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**24/** PROFITS

This issue went to print 2-20-04. Prices and margins quoted reflect levels at this date.

“Until there’s a profit...a story is just a story”: Focus on the reality of the markets and you’ll find a blueprint for profits

***Here are five stocks with average gains of 50.2%... and there’s still time to get in!***



J. Christoph Amberger

What ever happened to virtual sex?

When was the last time you thought about the famed “data glove”... dusted off the fuel cells in your car... or had a spare part for your boat “faxed” to you in 3-D as you watched the sun set over Punta Cana?

Most technology “stories” of the past ten years have by now played themselves out—think Internet B2B, cell phones, and virtual reality. Chances are, most investors who bought into these stories are not much better off than they were before.

Greg Eckler, co-author of the 20-20 hindsight treatise *Bull!*, provides an idea of how the mainstream

brand of “story” investing tends to work out for most:

*“In 2000 Eckler discovers fuel cells, snapping up Ballard Power Systems at a bargain US\$60 against his father’s stern warning that companies with no profits in their history are not worth US\$5 billion. Eckler Jr.’s brilliance becomes clear as the stock hits US\$100. Less clear when it hits US\$10. Eckler Sr. explains that ‘whether it’s fuel cells or flying cars, until there’s profit, it’s just a story.’”*

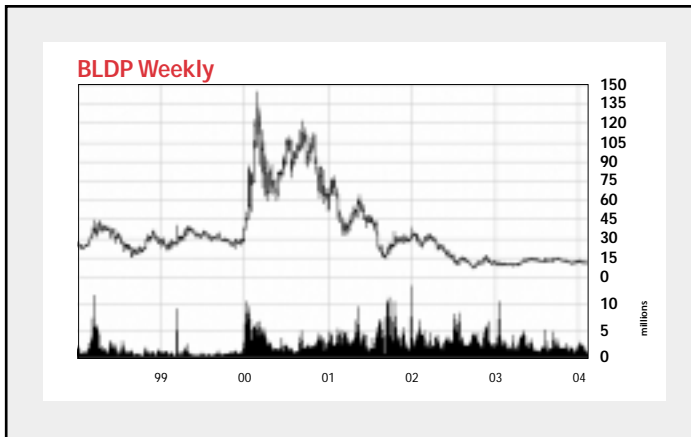
### Ahead of the curve

If you are a long-time *Taipan* member, you probably had a good chuckle reading this. After all, our “story” hunter-gatherers at *Taipan* began tracking Ballard Power Systems (BLDP:NASDAQ) in June 1998—a full two years before the story was “discovered” by Eckler. Which means that *Taipan* subscribers had a fighting chance to get into the stock when it was trading below US\$27. And with a trailing stop (any trailing stop!) in place, the Ballard “story” at its height of hype would have netted between US\$90 and US\$100 in cold, hard, pragmatic profits. Just look at the chart: even Eckler had at least two chances to break even on his US\$60-a-share-investment.

So what went wrong?

*over, please...*

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Applying Dynamic Market Theory, we can reduce the conundrum to a handy syllogism: *We bought the story. Eckler bought into the story.*

Where we were following early indications of a dynamic movement, Eckler was making an emotional commitment.

### The point of investing

This, my friend, can mean the difference between making a mint and losing your shirt in the stock market. Over the years we have found that deviating from the strictly pragmatic analysis of dynamic movements is an expensive proposition. Because as soon as you allow your ego to get wrapped up in an intuitive, emotional, or overly dogmatic view of the markets, your chances of losing increase in direct proportion to the degree of your commitment to your world view.

The point of investing is to end up with more money than you started with. For most of us, that means buying low and selling high—or at least buying high and selling higher. I know it sounds simplistic, but you'd be amazed at the number of investors who come to see the markets as validators of their world view... *when all they are is the soulless aggregate of dynamic buying and selling behaviors.*

The difficulty arises when you can't determine whether stocks are cheap. As a rule of thumb, stocks are never cheap if you look at them from the perspective of the present. They only become "cheap" in hindsight, after you know that they've gone up... and are kicking yourself for not buying when you had the chance.

## Dynamic Market Theory

That's why you will rarely find the Taipan Group editors among the "irrationally exuberant" bulls or the permanently dyspeptic bears. We don't care to commit. More money has been lost in missed opportunities than was lost in the global market decline between 2000 and 2002!

So, in the absence of the hyped-up "next big thing," what are you supposed to do with your money? I posed this question to our assembled editorial team during our monthly board meeting.

*Taipan* veteran and *Red Zone Profits* founder Christian DeHaemer commented: "Don't get me wrong: There will be plenty of opportunity here as the latticework of evolution progresses—but the revolution is over. In this environment, there are three places to seek your fortune: US-based, old-school exporters and commodity producers, emerging markets with US denominated debt, and nanotech."

I think he may be on to something: Since the September 2003 issue of *Taipan* he has given you three emerging market stories, one commodity producer and a nanotech play. Here's how they've done so far:

- **Phelps Dodge (PD:NYSE)** was recommended on September 8, 2003, at US\$46.50. It now trades for US\$86.51, up 86%.
- **ICICI Bank (IBN:NYSE)** was bought in August at US\$8.70 and sold in December at US\$15.08 for a 73% gain.
- **The India Fund (IFN:NYSE)** was bought in October at US\$17.60 and is currently trading at US\$25.99, a gain of 44%.
- **The Malaysia Fund (MF:NYSE)** was bought the same day at US\$5.10 and now trades for US\$6.40, a 25% gain.
- **Veeco Instruments (VECO:NASDAQ)**—Chris's nanotech play—was bought for US\$26.75 in December 2003 and now trades for US\$32.80—up 23%.

That's 5 for 5, for average gains of 50.20% (These positions remain solid holds, except for IBN:NYSE, which we sold in December for 73% gains.)

But that's not all:

While the Chicken Littles have been predicting not only a stock market crash but also the unceremonious demise of the US real-estate market since 1995, we have been riding the dynamic waves for years. Thus far, we're quite happy with the results. So are our subscribers. *Taipan* member Warren B. wrote to us today:

*"I bought 1,000 shares of Impac Mortgage Holdings about nine months ago for about US\$15.00 and have reaped the huge dividend as well as a very good appreciation in price. I wish I had bought a lot more of Impac. Thanks for your good advice on other stocks, especially the Chinese companies you recommended. I have done very well with them."*

For perspective: We recommended **Impac (IMH:NYSE)** as a yield play on the US mortgage and real-estate market in the July 2001 issue of *Taipan*, when the stock was trading at US\$7. These days, it trades at close to US\$21... not to mention the regular double-digit cash dividends. (Of course, pragmatists that we are, we don't expect trends to last forever: As the real-estate bust in the early 1990's proved, no asset is safe from downward pressure. Which is why we recommend you observe a generous trailing stop of 25% to 30% on your IMH position.)

### What's up for the US markets?

From the vantage point of 20-20 hindsight, it

was easy to call the markets last spring. Last year, stocks were low. (Of course, some were saying that stocks were *still* overvalued, *still* overbought. Chances are they will never change their tune.)

But other than gut feeling and comparative analysis, you had a few hands-on facts to go by in weighing the upsides and downsides of US equities. Many actually traded at less than cash and had a great deal of insider buying. As far as we at the *Taipan* Group are concerned, if you can find a company that has more dollars in the bank than the amount at which the stock market values its entire assets, and the smartest people in said company are buying shares, well then, that's a no-brainer. You buy.

Today, things are a bit different. You actually need to put in a bit of sweat equity, dig a little deeper, seek out historical precedent, study the charts or discover little-known new technologies whose "stories" have yet to make their way through the media-driven phases of investor interest.

For this issue, I asked our editorial board to take a step back and look at the big picture. The year appears to be rich in dynamic trigger points and catalysts... ranging from Iraq to the presidential election to a potential rate hike by the Fed. What they've come up with is a sober, stripped-down assessment of market reality. For you and me, it provides a blueprint of what to expect from the markets in the next three to four months. ■

## Evidence—scientific and otherwise—that the S&P 500 will rise another 200 points between now and midsummer



Adam Lass

I conducted a very unscientific study the other day. I was tipping a beer in the presence of a bunch of wise guys—smart, well informed Washington and New York types, real masters-of-the-universe—guys who figure that they either know or perhaps even control the fate of the stock market.

In reality, they are all naught but wage slaves for the real shakers and movers. But get a couple of pints of Guinness into 'em and they'll claim to be able to move the stars in the firmament, never mind the price of the S&P 500.

The questions at hand: Is this rally the real deal? How far will it go? What could cap it off? And when will the waitress bring our steaks?

*over, please...*

## Throwing darts

At first, the answers seem to come in all over the map: It's real... it's a pump job... the Fed is running the show... no, the Fed will tank it. Then I started to chart out the answers on the back of a convenient napkin, and found within the obvious differences some remarkable confluences.

By and large, the Beltway types (regardless of party affiliation) all figured that it was a pump job. There, things broke up a little, with the lone Republican smiling like a cat enjoying a post-canary-prandial. His calculation was that Karl Rove's clever manipulations would keep the boom in play at least through November.

The Democrats were not so sanguine, and argued (ranted? screamed?) that the White House was playing with fire, that the dollar would tank, that inflation would run rampant, and that Halliburton-paid thugs would run amok in the streets. They figured this chaos would hit right about midsummer, just in time for the big Democratic conclave in Boston. (Boston! Oh, please—do *not* try to tell me that Kerry wasn't anointed a year ago.)

## The Street's two cents

But these guys are mere political hacks: speechwriters and "researchers." In other words, professional mudslingers. Where it really got interesting was when my two chums from a prominent Wall Street trading firm put their money down.

They didn't care where the thing came from as long as their commission checks kept clearing. But both said that their research departments saw a drop coming that would fall precisely between the Democratic and Republican conventions.

## A more scientific approach

Curiously, this conclusion integrates quite neatly with the chart I have been publishing for the past few months, which leans heavily on two long-term Fibonacci retracement studies, and also with a recent short-term projective Fibonacci study I have added to this month's update.

This projective method is relatively easy to use, and its results can be quite informative. One simply raises the final

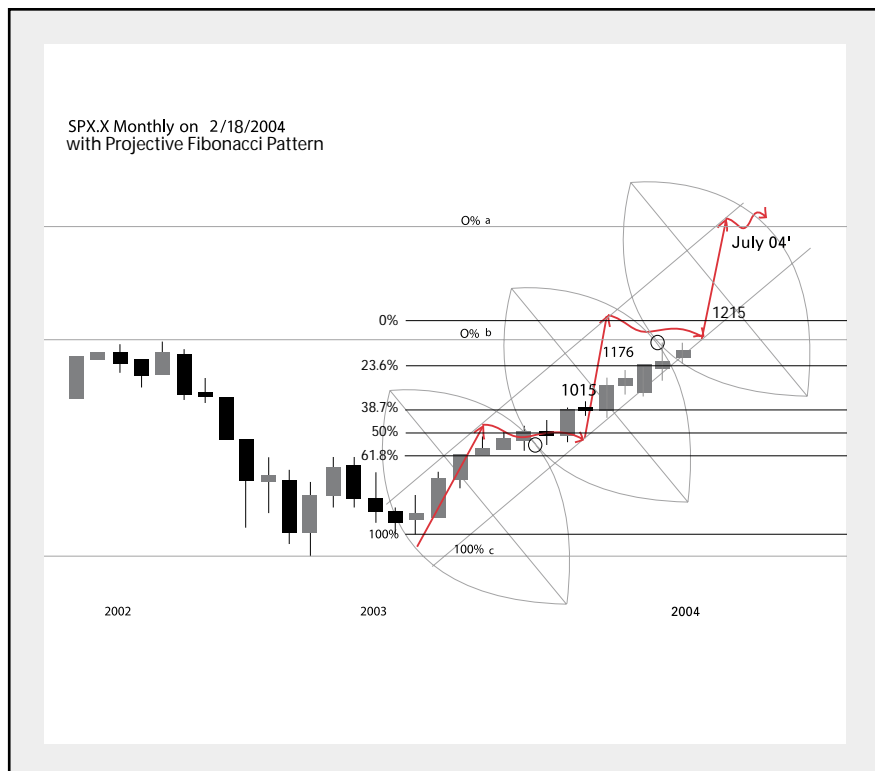
target on a Fibonacci study until the retracement grid captures the majority of the market's action. In this case, you will note the following:

- The fast run from the March 2003 low of 788.9 to the May 2003 high of 965.38 is completely confined within the 100% to 61.8% gap.
- The long sideways run from June 2003 to September 2003 is within the 61.8% to 50% range.
- 50% to 38.2% captures the pop up of November and December 2003.
- 38.2% to 23.6% encompasses the run up to the January 2004 close.

We are now in the first stage of the rise to the 100% marker, which falls at 1,215—precisely my target, published months ago, as the wave top for this portion of the larger wave formation.

While my chums at the bar may still be arguing, I am reasonably satisfied that the S&P's next two high-probability targets will be 1,215 in the next 30 days and 1,455 by early summer. To be honest, I don't really need to know why. I'm sure the talking heads will come up with a good reason after the fact.

All I need to know is that the herd believes this to be true, that my chart has accurately assessed this belief, and that there is still good money to be made riding this wave.



## How to capitalize on another 200 points

by **Bryan Bottarelli**

The best way to profit off this continued upside is to do exactly what we're doing right now. That is, holding our position in the **SPX June 1175 Calls (SPT FO)**.

As *Taipan* readers will recall, we originally recommended buying these calls on February 4, 2004. On that day, I pointed out that implied volatility on SPX call contracts was at a historic low—which meant we had the opportunity to enter this trade at a super-attractive entry price. For the purposes of our track record, we bought in at US\$23.50 per contract, targeting an easy 100% gain if the SPX continued its march up to 1,300. As I write, the SPX June 1175 calls trade for US\$29.10 per contract, giving you a solid 24% gain.

Armed with Adam's fresh forecast, let's revisit this gains estimate to see how we can maximize our profits. Specifically, I'd like to calculate what the positions will be worth at SPX 1,215 and SPX 1,455.

- If we see SPX 1,215 in the next 20 days, your March 1175 Calls will be worth US\$57.75 per contract. That's 98% higher than current levels.
- If we see SPX 1,455 in the next 20 days, your March 1175 Calls will be worth US\$237.25 per contract. That's 715% higher than current levels.

OK, maybe that's a little too much, too quickly. Let's stretch the time scale out to 60 days and see where we stand.

- If we see SPX 1,215 in the next 60 days, your March 1175 Calls will be worth US\$51.35 per contract. That's still 76% higher than current levels.
- If we see SPX 1,415 in the next 60 days, your March 1175 Calls will be worth US\$238.15 per contract. That's 718% higher than current levels.

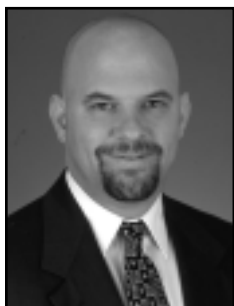
Realistically speaking, I'm shooting for the 76% gain offered by the "SPX 1,215 in 60 days" scenario. But there's always the chance for the higher gain!

**Either way, the recommendation is simple. Continue to hold your SPX June 1,175 Calls (SPT FO) for more gains. If you're not currently holding these calls, I recommend buying them anywhere under US\$30.00 per contract.**

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

P.S. Our basket of "Spiders and Diamonds" continues to perform well. As you recall, we bought the S&P Spiders (SPY) on September 8, 2003, for US\$100.50 a share. At this writing they are trading for US\$116.09 per share—a 15.5% gain. Additionally, we bought the Diamonds (DIA) on November 10, 2003, for US\$98.00 a share. They are now trading for US\$107.36 per share—a 9.5% gain. Continue to hold both positions for more gains. ■

## Stocks are in the home stretch: Are you ready for the race to end?



Briton L. Ryle

*"...in a finance-based economy that depends on more and more low cost money in order to thrive, the game ends when either the 'more and more' or the 'low cost' modifiers are replaced with 'less' or 'higher cost.'"*

—Bill Gross, PIMCO Bonds, February 2004

It's been a great race. And for their efforts, the ponies—Weak Dollar, Refi-Rama and Deficit Schmeificit—should be given a three-way split of the Economic Recovery Cup. Right before they get put out to pasture.

If you bet these horses to win last year, you hit a heck of a trifecta. In my opinion, it's now time to cash in that ticket. Because these horses are played out. Done. They've been run for all they're worth.

Now granted, I'm sure another lap or two could be squeezed out of them. But we'd probably have to shoot them afterward.

### ***Sprint or marathon?***

The fundamentals of this economic recovery are more akin to a sprint than a marathon. A weak currency, low interest rates and a refi boom cannot be permanent features of an economy. Alan Greenspan knows this. But he's playing for the history books. And President Bush has been playing for re-election.

*over, please...*

Of the two, it's Greenspan who has the most to lose. He could go down as the economic genius who managed the fallout from a global investment bubble with a mere two quarters of recession. Or he could go down as the fool who threw gasoline on the smoldering embers of the valuation bonfire.

Yes, Greenspan is in a Keynesian double-bind. And I bet our Fed chairman, who in his youth was an Ayn Randian, goes to bed every night wondering how he got himself into such a mess. He'd probably trade the "irrational exuberance" warning for a 50-basis-point hike in a heartbeat.

Up to this point, low interest rates and the accompanying rise in housing valuations and refinancings have kept consumers spending. The weak dollar has provided enough profit growth for corporations that they are tentatively reinvesting again. And deficit spending has primed the GDP pump.

But here's the Keynesian double-bind: Debt, both at the household and government level, is at ridiculous levels, which isn't so bad if interest rates can stay low. But low rates and the weak dollar are making the US a less attractive place for foreign investment, and that's a situation that definitely can't continue.

## ***You call that a bull market?***

To the foreign investor in US equities, the year-long rally has been largely illusory. Sure, the S&P 500 ramped up 26%. But the dollar's down 30%. If you were a European investor who converted euros to dollars on January 1, 2003, and bought US stock, you've probably got a few choice words for Mr. Greenspan right now. You might even be thinking about pulling out to spare yourself the pain of a further drop in the dollar.

The European Union is even talking about adopting the Japanese strategy of supporting the dollar to weaken the euro and provide some relief to European exporters. Such a move would certainly put to the test Treasury Secretary Snow's repeated insistence that currencies should be valued by the market. Would the Treasury act to keep the dollar weak?

The bull market in commodities can also be traced directly to the weak dollar (with a little Chinese demand thrown in for good measure). Since May of 2003, crude oil prices are up nearly 40%. It's a no-brainer that high oil costs are not good for the economy. The only sure means of lowering oil costs is a stronger dollar.

And what if Bush's numbers in the pre-election polls get worse? Any hint that Kerry could actually unseat a wartime president come November would certainly lead to a rally in the US dollar.

Now, what strikes me as particularly odd is that

every pundit, maven and guru you hear from says the dollar will continue down. It seems like any good contrarian would be buying dollars right now. Wonder what Soros is doing these days?

## ***The ol' interest rate boogie***

We all know it's coming. Greenspan talks about it, traders prepare for it, mortgage brokers talk down its importance, and investors, seemingly, are doing their best to ignore it. But it is coming, and possibly sooner than most people think.

Mark my words, the first time we see a meaningful jump in non-farm payrolls, bonds are going to get killed. And stocks won't be far behind. Because jobs are the final piece of the recovery puzzle. Jobs growth is what Greenspan is waiting for when he says he can be patient before raising rates.

With any luck, and maybe a little help from me, you won't have too much exposure to the stock market when the day comes. That's why I'm selling out of all my *Taipan* positions. Even our gold stock, **Apollo Gold (AGT:AMEX)**. You should have between 10% and 15% gains on Apollo Gold. Now's the time to take them.

*Taipan* readers should have already been stopped out of **Brilliance China (CBA:NYSE)** and **Petrochina (PTR:NYSE)** as they dropped below the standard 25% trailing stop *Taipan* recommends.

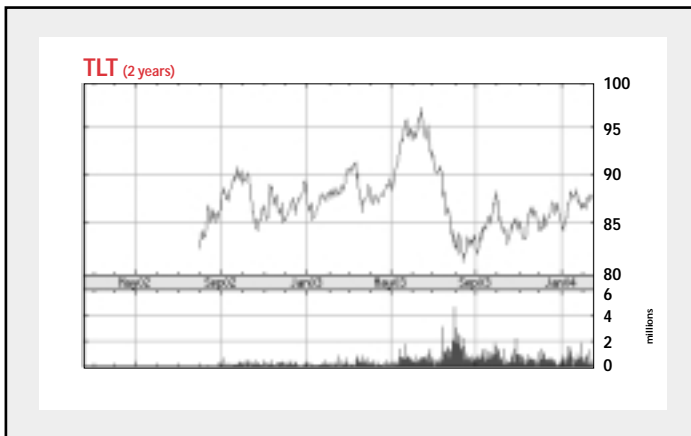
If you haven't sold **Tellabs (TLAB:NASDAQ)** and **Terayon (TERN:NASDAQ)** yet, please do so at your earliest convenience. We'll be taking a bit of a loss on Terayon, somewhere in the 20% neighborhood. But hopefully the 45% gain from Tellabs will help ease the sting.

## ***Now for the real fun***

Back in July of 2003, I attempted to get *Taipan* readers into a downside bond position (remember, with bonds, a higher yield means a lower price). But the vehicle for that trade, the Lehman iShares 20+ Year Treasury Bond Fund (TLT:AMEX), never made it to my target entry point of US\$90. That looks like it may be about to change.

If you look at the two-year chart for TLT on the next page, it appears poised for a breakout that will take TLT above US\$90 and yields on the ten-year bond below 4%. It could happen as soon as the middle of March, and it should be a great opportunity for taking a downside position.

As I told you in July, the safest way to take a downside position on bonds is to simply short the common shares of the Lehman iShares 20+ Year Treasury Bond Fund. But since I'm a trader at heart, I prefer the leverage of an options position. With TLT



at \$90, you should be able to buy the **September 88 TLT Put Option (TLTJJ)** for around US\$300 per contract. This contract is reasonably priced, has plenty of time value and triple-digit potential if TLT follows its historical trading patterns.

Now, I'm going to reiterate the trade in case you want to put a good-till-cancelled limit order in. **Buy the September 88 Lehman iShares 20+ Year Treasury Bond Fund (TLT:AMEX) put option, symbol TLTJJ, at or below US\$300 per contract.** This price is a projection based on the TLT trading at US\$90 by the middle of March. Factors such as timing and demand may affect the option's price. I will update this trade in the *247profits e-Dispatch*. ■

## This nanotech company is making money off China's global economic expansion!



With 1.2 billion people, China is one of the fastest growing countries in the world. China's economy is expected to grow 8.5% by the end of 2004. Some even argue that China is underestimating its growth. On the flip side, there are those who claim that the Chinese government is falsifying its GDP.

Regardless of what you believe, **Siu-Yee Ng** China is becoming a world economic powerhouse. It's hard to ignore the increase in private investment and robust household consumption in cars and housing.

According to the State Development Planning Commission, GDP will top US\$35 trillion in 2020, or US\$3,000 per capita. And the National Bureau of Statistics says China is likely to become the third largest economy in the world by 2020 and the second largest in 2050.

### **World trade = faster delivery**

One problem that has plagued China's economy is government policy. But China's entry into the World Trade Organization in 2001 has already boosted its economic growth and advanced its legal and governmental reforms. This will continue to be a driving force in establishing China as a world economic leader.

China's WTO membership brought about fundamental changes in the government. In order to join

the WTO, China had to clean up abuses of government and reform confusing and obscure laws.

To meet the requirements of its WTO membership, the government has initiated a campaign to clarify and unify governmental regulations.

According to a WTO report released on October 10, 2002, China had become the fourth largest trade body in the world, following the United States, the European Union and Japan.

Since joining the WTO, China has improved its trade environment. The average import tariff rate was cut from 15.6% to 12% in early 2002. Instability caused by bilateral negotiations has been replaced by a more stable multilateral trade framework. And many quota restrictions on Chinese products with comparative advantages have been lifted by other countries.

### **China's global expansion may benefit Japan**

As China emerges as the world's manufacturing center, Japan is experiencing continuing deflation. But there may be a way for Japan to profit from China's emergence as an economic powerhouse.

There's a growing demand in China for business solutions that will help them stay competitive. Adoption of IP (Internet Protocol) and broadband networks is rapidly advancing, and servers and personal computers are becoming more sophisticated.

*over, please...*

This leads us to a Japanese nanotechnology company, **NEC (NIPNY:NASDAQ)**. Ever wonder how those tiny cell phones or computers work? It's all those teeny little chips that NEC makes.

NEC's business is focused on three areas. Its IT Solutions division makes high-end computers and peripherals such as servers, supercomputers, monitors and projectors. NEC ranks second among Japanese computer makers. Its Electron Devices division makes components like transistors and display modules. NEC is tied for the number-two spot among semiconductor makers. The third division markets and sells its broadband and wireless networking equipment, and also runs one of Japan's largest Internet service providers, BIGLOBE.

Although Japan has slowly recovered since the end of the war in Iraq, economic conditions remain challenging. But NEC is expanding its global business, focusing on Europe, China and Taiwan, the Asia Pacific region and North America. Most of the attention is focused on Europe and China.

### ***Asia loves new gadgets***

The numbers aren't bad. Net sales for the first half of the fiscal year ending March 31, 2004, came in at 2,283 billion yen. The mobile communications business increased 5%, with further expansion expected for the full year.

Sales of IT Solutions for the first half of 2004

came in at 949.4 billion yen. Sales of Network Solutions were 852.5 billion yen, an increase of 21% compared to the same period last year. NEC credits this growth to an increase in shipments for mobile handsets in both overseas and domestic markets. Profits in the Network Solutions business doubled compared to the same period last year.

If you've ever been to Asia, you probably noticed that everyone carries cell phones. We're not talking about old models from a year ago. We're talking about the latest and most advanced versions. And NEC has been able to provide these gadgets. In January it launched third-generation cell phones with video viewing and conferencing features in Hong Kong. This 3G service has already hit Britain and Italy as well.

Sales of Electron Devices decreased 3% compared to the same period last year, though sales of semiconductors increased 3% in the first half of 2004. But the Electron Devices division did record a profit of 21.6 billion yen for the first half of 2004.

Net cash for the first half of 2004 was 107.0 billion yen. That's an increase of 56.4 billion yen compared to the same time last year.

After a steady run-up that started in May 2003, NEC Corp is beginning to pull back. The company will benefit from an improving global economy. **NEC (NIPNY:NASDAQ) is a buy on dips under US\$7.75. ■**

## **Dirty Money: How to profit from campaign 2004's mudslinging**



I'm one of the least confrontational guys you'll ever meet. But, man, do I love a good fight. I guess I have an accelerated case of Spectator Syndrome, but nothing gets my adrenaline flowing like an old-fashioned scrap.

Naturally, I'm at my happiest when election time rolls around. I'm not talking about local elec-

William Colburn tions. They have their moments, but they lack the star power I need.

What I'm talking about is the big time. The Foreman vs. Ali of the political world.

The presidential election.

I love it. I'll tell you right now, when the mud starts flying, you can't sandblast the smile off my

face... especially when there's a profit opportunity involved. Or three.

You see, I came across a report a couple weeks ago that piqued my interest. I go through piles of information each day. For this to hit me in the face, it must be something special.

### ***Where's the money going?***

The article gives a brief rundown of some of the presidential candidates and their benefactors. You'd think it would just be private parties and unknown companies supporting the presidential hopefuls. This article says different.

According to what I read, John Kerry is receiving lots of money from some big-time players. Specifically, Sony, Viacom and News Corporation. If

Microsoft were to chip in, I think Kerry could actually buy the presidency. And the White House.

News Corporation plans on donating at least US\$50,000 to the Kerry campaign. That total could go as high as US\$100,000. We'll see.

Viacom head cheese Sumner Redstone has plans to raise more than US\$50,000 for Kerry. If you know anything about Redstone, you'll realize that US\$50K is chump change to him. If Kerry's positive press continues, that amount may easily triple.

The same goes for Howard Stringer's Sony.

## ***Moolah is in limited supply***

Did you know that any one person can only give a candidate US\$4,000? That amount must be split, too. US\$2,000 during the primary election and US\$2,000 during the general election.

So, if these companies can only donate a certain amount of money, how can there possibly be profit opportunities in the campaign mix?

A look at something I wrote in a recent *247profits e-Dispatch* should do the trick: "Besides, you should see the round of insider buying that will happen this summer. Insiders who think their companies are set to prosper under whichever president we elect in November will be ramping up holdings like crazy. That will result in volume spikes. In my opinion, you could be cherry picking profitable volume spikes by August."

But you can go ahead and start planning your trip to the orchard now.

## ***Midway Games (MWY:NYSE)***

Sumner Redstone loves MWY. That's why he dropped over US\$16.5 million on 4.8 million shares. Why did he unload that absolutely insane amount of cash on a video game stock? Well, the money wasn't really burning a hole in his pocket.

Redstone's ears pricked up in the summer of 2003. On July 20, 2003, MWY experienced a huge volume spike of over 4 million shares. That was the second heaviest day of trading in MWY ever. The first? Exactly one year before.

Redstone—who, for what it's worth, once survived a building fire by hanging from a window ledge by his fingertips—took notice.

MWY is a sure bet. When Sumner Redstone—the world's most famous insider—is buying, you're sure to see a sustained jump. **MWY is a buy at current levels.**

## ***Radica Games Ltd (RADA:NASDAQ)***

Radica manufactures and markets electronic entertainment products. RADA offers three product lines: electronic games using the Radica and Play TV brand names, Gamester brand video game controllers and accessories, and youth electronics marketed under the Girl Tech and Barbie brand names. Radica also manufactures for other electronic game companies and provides sourcing services for retail customers.

Hmm... other electronic game companies. Could one of those be Sony?

RADA also makes video game controller and accessory products to enhance game play and performance of video game consoles for Nintendo, Sony and Microsoft. Big deal, right? It may get some campaign kickback like the other stocks in this article, but what's special about RADA?

If we sweep all the election talk aside and get down to brass tacks, RADA is an undervalued gaming company. I'm dipping a bit into *Value Edge* territory here, but RADA has a PEG ratio of 0.8. The PEG ratio measures whether a company is fully valued or undervalued based on its own earnings growth. To get the ratio, you divide a company's P/E ratio by its earnings growth.

I like stocks that have a PEG of less than 1.0. That's the Wall Street goldmine. Most stocks below 1.0 are prime candidates for explosive growth. We could see Campaign 2004 give RADA just the right amount of boost to become a contender.

## ***Kerry's got some Foxy support***

News Corporation is everywhere. They own Fox. Chances are, you've seen something with Fox's territorial markings lately. American Idol? One of Fox's biggest draws. "Titanic" was set in motion by News Corporation.

It's next to impossible to find an investment opportunity among News Corp.'s big guns. To get the good money, you have to dig a bit deeper into its other assets. Luckily, I've already done that for you...

NDS Group (NNDS:NASDAQ) is a leading supplier of open end-to-end digital pay-TV solutions for the secure delivery of entertainment and information to television set-top boxes and IP devices. NDS enables broadcasters, network operators and content providers to profit from the deployment of digital TV technologies, including innovative interactive applications, personal TV and secure broadband solutions.

*over, please...*

Sounds good, right? But a quick check of NDS Group on Bigcharts turns up a US\$28.00 stock. That's too rich for my blood. I'd rather find a lower-priced company that's dealing with NDS technology. Good thing NDS has CNXT on its payroll.

## **Conexant Systems (CNXT:NASDAQ)**

CNXT is an IC manufacturer for NDS. Now, you'd need a week and a manual the size of "War and Peace" to understand NDS—and CNXT—technology. Here's all you need to know about IC's: they're computer chips. And CNXT makes them.

Insiders have been buying shares of CNXT like penny candy. The company must be on to something. Or are certain "strings" being tugged?

So far this year, insiders have bought 54,797 shares of CNXT. As I write this, the dollar totals are still being calculated, but the list of insiders runs the

gamut. From the president all the way to a secretary, they've all gotten a piece.

Now, CNXT and RADA are a little more speculative. So, buyer beware. But let me tell you that both experienced significant volume spikes during the summer of the last presidential election year.

I'll leave it to you to look at the charts. Space is limited in this issue.

As of this writing, CNXT is trading at US\$6.60 and RADA is trading at US\$8.64. I'm looking at these stocks for some nice gains this summer. **Buy both at current levels.** Make sure to set a 25% stop-loss. I'm interested to see where Campaign 2004 will take these stocks.

But John Kerry is only one candidate. Imagine the money flowing into the other candidates' campaign coffers. All of those undiscovered profit opportunities have me drooling. Stay tuned for more... ■

## A Swiss biotech company carving out some healthy profits



2003 turned out to be a fine year for the US stock markets. After three years of demoralizing declines, the Dow, NASDAQ and S&P 500 enjoyed a refreshing change of fortunes, climbing 25%, 49% and 26%, respectively.

During the fourth quarter, once fragile company profit margins really beefed up, turning in the best performance in a decade. With a little over three quarters of the companies in the S&P 500 reporting results so far, operating earnings jumped almost 20%. By the time all the Q4 earnings are announced, the figure is expected to rise to 25%.

Swiss biotechnology company **Serono (SRA:NYSE)** contributed to the strong figures with record quarterly results. The Geneva-based firm enjoyed a 29% rise in revenues to US\$565 million, catapulting net profit up 37% to US\$111.6 million. Operating income surged 49.5% to US\$132.4 million.

Serono focuses its human therapeutics business on three primary areas—neurology, reproduction, and metabolism/growth hormone treatment. With

its drugs sold in over 90 countries worldwide, such successful diversification has made Serono the third largest biotech in the world.

### **Reproducing profits**

Serono is the world's biggest developer of fertility and growth hormone drugs. With sales of Gonal-F, Luveris, Ovidrel, Crinone and Cetrotide rising 20% to US\$593.7 million in 2003—representing 87% of all reproductive drug sales—it's the global market leader. Gonal-F, a hormone product that aids the development of human eggs, is Serono's second biggest seller. Fourth-quarter sales jumped 22% to US\$148 million.

Serono also markets human growth hormone drugs Saizen and Serostim—the latter a high-dose drug used to treat the wasting caused by AIDS. And in December 2003, the FDA gave "orphan drug status" to Serono's Zorbitive human growth hormone, which is used to treat short bowel syndrome.

Being a European company, Serono naturally enjoys decent exposure across the Continent. And thanks to one neurological drug in particular, the company is now gaining an increasing presence in the US, too.

## Serono breaks US\$2 billion...

While reproductive drug sales grew handily, neurology remains Serono's main field. A 55% surge in neurology sales to US\$850 million in 2003 helped Serono achieve a record year as total sales blasted through the US\$2 billion barrier. That's a 31% rise from 2002. Pretty impressive when you consider Serono only has two neurology products.

Profits increased by 21.6% to US\$390 million, while operating income jumped 24.4% to US\$435 million. For the investor, that translated to a very healthy 22.7% rise in earnings per share (US\$3.18).

## ...and hunts for more profits from a lucrative US\$2.5 billion market

Accounting for around 45% of the company's annual income, there's no question that multiple sclerosis drug Rebif is Serono's best and fastest-growing product. Global sales rocketed 49% to US\$819 million last year as the drug's market share more than doubled from 6% to 14%. "Rebif is the fastest-growing product in its category," according to Pfizer CEO Henry McKinnell.

And McKinnell should know. His heavyweight company is responsible for selling Rebif in the US. The drug hit American shores in 2002, and after a sluggish start it is now grabbing a bigger slice of market share. Fourth-quarter 2003 US sales soared 60% to US\$55 million, bringing full-year sales to US\$188.5 million—more than double 2002's numbers.

Given that multiple sclerosis treatment is a US\$2.5 billion market, such rapid progress is key for Serono. And while it faces some competition from Biogen's Avonex and Schering's Betaferon, McKinnell believes Rebif will become the leading MS drug. With Pfizer on board, Serono likes its chances of gaining further US exposure. Its goal is to attain worldwide market leadership by 2006. To overtake the competition, Serono estimates it will need to increase Rebif's market share from 14% to 30%. It's certainly headed in the right direction and offers plenty of upside potential.

## Breaking into dermatology

Last year's results put Serono in a strong financial position to expand in other areas. One of those involves branching into the field of dermatology with its Raptiva product—a medicine that combats moderate to severe cases of psoriasis. This represents a new and strategically important step for Serono, as it

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will take some pressure off Rebif sales.

By paying Genenech US\$25 million for the licensing rights to Raptiva in Europe, Serono has actually speeded the product's launch. It gained FDA approval in October 2003 and is expected to launch in the second half of 2004.

Serono CFO Allan Shaw says the company has territorial rights to market the product across the world, except in the US and Japan. Despite competition from Biogen, annual sales of Raptiva are expected to be strong—between US\$250 and US\$300 million.

## Past profits provide for future expansion

With US\$1.4 billion in cash, an overall profit margin of 19.3% and an operating margin of 21.5%, Serono's performance to date has put it in a strong position to continue the development of its 30 ongoing projects in 2004. Bear in mind, the biotech industry is actually losing money hand over fist, with a net profit margin of minus 25%.

Serono also enjoys a healthy return on assets of 9.6% (again, the wider industry reports a negative figure, minus 7%), and the management team squeezes out a robust 14.3% return on equity as well.

For the near future, it's all about the "Three R's" for Serono: Rebif, Reproduction and Raptiva. Company revenues are projected to rise another 12% this year. That, coupled with the company's existing solid balance sheet, has resulted in insiders owning 55% of the company. I recommend you join them.

Buy Serono (SRA:NYSE) under US\$20. ■

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over, please...

# Ramblin' baby boomers can steer us towards profits



Erin Beale

The first year of retirement is typically when those newly escaped from the workforce spend the most money. First-year retirees spend money on things they've previously only dreamed about: long vacations, home remodeling, or the

purchase of a luxury car or an RV. And that could bring some nice profits to your portfolio.

## Holiday road

According to the Recreation Vehicle Industry Association (RVIA), factory to dealer deliveries of RV's are expected to hit their second highest level in some 25 years in 2004. Long-term demographic trends show that as baby boomers retire over the next few years, the number of RV owners could rise by 15%.

Statistics recently released by the RVIA show December motor home sales up an amazing 26% from November's sluggish 2% growth. And, according to the US Census of Retail Trade, the RV rental business is a US\$191 million industry and growing.

The RV industry is on course to make US\$12 billion a year. In addition to higher incomes and low interest rates pumping RV sales, concerns about international travel may also increase the appeal of these vehicles.

Why the surge in RV interest? The patriotic wave that followed the 9/11 attacks has shown that Americans want to travel in America. Besides the fear of international travel, more and more Americans would rather spend their tourist dollars at home than spread them to foreign countries. And RV's offer the most comfortable way to travel the country without checking in and out of motels and stopping for greasy fast food meals.

## Fleeting profit potential with Fleetwood

There are many companies in stiff competition in today's RV market. Winnebago (WGO:NYSE) has become synonymous with recreational vehicles. Although WGO is a very well managed company, its price tag of more than US\$70 is a little too rich for my blood.

I've found an RV play that is currently trading in the US\$14 neighborhood: Fleetwood Enterprises (FLE:NYSE).

After announcing strong momentum across all business lines at the 41st annual RVIA trade show, Fleetwood proceeded to post sales resulting from the show that exceeded the company's goals, with a 20% increase over 2002. FLE saw 5% growth in Q2 revenues to US\$67.4 million. Q2 net income came in at US\$3.8 million or 10 cents per diluted share, compared to US\$4.6 million or 13 cents per diluted share last year (this included a US\$2.6 million gain from real estate sales).

For the first six months of FY 2004, revenues increased by 6% to US\$1.32 billion from US\$1.25 billion. Net income was US\$5.7 million or 15 cents per share, compared to US\$3.1 million or 9 cents per share in 2003.

Fleetwood is not only a leader in RV manufacturing, but in manufactured housing as well, and recent news from lending giant Fannie Mae could help shares ease up nicely. In an effort to revive the sagging mobile home market, Fannie Mae seeks to strengthen it by cutting financing costs. New offers will let mobile home buyers get 30-year financing for a down payment as low as 5%. Fleetwood shares shot up 15% the day the news was announced.

RV's will be the next popular trend in travel—let's get in before the hype and maximize our profit potential. Buy shares of Fleetwood Enterprises (FLE:NYSE) today under US\$15. ■

## TAIPAN

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*Taipan* (USPS#008-049) is published monthly for US\$129 per year by Agora Taipan LLC, 808 St. Paul St., Baltimore, MD 21202, USA. Periodicals Postage Paid at Baltimore, MD, and at additional mailing offices.

**Postmaster: Send address changes to *Taipan*, 808 St. Paul Street, Baltimore, MD 21202 USA.**

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