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Practical profits from Dynamic Market Theory: How we averaged 31% in the deadbeat markets of 2004



J. Christoph Amberger

You can almost set your watch by it. Every year around January 3, the financial press goes into a veritable feeding frenzy: Did Bill Miller, the star mutual fund manager of Legg Mason's Value Trust, manage to continue his "streak" of beating the S&P 500 for another year?

Be still my heart. He did it again. The *Baltimore Sun* rhapsodized on January 2:

"Over the 14-year period, Miller's fund posted a cumulative 834.68 percent return through Thursday. That's an average of about 17.3 percent a year, compared with the Standard & Poor's 500's 12.04 percent, according to mutual fund tracking firm Morningstar Inc."

There you have it. The man's a genius. Even if beating the S&P 500 in 2001 meant losing "roughly" -9.3%, and losing another -8% the year before. After all, for 2004 Miller averaged gains of 11.96% vs. the S&P's 10.88%... and that sure is reason to celebrate.

But allow me to say: You could have done better. Much better!

2004 in a nutshell

As a regular *Taipan* reader, you may have noticed that modesty is not our thing. We like to brag about our successes... if we indeed feel we have reason to brag. While our 2004 track record is still being audited by our legal department... which puts each and every one of our claims under the microscope... our preliminary *Taipan* track record for 2004 looks like it is nothing to sneeze at.

Based on our preliminary results, the Dynamic Market Theory Brain Trust accounted for a collective average of 31.37% gains.

- Leading the pack was long-time *Taipan* Editorial Board member **Siu-Yee Ng**, with **average gains of 89.5%**. Her picks of China Yuchai (CYD:NYSE), Quinenco (LQ:NYSE) and Omi Corp (OMM:NYSE) accounted for 415.56%, 161.11% and 143.31%, respectively.
- **Brit Ryle** convinced with **average gains of 49.5%**, reflecting in part the closeout of his positions in Brilliance China (CBA:NYSE) and Petrochina (PTR:NYSE) for 196.46% and 178.52% gains, as well as his 2004 top pick, TLT September put options, for 103.33% gains.
- Junior *Taipan* editorial board member **Brad Colburn** accounted for an **average gain of 36.24%**, with 251.4% on his position in Given Imaging

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24/ PROFITS

(GIVN:NASDAQ), 305.83% on the second half of his KCS Energy (KCS:NYSE) play, and a cool double on his timely play on spaceDev (SPDV:OTC-BB).

- Our resident British bohemian **Martin Denholm** chalked up *average gains of 29.59%*, with gains of 182.14% and 101.41% on the two halves of his Southwestern Energy (SWN:NYSE) position and 74% on Abercrombie & Fitch (ANF:NYSE).
- Momentum trader **Ian L. Cooper** wrapped up the year with *average gains of 25.32%* as Aastrom Biosciences (ASTM:NASDAQ) brought in 191.3%, StemCells (STEM:NASDAQ) 83%, and the THQ Calls (THQI:NASDAQ) 467%.
- **Chris DeHaemer** ended 2004 with *average gains of 12.19%*, with top picks NTES:NASDAQ up 53.77% and CHINA up 51.34%.
- Since the **WaveStrength** predictive system works best in a market climate with distinct up or down trends, the extended sideways movement of the summer doldrums took its toll on the picks of **Adam Lass**, **Bryan Bottarelli**, and **Ann Sosnowski**, whose collective effort still produced *average gains of 6.68%*.
- And our young team of editors-at-large consisting of **Erin Beale** and newcomer **Alex Chinn** signed off on an *average of 1.93%*. Better luck next year!

These numbers may change upward or downward pending our internal audit through the Agora Legal Department, but based on past experience, any corrections should be minor. (Managing Editor Ned Humphrey pointed out that if we followed the example of some dear colleagues in our industry, we might just want to add up the gains and losses for a total, which in this case comes out to 3,801.48% for the year. But since we have always rejected mathematical sleight-of-hand that comes with annualizing gains and other numbers shenanigans, we'll stick to our 31.37%.)

Please look for a detailed final accounting of our editors' individual 2005 *Taipan* portfolios at www.taipanonline.com by early February.

The practical Dynamic Market Theory

The year 2004 proved once again that in the Age of Opportunity, it's the opportunists who stand a chance of walking out with their profits intact. To be successful, opportunism in turbulent stock markets requires self-control, decisiveness and, most of all, the rational avoidance of emotional attachments. That means Relentless Risk Management!

These are the standard criteria we apply to our track record. They reflect some of the tenets we have come to consider the core of our Dynamic Market Theory:

At Taipan, we like to take advantage of dynamic opportunities as they arise. Markets and trends 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. In fact, it's part of our overall strategic positioning. While each and every one of our editors had his or her share of losing positions in 2004, we were able to limit that loss to -20% or less by relentlessly applying our standard trailing stop.

Overall, our portfolios rely on a number of assumptions... which means our tally in all probability will not reflect exactly 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. Which we know is statistically impossible. (So, while we are immensely proud of last year's results, we're taking our workup with a grain of salt and ask you to do the same.)

Our "portfolios" provide us (and of course our marketers!) with a convenient handle to measure the degree of success our editors have. In a way, however, they are somewhat contrary to our phi-

losophy. *Taipan* considers itself a smorgasbord of profitable investment ideas for independent, action-minded individuals with a hankering to determine their own future... not a static fund to park your money in and forget about it.

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 since January 2001 is the date the issue is made

accessible to *Taipan* Members on our website, www.taipanonline.com. (Statistically, this coincides with the date that 75% of US *Taipan* members are receiving their issues in the mail.)

To ensure fast notification of sell dates, we typically alert our *Taipan* Members to upcoming changes in our positions through special dedicated Members-Only email messages. To assure the largest possible coverage, these sell alerts are typically integrated in our daily *247profits e-Dispatch* as well as posted on our web portals at

www.taipanonline.com and www.247profits.com. If you have not signed up for the *e-Dispatch*, we urge you to do so immediately: It can make the difference between losing money and walking away with your profits intact.

Prices: Any gains and losses reported in the individual portfolios apply to the initial date of recommendation and December 31, 2004, unless otherwise noted. And, unless stated otherwise, the prices reflect only capital gains and not divi-

dent yields that may have added further gains.

The first couple of trading days in 2005 have already shown that the coming 12 months will require no less attention and commitment to make the most of your investments. Which is why I urge you to take advantage of all the features of your *Taipan* membership... our monthly newsletters, our annual conference and tours, our weekly hotline alerts... and our daily *e-Dispatch*. Let's make sure 2005 will rank right up there as one of the most profitable years of your lifetime! ■

2004 Track Record for <i>Taipan</i> and 247profits <i>e-Dispatch</i> picks	
Editor	Avg. Gains
Siu-Yee Ng _____	89.50%
Briton L. Ryle _____	49.50%
William Bradley Colburn _____	36.24%
Martin Denholm _____	29.59%
Ian Cooper _____	25.32%
Christian DeHaemer _____	12.09%
WaveStrength Team _____	6.68%
Editors-at-Large _____	1.93%
Overall Average Gains _____	31.37%

Late, but not too late

The S&P's January reversal offers an excellent reentry point



Adam Lass

What a switch: every almanac called for a weak December and a strong January. Instead, we saw the exact opposite: 2004 closed out with two new highs that were promptly and completely reputed within the first three trading days of 2005.

Now many traders are wondering whether this is the beginning of the end or an opportunity to get

in on the "05 fun" that so many calendrical systems have predicted. Strangely enough, the answer to both questions is "yes."

In my contribution to *Taipan's* 2005 Forecast, I showed readers a chart of the SPX dating back to August of 1997 and wrote of the four key situations an investor should be aware of: topside and bottom-end trend reversals, and topside and bottom-end touch-and-go crescents.

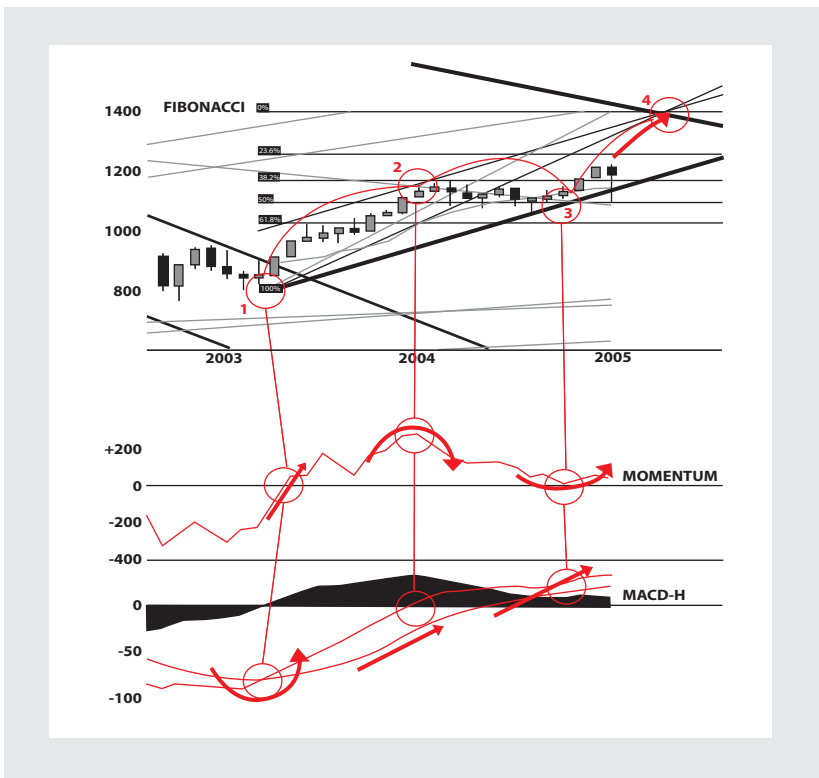
The former occur when a genuine shift out of either a rising or falling trend is taking place and are

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typified by MACD-H slow line/fast line crossovers and penetrations of the momentum zero line, while the latter are trend continuation signals typified by continuing separation of the MACD-H fast and slow lines and a reversal as momentum approaches zero.

A clearer view of the first quarter

Using these criteria, I determined that the SPX would in all likelihood continue rising into the first quarter of 2005. In this month's article, I would like to use a shorter time scale and an additional indicative system to confirm and clarify this forecast.



Much as in my 2005 Forecast, this chart of the SPX uses monthly candlesticks. However, we are focusing in tighter and viewing the period between September 2003 and January 2005—in essence, the end of the falling trend that commenced with the popping of the tech bubble and the start of the rising trend that followed and has governed the market since.

Note the clear topside trend reversal signal at the transition between the two trends (marked in the accompanying chart as Node #1). Price sits simultaneously at the top of the old falling trend and the bottom of the new rising trend.

On the corollary oscillators, we see momentum's indicative line move cleanly through zero and on into positive territory, and the MACD-H's fast line

cross over the slower line deep in oversold territory.

Set up for success

This setup marks the end of the falling trend and launches the S&P into the first arc of the rising trend of the past 23 months. This arc peaks in January 2004 (noted as Node #2 on the chart), and while this does signal the end of the very steep initial climb out of the post-bubble morass, it does not mean that the genuine rising trend has ended.

The best indication of this is the dichotomy between the failure signal generated by the sharp turn downward in momentum and the continued upside signal in MACD-H. Indeed, we see that while the S&P does move along the declining leg of the arc toward the bottom of trend (yielding the flat market that lasted ten months from January through October 2004), once the critical juncture was reached at the bottom of the rising trend (noted as Node #3), momentum's plunge toward zero yielded to the MACD-H superior rising signal and reversed direction. The end result is a "bottom-end touch-and-go crescent."

This is now the governing force in the S&P's chart. Now that the conditions for another arc within the rising trend have been met with continuation signals on both corollary oscillators, we can use the dimensions of the previous arc to predict at least the initial portion the next one.

This yields an arc base at the bottom of trend (Node #3), followed by rapid net price rises from October 2004 through April 2005 (Node #4). At this node the rally runs into several resistance factors.

The blocks at the top

The first takes us back to Dent Seasonal Theory, which states the majority of booms see their best months from January to April. The second is that the index will be reaching the shallower climb at the top of the arc.

Next up, we see the top line of the falling bear market show back up in the picture. This is a crucial test, as it will establish whether all of this has been a genuine shift out of the bearish stance established at the beginning of the Bush recession, a fact that until this juncture will not have been proven.

At this point both corollary oscillators will be showing very strong positive values. While this is not a lock that the markets will be overbought, it does offer that potential. Momentum will most certainly fail at this node.

Whether this failure will end in another touch-and-go crescent, yielding the base for another rising arc, or a top-side trend reversal will be determined by the status of the MACD-H at the time.

Crosscheck and confirmation

But there is another indicative system that can be used both to confirm the current pattern as well as offer clues to the index's behavior at the aforementioned node. This technique is known as a stipulated Fibonacci grid.

First, use the known base of the rally as a Fibonacci base as well and then draw a line up to the stipulated top at 1,400 by April 2005. The Fibonacci technique states that lines drawn horizontally at certain percentage-based retracements, 23.6%, 38.2%, 50%, and 61.8%, should correspond to key moments in the life of the rising trend.

Now clearly not all of the lines will match up when using the forward-looking grid. However, the strong correspondences around the three lower retracements offer the analyst reasonable assurance that the remaining nodes will see similar correspondences.

And that means that the sizable gap between the 23.6% line and the zero line falls right at the rising arc's steepest climb. It also serves as confirmation

of the difficulties the index will see at 1,400.

My advice: Purchase long-dated S&P call options now and plan to sell them come April. At that point the preferred strategy will be to sell matched call and put baskets banking on another flat spell. ■

Wavestrength 2004 Track Record

Company Name (Symbol)	2004 Gains
SPRD Trust (SPY:AMEX)	13.20%
SPY:AMEX	15.42%
SPX June 1175 Call (SPT FO)	-20.00%
SPX June 1175 Call (SPT FO)	-19.87%
SPX June 1175 Call (SPT FO)	-20.00%
SPX June 900 Put (SXB RT)	-20.00%
SPX June 900 Put (SXB RT)	-20.00%
Identix Inc. (IDNX:NASDAQ)	-20.00%
SPX August 1100 Put (SPT TT)	-20.00%
SPX December 995 Put (SPT XS)	-20.00%
SPX December 955 Put (SXB XS)	-20.00%
Cameco Corp. (CCJ:NYSE)	-19.91%
Cameco Corp. (CCJ:NYSE)	56.65%
Cameco Corp. (CCJ:NYSE)	56.65%
Trex (TWP:NYSE)	56.65%
Trex (TWP:NYSE)	9.53%
Buffalo Wild Wings Inc (BWLDD)	29.35%
Manpower (MAN:NYSE)	-6.37%
IBM January 95 Calls (IBM AS)	95.65%
Total Average Gains	6.68%

It's déjà vu all over again!

Springtime bond market rout is right on schedule



Briton Ryle

Eleven months ago I wrote in *Taipan*, "The fundamentals of this economic recovery are more akin to a sprint than a marathon. A weak dollar, low rates and a refi-boom cannot be permanent features of an economy. Alan Greenspan knows this."

The Fed had not yet started raising interest rates. But was giving the bond market the old AI "wink, wink, nudge, nudge."

In that issue of *Taipan* (March 2004) I recommend a downside trade on an exchange traded bond fund, iShares Lehman 20+ Year Treasury Bond Fund (TLT:AMEX). And *Taipan* readers who took my advice knocked down a 103% gain in less than two months.

The reason I bring this up is that I'm happy to announce that it's time to do it again. Not only have Greenspan & Co. started on another early warning campaign, the Lehman iShares 20+ Year Treasury Bond Fund is almost exactly where it was when we bought puts on it last year. The similarities are uncanny. It's just too good an opportunity to pass up.

But before I get to the recommendation, let me offer up some truly frightening words from Morgan Stanley's head economist, Stephen Roach.

On January 7, Mr. Roach deconstructed the minutes from the last FOMC meeting in an article titled "Global: Game Over?"

The article starts like this...

"The unraveling of the Asset Economy could well be at hand. America's Federal Reserve has finally woken up to the perils of the risk culture that its reckless accommodation has spawned. The Fed

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has sounded simultaneous alarms on two fronts— inflation and excesses in asset markets. Such explicit warnings from the US monetary authority are rare and should be taken seriously. This has important implications for the interest rate outlook, as well as for the asset-dependent US economy.”

Sounds bleak. And it gets worse...

“The Fed made special note of inflation risks, citing recent weakness in the dollar, still-elevated oil prices, a cyclical slowing of productivity, and signs of deteriorating inflationary implications signaled in the TIPS market. At the same time, the Fed’s new-found concerns over ‘excessive risk taking’ focused on unusually narrow credit spreads, a notable pick-up in corporate finance activity (both IPOs and M&A deals), and what the policy minutes referred to as ‘anecdotal reports’ of excess speculation in residential property markets.”

In case you’re wondering what Roach is trying to say...

“Rarely does the US central bank cast aside the rhetorical shackles of FedSpeak and express its concerns with such candor and fervor [...] The Federal Reserve is sending a clear warning to speculators that should not be ignored.”

Speaking to the continued speculation in the bond and real-estate markets, Roach says...

“Such a response [continued risk-taking] leaves the central bank with little choice other than to up the ante on its tightening strategy [...] In my view, that could spell as much as another 200 bp of monetary tightening, requiring much larger incremental moves than the measured dosage of 25 bp per pop that has been applied so far.”

And finally, Roach’s conclusion...

“...all this spells tough times ahead for the asset-dependent US economy.”

Yeesh. 2005 suddenly doesn’t sound so good. But remember, Mr. Roach is an economist. There’s no rule that says the financial markets will follow his views. And while it’s clear that consumer spending has been at least partially supported by refis over the last two years, I’m not convinced that there is a housing “bubble.” However, I don’t see any way houses will continue to appreciate like they have.

The sure thing

There’s only one thing that seems close to a “sure thing”—interest rates are going to continue to rise. That means at some point bond yields will

rise and bond prices will fall. And the fall could be severe.

With all this in mind, no portfolio is complete without some downside exposure to bonds.

As I write, you can buy the June 86 TLT put option, symbol TLTRH, for US\$110 to US\$120 per contract. TLT is currently trading just above US\$90. If Alan Greenspan continues to hike rates at the current 25 bps clip, you should do fairly well on this position. But if he goes to a 50 bps hike, the bond market will get routed and you’ll clean up. So...

Buy the June 86 Lehman iShares 20+ Year Treasury Bond Fund (TLT:AMEX) put option, symbol TLTRH, at or below US\$150 per contract.

Since this an options trade, I’m going to recommend that you dispense with Taipan’s customary 20% stop loss. Options always require more wiggle room than stocks. A stop at US\$75 makes much more sense.

Wait! I’m not done

Now, surely you don’t think I would forecast a bond market meltdown without taking some profits from stocks, do you? Because if the Fed gets more aggressive in hiking rates, bonds won’t be the only thing that falls.

I’ve currently got four open positions in *Taipan*: **Crucell (CRXL:NASDAQ)**, up 75%, **China Life (LFC:NYSE)**, up 16%, and **Ballard Power (BLDP:NASDAQ)** and **Sohu.com (SOHU:NASDAQ)**, both essentially flat. I’m recommending that you sell all of these stocks at your earliest convenience. I will follow up on these sell recommendations on the members-only *Taipan* Hotline. ■

...no portfolio is complete without some downside exposure to bonds.

Briton Ryle 2004 Track Record

Company Name (Symbol)	2004 Gains
Brilliance China (CBA:NYSE)	44.89%
Petrochina (PTR:NYSE)	251.41%
Halliburton (HAL:NYSE)	305.83%
King Pharma (KG:NYSE)	-20.00%
Terayon (TERN:NASDAQ)	-20.00%
Tellabs (TLAB:NASDAQ)	-20.00%
Apollo Gold (AGT:AMEX)	78.29%
TLT September put option	-20.00%
Sony January 50 call	-20.00%
China Life	15.94%
Sohu.com	-20.00%
Ballard Power (BLDP:NASDAQ)	100.00%
Crucell (CRXL:NASDAQ)	10.32%
Total Average Gains	89.50%

What's a Doji, Anyway?



Ian Cooper

Here at our offices in downtown Baltimore, the Taipan Group is always hard at work experimenting with and creating new profit-making strategies. This year, not only did we create *Year of Profits* (for history buffs) and *Profit Hog Insider* (for insider buying buffs), we also created *Doji Master*, which preys on investor fear, pouncing on doji candlestick formations and high put/call ratios. We'll get into

all that in just a moment.

The question we get most of all is "what the heck is a doji"? Let me explain and then show you how coupling that candlestick formation with a high put/call ratio can lead to some impressive short-term gains with today's featured companies.

Not only will we show you how to do this, we'll be offering you the opportunity to join the elite Doji Master team that brought in a total of 404% (adding all winners, subtracting the losers) in its first 16 days of existence.

What the heck is a doji?

Profit stars, commonly referred to as dojis, are commanding reversal signals and the bread and butter of *Doji Master*. These are formed when the candlestick opens and closes at the same level, implying bull/bear indecision in the stock price. They can be subdivided into the following categories:

- Doji
- Long-legged doji
- Butterfly doji
- Gravestone doji

Dojis are most significant when found after an extended set of long-bodied candlesticks (bullish or bearish).

A long-legged doji is formed when the stock opens at a given level and trades in a broad range, only to close at the same level.

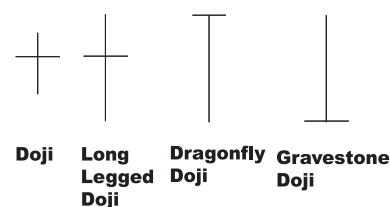
Long-legged dojis are most powerful when preceded by smaller candlesticks, as a sudden burst of volatility coupled with a volume spike can imply that insiders have leaked information and a change is coming.

Dragonfly dojis open at the high end of a ses-

sion, sell off a considerable amount, then rally to end the day as the same level as the open. These are usually seen after a decline and are reversal indicators. If they form in conjunction with an upward-sloping moving average, it's a buy.

A gravestone doji is the reverse of the dragonfly doji and is a top reversal indicator when confirmed with a bearish engulfing candlestick. As the name implies, they look like gravestones and could signal the death of the stock.

Here's what they all look like...



Narrowing your search

Unless you have time to sift through tens of thousands of stocks looking for doji formations, we wouldn't advise it. There's a much easier way to sift through all those stocks to find the perfect doji candidates. It's called the PCR, or put/call ratio.

As you'll see, *Doji Master* preys on fear simply by using the PCR. When investors get scared, they run away like frightened schoolgirls. Nothing spawns fear like a falling stock. And when a stock falls for days on end, watch out! People start panicking and selling. That's when our mouths start to water.

Bottom line: fear sends investors into a tailspin. They start trading solely on emotion, not logic, creating a profit opportunity. In fact, according to Zeal Intelligence, "the thundering herd is always wrong, as most people are blinded and enslaved by their own emotions."

Now, eventually that fear subsides. At the point where fear is at its pinnacle, the stock is oversold. That's where dojis are found hiding at the bottom of trends, waving that it's time for a reversal.

Here's how the PCR works. As you know, when people are afraid that a stock will go down, they buy put options. When they believe the stock will go up, they buy call options. If the PCR is going up, investors are buying puts, afraid that the stock will continue to drop.

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When a stock's PCR climbs above 1, it indicates that the stock is well oversold and a reversal (in the form of a candlestick formation such as a doji) is pending. When the PCR hits 2 or 3, panic is setting in. But we like to look for PCR's above 4, which only happens when the fear is so great that a turnaround is nearly inevitable.

So how do you know when the stock is at rock bottom and a turnaround is likely? When you find a stock with a PCR above 1, pull up a three- to six-month candlestick chart. If any of the doji candlestick formations are sitting at the bottom of a recent downtrend, buy.

Oversold and reversing

To give you an example of how *Doji Master* works, here are three stocks overdue for a turnaround. They are **QLT Inc. (QLTI:NASDAQ)**, **The Finish Line (FINL:NYSE)** and **Vitesse Semiconductor (VTSS:NASDAQ)**, a bonus buy with a different kind of candlestick formation.

With QLTI, not only has a doji formed at the bottom of a downtrend with a PCR of 1.14, it has a PEG ratio of 0.81. Anything below 1 is undervalued. This one is at least 19% undervalued and oversold, just begging to be bought here.

QLT Inc is involved with treatments for AMD or age-related macular degeneration. Next to Eyetech's Macugen, its Visudyne treatment is the only one with FDA approval. While Visudyne is limited to only one sub-type of AMD, that accounts for 25% of the patient population.

QLTI's treatment is injected into the arm and activated by shining a cold laser into the eye to close vessels, unlike others that require putting a needle into your eye.

While macular degeneration is an eye-attracting story, our main focus here is the high PCR of 1.14 and that doji at the bottom of the recent trend waving back at us. **Buy shares of QLTI now under US\$17.25.**

Next up, The Finish Line (FINL:NYSE). In addition to the doji (second to last candlestick in the chart), there is a high PCR of 2.07. Plus, this one is also undervalued with a PEG of 0.99 and a P/S of 0.86. Higher highs and higher lows also lead us to believe that FINL is poised to break out.

The recent selloff was on an earnings miss. The company posted EPS of 5 cents a share or US\$2.3 million, up from 4 cents or US\$2.2 million last year. The Street was looking for 6 cents. Revenue was up 16% to US\$235.3 million from US\$202 million last year. December sales, accord-

FINL Daily



QLTI Daily



VTSS Daily



ing to the company, should exceed expectations. **FINL is a buy under US\$21.**

Bonus with a hammer

A bonus buy, Vitesse Semiconductor had a high PCR in mid December, helping it rise slightly above US\$3.50. This is no longer the case. Now, the reasoning for the buy is the recent formation of another candlestick formation known as a hammer. The reason we've added this is because VTSS is still well oversold and ready for a pop.

As you can see in the two-month chart, a hammer formation was created on January 11, 2005. When confirmed by the bullish engulfing candlestick formed at the tail end of the chart (the fat white candlestick), the hammer tells us that an uptrend is established. The stock is likely to move higher. Shares of VTSS are a buy under US\$3.50.

Let's review

While this system is based on complex technical indicators, it boils down to a simple three-step process.

1. First, we look for a stock with a high PCR. The higher the better. This indicates that the stock is oversold and a reversal is imminent.
2. Second, we check to see if the falling stock has a doji. The doji indicates that the stock has hit bottom and is poised for a breakout.
3. Third, we recommend a buy on the stock, or calls on the stock... and wait for the buyers to

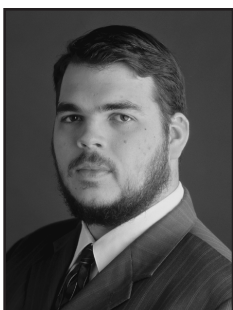
rush in on oversold conditions. When that happens, the stock moves up, handing us quick, fat profits. We usually take profits in one to two weeks' time.

In a nutshell, that's how the Doji Master system works. It's been so successful that in the first 16 days of its existence, it helped investors realize a total gain of 404%. ■

Ian Cooper 2004 Track Record

Company Name (Symbol)	2004 Gains
Diversified Security Solutions (DVS:AMEX)	-20.00%
Aastrom Biosciences (ASTM:NASDAQ)	191.30%
Bioscrypt (BYT.TO)	1.49%
Zebra Technologies (ZBRA:NASDAQ)	-2.88%
Symbol Technologies (SBL:NYSE)	5.44%
Merck (MRK:NYSE)	10.59%
Varsity Books (VSTY:NASDAQ)	18.67%
Blue Square Israel (BSI:NYSE)	9.48%
OEX	50.00%
Restoration Hardware (RSTO:NASDAQ)	15.42%
Savvis Communications (SVVS:NASDAQ)	-20.00%
StemCells (STEM:NASDAQ)	-34.42%
Aastrom Biosciences (ASTM:NASDAQ)	19.57%
Taser (TASR:NASDAQ)	17.54%
AT&T (T:NYSE)	-20.00%
General Motors (GM:NYSE)	-20.00%
Rowe Company (ROW:NYSE)	-10.53%
Viiage Tech (VISG:NASDAQ)	-20.00%
Digital Recorders (TBUS:NASDAQ)	-20.00%
OmniVision Technologies (OVT:NASDAQ)	-20.52%
Varsity Books (VSTY:NASDAQ)	28.43%
Turkish Fund (TKF:NYSE)	4.50%
Altri (MO:NYSE)	1.14%
DuPont (DD:NYSE)	-2.13%
StemCells (STEM:NASDAQ)	83.77%
THQ Inc. (THQI:NASDAQ)	25.24%
Harris & Harris (TINY:NASDAQ)	21.40%
Applied Digital Solutions (ADSX:NASDAQ)	9.00%
THQ Inc. (THQI:NASDAQ)	42.00%
Take Two Interactive Calls (TTUO:NASDAQ)	-20.00%
THQ Inc. Calls (THQI:NASDAQ)	467.00%
IPIX (IPIX:NASDAQ)	-20.00%
Hollis-Eden (HEPH:NASDAQ)	-20.00%
Magal Security (MAGS:NASDAQ)	-20.00%
Total Average Gains	-25.32%

Capping off the REIT trifecta



William Colburn

If you've been keeping track of your recent *Taipan* issues, you'll notice that I've played two real-estate investment trusts (REIT's). I like the investment potential in REIT's because they're usually stable and offer you some "free" money in the form of dividend payments.

Fact is, REIT's are great... and all great things come in threes.

This month, I'm bringing you the third part in my REIT series. The stock is **Capstead Mortgage Corp. (CMO:NYSE).**

CMO operates as a REIT earning income from investing in real estate-related assets on a leveraged basis and other investment strategies. These invest-

ments include financial assets, specifically residential adjustable-rate mortgage (ARM) securities issued by government-sponsored entities, and either Fannie Mae, Freddie Mac or Ginnie Mae (Agency Securities).

CMO has also made limited investments in credit-sensitive commercial mortgage assets, including the direct ownership of real estate.

Now, you're probably waiting for CMO's dividend information with bated breath, so I'll go ahead and hit you with it.

CMO pays an 9% annual dividend. It's a shame I didn't find this stock earlier in the fall. CMO announced a monthly dividend of US\$1.32 to those investors on the books as of November 5.

But our time will come. Knowing how fundamen-

over, please...

tally strong CMO is I don't see how you could fail to profit from this stock. CMO has a list of positive fundamentals that make this stock a can't-miss:

- an operating margin of 53%
- ROE of 23%
- P/E of 5

The low P/E means this stock could be set for some future growth. Growth potential and a decent dividend? I'm there, and hopefully you'll be too.

CMO actually offers the highest dividend payment of my little three-part series here. America First Apartment Investors (APRO:NASDAQ) pays an 8% dividend. So does Anthracite Capital Inc. (AHR:NYSE).

Speaking of those two stocks, they trade (at this issue's press time) for US\$11.74 and US\$11.02, respectively. We're continuing to hold these positions.

Along with the new buy on CMO, I'm recommending you buy APRO and AHR if you have been hesitant. The earlier you get on the train, the better your seat will be.

CMO trades for US\$9.42 and is a buy under US\$11.00. If you're going to buy APRO and AHR as well, any price around current trading levels will do. ■

William Colburn 2004 Track Record	
Company Name (Symbol)	2004 Gains
Cepheid (CPHD:NASDAQ)	44.89%
Given Imaging (GIVN:NASDAQ)	251.41%
KCS Energy Inc. 2nd Half (KCS:NYSE)	305.83%
Entremed (ENMD:NASDAQ)	-20.00%
Cardiac Sciences (DFIB:NASDAQ)	-20.00%
Depomed (DEPO:NASDAQ)	-20.00%
Midway Games (MWY:NYSE)	78.29%
Conexant (CNXT:NASDAQ)	-20.00%
Radica Games (RADA:NASDAQ)	-20.00%
Hexcel Corp. (HXL:NYSE)	15.94%
Boston Communications (BCGI:NASDAQ)	-20.00%
SpaceDev Inc. (SPDV.OB:OTCBB)	100.00%
Petro Quest Energy (PQUE:NASDAQ)	10.32%
Compex Technologies (CMPX:NASDAQ)	-20.00%
Champps Entertainment (CMPP:NASDAQ)	-20.00%
SpaceDev Inc. (SPDV.OB:OTCBB)	12.13%
America First Apartment Investors Inc. (APRP:NASDAQ)	16.75%
SpatialVision (HDTV:NASDAQ)	0.00%
Anthracite Capital Inc. (AHR:NYSE)	28.89%
Total Average Gains	89.50%

The best discount in town:

How "Family Dollar" can easily make you 75% in two months



Ann Sosnowski

I've always been a discount shopper. I find some great bargains at the local secondhand stores, the dollar stores, the consignment shops and the warehouse sales around the Baltimore area. And to tell you the truth, it's been a much more pleasurable experience than those blinding, soul-sucking department stores.

Case in point: When I first moved out on my own, I did what a lot of new renters do. I underestimated all of the supplies I would need to run my daily life. From mops to tissues, from trashcans to air deodorizers, I didn't realize how much "stuff" I would be accumulating in a very short amount of time in order to get my living space in order. Or how much money it would cost!

Instead of going somewhere like Target or Costco, I wanted to go to a dollar or discount store. Having just moved, with limited funds, I knew I could find some cheap yet quirky and efficient supplies for my lifestyle.

And let me tell you, it was a good decision. My roommate and I found 75% of our cleaning, container, and "just because" supplies at discount stores. We spent an entire night filling the bed of his truck with discount dish detergent, napkins, butter dishes, everything you could imagine, after visiting nearly every dollar and discount store in the tri-state area. And when we brought it all home, emptied the bags and filled the closets, we knew we were ready to live.

I couldn't have found so much necessary, sturdy "stuff" at such a discount if it weren't for this company.

Your neighborhood discount store

There are a few **Family Dollar (FDO:NYSE)** stores in my area. They're clean, crisp, warehouse-like spaces, each one arranged in an exact manner so you always know where an item is, whether you're in North Carolina or Arizona. The stores' merchandise ranges from health and beauty aids to kids clothing and shoes to pet supplies, hardware, paint, food and candy. Most items go for US\$1.00 to US\$25.00.

Family Dollar was the brainchild of Leon Levine, a 21-year-old entrepreneur who in 1958 wanted to operate a low-overhead, self-service retail store full of high-quality, good-value merchandise under US\$2.00 (that's before the ferocity of inflation).

He opened his first store in Charlotte, North Carolina, in 1958. FDO then proceeded to open stores in Georgia, Virginia and a 50th in Charlotte! The stores were popping up everywhere. By the 1970's, FDO was a publicly traded company. (One share bought in 1970 at US\$14.50 is now equivalent to 162 shares.)

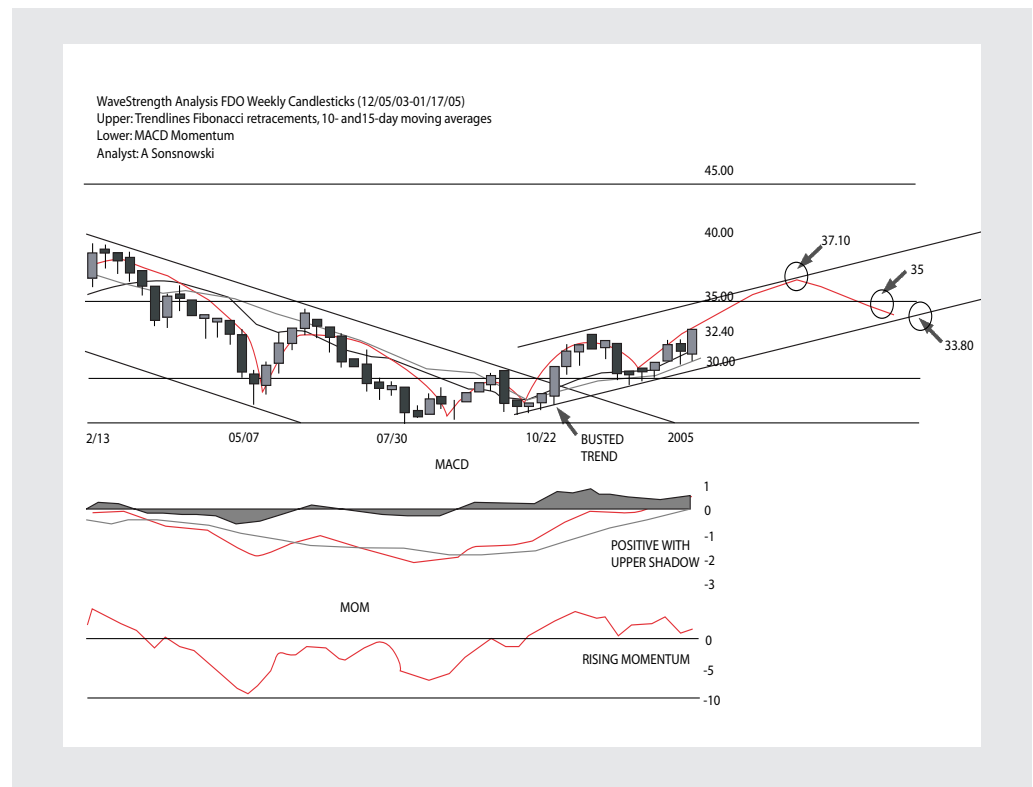
By 1992, FDO's annual sales exceeded US\$1 billion. By 2000, annual sales exceeded US\$3 billion. In 2001, FDO became part of the S&P 500 and joined the Fortune 500 in 2002. In 2004, they increased their cash dividend for the 28th consecutive year.

Spreading their high-value, low-cost retail ethic from Maine to Arizona, Family Dollar now provides 5,500 self-serve, cash-and-carry discount stores across low- and middle-income areas in America. They provide stellar customer service as well as quality products at an affordable price. And FDO still has room to grow

The future of the family dollar

Upgraded from "market perform" to "outperform" by Piper Jaffray on January 12, 2005, FDO expects to build 500 to 560 new stores by August 27, 2005, and is looking for new real estate to realize this plan. (They added about 10% net new stores in the fiscal year ending 2004, including a few relocations and expansions.) The discount retailer posted a 4% gain in same-store sales for December, almost doubling its average forecast of 2.5%.

Two interesting expansions we may see from FDO concern buying practices: they have yet to provide merchandise online or to allow customers to purchase in-store merchandise with credit cards. (They do accept debit cards.) If they take advantage of one or both of these opportunities, FDO's sales could double.



The value of a good chart

The weekly chart looks good enough to eat. After a rough 2004, Family Dollar began to bounce back in October 2004, becoming a trend-buster to the upside. FDO has already completed an entire "perfect wave" formation at the beginning of its bounce, and is ready to test the top of trend yet again. With a strong positive upper shadow on the MACD along with a strong rising signal line and positive momentum for the first time in a little more than a year, FDO is poised to hit a new high around US\$37.10 in the next two months, only to retrace to the bottom of trend between US\$35 and US\$33, retesting the 23.6% Fibonacci retracement derived from a low in 1996.

I'd like to recommend a long-term option on FDO to play on expectations for continued expansion of its chain. For that, we can turn to the FDO July 35 Calls (FDO GG). You can pick these up under US\$2.00.

In two months, if FDO hits my target of US\$37.10, these July 35 Calls will be worth about US\$3.50, a gain of approximately 75%. ■

See Adam Lass's WaveStrength Track Record.

over, please...

ADR's are the big winners in 2004!



Siu-Yee Ng

We've had a great run with **China Yuchai (CYD:NYSE)**. We sold half the position in August 2003 for a 289% gain. We held the other half until it reached our -20% trailing stop on January 7, 2004. That's a 415% gain! Since December 2004, the stock has been on a steady decline. Even if you sold at these levels, you would still be up over 100% on the position.

Guangshen Railway (GSH:NYSE) recently hit a 52-week high of US\$20.74. China continues to increase its budget to finance its infrastructure projects, including its railways. Guangshen is positioned to profit from China's modernization and expansion. Continue to hold but maintain a -20% trailing stop at US\$16.59.

Quinenco S.A. (LQ:NYSE) recently hit a 52-week high. Take the profits off the table. *Sell LQ for a 163% gain!*

Omi Corp. (OMM:NYSE) has been appreciating with the increased price of oil. The stock hit a 52-week high in November. But the stock hit our -20% trailing stop on December 28, 2003. That's a 143% gain. Even the

buyback announcement in December did little to lift the stock. If you haven't sold, go ahead and do so.

Zindart Ltd. (ZNDT:NYSE) has been disappointing, hitting our -20% trailing stop on March 23, 2004. We made out with a 28% gain. It also looks as if there has been some heavy selling in January.

LJ International (JADE:NASDAQ) hit our -20% trailing stop on February 24, 2004. That's a gain of 34%. I was looking for JADE to benefit from the growing wealth of China. But the stock has done little since its run-up in January 2004.

Ivanhoe Energy (IVAN:NASDAQ) has not been able to benefit from the increasing demand for oil. The stock hit our -20% trailing stop on March 11, 2004.

Things are not looking good for **Semiconductor Manufacturing (SMI:NYSE)**. Last week, the Chinese chipmaker announced that it is cutting its output target for 2005. Despite long-term optimism for the company, the stock officially hit our -20% trailing stop on May 14, 2004.

On the other hand, **Sinopec Beijing (BYH:NYSE)** has been able to benefit from the increasing demand for oil. We're currently up over 17%. ■

Siu-Yee Ng 2004 Track Record

Company Name (Symbol)	2004 Gains
China Yuchai (CYD:NYSE)	415.56%
Quinenco S.A. (LQ:NYSE)	161.11%
SGL Carbon (SGG:NYSE)	60.00%
Zindart Ltd. (ZNDT:NASDAQ)	28.00%
LJ International Inc. (JADE:NASDAQ)	71.43%
Guangshen Railway (GSH:NYSE)	38.40%
Omi Corp. (OMM:NYSE)	143.30%
Ivanhoe Energy Inc. (IVAN:NASDAQ)	-20.00%
Semiconductor manufacturing (SMI:NYSE)	-20.00%
Sinopec Beijing (BYH:NYSE)	17.15%
Total Average Gains	89.50%

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