, there is a need for something to replace long, difficult-to-remember URLs for Web pages.

The RealNames Service, using Internet Keywords, allows users to efficiently navigate to the online location of companies, brands and products and people and enables companies to leverage their well-developed offline brands and identities. Internet Keywords operate on the RealNames platform, a new layer of Internet infrastructure that is designed to provide an intuitive navigation interface that hides complex and lengthy URLs.

Bread makers

Sales are done through RealNames' Web site as well as reseller partners such as Network Solutions, which sells annual, fixed-priced Internet Keyword subscriptions and provides qualified customer referrals.

The company recognizes revenue from Internet Keywords and banner advertising. Revenues are generated from license fees for Keyword prefixes, amounts paid per visit or per completed transaction when the user accesses the customer's Web page using Internet Keywords, and fixed-priced annual subscriptions to Internet Keywords.

RealNames has never been profitable. But that's to be expected with any start-up.

Revenues were approximately US$1.1 million for the six months ended June 30, 1999 compared to no revenues for the six months ended June 30, 1998. Revenues were US$537,000 for the year ended Dec. 31, 1998.

The net proceeds from the offering will be used to satisfy the company's revenue share, marketing and facilities commitments, recruit and hire personnel in all operating areas, expand internationally, recruit additional distribution partners, establish additional data centers and aggressively market the RealNames Service.

Big bucks

RealNames formed a major alliance with Network Solutions, the exclusive provider of all .com, .net and .org domain names. Network solutions has a 10% stake in the company with the option to purchase 20% of RealNames' common stock. Other shareholders include VC firms Draper Fisher Jurvetson, idealab! and Capital Partners. RealNames has also formed partnerships with search engines AltaVista and LookSmart and customers include eBay, Amazon.com, Federal Express, HealCentral.com, and FedEx.

RealNames have been busy since the filing with the SEC in October. The company lined up 27 companies who have agreed to resell Internet Keyword subscriptions along with their Web address services.

Another plus to its global expansion, RealNames Internet Keyword service is now available in both American and French versions of the Viola Network, France Telecom's international network of portal sites that provides localized search solutions and content throughout Europe and the U.S. And in December, the company added the AltaVista German site to its Internet Keywords and navigation service.

Ivy league team

The chairman of the board, president and CEO co-founded RealNames in November 1996. He co-founded and served as chief technical officer at The Easynet Group, an Internet Service Provider. He also founded Cybercafe, an Internet company, and has served on its board of directors since its inception.

The executive vice president, chief financial and administrative officer was a partner with the law firm of Wilson Sonsini Goodrich & Rosati.

The executive vice president of strategic business development joined RealNames in May 1998 as executive vice president of sales and marketing. He co-founded and served as chief operating officer and executive vice president of development at Softbank Interactive Marketing, an Internet marketing services company. He co-founded and served as president of Network 1.0, an Internet and marketing services company. He also founded and served as president and publisher of Consumer Direct Access, Inc., a directory publishing company, from January 1991 to May 1995.

It's always nice to see a strong management team, but it's a plus to see directors who can lend a hand when needed. Another co-founder of RealNames has served as a director since November 1996. Prior to joining RealNames, he served as chief technology officer at NeXT Software. The company also has a director who is the chief financial officer and acting chief operating officer of Network Solutions, an Internet company, which he joined in March 1996.

I usually don't like to see investment bankers involved in an offering, but this may be an exception. RealNames also has a managing director of Morgan Stanley Dean Witter for a director. He serves as a director of Adaptec, a computer peripherals company, and Evolving Systems, a telecommunications software company.

Morgan Stanley Dean Witter, Hambrecht & Quist, Robertson, Stephens & Company, PaineWebber Incorporated and Wit Capital Corporation are the underwriters. Not set price or date has been set, so log on to the *Taipan* site for any updates.

IPO FOLLOW-UP:

■ **FreeMarkets, Inc. (FMKT-NASDAQ)** had an eye-popping debut on Dec. 10. FreeMarkets priced at US$48.00, above the expected pricing range, and opened at a whopping 416% premium. The stock traded above US$290. Hold off on any aftermarket buying, because it's the hype that's driving the share price.

■ **Interwoven, Inc. (IWOV-NASDAQ)** continues its steady price climb since its IPO. ChannelPoint, SmartAge.com and myplay, inc., the latest online businesses to realize the critical nature of content management, have chosen Interwoven TeamSite software to build and manage all content critical to their eCommerce initiatives. Our IPO position is up 823%.

■ **Red Hat, Inc. (RHAT-NASDAQ)** continues to ride the Linux bandwagon. With the recent IPO success, perhaps the biggest opening for an IPO, of VA Linux (LNUX-NASDAQ), Red Hat traded above US$300. We're already up 1671% in four months!

■ **Akamai Technologies, Inc. (AKAM-NASDAQ)** has been unstoppable since its IPO. With the holiday season shopping at a high, several leading e-tail Web properties have selected Akamai's FreeFlow(SM) Internet content delivery service for enhanced speed, performance and reliability of their Web sites. Companies include Ashford.com, Bluefly.com, KBkids.com, Lands' End, marthastewart.com, ShopNow.com Inc., Ticketmaster Online-CitySearch and Wrenchead.com, who demand constant site uptime to remain profitable during the busy holiday season. Our IPO position is up 784%.

Incubators hatch Web profits

By J.K. Riggin

Resolution for the new millennium: start a billion-dollar Internet company.

It's easy, right? All you need is a great idea and a sexy domain name. Just put up a Web site and sell something other than books or CDs. A few marketing gimmicks would be nice, too: get your buddies drunk and have them paint your Web address on their chests and stand outside the *Today* show studios for a chat with Al Roker!

Eventually, of course, you'll want to get serious and take it to the next level. And you will need to do it fast. Business is still business.

And then you'll need money—lots of it. So you take your business plan down to your neighborhood venture capitalist and try not to look discouraged after they've laughed you right out of the office. Then you find the uncle of a friend of a friend's brother-in-law who happens to be a part-time angel investor in Internet startups, but he fails to pull the trigger because you really don't have anything more than a great idea. But he *does* say it's a great idea… and he doesn't laugh.

It's just that what you need is everything that supports the great idea. You need to talk to people who have tried and failed to pull off similar ventures. Guys with more experience. Young punks with more enthusiasm. Fellow entrepreneurs who might consider forging strategic alliances with your company.

In other words, you need an incubator. Part venture capital, part management consulting, part general business support services… and part Mommy. As Internet-enhanced opportunities zoom to market at an ever-increasing speed, a new generation of business incubators are nurturing the high level of entrepreneurial activity and hyper growth necessary for young companies to make their mark.

Historically, incubators have been touchy-feely, academic, business-wonk affairs. Attracting those who particularly enjoy giving and getting advice (also known as geeks), these outfits traditionally have been affiliated with university business programs. However, they tended to produce more pretty business plans than killer businesses.

And then the Internet happened. All of a sudden, Bezos, Yang, Filo and a bunch of other nobodies aged 35 and below began popping up on the pages of *Forbes* and *Vanity Fair* as billionaires.

To help weed out the next generation of billionaires, these incubators function as a kind of market within the market, while the traditional sources for capital and strategic hand-holding have moved on to greener pastures. VCs are moving toward bigger and faster money. Banks are now experimenting with a fee that is assessed when you walk through the door (that's a joke… I hope). And the management and IT consulting firms happily tell you to take a number, unless you have more than a million dollar budget.

Companies like idealab! and eCompanies take you (and your idea) in from the cold and provide you with a nest to exercise your enterprise. That means more than a cheap desk and bandwidth; it's mentoring, introductions to strategic partners, guidance in marketing and financing alternatives, tax and legal advice, business planning and more. And incubators are perhaps more efficient than VCs or management consulting firms in that they're more capable of recycling "failed" ventures into new ones.

What do these companies ask in return for a suck at the teat of success? You guessed it. Equity. And with the continued buoyancy of IPO activity, not to mention the monthly moonshots, incubators are an exciting way to participate in the IPO game.

Of course, word is getting out. Cambridge Technology Partners (CATP–NASDAQ) has been taking on water and employees have been jumping ship for months… but a recent report that the systems integrator plans to open an incubator division drove its battered stock up 33%. Trade magazine publisher Primedia (PRM–NYSE) recently announced that it will take equity in lieu of cash from dot com advertisers. And consulting firms investing in startups include Andersen Consulting, Diamond Technology Partners, KPMG and Scient (SCNT–NASDAQ).

The recent performance of both Internet Capital Group (ICGE–NASDAQ) and CMGI (CMGI–NASDAQ) has turned more than a few heads, and now everybody's clawing for a piece of equity in a upwardly bound dot com.

Heavy synergy going on

Among the Internet jargon that actually makes sense is the B2B and B2C classification, which are basically Internet-specific terms for business and consumer markets. B2B, or business-to-business, companies tend to favor commerce because of larger and more frequent purchases. B2C, or business-to-consumers, companies include commerce, but also involve content and advertising because of the greater size and diversity of the audience.

Internet Capital Group has done a brilliant job of weaving a fabric of outstanding B2B net plays, from infrastructure builders to companies creating a new way for business buyers and sellers to interact. So much so that in early December, AT&T invested US$50 million in ICG. The market has responded as well, driving shares up more than fifteen-fold since its August IPO.

Why the hype? Two things. First, B2B is everybody's favorite Internet space for the future. The market research supports this, and an AOL/Amazon/Yahoo leviathan has yet to emerge. Second, ICG has snapped off a series of successful IPO investments, including Breakaway Solutions (BWAY–NASDAQ), US Interactive (USIT–NASDAQ) and VerticalNet (VERT–NASDAQ). ICG's stake in these three companies alone is over US$1.7 billion.

CMGI, on the other hand, plays more to the B2C crowd. With a widely distributed network of 45 Internet companies that rivals Asia's Softbank in terms of breadth, CMGI's audience reach is surpassed only by AOL and Yahoo. The company's successes include the 1996 Lycos (LCOS–NASDAQ) IPO, double-dipping on GeoCities (1998 IPO and 1999 acquisition by Yahoo) and the 1999 Critical Path (CPTH–NASDAQ) IPO and acquisition of Flycast (FCST–NASDAQ) Internet advertising network. CMGI's stock has been a rough ride up and down into the summer and fall, but holiday shopping season has seen CMGI emerge as a consumer dot com darling.

As both ICG and CMGI continue to grow (and figure out how to justify their lofty valuations), the space again opens up for those companies who can best pay attention to and nurture the bleeding edge. Following are a few snap shots of incubators that are making waves today, and may very well arrive with IPOs of their own through 2000.

The Prodigy expands

Among the new breed of Internet-blessed incubators, idealab! has set the tone. Idealab! already has spawned more than two dozen companies, including several billion-dollar concerns, like eToys (ETYS–NASDAQ), Goto.com (GOTO–NASDAQ) and CitySearch (TMCS–NASDAQ). Next in line is the highly anticipated Free-PC (just merged with E-Machines, which had its IPO in registration).

What's next? The Pasadena, Ca.-based incubator is branching out with a new office in, of all places, Silicon Valley. Although the company has made no overtures to an IPO itself (its holdings to date are nearly as impressive as those of ICG or CMGI), the performance of those two issues should make an offering hard to resist.

Mr. eDisney and Big Sky

Down by the sea in Santa Monica, two of the Internet's brighter stars—Jake Winebaum and Sky Dayton—are putting together a similar operation in eCompanies. Winebaum comes to eCompanies from Disney, where he ran all Internet activities, including Disney.com, ABC.com, ABCNEWS.com, and ESPN.com. Don't forget Disney's acquisitions of Paul Allen's Starwave and the Infoseek search engine. Dayton founded Earthlink (ELNK–NASDAQ), which bought Mindspring earlier this year and became the Internet's biggest consumer ISP, after America Online (AOL–NASDAQ).

The company recently made a splash when it paid more than US$7 million for the domain name "business.com," set to be the name for a new B2B portal. In less than a year, eCompanies has managed to pull together a roster of intriguing startups which should produce a few IPO contenders. And as its founders both seem to know their way around a prospectus, an eCompanies IPO is not unlikely by the end of the year.

Dead plants for everyone

The best venture capitalists love dead plants in their customers' offices — it's a crude yet telling indication that money and attention are being focused on the company's product and marketing instead of trivial distractions.

With MeVC.com, you too can grow to appreciate the site of dead plants, because the company is launching a US$500 million mutual fund in a venture capitalist firm's holdings. Venture capital firm Draper Fisher Jurvetson of Redwood City, Ca., invests about US$1 billion in six funds and recently has been generating better than 100 percent annual returns for its institutional investors. Through Internet startup meVC.com, the rest of us can get a piece of the action. MeVC.com has raised more than US$5 million from former BankAmerica CEO Dick Rosenberg and Draper Fisher Jurvetson, and has been hiring senior talent from Montgomery Securities, GT Global and Charles Schwab.

The company hopes to headline a new chapter in our ever more liquid Internet economy. Up until now, US$40 billion venture capital business has been restricted to wealthy insiders. MeVC.com plans to change that with a minimum investment in the new fund of US$5,000. But this ain't Fidelity, Janus or Magellen. Besides the risk of venture investments, there's also a stiff price to get in on the ground floor, as appraised by DFJ's rocket scientists: two and-a-half percent of capital contributions and 20 percent of any profits.

Spreading the wealth

Foundry Networks. Akamai Technologies. VA Linux. Freemarkets.com. Over and over we hear the minions bleat, "How can I get in on the ground floor?"

By turns cruel, unfair, yet always ruthlessly efficient, the market also is mysterious in her wisdom. The market's answers seldom seem obvious until long after the fact. As Mother Theresa said, the best way to make God laugh is tell him your plans.

It's not online dutch auction-style access that will distribute IPO shares to the masses. That's too inefficient. Look for the incubators that help those IPOs come into being to also serve as the prime intermediaries through which the Joneses will ride the IPO wave of prosperity.

Ten steps to avoid the biggest investment goof of the 20th and 21st centuries

By Charles Wolpoff

The goal of investing is to make money by buying stocks low and selling high. Or to build an investment portfolio whose performance beats the S&P 500 average.

If this sounds like the way you'd state your own investment objective, then you, like so many others, may be making The Investment Mistake of the Millennium.

You see, it's not the paper returns that matter. Nor is it the bragging rights you have. The fact that you can boast to your neighbor that you did better than he did means nothing.

You see, what really matters is...how much money actually ends up in your or your family's pocket.

Your neighbor whose investment returns are so much poorer than yours could still end up wealthier, with more spending loot than you.

Say you both put bought ABC stock January 2, 1999, for US$10,000. By December 15, ABC had jumped 50%—a US$5,000 gain for you. You sell right then and there...nothing like locking in some gains.

Your neighbor waits until January 10 of 2000 to sell. By then, the ABC has given back some of its gains, and is up only 45% since purchase. Who ends up with more in his pocket? *The dunce next door.*

By selling the stock before 12 months were up, you must pay ordinary tax on that stock. If you're in the 28% tax bracket, you pay a federal income tax of US$1,400. That means you have a net gain of US$3,600.

But your neighbor held the stock for more than one year. That means he gets to apply the long-term capital gains rate of 20%. His tax is US$900. Thus his net gain is US$3,900. Even though the stock went down after you sold, you still have US$300 less in your pocket than the other guy. And that doesn't even take into account the benefit of deferring taxes until the next tax year.

Ten secrets to low investment taxes

You see, by the time you or your family gets to spend any of the investment profits, the government gets to skim off the top. How much it takes, if anything, depends on you and your decisions.

To avoid making the investment mistake of the century, take these 10 steps:

1. Make it a habit—a part of your investment routine—to take taxes into account with every investment decision you make.
2. Before you sell a profitable investment held for less than a year, weigh the benefits of selling versus the bath you'll take by paying ordinary tax rates.
3. Don't "day trade" in the sense that you buy and sell furiously every day—unless you carefully determine the impact of taxes (as well as commissions) on your returns. If you're so good at day trading that you can overcome the IRS' assault on your profits...be my guest.
4. Put as many of your investments into retirement plans as you can. Use a 401(k) plan, a Keogh, an IRA...any plan you're entitled to use.
5. Put the right kinds of investments into retirement plans. Keep tax-exempt bond funds out of it. Tax-efficient funds and index funds also should be held outside of retirement plans because they don't incur much tax. But stocks and stock funds that you expect to appreciate greatly, that issue dividends, or that you will be trading often, make excellent fodder for retirement plans.
6. Make judicious use of losses. Before year-end, examine which depreciated stocks should be sold. Sell those before the end of the year, particularly if you have taxable gains this year. Even if you don't, you can deduct up to US$3,000 in net losses. The remaining losses can be carried over to next year.
7. If you buy mutual funds, take into consideration the funds' tax efficiency, and the timing of their tax distributions.
8. If you wish to make a donation to charity, and you have appreciated stock...donate your stock to charity. You avoid the capital gains tax, and you get a charitable deduction for the fair market value of the stock on the day you donate it. That's a great combination. Whatever you do, DON'T sell an appreciated stock first and then donate the proceeds.
9. You can also make a gift of your appreciated stock to a child. The child will eventually have to pay tax on the appreciation—his basis is the same as your basis. But at least you don't pay tax on it, and you don't need to sell it now, pay the tax, and gift the proceeds.
   Or put investment assets in your child's name. If your child is under 14, investment income up to US$700 can be included on your child's tax return—at a presumably lower rate. If your child is older than 14, all his or her investment income is taxed at the child's rate.
10. Take advantage of the single best investment tax shelter ever created—Death. At your death, the tax bases in all your investments get stepped up to their fair market value. That means, if your children or spouse sell the stock immediately after your death, they recognize no taxable gain—even if the profit is 10,000%!

If you don't need the spending dough, hold your best long-term stocks forever—that is, until you kick off this mortal coil.

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an US$800 million company. If my projections are accurate, then Peach will add US$18.60 per share to ELBTF's NAV within twelve months. There's no risk to us: the market is currently valuing Peach at zero.

But ELBTF's (50% held) Contop subsidiary is the real potential blockbuster. Contop has developed a revolutionary low-cost technology for converting cellular phones into wireless virtual credit cards. Contop is compatible with any digital cellular network. Using Contop, you can buy cokes from a vending machine, pump gas at a filling station, or pay a parking meter—with your cell phone. All you have to do is punch a short numeric code into your cell phone. The code is printed on the vending machine or parking meter. The charge is added to your monthly phone bill. Contop is currently being beta-tested around the world.

Since Contop is a low-cost, software-based solution for wireless e-commerce, it represents an extremely attractive proposition for cellular operators. Everybody wins: the customers, the cellular providers, the handset manufacturers. The cellular operators can maximize the value of their subscriber base by generating additional income from Contop purchases. Vendors can lower costs by reducing or eliminating the need for coin collection. The full range of Contop applications extend to every type of daily economic transaction (ordering a pizza, buying movie tickets, etc.). I believe that Contop will become the de facto world standard for wireless cellular commerce. I anticipate that ELBTF will float Contop in a NASDAQ IPO within approximately eighteen months.

ELBTF has financed the development of its high tech subsidiaries and affiliates without diluting shareholders by a single share. ELBTF has a US$30 million cash pile on its balance sheet and zero debt. My twelve-month target is US$30. The only short-term risk is the potential collapse of the US tech bubble. However, this would only represent a short-term setback to ELBTF's stock price. **I rate ELBTF as a Buy at current levels.**

James Passin is a Portfolio Manager with Firebird Management and Contributing Editor to *Taipan*. James Passin's views are strictly his own and not necessarily the views of Firebird Management or *Taipan*.