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A cardinal truth of the market gives the trading technician an edge no long-term investor can equal...

...and why Taipan's team always finds profit opportunities throughout the year



J. Christoph Amberger

In September of 2002, *Taipan's* editorial board member and *WaveStrength* options strategist Bryan Bottarelli posted a special report on our website at www.taipanonline.com. In this Members Only briefing, "Bush's Secret List of Black Budget Stocks," he recommended buying shares of Taser International (TASR:NASDAQ) for US\$4 a share.

Five months later, Taser International was trading for US\$20 a share, a whopping 500% gain. Normally, I'd have suggested he take his profits off the table. But instead of selling, Bryan asked me to issue a special recommendation on August 27 of this year saying to buy *more* shares of Taser for US\$20. I put this recommendation on the *Taipan* website as well as in my daily e-letter, the *247profits e-Dispatch*... which is sent out to *Taipan* members as a free supplement to their subscription each and every day of the trading week.

Taser makes "conducted energy" devices—weapons that use compressed nitrogen to shoot two small, electrified probes up to 21 feet. After firing, the probes remain connected to the weapon by high-voltage insulated wires that transmit electrical pulses to impair the target's bodily control.

When Bryan asked me to "pull the trigger" on Taser in the *e-Dispatch* on Thursday, November 6, the stock was trading for US\$64 a share—a 1,600% gain over our original entry price. Even



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email: editor@taipanonline.com

if you got in at the second entry price of US\$20 in August, you'd have netted yourself a nifty 320% gain.

And all you had to do to take advantage of a spectacular opportunity like this was to sign up for our free e-letter...

(If you missed out on this one, don't worry. Bryan just posted another of his notoriously profitable special reports on www.taipanonline.com. It's yours for the asking. Just go to the Members Only section of the website to get in on the next round of dynamic profits.)

Dumb luck?

Of course, you could attribute Bryan's big fish to luck, or coincidence. But let me tell you something: Throughout this "terrible" post-bubble market, technical traders just like Bryan have been making money... and lots of it... while almost everyone else was losing! In fact, in this dynamic market, it didn't matter if the indices were going up or down. *Because as long there is movement in the market—regardless of direction—you have an opportunity to cash in on it!*

This is the quintessential lesson we at the Taipan Group have gained from our 17 years in business: No matter how bad the financial climate appears to the uninitiated, there's ALWAYS a chance to make money... in foreign or domestic stocks... options... commodities... real estate... currencies.

(Accompanying this issue, by the way, is a unique *Taipan* twist on a currency and precious-metal opportunity we'd like to extend to you. But more on that in a minute!)

That's the heart of our Dynamic Market Theory.

Probable cause

Deep within the nuts and bolts of Dynamic Market Theory is the art of probability-based investing: If you can predict, with reasonable certainty, down moves just as well as up moves, you've got opportunity by the tail. Either way, you're looking for repeat patterns. So why not profit from them?

There's no reason to be out of the market even if there's a 70% or 80% likelihood it's going down... because there are easy ways to make

money from it. With probability-based investing, you can even make money in a market that hardly moves at all.

Traders like Bryan Bottarelli, Adam Lass, Brit Ryle, Brian Hicks, Ian Cooper, Siu-Yee Ng and Chris DeHaemer made money this whole time... even while the stock market was falling. They made money when the stock market started going back up. They don't care whether it's a bull or a bear. They know there's always money to be made.

That's the beauty of Dynamic Market Theory. By knowing where the money is flowing next, you stand to come out ahead. Way ahead.

It's also a matter of perspective. There are far more short-term moves than long-term moves. You don't have to be an expert to see there are a lot of moves in the 10% or 20% range, up or down, in the course of just a few months.

Whether you invest in a market index—as Bryan and Adam do—or in individual stocks, one thing is for sure: they go up and down a lot. Market moves in the range of 5% to 25% happen all the time, for the flimsiest of reasons. Just look at this:

A ridiculous exercise in junk economics was just conducted by "soccer economist" Bill Gerrard of the Leeds University Business School. His study published in *Applied Economics Letters* finally identifies the true market-moving factors. As far as the FTSE 100 is concerned, you can now safely forget about earnings reports, currency developments and economic data having anything to do with how the markets work.

Instead, keep your eyes on the soccer and rugby results. If Beckham can't bend it, as in the European Championship qualifying round against Turkey on October 11, stocks will invariably fall. When the English team got knocked out by Germany in the 1990 World Championship, equities slipped 1%. Our worthy junk economist compared the results of the English national team's soccer matches—210 games in 20 years—with the equity valuations of the 100 largest English companies the day after.

The result: Equities rose after wins, 0.3% on average... muddled along after a draw... and

dropped an average 0.4% after a loss. The higher the match-up's profile, the more pronounced the effect on stocks.

Am I telling you to follow European soccer results?

Absolutely not. But Gerrard's study puts a finger on one of the cardinal truths of the market: There are dozens of ways to single out and identify the probability of market moves. Right here in my office, I have assembled a team that does nothing all day long but develop reliable ways to predict moves in stocks and markets based on unique constellations of proprietary indicators... all derived from *Taipan's* Dynamic Market Theory.

To say it again: Every one of those moves, up or down, is an opportunity for you to make money. This abundance of opportunities gives the in-and-out trader an edge no long-term investor can equal.

A long-term investor pats himself on the back if he's up 20%, consistently, every year. In fact, that's really exceptional. You—or your mutual fund portfolio manager—should be so lucky. Meanwhile, a more active investor can be up 20% several times a year. There's nothing to stop you. The moves are there, waiting for you to take advantage of them. What's more, because these moves happen so often, there's a vast database of thousands of such moves that occurred in the past. So the analyst has lots of raw data to sift through, looking for indicators with predictive value.

One way or another, most technical traders have discovered the same thing. That's why they trade actively. It's ironic, but the long-term investors are the ones who are really gambling. Academic research has shown that the record of long-term forecasting is very poor. As millions of investors have found out to their dismay over the past three years.

Everything they told you is a lie

The conventional wisdom on investing is dead wrong. Everything they told you is a lie. If you believed the long-term, buy-and-hold mantra, you've gotten slaughtered. After all, the core data a long-term investor uses is suspect: earnings statements, P/L's, balance sheets, auditors' reports, etc. Isn't this the lesson the Enrons, Tycos and WorldComs taught us?

Contrary to what you're told, active investors DON'T swing for the fences. They don't go for 200% gains or "ten-baggers" like Peter Lynch tells you to do. It's mutual fund investors who are the gamblers.

The trading technician is merely looking for quick, consistent gains.

And that is what this final issue of *Taipan* for the calendar year of 2003 is all about. But before you put up your feet and join us for yet another profitable investment expedition, please take a moment to read the letter I've enclosed with this issue.

You'll find out how to make sure you're set to

receive another 12 months of profitable recommendations from the *Taipan* Team. And you'll also find out how to get in on the list of *Taipan* readers who'll be offered the precious metal opportunity we've worked out for you. All the details are in the letter.

P.S. If you haven't done so already, please make sure you're on our email list. Subscribing to our daily update is quick... and a lot less painful than missing out on another 1,600% profit opportunity. Just go to www.247profits.com to join in the fun.

P.P.S. *Taipan's* 2004 Forecast Issue will be posted starting December 27 on www.taipanonline.com. ■

"Knowledge and judicious application of the principles of technical analysis is more profitable (and far safer) for the average investor than any other of the presently recognized and established approaches to the problems of buying and selling securities."

Robert D. Edwards,
Co-author of *Technical Analysis of Stock Trends*

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Buy satellites—everyone likes TV

My 2003 Taipan portfolio up 168.83%



Chris DeHaemer

As you can tell, I've been beating the market soundly—as I have in each of the past seven years. I'm six for six with a total gain of 1,013%, which equates to an average of 168.83%—impressive by anyone's standard. If you are one to pick nits and consider selling half of a position as a separate play, then I am up a more modest 126.62%.

In this issue of *Taipan*, I'm ready to do it again... with a view to the second decade of the emerging markets.

ABMD	24-Jan-03	4-Jun-03	\$4.35	\$7.56	74%	Sold
LEXR	27-May-03		\$6.65	\$23.00	246%	Hold
LEXR	27-May-03	30-Jul-03	\$6.65	\$13.32	100%	Sold half
NETE	15-Jan-03		\$3.21	\$13.00	305%	Hold
NETE	15-Jan-03	29-Aug-03	\$3.21	\$9.76	204%	Sold half
PD	8-Sep-03		\$49.00	\$64.85	32%	Hold
MF	27-Oct-03		\$5.10	\$6.88	35%	Hold
IFN	27-Oct-03		\$17.63	\$20.56	17%	Hold

Global economic reflation under way

There is a lot of talk about the expanding American deficit and the falling dollar, increasing consumer debt, and the growing housing bubble. It's enough to make you ponder the ways of the cynic. I've been hearing these old saws for years now, and they've never made me a dime.

You just can't buy or sell on doom-and-gloom macroeconomic news. Sure, in polite conversation it burns like soft wood—smoky, acrid and slow—and it might help to drive away the in-laws at Thanksgiving with its wavering light and sulfurous stench—but it won't make you a nickel.

But also consider that the biggest bull market in world history occurred at a time when communism fell and half the northern hemisphere was suddenly open to trade. The European Union isn't expanding because of the belief that Poles and Hungarians make good stew. The EU wants new markets.

Engine of growth

The cruel irony of the last seven years, the biggest bull market in history, is that the US produced 96% of world GDP growth. In other words, the rest of the world, which accounts for 70% of world output, contributed a mere 4% to overall GDP growth in the seven years ending 2002.

That's huge. It's beyond huge—it's stupendous, considering all you've heard about stagnation in Europe and Japan and the emerging-markets crisis of 1998. The US has been the buyer of last resort. It has also been the clear leader in computer technology, banking, biotechnology, military, entertainment, and the free-trade mantra of globalization.

The pendulum swings

These products have been disseminated throughout the known world. The gap between leader and follower has lessened. There is no new Internet or genome project on the horizon. GPS, cell phones and Game Boys have all been in existence for quite some time. Sure, there's talk of nanotechnology and fuel-cell cars, but those are years, maybe even decades from implementation... and will never power the same kind of growth that we saw in the three big revolutions—biotech, the Internet and cell phones.

Over the next ten years you will have more evolution than revolution on the technology front. I hope I'm wrong, but that's the way it looks. If so, the rest of the world will likely catch up in terms of GDP growth, and we'll revert to the 1990 equilibrium when the US and the everybody else split GDP growth fifty-fifty.

Economic straitjacket

In "The Lexus and the Olive Tree," Thomas Friedman writes about an economic straitjacket that emerging markets have been forced to wear in order to produce the jobs and wealth needed to join the developed world. The belts and buckles of this straitjacket are made of concepts like transparency, free trade, low inflation, stable currency, government surplus, democracy, international law, reduced red tape, etc.

Since 1998, every country involved in the currency crisis has changed government to some sort of representative democracy. The last "benevolent dictator" of the Asian Tigers, Mahathir Mohammad of

Malaysia, stepped down last week. (Last month I recommended you trade this geopolitical event by buying the Malaysia Fund (MF:NYSE). It is now up 35%. Not bad.)

Global growth

The US grew at 7.2% in Q3 as Europe continues to stagnate. The question you should be asking is not whether the US can maintain the rapid growth of the past decade; it is whether any other country or region can join us. What if the growth of Asia increases to the point that it represents 50% of total GDP growth? It's not only possible, it's probable.

The three countries with the highest GDP growth forecast for 2004 are India at 6.2%, China at 7.7% and Hong Kong at 5.1%. (Venezuela is expected to grow 6.3%, but has severe political problems).

Last month I also recommended the India Fund (IFN:NYSE). It is currently up 15% at US\$20.56. Siu-Yee Ng has inundated you with winning China picks, so today we're going after the third in the hat trick—Hong Kong.

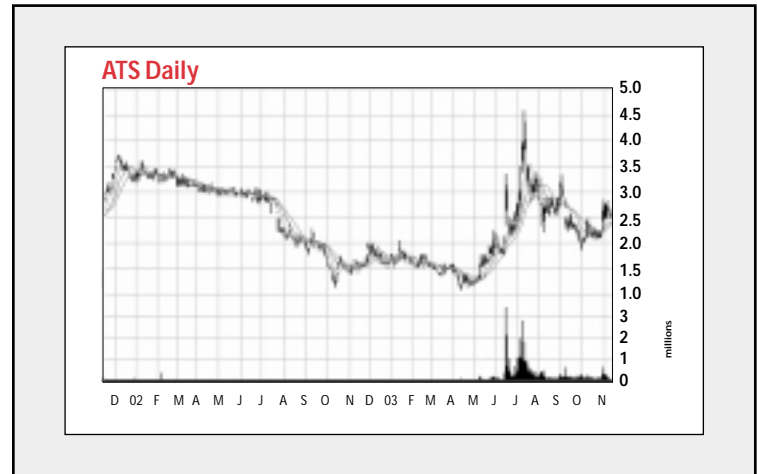
Buy ATS:NYSE-ADR

APT Satellite Holdings provides high-quality satellite transponder services for international and Asia-Pacific broadcasting and telecommunications. The company currently operates three in-orbit satellites, APSTAR-I, APSTAR-IA and APSTAR-IIR, the last

of which was successfully launched in October 1997.

The company has plans to launch two more, APSTAR V in September 2003 (now delayed) and APSTAR VI in 2005.

The chart shows some support at US\$2.50 and strong support at US\$2.00. The recent volume and jump over US\$2.50 leads me to believe that news of the next launch is pending.



Buy ATS below US\$2.75 as an emerging-market play on satellite television, a comeback tech play, and, more specifically, a "buy the rumor" speculation. The company trades at 0.46% of book value, pays a nickel a year dividend and has US\$1.57 per share in cash. ■

Full speed ahead... and bless the torpedoes

Increased volatility can only help traders as the S&P 500 attempts another decade-long rally



by Adam Lass,
Ann Sosnowski and
Bryan Bottarelli

Despite all the threats looming over it, the rally in the S&P 500 we predicted in September is well underway. How long will it last (if it lasts at all)? How high will it go if it does last?

And, perhaps more importantly, what is the best way to take advantage of both sides of the argument?

The late September low at 990 continues to func-

tion nicely as the transitional pivot point between the rising trend's first oscillation (03/03-09/03) and its second oscillation, which commenced with a bang with October's 55-point pop (which mirrors the opening April leg of the first oscillation).

With this confirmation in our back pocket, we are reasonably confident in the prediction we made in September and reiterated in the October and November issues of *Taipan*. Our next upside target for the S&P 500 continues to be 1,176 by early 2004—which should multiply the value of your current holdings in SPX March 1150 Call options (SPT CJ) sixfold, to US\$39.00 per contract.

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This modified indicator yields several points of interest when applied to the S&P 500. Note that the transition from a gently rising and falling market to a determined bull run in December 1994 was confirmed five months later by a strong shift in the stochastic oscillator above the key 75-level. This confirming signal was followed by an incredible 51-month run when %K and %D dipped markedly below 75 only once... during the Asian currency crisis of 1998.

match the previous long, hot run, it could eventually put the S&P into the high 1,800's.

Good news, bad news... and better!

While this does not make a such a run a lock—there is simply no way one can ignore the threats to the investing gestalt of exploding personal debt, government deficits, and an expanding Middle-Eastern war—at the moment, that same gestalt seems inclined to shrug off those threats.

Now that we have a hefty dose of chart math under our belts, let's take a moment to review your current positions and show you how to continue profiting off our upside bias. Over the past few issues of *Taipan*, we've recommended buying the S&P Spiders (SPY:AMEX) at two prices: first for US\$99.50 and then again for US\$102.00.

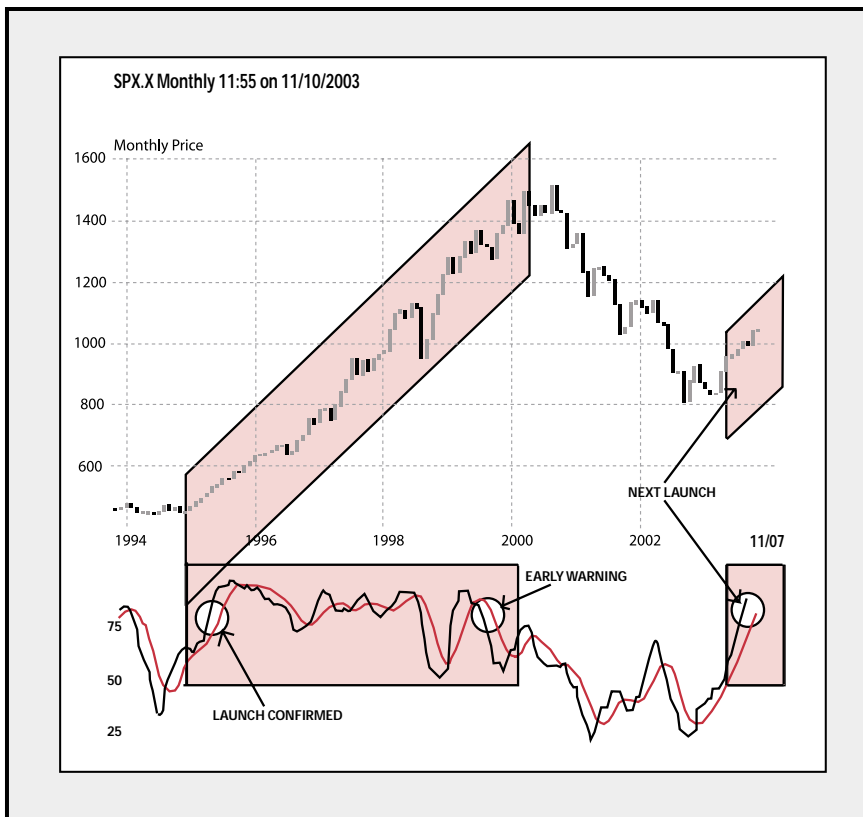
As we write, the Spiders are trading for US\$106.04, giving you a gain between 3.96% and 6.6% over the course of a few months—a modest but decent profit considering the durability of the asset. But all you traders out there may recall that our short-term play off this forecast, the SPX December 1100 Calls (SPT LT), which we sold via the *247profits e-Dispatch* on October 3, gained us 49.25%.

In the November issue of *Taipan*, we initiated a new upside call position on the SPX. But instead of playing a more

volatile front-month call, we recommended giving yourself more time via the **SPX March 1150 Call (SPT CJ)** options. Currently, these contracts trade between US\$6.20 and US\$7.00.

Consider these calls a buy at these levels. Following Adam's chart above, a reasonable price estimate of these calls at SPX 1,176 would make them worth US\$39.00 per contract, for a gain of 520% in the next 4 to 5 months.

In addition to these calls, we'd like you to maintain your long position in SPY, as it provides a solid base asset at this time. **Should the SPY dip under our US\$102.00 level, add to your position. ■**



But Lane stipulated that stochastics was multidimensionally robust and would be useful not just in up cycles but as an early indicator of pending bear cycles as well. And that is borne out nicely in the early warning of disaster provided in August and October of 1999, as both the %K and %D lines dropped—and stayed—below 75 for the next 48 and 50 months, respectively.

For the first time since the long 90's bull run, both lines are once again in the 75-plus zone, indicating that the market is in position for another prolonged upward run. This could perhaps go as high as 1,250 in the next six months alone. **And, should it**

* For more information on oscillating indicators in general and stochastics and slow stochastics in particular, I recommend perusing Martin Pring's *Technical Analysis Explained*, published by McGraw Hill.

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Looking for the exit signs

Why it's nearly time to start taking profits



Briton L. Ryle

We're in the home stretch of the rally that began in March. By the time you read this, I'm guessing the NASDAQ is above 2,000 and the hype about the economic recovery and the strongest Christmas shopping season in the last ten years is reaching a deafening crescendo.

I've been tracking the Federal Reserve Bank's overnight repurchase activity as my primary technical indicator for this rally. On any given day, you can accurately forecast whether the Dow and NASDAQ will be up or down based on the dollar amount of the repo.

If it's over US\$5 billion, we'll have an up day—if it's under US\$5 billion, the odds for a close in the red are greatly increased.

The trend also holds on a weekly basis... but there's one slight variation. While the dollar amount of the overnight repo needed for a day's advance has remained fairly constant, the dollar amount needed to sustain weekly moves is clearly growing.

For the week of October 27-31, repurchase agreements totaled US\$20.25 billion and the NASDAQ gained 60 points. But the previous week (October 20-24), US\$38.75 billion wasn't enough to keep the NASDAQ from dropping 50 points.

For the first two weeks in November, the repo amounts totaled US\$23 billion and US\$29.5 billion—and the NASDAQ was essentially flat.

Part of the reason for this is simple market capitalization. Stocks are worth more, and so it takes more cash to move them higher. But it's also an inescapable conclusion that there are fewer buyers out there, especially the institutional ones that participated so strongly in the early stages of the recovery.

The lack of institutional support lately is especially worrisome in light of the economic data we've been seeing, which have been very good. But rather than spurring the indices higher, liquidity seems to be simply supporting them. And that's a red flag for the long-term health of this rally.

A time will come when the Fed's monetary policy is clearly inflationary. My best guess is that it will coincide with the New Year. So I'm going to devote the rest of my space here to exit strategies for the stocks I've recommended.

The game plan

First up is **King Pharmaceuticals (KG:NYSE)**. Put this one in your "dump it anytime" file. *Taipan* readers got a great entry on this stock at US\$12. And we've even seen as much as 40% gains on it. But KG is clearly stuck in a rut, and it could be victimized by tax-loss selling. Better to dump this one sooner rather than later.

Next up, **Petrochina (PTR:NYSE)**. This has been a great stock over the last nine months. Once word got out that Buffett was buying it, the stock ramped up from the low US\$20's to its current level above US\$35. *Taipan* readers who acted on my original recommendation are up approximately 100%.

I hate to sell Petrochina outright. It's a good stock and *Taipan* readers got in at a very good price, better than Buffett's, I believe. So I'm going to call the stock a long-term hold and a short-term reduce. If you want to hold the stock for the next five years or more, then just hold it. Otherwise, sell half your position on the first trading day of the New Year. That way, you'll avoid capital gains tax for the 2003 tax year.

The same goes for **Brilliance China (CBA:NYSE)**. We are up approximately 130% on this recommendation. To be honest, though, I'm not as wild about this stock as I am about Petrochina. If you want to hold the stock for the next five years, then you should. Otherwise, unload the entire position after the first of the year.

In order to keep some exposure to China, I recommend holding on to the **Liberty Newport Greater China Fund (NGCAX:AMEX)**. We are up approximately 20% on this fund, and it's a good way to remain exposed to the fastest-growing economy on the planet.

This brings us to my most recent recommendations, **Terayon (TERN:NASDAQ)** and **Tellabs (TLAB:NASDAQ)**. We got Terayon at US\$5.80 or so, and after a strong run to US\$8 per share, the stock has recently dropped back to our entry level. But Terayon looks poised to move higher into the end of the year. This stock should be sold during the last weeks of January 2004 to take advantage of the "January Effect," the historically recurring small-cap rally in January.

The same thing goes for **Tellabs (TLAB:NASDAQ)**. *Taipan* readers are up 20% in this stock. Please feel free to add to both of these positions on weakness through December. ■

Profit from the growing demand for oil!



Siu-Yee Ng

Finally, gas prices are looking a little better. I can get gas under US\$1.45 a gallon now.

With world economic activity improving, demand for oil has increased. And the tightening of the US natural gas market has resulted in oil being substituted for gas. Japanese consumption of oil has also risen because of

delays in returning their nuclear power plants to use.

This also means more money in the pockets of oil transportation companies. The gain in the tanker market began last fall and continued into the second quarter of 2003. The average time charter equivalent (TCE) rate for Suezmax tankers from West Africa to the US was more than double the rate compared to the same time a year ago. And the average TCE rate in the first half of 2003 was the highest since at least 1990.

Freight rates in the crude oil tanker market decreased early in the third quarter due to the usual summer slowdown. So now is the best time to pick up this profitable US\$561 million company. Let me tell you why.

How low can you go...

Total commercial crude oil and petroleum product inventories in the Atlantic basin (the United States and Western Europe) at the end of June 2003 were about 184 million barrels. That's 9.5% below the previous year, well below the average of the last five years, and the lowest level since 1990, notwithstanding the recent large upward revision of oil inventories by the International Energy Agency (IEA).

Crude oil inventories were 45 million barrels and total product inventories were 139 million barrels, or 7.2% and 10.6% below the previous year levels, respectively. The expected low inventory level at a time of increasing demand should provide support to the tanker market.

OPEC has been trying to meet the growing demand. Average OPEC oil production in the second quarter 2003 totaled about 26.2 million barrels per day (b/d), up by 1.3 million b/d compared to the same period last year, with most of the gain in the long-haul Middle East. Even after OPEC cut production on November 1 by 900,000 b/d, that's still a lot of oil that needs to be hauled.

And with Iraqi oil not expected to return to pre-war levels any time soon, and Venezuela's oil production still below last November's pre-strike level, oil imports from the long-haul Middle East are expected to continue at a relatively high level for the foreseeable future.

Crude and refined

Omi Corp. (OMM:NYSE) provides seaborne transportation services for crude oil and petroleum products in the international shipping markets. Its customers include major independent and state-owned oil companies, large oil traders, government entities and various other clients.

Omi owns or charters a fleet of 40 vessels, primarily of two types: Suezmax tankers, which carry crude oil from production to refinery areas, and product carriers, which carry refined petroleum products (such as gasoline and aviation fuel) from refineries to distribution areas. It has 24 product carriers and 16 crude oil tankers, including ten Suezmax tankers.

Show me the money

Omi's net income for the second quarter of 2003 was US\$25.4 million, compared to US\$1.8 million the same time last year. Net income for the first half of 2003 was US\$51.2 million, compared to US\$2.2 million last year.

Remember, the third quarter is usually the slow quarter. Even though Omi's third-quarter net income was down from its Q2 results, the company still managed to book around US\$10.8 million, up over 75% compared to the same period last year.

And for the first nine months of 2003, Omi recorded a net income of US\$61.94 million, up 92% over the previous year.

After Omi announced Q3 revenues, the stock pulled back. But since then it's been steadily appreciating. Omi is a profitable company with a P/E of around seven. Going forward, Omi should continue to grow its revenues.

Omi Corp (OMM:NYSE) is a buy under US\$7.25.

For more information on Omi, contact One Station Place, Stamford, CT 06902, tel. 203-602-6700, email info@omicorp.net, website www.omicorp.com. ■

over, please...

Emerging from the dark side

Who will fatten up during this frantic festive season?



Martin Denholm

Indian summer certainly didn't deliver much in the way of a pre-holiday sales spike for America's retailers. Winter clothes remained stubbornly on shelves. But as November's cold moves in, that's about to change. We're not looking for anything flashy—just a bounce to send some stocks barreling along like a bobsled, while others fall on their faces in the snow.

With the holiday season in full swing, retailers should enjoy a strong finish to 2003. Some bullish estimates actually peg full-year sales growth close to 4%.

The National Retail Federation predicts holiday sales will rise by 5.7% to US\$217 billion, with the average consumer spending US\$672 on holiday purchases—a 3.6% increase over 2002. Consultancy firm Deloitte is even more bullish, calling for Americans to increase their spending by 6% or 7%.

Profit from the youth boom

Quoted in Investor's Business Daily, Michael Niemira, senior economist at Bank of Tokyo-Mitsubishi, says, "Specialty apparel is coming back to life again." In September, specialty apparel retailers posted the best year-on-year growth since April 2000. This sector includes the ultra-competitive teen market, which is growing twice as fast as the total US population. By 2010, there will be almost 30 million teenagers. In 2002, they spent 40% of their total outlay of US\$120 billion on clothes—with over 7,500 retailers all competing for a piece of this lucrative profit pie.

Your retail play here is **Abercrombie & Fitch (ANF:NYSE)**. Renowned for being at the cutting edge of the youth market, Abercrombie clothing is a consistently popular choice with America's fashion-crazy kids. The company maintains an attractive product line with appeal to a broad range of young consumers.

The proof lies in the company's three products. First, there's the main Abercrombie & Fitch brand, which markets to the 18-and-up age bracket. Second, abercrombie kids (sic) sells clothes for 7- to 14-year-olds. And in the mid-teen range there's the rapidly-growing Hollister brand. Introduced in July

2000, it targets 14- to 18-year-olds—a critical age when kids are desperate to fit in with their peers by sporting all the latest cool fashions. Abercrombie/Hollister knows this, and sells clothes for 30% less than the main Abercrombie brand to fit these kids' limited budgets.

The Abercrombie sales strategy is a radical departure from its industry competitors. Instead of offering big markdowns, Abercrombie prefers to hold prices steady and resist the urge to discount freely. How can the company do this during tough times? Simple...

Brand value brings bottom line

Abercrombie is intensely focused on sustaining solid, consistent profits. For investors, that's great news.

Management believes in protecting the brand name and keeping margins high rather than going for the short-term fix of stimulating short-term sales... only to suffer long-term profit pain. Company execs feel that slashing prices merely cheapens value and destroys profit margins. And offering frequent discounts simply trains the customer to shop only during sales.

Let the profits do the talking

By not getting sucked into costly price wars with its competitors, Abercrombie's revenues total US\$1.6 billion, putting it among the industry heavyweights.

For its third quarter (August-October) the company posted a net income rise of 5.9% on the back of a 6.1% sales rise (US\$445 million). That was the thirtieth straight quarter of profit growth. And year-on-year earnings growth has risen for a remarkable 43 straight quarters.

If you take a look at industry competitors, you'll see Abercrombie's business strategy is paying off. While it boasts a 12% net profit margin, that number shrinks to a meager 4% for its promotion-happy rivals. This kind of passionate profit management gives investors a very healthy 25.8% return on equity—almost double the industry average. And by tightly controlling expenses, Abercrombie pockets income and revenue per employee of US\$61,000 and US\$502,000 respectively, thrashing its industry rivals, who only earn US\$7,000 and US\$151,000. These fac-

tors combine to produce a high operating margin of 19.4%.

With no debt and over US\$385 million in cash, the company plans to add to its 651 stores by opening 400 more Abercrombie chains (currently 351) and 600 to 800 Hollister stores (now 121) by 2010. It also has a new fourth brand in early development, probably aimed at the over-25 market. At that point it will cover everybody between the ages of 7 and 25+.

A five-star company trading at a discount

For a company that shuns discounts, it's ironic that Abercrombie actually trades at a one! Its current P/E ratio of 14 is half the industry average, but its forward P/E for the fiscal year ending 2005 is expected to be just 12. S&P gives Abercrombie's stock the maximum five-star investment rating, and it was recently upgraded from "neutral" to "buy" by Merrill Lynch.

Remember, we're looking for

an Abercrombie holiday bounce. Historically, the three-month period from December to February is a good time to buy shares, taking advantage of both the holidays and the popular winter clothing season. Take the last three years, for example:

- December 1, 2000, to February 28, 2001: US\$21.25 to US\$28.36—a 33.4% gain
- December 3, 2001, to February 28, 2002: US\$24 to US\$26.64—up 11%
- December 2, 2002, to February 28, 2003: US\$25.45 to US\$27.50—an 8% rise

That's three straight years of holiday gains in the midst of the economic downturn. And with a greatly improved economy, brisk consumer spending and high demand for specialty apparel, there's good reason to believe Abercrombie's sales and earnings will profit in the next few months.

Buy Abercrombie shares under US\$30.50 ■

Military body armor stock DHB Industries doubles in price

Hold for more gains while the US remains in Iraq for years



Brian Hicks

When I heard that third-quarter GDP growth came in at a blistering 7.2%, I immediately re-recommended shares of military body armor stock **DHB Industries (DHB:AMEX)**.

Here's why:

With the economy expanding at a robust clip, Bush is a sure bet to win reelection.

With Bush in the White House for another term, the so-called "neocon experiment" will continue for another four years. What this

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over, please...

means is that US troops will remain in Iraq for at least another four years. Personally, I don't think we will ever leave.

In addition, the neocons will apply direct pressure—perhaps military confrontation—to a host of governments they deem hostile to American interests.

To realize the neocon goal of changing the world, the United States will have to increase the size of the military. And that means the potential for a draft.

In fact, the Pentagon has been quietly calling up personnel to start manning local draft board offices.

The handwriting is on the draft board wall

As you probably know, shares of body armor manufacturer DHB Industries have recently rocketed to the moon, hitting a new high of US\$8.25 in November, effectively giving us a double on our initial investment.

In fact, US\$8.25 is an all-time record high for the stock. Now, I brought you this opportunity this past spring. That was when DHB was still trading for just US\$4 a share.

Since then, a lot of things have happened, not only to the stock, but to the market DHB dominates—military combat vests.

DHB Industries makes the Interceptor Combat Vest. The Interceptor is the standard bulletproof vest for the US military. In fact, DHB controls 80% of the US military market for this item.

On November 12, the Department of Defense placed a US\$60 million order with DHB to get more vests to troops going to Iraq. This was announced a day after DHB reported its third-quarter numbers.

Instead of putting my own spin on it, here are some highlights taken straight from the report:

- DHB reports third-quarter revenues increase 80%
- Ups fourth-quarter revenue guidance to record US\$60 million
- Increases 2003 revenue expectations to record US\$217 million
- Projects full-year 2004 revenues to reach record US\$250 million
- Reports current backlog of firm orders increased to record US\$161 million

As good as those numbers are, I actually believe we'll see upward revisions within the next several months.

You see, the Pentagon is buying a stockpile of vests. It means they plan on giving vests to hundred of thousands of soldiers, if not millions.

The efficient market thesis states that stock prices are efficient

because they reflect all known events at any given time. So the Administration's rush to transfer political power to the Iraqis, the US\$60 million purchase order for combat vests and the skyrocketing defense budget should be seen as signs of a long military effort design to radically change the world order.

We will see an Iraqi government installed within a few months, and this government will be protected by the power of the US military. This means troop levels in Iraq will probably remain static between 100,000 and 130,000.

And that in turn means there will be a sustained bull market in shares of DHB Industries for the next several years. **As a result, I'm reissuing a buy on shares of DHB Industries at current levels. ■**

To realize the neocon goal of changing the world, the United States will have to increase the size of the military. And that means the potential for a draft.

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