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The truth behind market "bubbles," stop losses and profits

And a chance to pick up gains of 126% on a stock that's hitting a record high...

I've been reading an interesting book lately... one that managed to make it onto several bestseller lists, including that of the New York Times. But while I find this book interesting, I also find it wrong in many of its assumptions. In a few minutes I'll explain what I mean. But first I want to share with you a stock of great performance.



J. Christoph Amberger

Remember **Given Imaging (GIVN:NASDAQ)**? Back in December of 2002, *Taipan* editorial board member and *Value Edge* editor Brad Colburn introduced you to a small Israeli company specializing in "capsule endoscopy." While this may just be a fancy way of saying "camera in a horse pill," there sure is nothing pretentious about the stock's performance in 2003:

When Brad made his recommendation, GIVN had only been around for a little over a year. The stock was trading at US\$9.55. As I write, just barely over a year later, GIVN has hit US\$21.59. That's not just a new 52-week high... it's an all-time high!

Brad says:

"You can thank a revenue increase and a firm upgrade for the 126% gains you're sitting on. Sales of GIVN's pill-cam grew 38.9% to US\$12.5 million in the fourth quarter of 2003. Total revenue increased 40.1% to US\$40.5 million. The results will be made official at the company's conference call in February. On the heels of the revenue leak, GIVN was upgraded. The upgrade sent volume jumping to top GIVN's daily average of 135,636. Hold on for more."

Brad thinks there's more to come. So if you haven't taken him up on this recommendation, here's your chance to do so now.

Of course, Brad's current pick is only one of many profitable recommendations the *Taipan* Team has made over the past year. Our portfolio of stocks produced average gains of more than 83% for readers in 2003. And that happened regardless of market conditions. By following our Dynamic Market Theory, you can make money in any market. Up, down, or flatline. To the surprise and dismay of the doom-and-gloom bears, our DMT theory

over, please...

email: editor@taipanonline.com

proves that “bubbles” don’t really matter.

When is a bubble really a bubble?

The other day, a radio talk show host asked me if I could comment on what he called the US real-estate bubble. My reply was cautious... even Clintonian, if you will:

“Depends on what your definition of ‘bubble’ is.”

You see, these days I have noticed that many of my colleagues have come to label almost every asset that rises in value a “bubble.”

If you follow our dyspeptic friends from the perma-bear encampment, only rising gold prices and the sky-high exchange rate of the euro appear to be non-bubbles.

Everything else, from China to tech stocks to the equity in your suburban four-bedroom colonial, apparently qualifies.

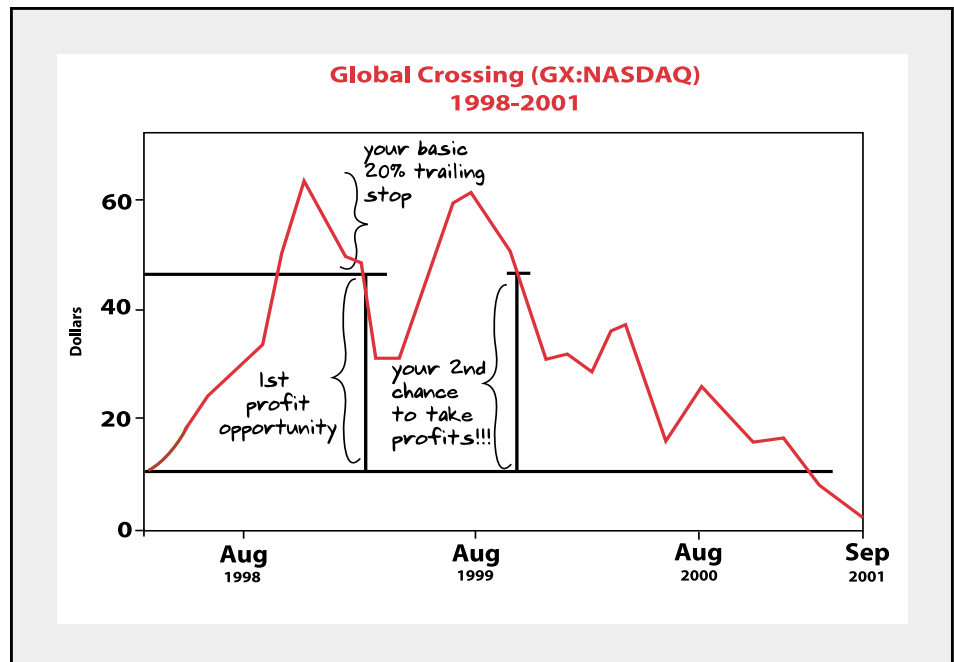
(Oddly enough, that rather lax and inclusive definition excludes gold from the list... implying that gold’s inflated all-time high in the late 1980’s really represented its fair valuation—even though the price charts of gold and rare coins bear a stunning resemblance to those of the Nikkei 225 from 1985 onward. More on that later!)

Matters of perspective

To be quite honest, we at the Taipan Group really don’t care all that much about bubbles. Because in the seventeen years we have been monitoring and uncovering profit opportunities in the world’s equity, bond, and real-estate markets, we have made one quintessential discovery: You can make lots of money on “irrational exuberance.” And you can also make lots of money in markets that go sideways or even down.

In their recent book, “Financial Reckoning Day: Surviving the Soft Depression of the 21st Century” (John Wiley & Sons, 2003), my boss

Bill Bonner and Addison Wiggin examine the hubris and market frenzy surrounding now-bankrupt Global Crossing (GX:NASDAQ) and arrive at a seemingly obvious conclusion:



“If you bought Global Crossing in 1998,’ a cynic might have retorted, ‘you would have lost 98% of your money.’”

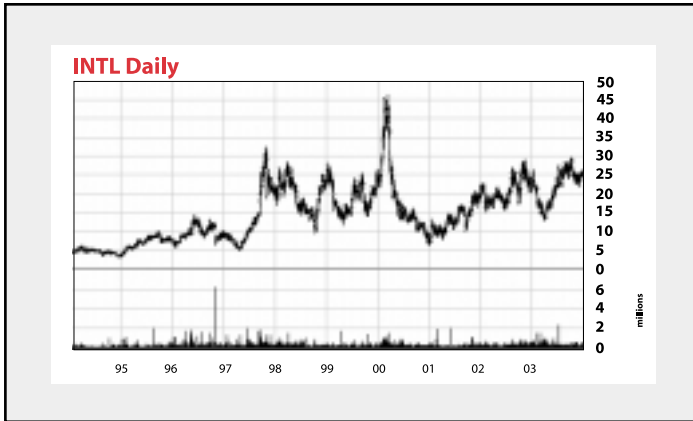
We beg to differ. Global Crossing is, of course, not a clear-cut example of a bubble stock... given that its demise was the result of blatant large-scale fraud rather than the collapse of the Internet Bubble.

I have included the graph from Bill and Addison’s book above... with my annotations. Here’s the gist of them: Yes, had you bought GX in August of 1998 or at either of its US\$60-plus highs, put it in Al Gore’s proverbial lockbox, and watched it lose all value in the maelstrom of bad press, you could have have lost 98%.

But had you applied a simple risk-management strategy—such as the 20% trailing stop we at *Taipan* recommend you observe on all your positions—you would have had not one but two opportunities to walk away with triple-digit profits intact. It took well into 2001 for the stock to reach its 1998 breakeven point. Those who still held on when it was de-listed were either in a Rip

Van Winkle-like trance... or were day traders looking to squeeze double-digit profits from even the most minute price fluctuations.

Let's just take a look at Intel (INTL:NASDAQ), another of the "poster boys" for big, bad bubble stocks:



Here, too, we see a "bubble" followed by a dramatic collapse in the stock price. Here, too, a valid if academic argument could be made that investors who bought INTL at its peak of US\$45 lost US\$35 a share when the stock plunged into the single digits in the aftermath of 9/11.

But here, too, the Financial Reckoning Day argument really only applies to those who bought at the top and sold at the bottom. A basic stop-loss provision would have limited the losses of even the tardiest of the Internet boom's Johnnies-come-lately to US\$9 and change per share. With a few well-placed puts as strategic insurance, this loss could have been turned into a profit... while the dynamic ups and downs of the stock price provided ample opportunity to make short and long gains on each movement.

Heck, even those investors who bought at the top and then dollar-cost averaged over the next couple of years could have doubled and tripled their money on the portion invested after 9/11.

Most of this is, of course, hindsight. But so, my friend, are bubbles, if you consider it carefully! If anything, Intel's chart bears a striking resemblance to that of the CU3000 index of rare US gold coins (see the chart below).

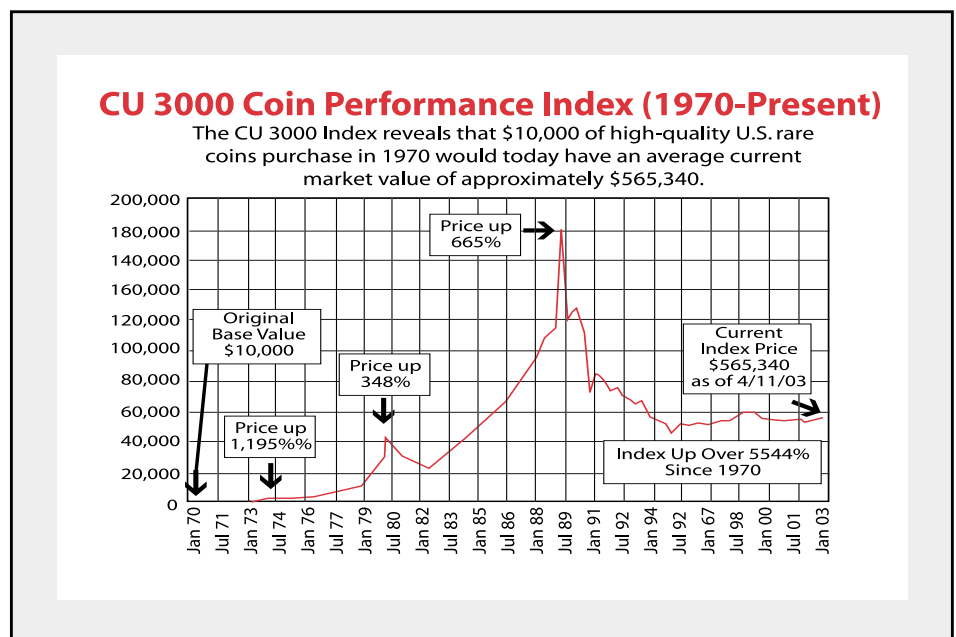
If Intel stock was a quintessential bubble asset, we'd have to argue that at one point gold coins were, too. Which really only goes to prove one thing: There is no such thing as a "safe" investment. Every asset class carries risk and opportunity, downside as well as upside potential... both of which can be leveraged to your benefit by adopting the sweeping perspective of Dynamic Market Theory.

(In this issue, Adam Lass has harnessed the analytical tools of *WaveStrength Analysis* to provide you with a view of what might happen with the S&P... and how you could profit from this advance knowledge!)

The way we look at dynamic opportunities

The Intel example illustrates the way we at *Taipan* look not only at individual stocks, but at global financial markets in general.

Still, if you'd like to jump on the bandwagon and consider everything that produces gains a



over, please...

financial bubble, let me introduce you to *Taipan's* preliminary 2003 "Bubble Portfolio."

Over the past weeks, our editors have reviewed each recommendation they made or carried over into 2003 within the august pages of *Taipan* and in the *247profits e-Dispatch*. We're still auditing the results, but here are the raw numbers:

2003 Track Record for <i>Taipan</i> and <i>247profits e-Dispatch</i> picks	
Editor	Avg Gains
WaveStrength	218.29%
Christian DeHaemer	110.44%
Siu-Yee Ng	106.17%
Brad Colburn	100.29%
Brian Hicks	72.41%
Brit Ryle	63.43%
Erin Beale	56.00%
Martin Denholm	13.03%
Ian Cooper	8.03%
Overall Average Gains	83.12%

Overall average gains generated by the *Taipan* Brain Trust for our subscribers (both in the monthly issues and in special updates on the *Taipan* website) were 83.12%. (An audited breakdown of the individual recommendations has been posted on www.taipanonline.com.)

By now, you have come to know us as paragons of virtue and modesty. Bt let me spell it out: If that's a bubble, my friend, bring on irrational exuberance!

Let me also assure you that we're not about to rest on our laurels. We're committed to making 2004 the best investing year you've ever experienced. For starters, read what our *Taipan* editorial board has served up for you in the following pages.

But make sure you follow up on our monthly bulletin by visiting our webpage at

Nuts and bolts

At *Taipan*, we like to take advantage of opportunities as they arise. Markets can turn against you at the drop of a hat. That's why every February in this column, I recommend that you closely observe a -20% trailing stop on all your *Taipan* positions.

To *Taipan* readers of long standing, this advice is nothing new or special... in fact, it's part of our overall Dynamic Market Theory strategy.

Our track record relies on a number of assumptions... which means our tally in all probability will not exactly reflect what your personal brokerage account did last year. To arrive at a meaningful workup of the numbers and "average gains," we have to make certain assumptions. Such as that the hypothetical *Taipan* member invested an equal amount of money in each and every stock recommended. And that each and every *Taipan* member was able to buy the stock at exactly the publication date level... and observe trailing stops at exactly the same moment. All of this we know is impossible in real life. So, while we are immensely proud of last year's results, we're taking our workup with a grain of salt.

These are the criteria we apply to our track record:

1. Buy and sell dates: Unless marked otherwise, buy and sell dates are determined by the publication date. Due to variations in mail delivery, the publication date is assumed to be the date the issue is made accessible to *Taipan* members on our web site. (Statistically, this coincides with the date that 75% of US *Taipan* members receive their issues in the mail.)

2. Prices and dividends: Unless stated otherwise, gains and losses reported in the individual portfolios apply to the calendar year between January 1 and December 31, 2003.

Our track record provides us (and our marketers!) with a convenient handle for measuring the degree of success our editors achieve. In a way, however, it is contrary to our philosophy. *Taipan* considers itself a smorgasbord of profitable investment ideas for independent individuals... not a static fund to park your money in. It is your individual commitment to taking charge of your investments that makes the difference between losing money and turning a profit. ■

www.taipanonline.com, where we will be posting new profitable opportunities every Monday morning. (Don't worry, you can sign up for a special *Taipan* Members-Only email that reminds you whenever buy and sell alerts are issued, or whenever we post fresh special reports on that page.) ■

A lost bet and a winning proposition

The S&P 500 is on track to match 2003's gains, possibly as soon as June 2004



Adam Lass

I have just lost a bet, and to be honest, I'm really rather pleased. And if you are holding American stocks, you should be too.

As long-term readers well know, I have been quite suspicious of the rally of the past 11 months. You could think of my problem as an overdose of knowledge: I've read too much on the risks the White House

and the Fed have taken to extract the market from its post-bubble, post-9/11 doldrums. I know that, historically, it has been far easier to debase a strong currency than to rescue a debased one.

My suspicions are born of both historical reading and personal experience: I suppose the indignity of having to bribe the local gas station manager in 1972 just to get a job wiping windshields on Saturday mornings has left an indelible mark on my soul. It certainly left me with a strong distaste for attempting to outrace double-digit inflation—and I still shudder at the sight of a "WIN" button.

So when a fellow I know in the business offered to bet me that Bush and Greenspan's policies would successfully put the American stock market into double-digit gains in 2003, I gladly took him up. This was, to my mind, a sucker bet: surely American investors would see the risks involved?

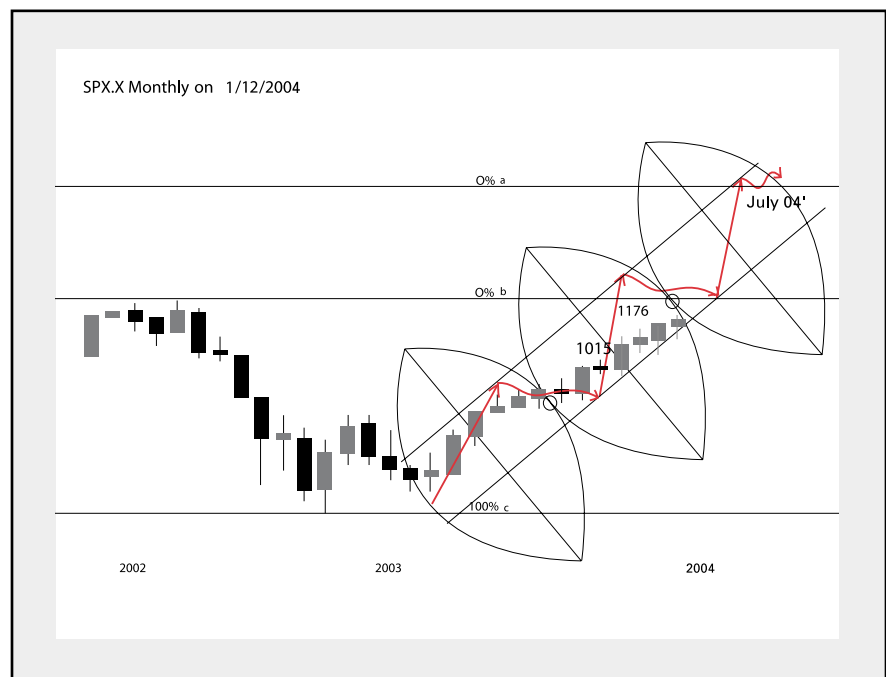
What kind of idiot am I? I had clearly forgotten one of the most obvious tenets of political and economic history: The herd doesn't give a rat's patootie about long-term risk.

While the mob may be quite enthusiastic about burning down the presidential palace when the time comes for the austerity measures required to rescue the economy from an inflationary spiral,

most voting populations will overwhelmingly support a political régime during the initial process of over-minting and over-printing, when more available cash seems to put more real money in everyone's pocket.

Now I owe my friend a bottle of wine. Unfortunately, he prefers a rather old and somewhat rare port. That is what I get for depending overmuch on subjective experience.

Fortunately for *WaveStrength* aficionados, I was able to change track both in my services and here in *Taipan* (if not in the pub) and get on board the long march, which now looks like it will continue at least through to the next key node on our S&P 500 chart. Price-wise, that would be 1,315. Time-wise, look for this to happen by July of this year.



In fact, because this month looks to be the second flat portion of the cyclic lag-and-jump pattern that has established itself in the S&P, now might be a good time to add to your holdings in **Spider (SPY:AMEX)** shares.

over, please...

Additionally, our group tactician, Bryan Bottarelli, notes that the implied volatility of SPX call contracts is at a historic low. Bryan suggests traders use this discount to purchase additional time virtually for free. His favored contract at this time is the **SPX June 1,175 Call (SPT FO)**. He recommends that you

pay no more than US\$23.50 for it... targeting an easy 100% gain if the SPX continues its march up to 1,300.

As always, look for updates on this play via your daily *247profits e-Dispatch*. ■

There's (still) plenty of room at the bottom



Chris DeHaemer

"...people tell me about miniaturization, and how far it has progressed today. They tell me about electric motors that are the size of the nail on your small finger. And there is a device on the market, they tell me, by which you can write the Lord's Prayer on the head of a pin. But that's nothing; that's the most primitive, halting step in the direction I intend to discuss. It is a staggeringly small world that is below. In the year 2000, when they look back at this age, they will wonder why it was not until the year 1960 that anybody began seriously to move in this direction. Why cannot we write the entire 24 volumes of the Encyclopedia Britannica on the head of a pin?"

—Richard P. Feynman, December 29, 1959

Back in 1959, Richard Feynman stated that there was no scientific law that would prohibit the manipulation of matter atom by atom. He put out two US\$1,000 prizes. The first was for anyone who could write the encyclopedia on the head of a pin (1 to 2 mm), in other words shrink it by a factor of 25,000. The second was for anyone who could create a 0.4-mm motor. Both have been claimed.

For years, the science of nanotechnology has progressed in relative obscurity. You may remember IBM writing "IBM" using 35 Xenon atoms back in 1989. At *Taipan*, we've been writing about the coming nanotech revolution for more than five years, but the technology has never quite made it out of the lab and into our portfolio... until now.

A strong foundation

Now there are products on the market. In chemicals, manufacturing, biotechnology, semiconductors and energy—in almost everything produced by man,

nanotechnology will lead to innovative new products. Eighty percent of top executives believe that nanotechnology is relevant to their specific industry.

This is the ultimate disruptive technology. Estimates are that nanotech products and services will bring in US\$1 trillion in revenue by 2015. And I believe it. Right now on the market there are buckyballs made out of carbon molecules (a buckyball or fullerene is the geometrical shape of a soccer ball—the strongest known to man).

These can be stretched into nanotubes. They now cost US\$20 a gram, down from US\$600. They can be woven together into nanoropes or nanofibers to create materials that are 100 times stronger than steel, with electrical conductivity similar to copper and the thermal conductivity of diamonds. A single nanotube is 100,000 times smaller than a human hair.

Nissan has an SUV with a nanotube-enhanced bumper (5% of the plastic) that will automatically return to its original shape after a fender-bender. It's already for sale in Japan.

This isn't the Internet

Many people compare this to the Internet revolution. They've got it wrong. You won't find any frat boys thinking up ideas in a garage. The tools necessary to manipulate atoms are expensive. The barriers to entry are very high. Furthermore, the number of real companies playing in this sphere is limited. Right now there are about 20 on my watch list. Some of these companies will win, some will lose... but most will launch as more and more real products hit the market.

Picks and shovels redux

One way to play this emerging technology is to buy the companies that make R&D possible. One of these companies is VECO.

Veeco Instruments (VECO:NASDAQ) is the top manufacturer of measurement tools used in disk drives and semiconductor chips. They sell to the

likes of IBM and AMD. This company has proven its ability to grow quickly by acquiring and integrating competitors' technologies and making them its own. In November it acquired Advanced Imaging, a company that makes equipment for thin-film magnetic head data storage.

VECO is the biggest supplier of atomic force/scanning probe microscopes—a must-have for any nano research.

The company recently hit a new 52-week high at US\$30.25 before selling off and falling back to its trendline at US\$25. It has since bounced back and broken through this resistance. It is time get in on the next leg up. It also provides a nice stop-loss point at US\$30—just in case things get hairy.

Semiconductor equipment can be a tricky, volatile market, but this company has managed to stabilize its returns. With a market cap of US\$855 million, this nanotech leader will capture the investment world's attention and has a good chance of becoming a market darling.

Nanotech has all the necessary components to create a market bubble:

- Experts are predicting huge revenues (\$1 trillion) a decade hence.
- There is only a small number of nano companies (20 on my watch list), and many of them are bulletin board stocks or large caps like IBM and NEC, in other words not pure plays.
- It is a difficult and complex science that few people understand, so it can easily be spun.
- There is an incredible number of possible products that will change the way we live. Each will generate media and Wall Street hype.

The nanotech boom will be similar to the Internet boom only more so, because it has a high barrier to entry and very real products. You must own the core group of pure nanotech stocks while values are reasonable. By this time next year they won't be.

Buy VECO today. You should be able to get in under US\$35. ■

Profiting on the flow of news



Ian L. Cooper behind the *Extreme Volatility Speculator* system.

Having proven many times—with such plays as Varsity Group, the Dogs of the Dow, the Turkish Investment Fund, and Plug Power—that the price change in a stock is a measure of market sensitivity to news, we're still looking to bypass the conventional theories of value and price. That's the cornerstone idea

behind the *Extreme Volatility Speculator* system. In fact, if you've read McCurdy and Maheu's "News Arrival, Jump Dynamics and Volatility Components for Individual Stock Returns," you know that the most important process affecting price moves may just be the news arrival process itself.

The sooner you uncover the sources of news dissemination to the masses, the sooner you can act and profit from the news. *EVS* has already proven this by pulling in 64% on ALTI, 25% on SUNW, 18% on IPXL, 24% on PBY, and 100% and 15% playing LEXR in December alone.

Sure, the news arrival process has been mocked

by some of today's leading investment gurus. But the profits mentioned above speak for themselves. And, really, who cares what the supposed "experts" have to say, anyway? If you listened to them and chose not to follow the news, you've already missed out on the current 24% gain from our *VSTY* play, a company from which we've been raking in profits for the past two years, and the gains on the famed Dogs of the Dow stocks that we released to you prior to its "formal" release to the masses.

But we're not here to toot our own horn... we're here to make you maximum profits from anywhere in the world.

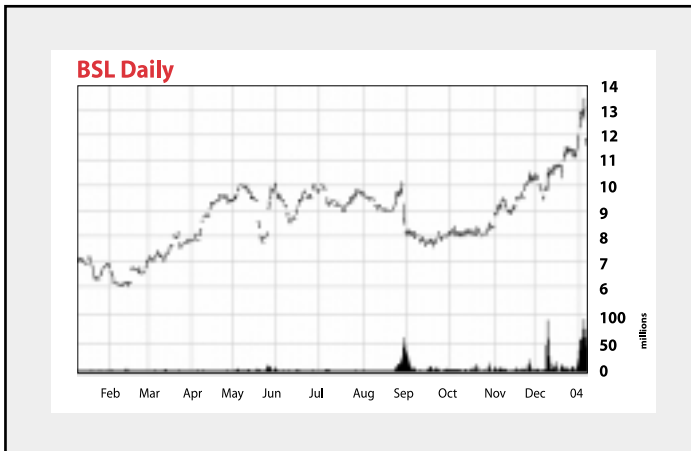
Buying into Israel's hardship

Whether it's political turmoil or civil unrest nailing recession-ravaged Israel, there are always opportunities lying beneath the wreckage. That is what helped trigger our latest buy opportunity. Well, that and an attractive dividend of US\$1.18 per share.

We're talking about **Blue Square Israel (BSI:NYSE)**. With a sizeable 35% share of Israel's retail food market and the aforementioned dividend, we recommended that followers of *EVS* buy into this

over, please...

company at the bottom of its trend after it was brought down by the continued bloodshed in the region. Having bought in around US\$10 a share, we watched as BSI trekked north of US\$12 and issued a sell on the morning of January 13, 2004.



You had to be a shareholder of record at the close of business on January 12 to be eligible for the dividend. And it's not like we were going to sit and wait for the profit takers to destroy our hard-earned

30% gains. So we took it and ran.

But that's not where the profit opportunity ends...

Still convinced of future profits

Allowing us to buy in on the dip was BSI's news of a quarterly net loss versus year-ago profits, caused by recession risks and an increase in competition. Though the company reported a net loss of US\$3.9 million or 10 cents per share, any good news for Israel's economy could bolster BSI's future and fatten shareholder pockets.

At least, that's what we're hoping for.

We think there is still plenty of room for growth, especially since Israel's economy is expected to grow at a 2% to 3% clip this year after expanding only 1.2% in 2003. That, coupled with news of a possible increase in tourism and the hope of more dividend payouts, has made believers out of us.

With that in mind, buy shares of Blue Square Israel (BSI:NYSE) on dips under US\$11. Plan to hold for the long haul. Contact: 2 Ha'Amal Street, Rosh Ha'Ayin, Israel 48092, tel. 888-572-4698, or visit www.coop.co.il/en/index.asp. ■

Fat profits from oil-thirsty China



Siu-Yee Ng Investing in China is starting to worry me. Let me tell you why. A Chinese online travel company, Ctrip.com International (CTRP:NASDAQ), debuted on December 9, 2003, at US\$18.00. According to the SEC filing, CTRIP only recorded US\$12.1 million in sales in 2002. But because it was China-related, the company bagged an US\$18 offer price. It opened at US\$24.01 and since then hit a 52-week high of US\$43.05. And this is a company with no profits.

It sounds to me as if investors are chasing these Chinese stocks like they did tech stocks during the bubble... without really realizing the risk involved. For the short term, I see this trend continuing. I expect to see more Chinese IPO's, but investors will need to do their due diligence in sifting through these stocks.

I don't see this bubble bursting anytime soon. After all, China does offer huge investment opportunities. It's all about getting in on the ground floor in those companies that will survive any shakeout.

One area that has China worried is its oil supply.

You see, as the Chinese economy improves, oil consumption will increase. As a matter of fact, China has become the second largest petroleum guzzler in the world.

How can investors capitalize on China's thirst for oil?

Buying black gold

China saw a 30% increase in oil imports in the first ten months of 2003 compared to the same period in 2002. By 2010, China is expected to import four million barrels a day. By 2030, China could be importing 10 million barrels a day (about what the US brings in now).

Not surprisingly, oil companies around the world are looking to secure market shares with China. And China is scouring the globe in search of oil fields to develop. China is very late in the game in regard to investing in its own and international oil drilling projects.

Most of China's oil production capacity is onshore, around 90%. And most of this oil production is from one oil field, the Daqing Field in Northeastern China. This field began production in 1963, but production is beginning to decline as the field matures. The second

largest oil field in China is Liaohe, but production is slowing there as well.

China has lifted many barriers to allow foreign investment to help develop and preserve China's oil fields and lay the infrastructure for oil and gas delivery in China.

Current offshore drilling projects that China is invested in center around the Bohai Sea area east of Tianjin and the Pearl River Mouth area. And given improving relations with Vietnam, China has begun oil and gas exploration in the Beibu Gulf.

Onshore, the Dagang oil field may be China's largest condensate/gas field. So what oil exploration company is helping China explore this field?

Ivanhoe Energy (IVAN:NASDAQ)

After four years of laying the groundwork, Ivanhoe Energy and its Chinese subsidiary, Sunwing Energy, began drilling its first well at the end of 2003. Over the next several years, IVAN will drill up to 115 new oil wells and 28 re-completions. The target is to pump

out 14,000 barrels per day by 2006.

The project could generate an estimated operating cash flow of more than US\$40 million in 2005 and over US\$60 million in 2006. These estimates assume a price of US\$26 per barrel of oil.

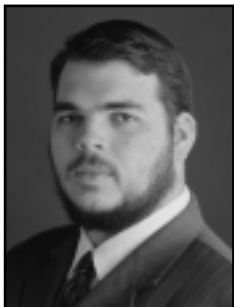
Under the initial terms, IVAN was to fund the work development, operate the project and fund 100% of the development costs. In return, IVAN would receive 82% of the net revenue until payout and 49% thereafter.

But IVAN has been able to ink a deal with China International Trust & Investment Corp. (CTIC). CTIC will receive a 40% stake in the China oil project. In exchange, CTIC will pay Sunwing US\$20 million to help fund the initial phase.

Now here's the kicker: CTIC is contemplating exchanging its equity interest in the project for Ivanhoe or its Chinese unit's shares. But what's really exciting is that the Sunwing subsidiary is looking for an exchange listing. Ka-ching.

Ivanhoe Energy (IVAN:NASDAQ) is currently pulling back. It is a speculative buy under US\$4.00. ■

Lighting 2004's fire



William Colburn

In the January 6, 2004, edition of the *247profits e-Dispatch*, I told you I'd have more **Cepheid (CPHD:NASDAQ)** info for you in this issue. So sound the trumpets and roll out the red carpet, because here comes the good stuff...

Starting on the right foot

If you didn't already know, the first three days of 2004 were pretty exciting for CPHD. First, the price crept up on news of more Mad Cow outbreaks. I covered that in the last *e-Dispatch* of 2003. Here's what I wrote:

"Today, CPHD hit a new 52-week high of US\$9.99. I was itching to pull the trigger on it and take the 122% gain. But then I saw two things that stopped me dead in my tracks:

"One, CPHD is developing some on-site screeners. Big deal, right? Think again. These on-site screening systems will be used to detect contaminants in foodstuffs. We know that contaminated meat has been and always will be a problem, no matter if we're talking Mad Cow Disease or the far

more widespread and dangerous E. coli. CPHD appears to be nipping the problem in the bud. This stock is hitting the fences.

The roof is on fire

"And a one-year CPHD chart backs me up on that. See that huge volume spike that occurred earlier this month? Immediately following the spike, the price started another bull run. All that combined with CPHD's solution to the Mad Cow crisis adds up to a potential 2004 barnburner."

That bull run is still going strong. As I write this, CPHD has hit a high of US\$13.13. That gives us a 189% gain in the position. We got in at US\$4.40. As I've said before, making a profit with CPHD has been a long crawl. So why are we in the money now?

There's no resistance

US\$4.00 is the closest thing you can get to a CPHD resistance level. If you take a look at a two-year chart, you'll notice CPHD has been teasing US\$4 for two years, wavering up and down faster than Louie Anderson's weight on a yo-yo diet.

The good news is, we haven't kissed US\$4.00 since last August. CPHD took the summertime

over, please...

launch opportunity and gave us what you've seen since September.

Huge gains.

Once CPHD is healthily into the US\$13 range

(which it's already peeked into), I'd look for a possible price consolidation. After the weak hands take their profits, CPHD should resume its climb. ■

The fight to protect America:

How you can profit from the rush for enhanced ID security



Martin Denholm

If the economic recovery is to be sustained in 2004, one of the key elements will be a return to prosperity by the technology sector. Just remember how much it contributed to the last economic expansion. And here's the good news: "Technology is firmly on the comeback trail." That's according to Phil Bond, Undersecretary for Technology at the US

Commerce Department.

Harris Miller, head of the Information Technology Association of America, adds, "Tech is back... not back to the levels of the bubble, but clearly tech spending is coming back in a meaningful way." The evidence is there. Global semiconductor sales last October grew at the fastest pace since 1990.

We've all got a "Big Brother" these days

Say "technology" to some folks and they think about gadgets, or chips that make computers run faster and better. Others think about prying eyes interfering in their business. Sure, it can be invasive sometimes. You're never far from being caught on video, your financial accounts are constantly subject to scrutiny, and credit checks pick up any minor indiscretion. You can blame technology for that!

But many companies are making cutting-edge technologies aimed at protecting people's safety and privacy, as well as providing vital security systems and anti-fraud devices. And in an era of heightened alerts and determination to keep terrorists out of America's backyard, it's more important than ever to have a strong, reliable system of ID recognition and verification. **Fargo Electronics Inc. (FRGO:NASDAQ)** could be one of the most important tech companies in the field.

A small-cap company making a big world more secure

With a market cap of US\$161 million, Fargo is one of those small-cap growth companies set to help drive the next economic expansion. In October 2003, Fargo ranked 51st in the Forbes "Hot Shots: 200 Up and Coming Companies" list because of its growing presence in the personal ID security field.

There's a good chance you use one of Fargo's products, because its technology is already used in millions of personal identification cards. The applications are endless...

- National ID cards
- Driver's licenses
- Government/student ID cards
- Swipe card systems for office buildings and hotel rooms
- Membership cards
- Transit/parking passes
- Retail loyalty/bonus cards

As you can imagine, this gives Fargo a truly global presence. The company has sold over 60,000 systems in more than 80 countries. And in an era of constant terror alerts, where increased ID security is paramount to national safety, I believe there's plenty of room for Fargo to expand its market share. In particular, Fargo's microchip ID technology will be used to equip China's 1.3 billion citizens with national ID cards.

Fargo's sales are, in fact, already rising. The company recorded quarter-on-quarter growth in seven of the last eight quarters. Over the last four fiscal years, sales have increased steadily, from US\$54.9 million in 1999 to US\$66 million in 2002. From January through September 2003, sales rose a further 3% to US\$49,030,000. That equates to US\$5.30 per share.

Net income from January through September

2003 jumped 28% to US\$5,540,000—43 cents per share—compared to US\$4,342,000 and 36 cents per share from January through September 2002. This strong performance resulted in a net profit margin of 11.7%—almost three times higher than Fargo's industry rivals—and an operating margin of 17.2%

Toss out the tech stereotype

In Fargo's case, you can throw away a common prejudice associated with technology companies—that they all have sky-high P/E ratios. Its current P/E of 20 alone makes Fargo worth a second look. But when you consider the average P/E for its sector is a whopping 82, Fargo looks significantly undervalued relative to its competitors. Fargo's projected P/E for the end of fiscal 2004 is 18. You're buying a bargain, as earnings growth is expected to be 20%. Over the next five years, the company is expected to average 18% growth.

Sector struggling... Fargo flourishing

Ever since the economic downturn hit, the technology sector has had trouble creating jobs. In fact, since 2000, the number of US tech workers has slumped 11% to 4.8 million. That's why it's vital for companies to get the most out of their existing employees. Fargo manages to generate significantly more revenue and income per employee than its rivals.

The company also has a significant competitive

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advantage in that it has no debt. In fact, it shows a cash balance of US\$9 million.

Such strong management is illustrated by a superb 21% return on equity, vs. the industry average of just 6.9%. And if you're looking for overall return on assets, Fargo can claim an excellent 17.2%... while its peers bumble along at a scant 2.6%.

One of the key elements to look for when evaluating a company is the extent of insider ownership. Insiders own 46% of Fargo. What does that tell you? To me, it says they are extremely confident about the company's future prospects. With numbers like this, I'm not surprised. And I'm willing to share in such confidence, because one thing is for sure—increased ID security and terrorism prevention technologies are here to stay.

Take profitable advantage by investing in one of the market leaders. Buy Fargo Electronics under US\$14. ■

Solid growth potential from the “geezerization” of America

How you can profit from rising life expectancy



Erin Beale

America's elderly population has really been picking up the pace over the past decade... and will kick into turbo speed in the coming years. According to recent statistics, the percentage of the United States population aged 65 years and above is swelling at four times the rate of the broader population.

Estimates project that about 80 million US citizens will reach

elderly status by 2050, roughly doubling today's number.

Centuries ago when the United States was founded, life expectancy stood at a measly 35 years. Can you imagine being considered elderly by the age of 30? By the turn of the 20th century, expectancy had climbed to 47 years, and it jumped to 77.2 years in 2003. But many people today greatly exceed even this 77-year average. Persons aged 85 and over make up the most swiftly expanding age group.

These figures place roughly one in seven Americans in elderly status, and as many as one in four will be geezers in just a few years. By 2050, more than 5% of the American population could be older than 85.

over, please...

In short, America is rapidly graying... and we're looking for green with an assisted-care provider play.

Over the river and through the woods to grandmother's assisted living apartment we go

In many countries, elders are highly revered and their offspring fight for the honor of caring for them in their homes when they are no longer able to live independently. In fact, the Chinese don't typically begin to celebrate birthdays until they reach the age of 60!

Here in America, however, the push to exile the elderly to senior communities and nursing homes is rampant. Running from school to soccer practice to ballet recitals, most moms can't fit caring for grandma into the daily scheme. Additionally, today's seniors typically have about 40% more funds to work with than their parents did and can afford these often pricey communities. And many seniors aren't complaining. Today's senior communities come loaded with plush apartments, gourmet dining facilities and recreational activities to the max.

Assisted living communities have emerged as the most popular form of senior facilities, experiencing an estimated 15% to 20% growth over the last few years. More than 600,000 residents nationwide have chosen the assisted living route, because it combines the best of both worlds: seniors live in their own apartments and have plenty of freedom to perform the daily tasks they can manage, but still receive help with those they can't. Assisted-living care is the perfect solution for the elderly who cannot live entirely on their own anymore but don't require twenty-four-hour medical care.

The sun rises on seniors

Though there are many publicly traded companies associated with assisted living and senior nursing homes, we see the most growth potential in Sunrise Senior Living Inc. (SRZ:NYSE). This Virginia-based senior living company operates more than 200 communities in

the US, Canada and Britain, and has emerged as a leader in the business.

Sunrise Senior Living, formerly Sunrise Assisted Living, has switched gears over the past few years from owning properties to simply managing and operating them.

Their plan to sell all underlying real estate and instead sign long-term contracts to manage senior facilities was intended to reduce debt levels and stabilize earnings. And that they have. With about US\$180 million in cash, Sunrise's income rose 36% in the first three quarters of 2003. Having already sold US\$1.6 billion in real estate, Sunrise is looking to unload its US\$400 million in remaining properties.

Sunrise experienced a big year in 2003. In April, the company acquired Marriott's Senior Living Services sector of 126 communities with a 23,000 resident capacity. This deal doubled Sunrise's holdings and helped their stock grow 56% in 2003, from US\$25 to US\$39. In addition, Sunrise also struck a deal to manage 22 EdenCare senior communities.

A growing stock in a growth market

With a P/E under 15 and an impressive PEG of 0.95, Sunrise has good fundamentals and long-term potential. Don't let Legg Mason's recent downgrade fool you: Sunrise is still an excellent growth play and was downgraded solely for its valuation levels, which were in danger of becoming overpriced.

Skeptics worry that the booming assisted-living sector will fall victim to another Internet-like bubble, which it did in the late 90's. But we believe that the slight dip that Sunrise has experienced at the beginning of 2004 is a perfect buying opportunity. Future earnings growth is projected at 15%, and the stock could reasonably reach upwards of US\$48 if these goals are met. New services and third-party management deals are also in the works for 2004.

Play on the "geezerization" of America and buy shares of Sunrise Senior Living (SRZ:NYSE) at the market today. ■

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