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TAIPAN

FORESIGHT COURAGE PROFITS

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The comeback is complete: Here's a cutting-edge company that's wowing the web and waltzing its way to 40% profits

by Martin Denholm

Martin Denholm

Hard to believe we're almost through the first quarter of 2006. Although the last time the S&P 500 had an average P/E ratio in the teens was back in the mid 1990's, the Dow Jones Industrial Average is currently trading for around 17 times its 2005 earnings. That's pretty respectable, considering it comprises the 30 biggest companies in the world. Earnings growth this year is expected to hit 19%.

That's great for those guys, but I'm going to show you how it could also be great for you. How? Because with increased profitability comes increased investment spending. And according to *Business Week*, big business is expected to contribute the bulk of that spending this year. Of course, it's then a matter of pinpointing exactly where they're going to spend it — and the good news for you is that the technology sector is forecast to be one of the primary recipients.

In fact, this suddenly hot sector is projected to outperform the overall market in 2006. Specifically, one of the most lucrative areas is again expected to be the massive US$1.3 trillion media industry. If you think about what this encompasses, it's enough to make you go "wow." And for investors, it's enough to make your eyes light up with big, green dollar signs.

Network and cable television, terrestrial and satellite radio, "new media" and the Internet, the music business (including the rapidly growing downloading area), pay-per-view, video-on-demand. The list goes on and on. But what it all amounts to is that the media industry is growing at a 7% clip per year, according to Pricewaterhouse Coopers. That's substantially faster than the overall economy.

That's why my colleague Andrew Snyder and I have collaborated this month to bring you a double dose of web wealth.

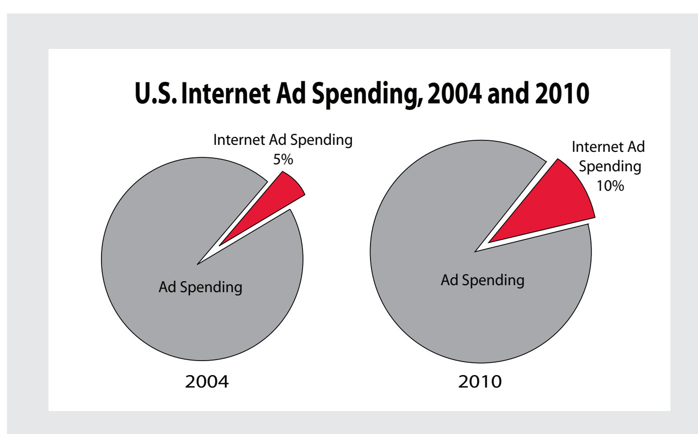
My article focuses on a flourishing company stamping its footprint all over the Internet, consolidating its position as one of America's largest and most profitable web advertising agencies, forging ahead with new technologies and taking advantage of the ever-evolving new Internet media.

Andy takes a slightly different tack, bringing you a company that's front and center in the Internet Protocol Television (IPTV) revolution — a development that will bring an enormous wave of web advertisers closer than ever before to the wider TV audience. But this doesn't mean that either one of us are geeks, OK?

The web is where it's at

The landscape wasn't always like this. The 21st century got off to a terrible start with the devastating bursting of the dot-com bubble. What with the plethora of utterly ill-conceived business models and a mass of bad press, Internet advertising revenue crashed by 25% from 2000 to 2002. It was no surprise that folks avoided the area like the plague. But where investors once tiptoed past, they're now flocking back.

Take the Internet advertising business. This surging medium is zooming along at 28% annual growth and



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is now a US$12 billion market. Parks Associates says that even if the pace halves to 14% a year (an unlikely scenario in the current climate), it will still double its share of the overall US advertising market from 5% to 10% by 2010. The big boys like AOL, MSN and Yahoo can now demand around US$300,000 for a 24-hour advertising spot on their websites.

Quoted in *Business Week*, Piper Jaffray economist Safa Rashtchy says that US growth is more likely to hit 20% while global growth will double that at 40%. This is a guy who knows what he's talking about, having been credited as one of the first to note the enormous potential of advertising on the Internet. Such projections would see the global web advertising market soar from US$19 billion right now to US$55 billion by 2010 — an outstanding 189% growth rate in just four years.

That's an awful lot of money swirling around in the pot, and there's absolutely no reason why you shouldn't claim your share.

Let me break it down for you: today's Internet is a vastly different and improved medium. Even in the darkest days, it was only a matter of time before its popularity and importance led to a full-scale recovery and advertisers began hitting the web again. Crikey, some web firms even have real business models and profits these days!

From boom to bust and back again: Internet faith rewarded

One of the companies to plow its way through the rubble of the dot-com collapse and emerge on the other side is Seattle's **aQuantive (AQNT:NASDAQ).**

Founded in 1997, the company formerly known as Avenue A traded as high as US$89 at the height of the dot-com boom. But when the online the world caved in, it slumped all the way down to less than US$1 a share. And it was there that the massive rebuilding began, through buying out SBI.Razorfish (more on this later), iFrontier, MediaBrokers and Net Conversions. You see, despite the pain, the Internet never actually died — it just needed to lose some air. And aQuantive's faith in the online advertising industry and the growth of digital media has served it well. It has succeeded in melding these businesses together to create services that are now in high demand.

As CEO Brian McAndrews says, "The acquisitions allowed us to have the full capability of outbound marketing, which gets people to client sites, and inbound marketing, which keeps people there." aQuantive's 15% return on equity is a testament to the management's leadership.

It isn't done, either. In early December 2005, aQuantive made a deal to buy London ad agency DNA for US$4.8 million and further payments that will depend on DNA's profitability over the next three years. The move broadens aQuantive's foreign horizons, since DNA's clients include automaker BMW and British mobile phone firm O2. DNA, which expects to turn a profit on sales of US$8 to US$9 million in the 2005 fiscal year, has 60 employees, all of whom will be retained to work for aQuantive's Avenue A/Razorfish division.

This is as safe and solid a play as you'll find. Split into three divisions, aQuantive is one of the largest web ad agencies in the business, offering traditional marketing services and expert technological know-how to a variety of major companies.

Reel in the Razorfish

The Digital Marketing Services unit focuses on web advertising, website creation and design, search engine marketing and email services. The Digital Marketing Technologies division manages marketing campaigns and website effectiveness. And the Digital Performance Media group acts as a bridge between advertisers and publishers by buying web advertising space and then reselling it to willing advertisers.

In fact, aQuantive's leading Avenue A/Razorfish division is the largest online marketing and technological services firm in the US, as well as the biggest buyer of web search adverts. With a powerful combination of cutting-edge technology and precise knowledge of customer needs, it's no surprise that the unit has won awards for web design and effective consumer-oriented websites, search engine marketing and email marketing. It has some big clients on its books — Microsoft, Dell, Verizon, Nike and Ford, to name just a few.

A web design trifecta

So it's no surprise that three major companies recently spotted the benefit of having aQuantive on board.

In the New Year, Singapore Airlines, recognized as one of the world's best for quality and customer service, asked Avenue A/Razorfish to completely revamp its website.

While many companies would have been satisfied to redesign the site and make it more user-friendly, Avenue A/Razorfish went one step further and enhanced the site's overall performance. It also boosted the Singapore Airlines brand name by translating the content into seven different languages.

Result? The new Singapore Airlines website recently set a single day record for the most number of web bookings and online check-ins.

Next up, Kodak, where Avenue A/Razorfish has designed and built a new website for the company's Consumer Digital Imaging Group. The "Simply Pictures" project is a neat idea that guides visitors through an interactive site and highlights the various touches that customers can add to their digital photos and shows Kodak products on offer to facilitate this. As it guides the visitor through each part, the demonstration shows how Kodak can help bring photos to life and supplement them with themes and gifts. The project will continue throughout 2006, with fresh ideas each month.

January turned out to be something of a blockbuster start to 2006 for aQuantive, as the Avenue A/Razorfish division embarked on another major web assignment. This one involved a complete overhaul of Nielsen Media Research's website. If that name sounds familiar to you, it's because this is the company charged with monitoring television show ratings.

With a clearer, more modern design, Avenue A/Razorfish has made Nielsen's website more user-friendly, enabling Nielsen to promote its company, business, products and people more effectively, as well as offering a look into the world of TV ratings.

Rich media = rich potential

Having built up a leading position in the industry, aQuantive will reap the benefits as powerhouse companies allocate more of their advertising budgets to the web. Naturally, with so much money up for grabs, the aQuantive boys have some competition from the likes of DoubleClick, Digitas and ValueClick.

In response, aQuantive has identified a key area that will undergo significant growth over the next few years and has moved to capitalize. The company is breaking through in "rich media." This area focuses on those increasingly popular roaming or floating ads that meander around the screen as you're viewing the page. Yes, this is highly annoying! But who cares if it makes you some money?

aQuantive now has sophisticated Atlas Version 2.0 technology that is compatible with AOL, MSN and Yahoo to help marketers produce, manage and track their television ad campaigns. As companies' own websites include more brand advertising, the technology that aQuantive delivers will be key in separating the winners from the losers.

With the online universe still getting bigger, aQuantive is well ahead of the game in understanding where and how to target new customers.

Feel-good financials and future prospects that pack a punch

aQuantive's goal is to be a "one-stop shop" agency for the Internet. Its success is reflected in its beefy balance sheet.

The company just announced record fourth quarter results that saw revenues gallop 44% compared with Q4 2004 to US$87.5 million. That produced net income of US$11.6 million (US$0.15 earnings per share) for the three-month period — a 63% surge from a year earlier.

Those numbers resulted in a "tremendous year for aQuantive," says CEO McAndrews. Full-year revenue topped out at US$308.4 million — a massive 95% increase over 2004 — with operating income soaring 130% to US$61 million.

For this year, McAndrews continues by saying, "I believe that we are in the early stages of a major shift from analog to digital in the media and advertising worlds. And aQuantive is in a great position to play a key role in that transformation."

It's that "key role" that is expected to produce a 25% rise in profits this year (US$0.57 to US$0.61 earnings per share) and by 28% per year over the next five years. With plenty of cash on the books and a manageable amount of debt, it's easy to see why the company is well positioned to expand further.

That financial performance has filtered straight down to aQuantive's bottom line, with the company collecting US$68.1 million in gross profits and sporting a rosy 11% net profit margin. Its competitors can't even manage any profit at all.

This year the company expects more of the same, with profits expected to rise by 25% (US$0.60 per share) and by 28% per year over the next five years. With plenty of cash on the books and a manageable amount of debt, it's well positioned to expand further.

That aQuantive can offer all these benefits makes it a unique and very appealing destination for advertisers and marketers. With almost 20% insider ownership, those in the know are aware of this, too. When you consider its strong market position and rich history of acquiring what it needs to progress, plus the continuing web advertising boom, this is one company whose future looks very bright indeed.

Building on fantastic growth in both business and share price in 2005, this is a stock that could trade in the mid US$30's later this year — a gain of around 40% to 45% over the current price. The stock's recent pullback from its 52-week high of US$29.94 set on January 12 gives you a good opportunity to buy before it retests that level.

Buy aQuantive (AQNT: NASDAQ) under US$27.50. ■

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Forget NBC and CBS: The Internet is about to take over a TV near you

Cash in on the revolution with this prime takeover target

by Andrew Snyder

Experts agree: the Internet is coming to your living room. Over the last few weeks, I've been a guest on numerous radio and TV programs, speaking about the next major revolution in Internet technology: Internet TV or, to give it its official name, Internet Protocol Television (IPTV). The Internet rebirth is going to change the shape of the television industry forever.

Companies like Google, Yahoo, Verizon and Broadcom are doing everything they can to make sure the Internet is involved in everything we do. They want us constantly entwined in their web.

Why are they pushing so hard? Because there are huge amounts of money being spent on web advertising. But that's just the tip of the iceberg. And a handful of companies are going to reap some major benefits.

Currently, about 5% of all advertising money is spent on the web. But consumers are spending nearly 30% of their media time surfing the Internet. That figure will more than double as the Internet makes its way on to television sets around the world. In order to cash in, the marketing world has some catching up to do. And you can make serious amounts of money along the way.

In the headlines recently was Google's acquisition of dMark Broadcasting. It's a monumental deal that will total nearly US$1.2 billion, proving that Google is serious about expanding its role as a global advertiser.

In case you're not familiar with dMark, the company specializes in connecting advertisers with radio stations across the nation. As Google expands into different media, companies like this become very attractive.

DG Systems (DGIT:NASDAQ) operates a digital network that connects over 5,000 advertisers with approximately 3,100 North American television stations and nearly 10,000 radio stations. The company maintains a high-tech database that allows networks to access thousands of ads almost instantly.

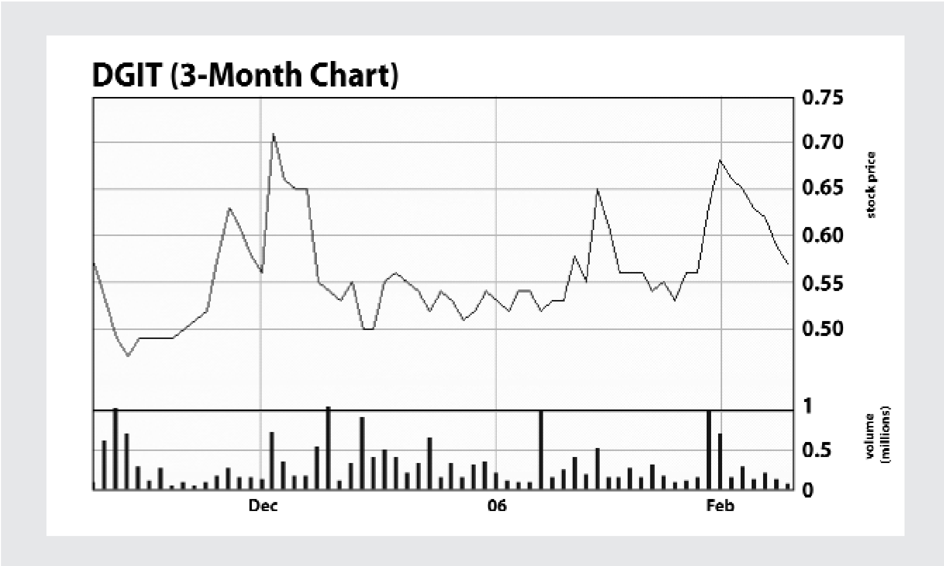
An end to the boring diaper ads

In today's world of monotonous programming and long commercial breaks, this technology can sound somewhat distant. But believe me, once the Internet comes to your living room, companies like DG Systems will have their hands full of profits.

As Internet Protocol Television becomes the primary form of household media, advertisers will no longer have to guess what advertisements would be most effective in a particular timeslot. They will know exactly who is watching what shows, and be able to tune advertisements to fit each viewer's preferences. If you watch a lot of car shows, you'll see advertisements for car products. If you prefer cooking shows you'll be viewing ads for the latest kitchen utensils.

Companies that have the technology to deliver spot advertising on demand will have the upper hand. Advertisers will be willing to shell out big bucks to get their hands on the company's technology.

What I like best about DG Systems is that it owns a technologically advanced product yet remains a relatively small company. Few compa-



nies can offer the kind of service that DG Systems does. And few have the technical know-how to develop the kind of network that DG Systems controls. That means this company is a prime takeover target for large Internet portals like Google, Yahoo or AOL. As these companies fight for position, they will open their wallets and make savvy investors rich.

Even if DG Systems does not get bought out, I believe its share price will rise. As the Internet sneaks into living rooms across the globe there will be a groundswell in the entire advertising industry. With a current share price under US$0.60, DG Systems has a heck of a lot of room to grow.

Buy shares of DGIT under US$0.70. ■

COMMODITIES WEALTH

Piling on the profits from peak oil: 46%, 10%, 61%, 50% and counting

Your chance to bag 73% from this undervalued oil stock as it hits "fair value"

by Erin Beale

What do Yukos, Heritage Oil and Soco International have in common?

Well, besides all being energy stocks, they're among the best performers in our 2006 *GRESSOR* portfolio.

In case you're not familiar with *GRESSOR*, it is our newest *Red Zone Profits* service. The acronym stands for Growth, Real Estate, Special Situations and Oil Report. We scour the world, searching both the hottest sectors and undiscovered gems to bring our readers the absolute best profit opportunities. *GRESSOR's* proprietary Tri-Directional Indicator system then tells us exactly when to buy — and when to sell — in order to maximize profit potential.

The numbers prove it. Between 2001 and 2004, the Dow gained a pathetic 1.28% and the NASDAQ crawled to a rather ordinary 11% gain. Over the same time, the *GRESSOR* system notched up a staggering 3,239% gain. I get that number simply by adding up the winners and subtracting the losers.

And we're not stopping there. For full details on this service, I encourage you to read the special *GRESSOR* report in this month's issue. But before you do, let me give you a hands-on example of how the system works by revealing *GRESSOR's* latest oil play to you — a bonus for being a loyal *Taipan* reader.

Scouring the oil market for undervalued gems

If you think oil prices and oil stocks are going anywhere but up from here, think again. With recent new threats from Iran, crude prices are still firmly planted above US$60 a barrel.

Clearly, the right oil and gas stocks will continue handing out safe and solid returns — not only for the next six months, but for the next five years and beyond.

Despite the incredible surge in oil prices and the earnings windfalls of energy giants like ExxonMobil, there are still solid, undervalued gas companies to be found. If you're looking for a strong American energy company, consider Texas-based **Denbury Resources (DNR:NYSE).**

Though Denbury was dealt an operational loss during the rampag-

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ing hurricane season, the company did not suffer any significant property damage and managed to return to pre-storm production levels just weeks after Katrina.

Denbury reported a 34% rise in third-quarter revenues and a 110% leap in net income. Its forecasts for 2006 remain strong, and the company is actively growing by acquisition, announcing the purchase of Oilfield Assets just weeks ago.

Breakout!

The stock recently underwent a bullish 2:1 split, making shares more affordable to new investors. Denbury has exceptionally high operating margins of 52% and an outstanding gross margin of 80%. Its P/E ratio is a low 13. This is a stock that should rightly trade upwards of US$45. If it hits that mark, you'll grab 73% profits from here.

Denbury Resources (DNR:NYSE) is a buy under US$29. ■

NEWS-DRIVEN PROFITS

The 3-step strategy to wealth: Anticipation, validation, profits

Jump back on the Elan bandwagon for potential 100% gains as drug comeback fuels stock resurgence

by Ian L. Cooper

In your last *Taipan* issue, I told you that you could trade not only on the dissemination of news, but also from its *anticipation* — and illustrated my point with a recommendation on **Bioenvision (BIVN:NASDAQ)**.

This strategy is no lucky tip. I've used it time and time again to profitable advantage. My *Red Zone Profits* readers remember when they traded **Evergreen Solar (ESLR:NASDAQ)** solely on the anticipation and eventual validation of news. On December 8, 2005, based on news that the California Public Utility Commission was set to vote on a bill that could give ten-year incentives for the installation of solar panels, I anticipated that bullish news would emerge. I recommended a buy on the underlying stock, as well as January 12.50 and February 12.50 ESLR calls.

By January 12, 2006, the play paid off as the underlying stock began rising thanks to the expected approval of the US$2.9 billion solar incentives plan in California. Before the profit takers could even react to the surge in activity, *Red Zone Profits* readers exited half of the three ESLR positions for 15%, 50% and 350% gains. By January 19, 2006, the stock had moved even higher and readers had the chance to walk away with gains of 19%, 81%, and 363% — all simply from playing the anticipation.

Lumbering Lehman

Take a look at the chart for **Elan Corp (ELN:NYSE)**. The first thing you see is that enormous drop from US$18.90 to US$8 in February 2005, after the company "voluntarily" suspended sales of its popular multiple sclerosis drug Tysabri.

When the "blockbuster" drug was first launched in November 2004, data suggested that it was more effective than current MS treatments. But after a patient died from a rare brain infection and another was suspected of having the condition, the company suspended the sales, resulting in that bearish gap down.

But you can also thank Lehman Brothers' poorly timed and embarrassing downgrade for the cheaper price. Lehman's analyst set off a selling spree after saying the company was overvalued and downgrading it to underweight from equal weight, saying that even at US$17, Elan's valuation "more than fully reflects a successful upcoming FDA panel meeting, market re-entry and future peak sales well in excess of even the most optimistic scenarios."

According to reports, Lehman's analyst said, "Given Elan's and Biogen's recent Tysabri sBLA submission for MS and confidence in FDA approval during 2006, our NPV model now assumes a 75% probability of Tysabri reaching the market for [multiple sclerosis] in 2007, compared to prior 25% probability and 2008 launch assumptions. Additionally, we are now assigning 0% probability to Tysabri in [rheumatoid arthritis] indication as the program is being terminated due to unfavorable Phase 2 results. With our peak Tysabri sales estimates of US$490 million in MS and US$263 million in Crohn's unchanged, we now estimate Tysabri contributes US$1.70 per share to Elan's NPV, up from the previous US$1.15. For the rest of the business, we estimate NPV contribution of just over US$5, down from the previous US$6, primarily due to change in Pharma Pipeline methodology in calculating NPV. After subtracting about US$2 per share in net debt, we arrive at a price target of US$5 (versus US$6 previously), which is below where Elan shares are currently trading."

The analyst was saying ELN should be a US$5 stock. Unbelievable. He then went on to say that if "Tysabri does return to the market, neurologists may be reluctant to broadly prescribe it due to the responsibility of the required strict patient monitoring," adding that patients taking Tysabri "face the risk of missing early signs of the rare but life-threatening side effect of progressive multifocal leukoencephalopathy (PML), a brain disorder linked to the drug."

But according to reports, in a comprehensive study of 3,000 Tysabri patients the results showed no new cases of PML "beyond the three that have been previously reported." That was the second flawed report from Lehman. The first, remember, was a mistimed downgrade.

The real kicker came when ELN posted stronger-than-expected results and "expressed hopes for a rebound this year." The company posted a Q4 loss of US$58.3 million, bettering the US$107.1 million loss in Q1 2004. Revenues for Q4 2005 came in at US$140.4 million from US$123.8 million. For full-year 2005, ELN's net loss came in at US$383.6 million, bettering 2004's net loss of US$394.7 million.

Yeah, it's a loss. But I bet someone at Lehman was feeling silly the morning that good news came out. Better luck next time.

Tysabri back on track

Although the drug was pulled, according to reports, it never lost FDA approval. And good news could be just around the corner for Elan, as both it and partner Biogen have plans to resubmit updated safety information on Tysabri to the FDA for what many are hoping is a relaunch.

After Elan resubmitted Tysabri for approval, it got a priority review from the FDA. This means the application will be reviewed quickly, cutting perhaps four months off the normal review time. FDA "grants priority review status to products that are considered to be potentially significant therapeutic advancements that address an unmet medical need."

And there are probably many MS patients who have not responded well to other drugs and could benefit from a drug like Tysabri.

Elan is "optimistic" about Tysabri's return to the market and is so confident that it has allocated US$150 to US$170 million for development and marketing of Tysabri this year.

According to Forbes.com, "Tysabri was hailed as a breakthrough in the treatment of multiple sclerosis, appearing to be more effective and better tolerated than other treatments, which can produce unpleasant side effects." Today, reports say that the drug will "still be very successful." Even before it was pulled, expectations ran high that it could bring in annual sales of at least US$2 billion.

I believe the comeback could lead to the stock refilling its bearish gap at US$30 — double its current price.

I'm recommending you buy Elan (ELN:NYSE) under US$17.

I also recommend you pick up the ELN April 20 calls (ELNDD) under US$1.

Bonus recommendation!

I've got one more for you. I'm also anticipating good news from **SeaChange International (SEAC: NASDAQ).** As capital spending from players like Comcast flows into video-on-demand (VOD) this year, SEAC
is highly likely to see lucrative deals. If ABC, NBC and CBS make their huge libraries of content available to Comcast in 2006, the latter would have to spend a significant amount on VOD storage, servers and software. That's where SEAC comes in. It makes the video server systems that allow cable operators to manage and distribute digital content.

SEAC currently trades under US$10,but it could easily be a US$20, even US$30 stock based on speculation about big deals from the likes of Comcast.

I recommend following the insiders and buying SeaChange International (SEAC:NASDAQ) under US$11.

Chairman William C. Styslinger III recently bought 91,000 shares and CFO William L. Fiedler bought 5,000 shares. You don't see many company executives forking over that kind of cash for a company going down the toilet. It doesn't hurt that B. Riley & Co. put out a "buy" rating on SEAC, or that Needham & Co. upgraded the stock from a "hold" to a "buy." ■

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Government's Energy Policy Act "guarantees" growth to the tune of 35% to 50% each for these two companies

by Sara Nunnally

Signed into law back in August 2005, the Energy Policy Act mandates that 7.5 billion gallons of ethanol be blended into our gasoline supplies by 2012. The ethanol industry will be required to nearly double production!

From current capacity of four billion gallons annually, that's annual growth of 14.6% for the next six years. That's what I call a great industry to invest in: the Energy Policy Act guarantees growth.

President Bush noted ethanol in his recent State of the Union address:

"We must also change how we power our automobiles. [...] We'll also fund additional research in cutting-edge methods of producing ethanol, not just from corn, but from wood chips and stalks, or switch grass. Our goal is to make this new kind of ethanol practical and competitive within six years."

A fine idea. But to do that, the ethanol industry will have to expand rapidly.

As of November 2005, the United States had 92 ethanol plants in 39 states, with plans to add 24 more. These new ethanol plants will add "an additional 1.3 billion gallons per year of ethanol capacity" by the end of 2006, according to the Federal Trade Commission.

These additions would bring our total ethanol production capacity to 5.4 billion gallons a year. With that kind of growth, the US will reach 7.5 billion gallons of ethanol well before the appointed 2012 date.

If you who know me and my style of investing, you know what's coming next.

Two for the price of one

I'm going to offer you two plays that go hand-in-hand. **Archer Daniels Midland (ADM:NYSE)**, my favorite ethanol company, and **Agrium Inc. (AGU:NYSE)**, a global leader in the production of agricultural nutrients.

ADM is one of the world's largest agricultural processors, and, as Barron's notes, it's been the most popular way to play corn ethanol. AGU is a major retail supplier of agricultural products and services in both North and South America, with 206 retail centers in the US.

Here's the chain: ADM supplies farmers with seed, AGU provides them nutrients and protective chemicals, and the farmers provide ADM with crops for various processes, including enough corn to produce 500 million gallons of ethanol a year.

ADM is planning on expanding its ethanol investment to US$1 billion by 2007. You can see the connection.

ADM has performed well for me in the past. My *WaveStrength* readers made a quick 44% and 22% playing options.

Here, however, we're going to play the stock. Since the beginning of 2006, ADM has sprinted upwards by 30%. I believe it could rise by 37% by summer.

Buy Archer-Daniels-Midland Co. (ADM:NYSE) under US$34.30.

AGU can certainly help the ethanol industry grow by ensuring high-yield, well-protected crops. AGU's steady growth could push the company up by 35% to 50%.

Buy Agrium Inc. (AGU:NYSE) at or below US$27.50. ■

DuPont Calls rumble to a 41% gain in half a month

by Martin Denholm

Dig out your February *Taipan* issue and you'll recall Ann Sosnowski's recommendation to buy **El DuPont de Nemours & Co (DD:NYSE) April 40 Calls (DD DH).**

However, when we posted the issue online for you and I sent the e-mail notification, Ann told me she wanted to adjust her recommendation from that to the **April 37.5 Calls (DD DU)** instead. This was based on the company's earnings report, which stated that fourth-quarter profits fell by 45%, with first quarter guidance also weak. Amid expectations for US$0.28 earnings per share, DD only recorded US$0.16 per share.

Ann's theory was as follows: "With the stock in-the-money in relation to the original recommendation, I changed the position to include the 37.5 strike price in order to get more intrinsic value.

"My entry recommendation was to "buy under US$3.50," with the official entry price in my model portfolio being US$2.90."

Following a strong start for the market on Wednesday, February 15, DD traded around US$41.10 (up US$1.27 from the day we entered the calls). As a result, those DD April 37.5 Calls (DD DU) traded for US$4.10 — a gain of 41% in half a month.

With 41% profits in the bag, Ann immediately issued a sell alert, banking those gains.

Amid higher risk, Bioenvision is sold

Elsewhere in the February issue, Ian Cooper recommended you pick up shares of **Bioenvision (BIVN: NASDAQ)** under US$8.50. The official entry price was US$8.08 on January 27.

However, the stock proceeded to slowly drift south to trade around US$7.60 on Wednesday, February 15 ahead of the Committee for Medicinal Products for Human Use (CHMP) commencing February 20th 2006.

This is "in relation to the European Marketing Authorization Application (MAA) for clofarabine in the treatment of patients (up to 21 years old at initial diagnosis) with relapsed or refractory acute lymphoblastic leukemia (ALL) after at least two prior regimens."

In evaluating the stock and the news surrounding the company, Ian was concerned about BIVN shares going forward. So he recommended you exit the position, advising you not to "risk money on something that could blow up in our faces. We'll re-evaluate this play in due course and look to get back in before the March 2006 decision."

Attention "House Hedgers!" Important news on the HGX index

Are you a *Taipan* "House Hedge" player? If so, take a look at this:

Homebuilding giant Toll Brothers has again reduced its forecast for home sales for the fiscal year ending in October. Management announced that new orders for the quarter fell

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to 1,572 from 2,209 — an ugly decline of nearly 29%, with the contract values declining 21% to US$1.14 billion.

Surprised? You shouldn't be, not if you've followed our prognosis for the US housing market. Because we've been playing the downside of the US housing market for the last six months.

And Toll's bad news (insiders, by the way, started selling large chunks of shares in the second half of 2005) is good news if you followed *Taipan's* advice into a handsomely profitable hedge position.

But I need to give you some key information here. On February 1, the Philadelphia Housing Index (HGX) split 2 for 1. This often creates a lot of confusion, especially for options holders, so allow me to explain the situation.

The original recommendation was to purchase the HGX March 540 puts (HGX OH) on October 3 for US$34.40 as a downside defense against negative pressure on the US housing market. On October 11, we told you to sell half of this position for US$63.60 and lock in an 85% gain. As for the remaining half, the advice was to hold out for more.

With the HGX stock split, your March 540 puts have now changed to March 270 puts. The symbol is HGX ON. Instead of holding one HGX March 540 put contract, you now hold two March 270 put contracts. If you originally bought four contracts, you now own eight, etc.

Right now, these new March 270 puts trade between US$14.80 and US$15.90. On the surface, it would appear that you're showing a big loss. But don't panic — that's not the case.

Remember, you now have twice the number you originally bought. That means the value of two puts is between US$29.60 and US$31.80.

Look to sell your remaining half at or above US$20.00, good for the month of February. If these puts do not trade above US$20.00 by the end of the month, we'll re-evaluate at that time.

Ford's bright future is still available at a marked discount

Given the woes blighting the Detroit auto industry right now, the worst-case scenario suggests that there might not even be a genuine "domestic" auto industry in ten years' time.

But that doesn't mean you shouldn't be buying shares, because expectations, valuations and prices are so low that a patient player will have several opportunities to cash in.

By now, you probably know that both Ford and GM are flush with excess capacity. Why else are the dealers being flooded with vehicles they can no longer unload for profit, but must instead push out the door at ridiculous discounts?

At Ford, the days of factories as employment projects rather than profit centers are over. "But what of the unions," you ask? Even the fully unionized American worker can be bought off — although the price will be very steep. And in this case, the price Bill Ford is proposing is a single US$100,000 check for every worker who loses his job in the 14 planned plant closures — if he agrees to give up all benefits except pensions.

Other offers include a tuition reimbursement program, two early retirement programs and a pre-retirement leave program for those just short of the 30 years needed to retire. In sum, anything to convince these guys to move on rather than pay them to produce cars no one really wants.

Is that going to hurt in the short run? Sure. Ford already trades in the single digits. But here's what makes this single-letter stock such an interesting speculative buy at these prices.

As I noted in last month's issue, Bill Ford not only has the intestinal fortitude for the punishment his heritage will have to endure to recover, he also has a singular grasp of the path to the future — and enough control of the company to guide it there.

Two examples from recent news spring immediately to mind. The first is Ford's commitment to the creation of a "Midwest ethanol corridor" by converting 40 Illinois and Missouri service stations to E85 ethanol. The company has already deployed more than 1.6 million flexible-fuel vehicles. It has also introduced four new models available with the E85 option, including its extremely popular F-150 pickup, and expects to field an additional 250,000 ethanol-capable vehicles this model year.

Ford has also announced that it is teaming with alternative energy developer Westport Innovations of Vancouver to produce an advanced direct-injection fuel system for vehicles powered by high efficiency, high performance engines operating on pure hydrogen. According to Westport: "Early data indicates strong potential for a truly green vehicle combining great efficiency characteristics with extremely low air pollutants and zero greenhouse gas emissions at the tailpipe. This technology has the potential to be commercially available a lot sooner and more cost-effectively than other hydrogen automotive technologies."

The question is: will these tough cuts and forward thinking commitments guarantee Ford's survival as a public company? Maybe, maybe not. But that has no bearing on whether or not you should be holding Ford shares, bonds and options. Because word is already circulating in certain key circles that should Ford stock remain this low moving into forward, Bill Ford may buy up outstanding shares and take the company private. Either way, you will benefit from the positions I recommended last month, so much so that I will reiterate them now.

All three positions — Ford (F:NYSE) below US$8.50, Ford 2021 bonds below US$80.38 and Ford January 2007 12.50 LEAPS (VFO AV) below US$0.40 — are still buys. ■

CORE PORTFOLIO

115% gains bagged on first half of Companhia Siderúrgica Nacional

by Martin Denholm

Back on February 3 in the weekly *Taipan* Hotline, Erin Beale noted that she'd received several questions regarding **Companhia Siderúrgica Nacional (SID:NYSE),** the Brazilian steelmaker she first recommended to you in August 2004.

According to www.earnings.com, SID would pay a US$1.643 dividend on February 16 to shareholders of record as of February 8. This is half last year's dividend payment in June, but the company hasn't said whether it will issue another this year.

Including the handsome dividends on this play since Erin's US$15.45 entry, you should be enjoying current gains around 96% on SID as shares pass US$30. But on February 3, she recommended taking some money off the table when gains were as high as 115%.

With shares performing well on dividend news, Erin advised you to sell half your position and allow the second half to

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ride while you collect the dividend, which is now a stellar US$4.68 per share (15.4% yield). The commodities boom shows no signs of slowing and Brazil is still performing incredibly well. Erin expects SID to hit US$40 in the next six months.

Here's a look at the rest of the positions in the Core Portfolio:

INVESTMENT RECOMMENDATION	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
AMERICA FIRST APARTMENT INVESTORS (APRO)	10/1/04	$11.58	$14.41	24.4%	$1 PER SHARE/7%	BUY BETWEEN $11.50 AND $12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	$11.78	$10.83	-7.9%	$1.12 PER SHARE/10.3%	BUY UNDER $12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	$29.20	$33.96	16.3%	$1.49 PER SHARE/4.4%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	$27.80	$76.70	175.9%	$0.21 PER SHARE/0.3%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	$19.70	$29.30	48.7%	—	HOLD AT CURRENT LEVELS
TECHNOLOGY PLAYS						
iVILLAGE (IVIL)	10/4/05	$7.48	$8.12	8.5%	—	BUY UNDER $7.50
SYMANTEC (SYMC)	5/3/05	$18.91	$17.28	-8.6%	—	BUY UNDER $20
HEALTHCARE & OTHER PLAYS						
GENEREX BIOTECHNOLOGY (GNBT)	9/1/05	$0.59	$1.92	225.4%	—	BUY UNDER $1
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	$75.00	$72.05	-3.9%	—	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	$68.85	$75.71	10%	—	HOLD AT CURRENT LEVELS
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	$15.45	$30.37	96.5%	$4.68 PER SHARE/15.4%	HOLD AT CURRENT LEVELS
TELEFONOS de MEXICO (TMX)	9/1/05	$19.25	$22.70	17.9%	US$0.70 PER SHARE/3.1%	BUY UNDER $22