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TAIPAN

FORESIGHT COURAGE PROFITS

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Saddle up for 2006: Another blistering batch of *Taipan* winners are coming your way

Martin Denholm
Executive Editor

Happy New Year from us all here at *Taipan.* Hope you enjoyed (and survived!) the festive season. The start of a fresh year means we're primed and ready to bring you another twelve months of profitable investment recommendations.

If 2005 was any indication, 2006 bodes well for us—particularly within the robust energy sector. We're never too shy to jump in and take profits when a sector is basically begging us to do so. And 2005 was no different. As you'll see from the table on Page 2, we fared extremely well with many of our picks—and we hope you were able to take profitable advantage, too. With the energy sector still red hot, you'll see that we're starting where we left off, with the lead article from Erin Beale focusing on another thriving US oil and natural gas company.

As you scan the financial media, be it newspapers, magazines, television, or websites, you're also likely to be bombarded with a flurry of commentators and "experts" giving you their "what to expect from the market in 2006" lists. Ah, woe is me! If this annual ritual is anything like in previous years, it probably won't be worth that much to you. Sure, they look tempting, but many actually fail to muster up the courage to make any kind of forecast at all—at least not the kind of predictions that are of any monetary value to you.

Again, this is where you'll be glad you're a *Taipan* member. Besides the six new investment recommendations in this issue, you'll also soon be able to access the annual *Taipan Forecast Issue*, with a set of projections and picks that you can actually use. This will be published on our website during the first two weeks of the New Year.

So welcome to 2006. I hope you're ready for the "January Effect"—starting right now. n

Follow the insiders into this undervalued domestic oil and natural gas leader and you could grab 61% profits as the stock hits "fair price"

by Erin Beale

According to the U.S. Energy Information Administration (EIA), the world consumes oil at about the rate of 85 million barrels per day (bpd). That's a 20% jump over demand of 70 million bpd just one decade ago. Of that total, the United States sucks up 21.2 million barrels per day, while China, the world's second-largest oil customer, needs about 6.2 million bpd. And the EIA now expects US petroleum use will increase another 32% by 2025.

Think about that for a minute.

World demand for petroleum isn't slowing down anytime soon.

For example, ExxonMobil recently announced record-breaking third-quarter results of almost US$10 billion in profits on US$100 billion in sales. That was the highest amount ever reported by an oil firm. But they weren't alone. Shell reported US$9 billion in profits. BP reported over US$6.4 billion. ConocoPhillips made US$3.8 billion. Even the much smaller Hess made US$272 million, nearly US$100 million more than in the same period last year.

In an article in National Review Online, John Tamny says that "Back in 1980, in the midst of the last era of expensive oil, oil companies represented 28% of the S&P 500's value." In 1998, when oil was at US$10 a barrel, "oil companies' share of the S&P 500 fell to 7%. And today, oil companies represent 10% of the S&P's value." If you accept his numbers and use the historic peak as a guide, oil company stocks should go up 180% in order to be fully valued.

That makes sense to me. Oil prices have dropped

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around 18% from the record of US$70.85 per barrel set back on August 30 back down to “pre-hurricane premium” levels around US$59. But don’t be fooled. Demand is still there. The US economy is growing at a hearty 3.8% clip, while China is barreling along at a blistering 9.4% pace and India is expanding by 8.1%.

But with prices still high, oil market psychology is a lot like that in the housing market. Everyone knows there’s a boom there, but some investors are reluctant to own a stock in such a high-flying sector for fear that the market is already maxed out and could reverse, erasing their holdings.

The thing is, though, this is a 100-year trend. The price of oil rises and falls with the business cycle. I would argue that we are in the early stages of a new bullish cycle (post-2001 recession)—and that the emerging market expansion trend has a long way to go. I would further point out that micro trends tend to run for five years and we are in the second year of the oil boom. Clearly, the right oil and gas stocks will continue handing out safe and solid returns for you—not just for the next six months, but for the next five years and beyond. And that’s why you should add this company to your portfolio.

A domestic leader racking up reserves and beefing up the balance sheet

Chesapeake Energy (CHK:NYSE) engages in the acquisition, development, exploration, production, and marketing of oil and natural gas in the United States and boasts the title of the third largest holder of natural gas reserves behind ExxonMobil and ConocoPhillips.

It owns facilities in Texas, Oklahoma, Kansas, Arkansas, and New Mexico. And when you’re talking about extremely safe, solid gains, you’ll be hard pressed to find a better track record than this, as it’s racked up astounding 578% returns over the past three years. The company’s operations revolve around approximately 21,500 production wells and an impressive 5.9 trillion cubic feet of natural gas. A recent earnings report showed a 28% increase in year-over-year natural gas production to more than 1.3 billion cubic feet per day. As a result, sales are rising steadily and net income is piling up. In fact, quarterly revenue growth is up a whopping 71%.

So what is Chesapeake doing with its cash? One of its strategies involves acquiring and developing new gas reserves to build its empire. It recently bought rival Columbia Natural Resources for US$2.2 billion in cash and US$750 million in assumed liabilities (US$2.95 billion in total).

Insiders are loading up—you should, too

When insiders buy shares of their company, it’s one of the clearest signals that the company is heading in the right direction. After all, they know more about the inner workings and future profit potential of their company than the average Joe. And there’s nothing more satisfying than joining them in the profits.

Insiders have picked up more than 2.6 million shares of CHK stock in the past six months. The company also has a low P/E of just 16. In fact, if you take all its financials into consideration, Chesapeake should rightly trade upwards of US$50. With growing reserves, increased profitability and clear displays of insider confidence, as well as continued solid returns from the oil industry, this is one company that belongs in your portfolio to kick off 2006.

Buy Chesapeake Energy under US$32. n

COMPANY	ENTRY DATE	ENTRY PRICE	STATUS	CURRENT/ CLOSE PRICE	GAIN
SOUTH-WESTERN ENERGY (SWN)	9/30/2003	US$17.36	CLOSED 1st Half: 8/18/2004	US$34.90	101%
As Above			CLOSED 2nd Half: 5/19/2005	US$67.20	287%
SOUTHERN COMPANY (SO)	8/2/2004	US$29.20	OPEN	US$35.29	20.9%
SUNCOR ENERGY (SU)	8/31/2004	US$27.80	OPEN	US63.82	129.5%
PARALLEL PETROLEUM (PLLL)	3/29/2005	US$6.60	OPEN	US$18.35	178%
As Above	5/2/2005	US7.00	OPEN	US$18.35	162%
DAWSON GEOPHYSICAL CO. (DWSN)	5/2/2005	US$19.70	OPEN	US$31.95	62%
PATTERSON-UTI ENERGY (PTEN)	6/7/2005	US$26.94	CLOSED 1st Half: 9/29/2005	US$36.03	34%
As Above			CLOSED 2nd Half: 11/11/2005	US$30.35	13%
BG GROUP (BRG)	7/20/2005	US$39.93	OPEN	US$48.56	21.6%

Taipan’s profitable window on the energy world.

With many energy stocks enjoying an outstanding run, we at *Taipan* have taken full advantage of the trend. Here’s a look at how some of our other energy plays have performed.

New Year = new technology—and this rapidly growing innovation means you can kiss the days of traditional telecoms goodbye

by Andrew Snyder

It was typical autumn day in southern California when Karin Jordal collapsed on her living room floor. Unconscious and alone, she laid motionless for over two hours, having suffered a severe diabetic attack.

That's when this technology saved her life.

As he does several times week, Jordal's son Tore fired up his computer in the Philippines to chat with his mother via a microphone and webcam. Unfortunately, the only image Tore saw was that of his mother lying helplessly on the floor.

But with a couple of phone calls to emergency paramedics in the US, Tore immediately had assistance on the way. Within ten minutes of logging on to the Internet half a world away, Tore was watching critical help reach his sick mother and save her life.

Of the many news and investment articles I scour through every day, only a few did get my blood pumping like this one. The article convinced me that this is a rapidly growing industry about to truly take off. It's the kind of story that proves Internet voice communications are playing a vital role in many people's lives. After all, a simple, twenty-dollar webcam and a microphone saved this lady's life.

Believe me, this is no fad. This technology is here to stay.

Your Internet-based telephone is ringing

VOIP, or Voice Over Internet Protocol, is one of the most promising new communication technologies around today. Simply put, VOIP is a regular telephone service, but rather than using telephone lines, it uses a high-speed Internet connection.

Simple, but remarkably easy, effective and cheap. VOIP customers simply install an inexpensive adapter and software on their computer and within minutes, they're ready to communicate with any other phone in the world.

The most promising aspect of VOIP technology is that it is cheap to operate. Unlike traditional landline phone networks, VOIP does not require an extensive network of switches and complicated exchanges. Plus, it does not need an individual phone line for each call. Since VOIP transmissions are highly compressed, they require far less bandwidth. This is what makes the networks quite cheap to operate. Unsurprisingly, many businesses and consumers are quickly switching over to digital communications. What is surprising, however, is that unlike other groundbreaking technologies that can be quite expensive, many VOIP providers charge nominal monthly fees and allow their customers to talk with other customers on the network for free, no matter where in the world they are. Even if a person is off the network, the fees are fractions of what traditional phone companies charge.

Because of its attractive price point, VOIP is quickly gobbling up market share. Already, nearly 50% of the nation's large businesses are using the technology in some form. That figure is only set to grow. How about this statistic: The technology is enjoying a stellar 30% year-over-year growth rate in the consumer market. It won't be long before we're all using the Internet to call next door or around the world.

Technology + demand = profits

Naturally, the big boys are all over VOIP technology like a rash, ensuring that it is here to stay.

Earlier this year, eBay made headlines when it spent billions to get its hands on Skype, a very successful VOIP provider in Europe. Google is also looking to VOIP applications to increase its advertising business and is experimenting with a pay-per-call system. This is similar to its pay-per-click service, in which each time a consumer clicks on an advertisement, Google gets paid. Now, with its new pay-per-call service, Google will use VOIP technology to connect consumers with businesses when they click a link. And, you guessed it, Google will get paid for each call it makes. Because a phone-based customer is often worth a lot more to a business than somebody simply browsing its website, Google will be able to charge much more for the new service. You can bet Google will do everything in its power to make sure it squeezes all it can from VOIP and make it the "next big thing."

Start up the profit machine

There's one company poised to reap enormous benefits from the VOIP revolution—and that company is **8x8 Inc. (EGHT:NASDAQ)**.

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Through its proprietary technology and strong product line, 8x8 is an industry leader. It already owns 49 patents.

For example, the company's Packet8 product offers some of the most reliable service in the industry at a great price. Not only do customers get great broadband telephone service, they also get videophone, caller ID, voicemail, call waiting, and over a dozen other services that traditional phone companies charge extra for.

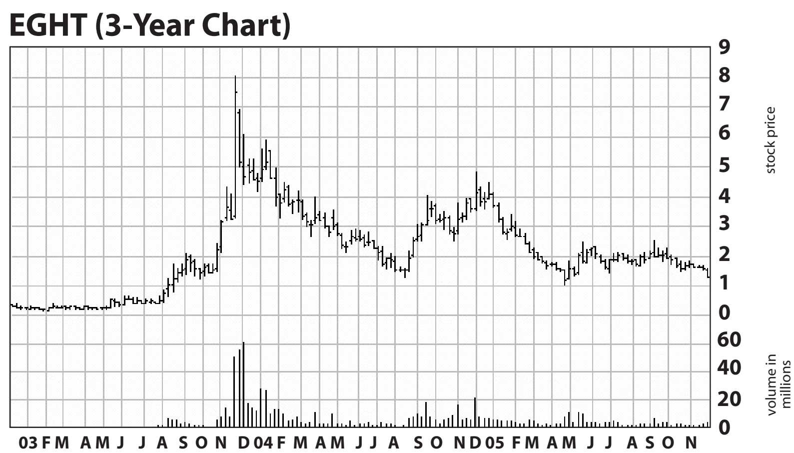
It also stole a march on its competitors thanks to the Federal Communications Commission, which recently turned the industry on its head by forcing VOIP providers to give 911 access to all customers. Sounds like a simple task, but the deadline for supplying that emergency access has now passed—and many providers have failed to add it to their systems. That means they can't add new customers until they guarantee access.

But 8x8 wasn't so sluggish. Its Packet8 subscribers were among the first in the nation to be guaranteed service. It's this kind of dedication to service and savings that sets 8x8 apart from the crowd and makes it an attractive company.

Fortunately for you, it's that kind of success that is also attracting suitors. 8x8 is still a very small company. What makes it such a great investment opportunity is that with an established foundation in the industry, there's a high probability that a larger firm will step in and acquire 8x8. After all, it owns technology that many larger, VOIP-hungry companies would love to get their hands on. As these companies fight it out, early investors will be the big winners.

The stock is looking solid following a deal in mid December to help BellSouth roll out VOIP service. And if my projections are right, VOIP phones will also be in one third of all US households by the end of 2006. 8x8 is in pole position to grab a large chunk of the market share.

Buy 8x8 Inc. (EGHT:NASDAQ) under US$2.50. n



DECONSTRUCTING THE NEW FED: DOLLAR WEALTH

What the new Fed leadership means for the market in 2006… and how you can profit from it

by Martin Denholm

In the halls of the Federal Reserve in Washington, DC, this New Year brings something the place hasn't seen since 1987—a brand new chairman. Not since August of that year has anyone other than Alan Greenspan occupied the role. But in just a matter of days, Ben Bernanke, current chairman of the White House Council of Economic Advisors, will slide into Greenspan's well-grooved chair.

And Ben's already busy perfecting his best Alan Greenspan impression in trying to ease inflationary concerns. In a recent interview, he said, "Inflation pressures are likely to remain confined to the energy sector, and fiscal and monetary policy is accommodative."

Does that mean he sees an end to the current interest rate hiking trend? Some expect Bernanke to be more dovish than Greenspan with monetary policy and choose to err on the side of growth by raising interest rates more slowly. Remember, Bernanke is the guy whose infamous speech back in November 2002 warned on the perils of deflation by saying that the US has a machine called a printing press and that the Fed could simply print more money to combat it. It's unclear just how serious he was, but it would certainly have given the dollar a good beating.

The fact that he mentioned it in his speech anyway says something for his persona. Here's a guy not afraid to ruffle a few feathers.

So even before Bernanke takes the hot seat, the hawks have set about pressuring the Fed's new quarterback by reminding people of his opinion that the Fed could print money at the slightest hint of a downturn. This was not put out there to reassure the doves, but rather to restrict Bernanke's choices during his first 6 to18 months.

Plenty of folks are quick to note that in his entire time as a Fed governor, Bernanke's monetary policy votes never once differed from Greenspan's. And ever since Bush shuffled Bernanke in as head of the White House Council of Economic Advisors, the cynics have been out in force, asking whether it was just a ploy for Bush to mold the Fed chairman-elect to his way of thinking and whether Bernanke can truly act independently of the White House.

Market mellow… but an inflation target to come?

The stock market absorbed Bernanke's appointment pretty comfortably. But in time it may have to deal with an official inflation target—something the new chairman is said to favor.

Good idea? On the one hand, it's something the Bank of England does and it helps to provide direction and stability to the market. It would sure beat the flap over inflation we have at the moment. It's often difficult to cut through "Fed-speak" anyway, so this move would at least provide some clarity.

One the other, it could restrict the Fed's ability to manage the economy. As Greenspan has long demonstrated with his focus on risk management, it's not the swings in the business cycle that need to be managed, but unforeseen events like a stock market meltdown or a bout of deflation that pose the biggest threat to "sustainable growth."

I believe a formal inflation target is only a matter of time. But in the short term, expect a pause in rate increases, but with the more direct Bernanke being far more specific than Greenspan.

The three "I's" that could spell danger for the US dollar: Inflation… Iraq… Influenza

There are many folks who don't care for Bernanke. They believe his "printing press" comment was reckless—the words of a man who doesn't understand the currency markets well enough. They think he should care more about America's biggest-ever trade deficit and accept that it's a massive problem. They wonder what effect a Bernanke-led Fed will have on the US dollar.

The currency enjoyed a reversal of fortune in 2005, regaining some of its strength after two years of a widespread selloff. Just one year ago, the "dollar dump" was all over the front pages of the financial media. The greenback enters 2006 with solid economic growth, but bogged down by several other negative factors.

Inflation remains the biggest threat to growth and to the health of the dollar—particularly from the fact that heating bills for many Americans are significantly higher this winter.

Serious external shocks also remain a threat. American casualties continue to mount in Iraq, with the situation looking no nearer a resolution than it did two years ago. Even word that the US government could pull out 20,000 troops this month and another 20,000 in July, leading to an all-out withdrawal of the 160,000 remaining soldiers, is only likely to give the dollar a temporary "dead cat" boost. And terrorist attacks on US soil remain a clear and present danger.

But a bigger threat is looming—that of a flu pandemic. At the end of November, Chinese labs reported that the H5N1 bird flu virus seen in infected humans in China had mutated and was different from the strain found in humans in Vietnam. So for this month's issue, I asked *Taipan's* resident biotech expert and master of small-cap blockbuster stocks, Brad Colburn, to dig up a company that take profitable advantage of the threat with its successful flu drug. You'll find it on Page 7.

And while you're profiting from that, I've got a way for you to profit from the dollar's correction.

I've got much more to say about Bernanke, the Fed and the dollar, but far too much to fit in these twelve pages. You can find the rest of my analysis in the upcoming *2006 Taipan Forecast Issue.*

For now, though, I leave you with the words of Albert Cheng of the World Gold Council: "People are looking for an alternative investment to products such as US dollar-based bonds."

Rather than buy an asset like gold for a pricey US$500 per ounce or try to dig through the market for a winning gold stock (always a tricky task), there's an easier and more cost-effective way to profit from the trend.

As a hedge play against the fall of the US dollar, invest in long-term put options on the **iShares Lehman Brothers Treasury Bond Index (TLT)**. This is an exchange-traded fund that tracks the performance of 20-year US Treasury bonds.

Take a look at the three-year chart and you'll see that over that time the TLT index has risen to start the year, but quickly endure, a sizeable drop back down to its original level and lower by the spring and summer.

So how much lower could TLT go? The last time it hit the 83 level was August 2004 after a big drop in the spring, and I believe that with the factors mentioned, coupled with gold's impressive run, the TLT could test that mark again by spring/summer of 2006. With that, here are two recommendations:

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- ***Conservative "In-the-Money" Play:*** **Buy the TLT June 90 Puts (TLT RL) under US$3.50. The current bid/ask spread is US$2.95 to US$3.20. If the TLT moves from 89.37 down to 83.00, these puts could increase to around US$6.20—good for a 77% gain. As a measure of protection, place a stop loss at US$1.50.**
- ***Speculative "Out-of-the-Money" Play:*** **Buy the TLT June 86 Puts (TLT RH) under US$1.50. The current bid/ask spread is US$1.35 to US$1.45. With that same move, these could increase from US$1.30 to US$3.10—good for a 138% gain.** n

COMMODITIES WEALTH

Make sure your portfolio is protected against risk in 2006: Add this solid gold investment today as the metal prepares to run to US$547 an ounce by April

by Sara Nunnally

You've probably heard the theory many times before. It's a very popular one and there are many reports and statistics to support it. Gold is one of the best hedges against downside for the US dollar. And while Martin gives you a chance to capitalize on a dollar correction in his article, I've got a way for you to make a quick profit from gold and hedge your portfolio against risk this New Year.

I've read several gold reports over the past few months, but one really sets the bar high and does an excellent job of supporting its theory with mountains of statistical data and scientific research. It's *"Gold as a Hedge Against the US Dollar"* by Forrest Capie, Terence C. Mills and Geoffrey Wood (available at www.gold.org). It also supports my own theory that gold could go to US$547 by April.

Let me explain why hedging with gold is important.

For every "standard" fluctuation in exchange rates (and the authors of the report go to great lengths to determine what "standard" is), there is an

approximate US$1.00 change in the dollar price of gold. Translation: "If the dollar appreciates, the dollar gold price falls and vice versa." Put another way, "A fall in the dollar relative to the other currency provokes a rise in the gold price and vice versa." Conclusion? Gold acts as a robust hedge against fluctuations in the dollar.

With all of today's external worries pressuring the market in addition to regular economic forces, it's not surprising that demand for gold soared 56% during the third quarter of 2005, according to the World Gold Council.

But here's the eye-popping statistic that makes your opportunity here: investments in gold ETF's (Exchange Traded Funds) have also shot up over the past five years, most notably with a 589% increase over the past year.

Three letters, big profit opportunity

An investment in a gold ETF gives you an inexpensive, secure way to access the gold market and all its protection without actually going to the considerable expense of buying the gold itself.

So my pick is **streetTRACKS Gold Shares (GLD:NYSE)**. It's very liquid, with an average volume of over two million a day. Through the Bank of New York, GLD holds 400-oz. bars of gold to back up its shares of the trust. Each share in GLD is worth one tenth of an ounce of gold, which is why shares are affordable.

Buy shares of streetTRACKS Gold Shares (GLD:NYSE) at or below US$52.40. n

SEASONAL PROFIT OPPORTUNITY

Blocking out every virus… and beefing up any savvy investor's portfolio during winter

by William Colburn

Imagine if your portfolio contained a company whose flu spray blocked virtually all viruses in a recent test.

As recently as December 1, that was the case for this small but fast-growing biotech firm, thanks to its drug QR-441. Deemed to be one of the most effective treatments thus far in the fight to prevent a flu pandemic, scientists sprayed QR-441 on some commercially available respiratory facemasks. They then used the H3N2 human flu virus and the H5N1 bird flu virus to test the drug's ability to fight and kill disease.

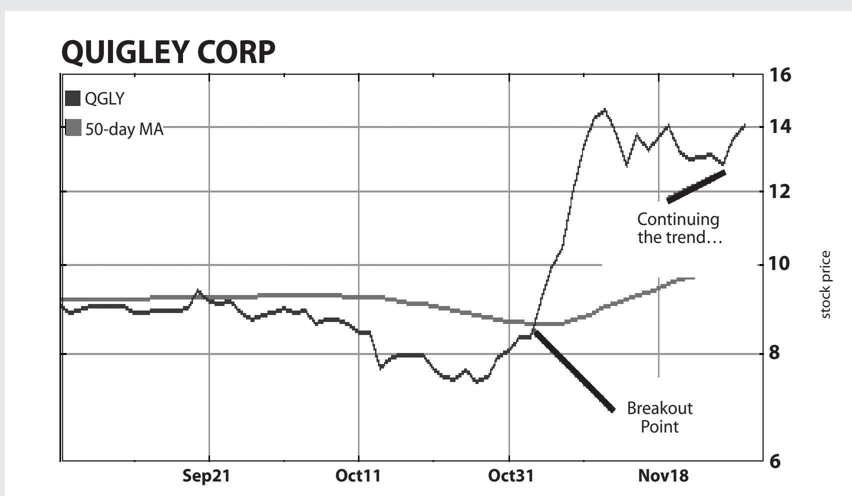
Masks not sprayed with QR-441 were 90% affective in blocking the viruses. QR-441-treated masks were 98% effective.

Take a look at the chart showing the past few months of activity for **Quigley Corp (QGLY:NASDAQ)** and you can see that, in true breakaway fashion, the stock took a massive leap above its 50-day moving average on bird flu fears and the FDA granting permission for the company to test its flu drug on seven species of animal.

And once those positive test results were announced, the stock continued the hot trend, jumping over US$2 on December 1 and hitting a brand new 52-week high of US$16.94. That same day saw news break about a domestic case of bird flu, with a quail farmin California reporting that some of its birds have a strain of the flu.

So should you start worrying about an outbreak? No. Not yet, anyway. But even if the worst happens and bird flu reaches epidemic or pandemic proportions, at least you'll be prepared to take profits from a company that comes at just the right time.

Buy Quigley Corp (QGLY:NASDAQ) under US$15. n



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The cream of 2005: *Taipan's* "House Hedge" shows how to make money from a rising and falling market… at the same time!

by Bryan Bottarelli

On June 10, 2005, Federal Reserve Chairman Alan Greenspan warned that some local housing markets across the United States were showing "signs of froth" that could cause home prices to plummet.

This was right around the time that many Americans were asking the question, "Will the housing bubble ever burst? And if so, how bad will it be?"

These questions are still being asked. But they're all missing the point! All we at *Taipan* are concerned about is how to turn a profit, no matter whether the real-estate market goes up or down. That question was the driving force behind the very successful "House Hedge" series. We sometimes called this the "Home Equity Protection Program" and the strategy is just about as close as you can get to buying insurance against a sudden decline in your home equity. After all, there is no insurer (that we know of) that allows you to protect yourself against potential loss of value when the much-vaunted real-estate bubble finally goes "pop!" Our play allows you to turn the US housing market into cold, hard cash for yourself—no matter if real estate goes up or down. A rare occasion in which you get to have your cake and eat it too!

Using an in-depth chart analysis of interest rates over the next three years, we predicted that the US housing market would begin its downturn between July 22 and September 27. Were we right? Yes! Those who entered our original House Hedge play back on June 27 made US$4,500 to US$7,800 in two weeks!

Just a few weeks later, the November 16 real-estate edition of the Wall Street Journal Online reported that "The pace of U.S. home sales is showing further signs of slowing, amid a widening gap between sellers' asking prices and the amount skittish buyers are prepared to offer."

In today's environment of rising mortgage rates and higher energy costs, buyers are looking for bargains while optimistic sellers have slapped unrealistically high asking prices on their homes. According to the Journal, "That leads to a standoff, causing the number of sales to drop—a classic ending to a period of unusually rapid house price increases."

Given this situation, it's no wonder that the inventory-to-sales ratio for new homes increased to 4.7 months — *the highest level since 2000*.

On November 17, the Commerce Department reported that new construction of US homes fell 5.6% in October. That's the fewest since March. Starts of single-family homes fell 3.7% and starts of multifamily homes sank 14.8%. Plus, building permits dropped 6.7% to 2.071 million (building permits typically foreshadow future building activity).

And just to be sure, the National Association of Home Builders said that their proprietary market sentiment gauge plunged to its lowest level in 30 months in November.

There's no doubt in my mind that this is all leading to a slowdown. So don't let any real-estate agent tell you this is a "healthy" market. Yes, by historical standards, home sales remain strong. But the market has climbed too far, too fast. And there's more downside action to come in early 2006, because when stocks move out of their boom cycles, you'll see rapid price declines. This is exactly the case with homebuilder

HGX (1-Year Chart)

stocks right now.

Not only that, but the trickle-down effect could have a rather large affect on the economy. After all, housing has become a vital barometer for the financial, retail, and homebuilding industries—and there hasn't been a sustained drop in housing prices in any major part of the US in over a decade. In fact, the US$2 trillion housing market accounts for about one third of households' net worth. When Wall Street really begins to punish stocks in the housing sector, you'll be glad you own puts on the Philadelphia Housing Index (HGX).

Here's a review of the "House Hedge" position so far:

House Hedge Play Review:

August 555 Calls (HGX HK)
IN: June 27: $5.60
OUT: July 8: $12.50
GAIN: 123%

September 590 Calls (HGX IR)
IN: July 18: $9.40
EXPIRED

December 520 Puts (HGX XD)
IN: June 27: $27.30
OUT: October 5: $32.00
GAIN: 17%

December 600 Calls (GHE LT)
IN: October 3: $5.70
OUT: October 11: $1.10

**This sell alert was for conservative investors, along with taking gains on the March 540 Puts. We advised more adventurous folks to only sell half of this position and hold the rest.

March 540 Puts (HGX OH)
IN: October 3: $34.40
OUT HALF: October 11: $63.60
GAIN: 85%
HOLDING HALF: Currently $30.00
FORECASTED SELL PRICE: $81.00
ADVICE: Hold remaining half, and continue to accumulate this position on dips under US$40, as per the original buy recommendation back on October 3, 2005.

TAIPAN GAINS & UPDATES

A trio on hold... tasty profits from chicken wings... and a 126% gain for *Taipan* investors

by Martin Denholm

In addition to his piece on the House Hedge play, Bryan Bottarelli also took the opportunity to update me on several of his other positions in the *Taipan* portfolio. I'll let Bryan fill you in:

Three to hold

Among my current recommendations, three positions remain holds. The first two are the long-standing S&P Spider positions I recommended right before the market officially bottomed out in October of 2003. As you can see from the buy date, although I was about one month off, each position is nevertheless showing solid gains, so I'll keep the plays open.

- **SPDR Trust (SPY)**
  Entry Date/Price: 9/3/2003 for US$104
  Current Price: US$127.45
  Current Gain: 22.5%

- **SPDR Trust (SPY)**
  Play Re-Recommended: 9/29/2003 for US$102
  Current Price: US$127.45
  Current Gain: 25%

Hot wings... primed to sizzle to top spot

Another hold that's waiting to take off is **Buffalo Wild Wings Inc. (BWLD:NASDAQ)**. Originally recommended on November 1, 2004, for US$28.99, the stock currently trades for US$32.43, giving us a 12% gain on the position.

The theory behind the play was a changing of the guard in the sports-bar sector, as the company grabs market share from industry-leading Hooters. Rather than pay inflated prices to be served dry chicken wings by past-their-prime waitresses, I theorized that the family-friendly concept behind BWLD could soon add heat to shareholders' portfolios. And I still believe it.

The stock was up in most of 2005, hitting a high of US$34.84 on July 22. But then a supply shortage in chicken wings caused a price increase, which hurt shares for a short while. But with BWLD increasing storefronts fourfold, it's set to overtake Hooters as the number-one sports and wing restaurant in America.

Stop-outs and sellouts

Playing off a drastic shortage of wood in the aftermath of several deadly hurricanes in Florida, I recommended **Trex (TWP:NYSE)** back on October 1, 2004, for US$45.22. Unfortunately, the wood shortage led to raw materials prices increasing on Trex's special synthetics,

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which hurt near-term sales and lowered stock valuations. You should no longer have Trex in your portfolio, as it's hit our stop loss.

Another play stopped out is **Manpower (MAN:NYSE).** MAN dropped from our entry price of US$49.63 on November 29, 2004, to US$38.90 on May 10, 2005, thanks to lowered earnings guidance. This was unfortunate, as the stock has now fully recovered its losses.

Shiny 26% gains from Metals USA

Now for some profits. When Erin Beale recommended **Metals USA (MUSA:NASDAQ)** to *Taipan* readers on November 11, 2004 (for the November 2004 newsletter), it was with the idea that it was a fundamentally attractive company positioned in a booming commodities sector.

But she wasn't the only one who found Metals USA attractive.

On November 30, Apollo Management completed its acquisition of the company. Under the terms of the merger agreement, MUSA stockholders are entitled to receive US$22 per share in cash, without interest.

Having entered MUSA at US$17.45, we have now closed this position, with that buyout price of US$22 per share also being the exit price. That's a 26% gain.

Anteon hits all-time high on buyout—and gives Taipan *investors a massive 126% gain*

If you're a longtime *Taipan* subscriber, you may remember Beirne White, who served as our "Special Projects Editor" back in 2003.

In the May issue of that year, just two months after the US began dropping bombs on Baghdad, Beirne issued a recommendation on **Anteon Corp (ANT:NYSE)**—what Beirne called a "state-of-the-art company supplying information technology and advanced engineering services to government clients. IT and systems engineering are its core businesses. It designs, integrates, maintains and upgrades cutting-edge systems for national defense, intelligence, emergency response and other high-priority government missions."

With an official entry price of US$24 on May 25, 2003, Anteon soared all the way to an all-time high of US$54.26 on December 14— a massive 126% gain.

You can see why Anteon has performed so well over that time. A whopping 75% of its contracts are with the Department of Defense and the intelligence agencies. In addition, Anteon supplies all of the military services, nearly all of the cabinet-level agencies, and numerous other civilian and defense agencies within the government.

This is impressive, considering it's constantly battling its bigger rivals such as Northrop Grumman and Lockheed Martin. It competes in a market worth US$100 billion and is growing rapidly. In the years before 9/11, the industry grew at a reasonable 7% to 8% per year. But after the terrorists struck, that market growth swelled closer to 11%. And with the antiterrorism fight continuing with a vengeance, it's definitely the kind of growth that's sustainable.

The company is currently providing detection, prevention and management for port and border control agencies with applications like underwater surveillance systems, smart cards and wireless sensors. Naturally, this involves close work with the US Coast Guard, Air Force, Army, Navy (Anteon provides engineering, technical, and administrative services for the Aegis combat system in Navy cruisers and destroyers), Marines and Special Forces. Over 50 countries are connected by Anteon's Combined Enterprise Information Exchange System (CENTRIX).

Over its 26-year corporate history, Anteon has enjoyed robust growth, as well as growing its customer base solidly and winning a slew of top awards. It's also consistently highly ranked by the top contractors in the information technology and engineering services sectors and has received many industry plaudits for excellent performance.

Others have noticed the company's success. The stock's record high on December 14 came after General Dynamics agreed to acquire Anteon for US$55 per share in cash (a total of US$2.2 billion). That was a 36% premium over its closing price on December 13. Under the terms of the deal, General Dynamics will also assume Anteon's US$100 million debt. The buyout is set to be finalized by the end of Q2 2006.

Beirne was spot on when he said back in May 2003 that it was the time to buy Anteon. With those 126% gains in the bag already and the buyout news to boot, we don't see Anteon slowing down in the current climate. n

CORE PORTFOLIO

With 51% gains bagged, this Canadian company is leading the fight against diabetes with the launch of a ground-breaking drug in Latin America

by Martin Denholm

Back in September 2005, my colleague William Colburn brought you an outstanding opportunity to take advantage of a company tackling one of the most pressing medical needs in the world.

Imagine if you had a disease that makes one of your body's critical hor-mones unable to effectively control the levels of blood sugar. For 360 million people across the world (6% of the global population), this is a reality—in the form of diabetes.

Until this tiny Canadian biotech company devised a groundbreaking new way to treat the disease, those folks were forced to use one of a couple of hassle-laden and cumbersome treatments, including frequent injections and a computerized pump attached to the body that controls the supply of insulin.

But **Generex Biotechnology (GNBT:NASDAQ)** has come up with a way for diabetics to administer their insulin via a simple inhaler spray. While this sounds simple, the company spent the best part of a decade perfecting this treatment—and is now reaping the rewards.

It's called Oral-Lyn and uses proprietary technology called RapidMist. In his original article, William mentioned that Generex was set to launch the drug to the Latin American market in late 2005. The fellow was right. Just after Thanksgiving, Generex and its South American partner, Ecuador's PharmaBrand, agreed to begin commercial sales of Oral-Lyn to diabetics in Ecuador first and then to the broader Latin American market.

This is a key development, since the International Diabetes Federation says there are almost 3.5 million patients with diabetes in the Andean region, with total annual costs associated with diabetes projected to be US$65.2 billion. Oral-Lyn sales there are expected to hit US$300 million per year.

Entering the bird flu battle

Generex isn't stopping there either. Earlier in this issue, William mentioned that Quigley is making big strides in its bird flu drug. Now it looks like Generex could give it some healthy competition after announcing a plan to develop its bird flu vaccine in China with the Shanghai Institutes for Biological Sciences, Harbin Veterinary Research Institute and Sinovac Biotech.

We believe that this timely venture, bodes very well for the company and expect more returns in due course. We're consequently adding the stock to our Core Portfolio.

After William recommended GNBT to you in the September newsletter, with an official entry price of US$0.59 on September 1, the stock raced to a 52-week high of US$1.51 on October 27. It's since moved back to US$0.89—a gain of 51%.

New high for the small caps

Seen the performance of *Taipan Core Portfolio* member **iShares Russell 2000 Growth Index (IWO)** recently? You'll see that the small-cap index hit a 52-week high of US$72 on December 6—a very strong sign going into 2006.

If you're looking for a safe way to own shares in an index containing the fastest-growing companies in the world, there's no better play than to buy IWO. n

TAIPAN

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CORE PORTFOLIO

INVESTMENT RECOMMENDATION	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
AMERICA FIRST APARTMENT INVESTORS (APRO)	10/1/04	$11.58	$14.29	23.4%	$1 PER SHARE/7%	BUY BETWEEN $11.50 AND $12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	$11.78	$10.87	-7.5%	$1.12 PER SHARE/10.1%	BUY UNDER $12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	$29.20	$35.23	20.6%	$1.49 PER SHARE/4.2%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	$27.80	$64.86	133.3%	$0.21 PER SHARE/0.3%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	$19.70	$30.49	54.7%	—	BUY UNDER $20
TECHNOLOGY PLAYS						
iVILLAGE (IVIL)	10/4/05	$7.48	$8.41	12.4%	—	BUY UNDER $7.50
SYMANTEC (SYMC)	5/3/05	$18.91	$17.38	-8%	—	BUY UNDER $20
HEALTHCARE & OTHER PLAYS						
GENEREX BIOTECHNOLOGY (GNBT)	9/1/05	$0.59	$0.89	51%	—	BUY UNDER $1
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	$75.00	$68.44	-8.7%	—	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	$68.85	$70.93	3%	—	BUY UNDER $67
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	$15.45	$21.15	36.9%	$3.05 PER SHARE/14.1%	BUY UNDER $17
TELEFONOS de MEXICO (TMX)	9/1/05	$19.25	$23.97	24.5%	US$0.70 PER SHARE/2.9%	BUY UNDER $22