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**24/7 PROFITS**

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# Bottom fishing in Bear Territory

## Making money while the market keeps on crumbling!



J. Christoph Amberger

In the second week of March, we marked an eerie anniversary: March 10, 2003, was the third anniversary of the NASDAQ's all-time high. But the days of this El Dorado of the Clinton Era have come and gone. And most of the other global financial markets flying high in the mid and late 1990s have also found the Fountain of Youth—turning back the clock to lows not seen for years.

Unfortunately, as in real life, youth and riches seem to be mutually exclusive in the world of financial markets. Having shed more than seven years of gains, Germany's DAX now looks like nonagenarian WWII German movie vamp Marika

Rökk after applying a bucketful of the age-defying facial lotion Hormocenta she used to hawk. (The moribund Neuer Markt, NASDAQ's Teutonic twin, is barely alive at this point.) London's FTSE 100 recently closed at levels not seen since July 25, 1995. And that's nothing compared to Tokyo, whose Nikkei 225 looked 20 years younger on March 10.

After three years of stock market declines and trillions in investor losses, the question most people ask with regard to stocks is not what to buy, but why buy anything at all? Why throw good money after bad into the gaping maw of one of the most brutish bear markets in history?

### Good stocks are hard to find

If you expect me to come up with a bunch of reassuring generic claptrap about bargain hunting and relative value—the stuff your mutual fund managers send out at year's end—I'm about to disappoint you. Because the simple fact is, there aren't a lot of reasons to buy stock right now.

Sure, the market may be bottoming, and the economy may be turning around. But if you've been paying attention the last few years, you know the market and the economy have made more false starts than a high-school athlete after imbibing a six-pack of Jolt Cola. And nothing in recent economic data suggests that we're about to see any fundamental change.

What if there's no "next big thing in tech"? What if there's no

*over, please...*

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new wave of consolidation creating next year's major conglomerations? What if Russia and Argentina (this year's unlikely highlights of global market achievement) follow the rest of the world until there are no attractive emerging markets left? And what if there's no imminent upturn in the business cycle to support higher stock prices?

With no visible catalyst for stock prices, it's back to basics for investors. Lest we forget, the basics of investing success are pretty simple. To loosely paraphrase Warren Buffett, making money in the stock market is as easy as buying good companies at a reasonable valuation.

Unfortunately, there aren't a lot of those good companies out there. The remnants from the stock market bubble can still be seen in stock valuations. General Electric (GE:NYSE) still trades at 2x revenues, even though revenues are projected to grow just 5% from 2003 to 2004. Cisco (CSCO:NASDAQ) trades at a P/E of 33 and over 5x revenues, even though revenue growth is virtually stagnant. Wal-Mart (WMT:NYSE), Microsoft (MSFT:NASDAQ), Coca-Cola (KO:NYSE) and Johnson & Johnson (JNJ:NYSE) all share one thing in common—they trade at historically high valuations, even after three years of steady declines.

Now, clearly, there is an economic recovery priced into these stocks. Business will get better, eventually. The only question is... when? And most investors seem to have learned that there's no point in paying inflated stock prices for an economic recovery that has yet to materialize. Not only does the recovery have to occur so that your stock can justify its valuation, you are also exposed to losses if the recovery is delayed or fails to come at all.

Before I go on, I want to clarify one thing. You know by now that I'm not a "depression-is-coming-bury-your-money-in-the-backyard" kinda guy. I believe the American economy is the most

dynamic on the planet and it will rebound and lead a global recovery. I'm also a realist. And I'm not about to risk any money (mine or yours) trying to time an economic upsurge.

As I see it, there are only three investment strategies that can work in the current market. There's long-term value, bottom fishing for

growth, or outright vulture capitalism. Of these, only two are available to the investing public—long-term value and bottom fishing for growth.

When I convened the *Taipan* Think Tank for this April issue, I put my question to them: How can we make money for our subscribers this month?

The ensuing debate was heated, as you might expect: Not for nothing do I bring together half a dozen hard-nosed analysts every month...

each with fundamentally different principles and philosophies of how to make—and keep!—money in the markets. This month, our editorial board agreed that Brit Ryle, chief trading strategist of *Taipan Trader*, had the most promising lead. Here's what he has to say:

## King of Pharma Hill

### Triple threat

Christoph mentioned three trading strategies for making money in today's market. I'm going to recommend a stock to you that encompasses the best of all of these strategies, even vulture capitalism. It's a bona fide triple threat.



Briton L. Ryle

For the value investor, it has a trailing P/E of 12 (the forward P/E is an even more ridiculous 9.5). The company trades at less than 2x book value and it has over US\$800 million in cash. Profit margin is a healthy 21% and return on equity (a good measure for sustained profitability) is a respectable 16%.

**“...there are only three investment strategies that can work in the current market. There's long-term value, bottom fishing for growth, or outright vulture capitalism.”**

For the bottom fisher, its PEG ratio is 0.5, meaning earnings are growing twice as fast as the stock price. The company has posted 10% or better sequential earnings growth in each of the last 4 quarters. Consequently, the forward P/E is just below 10. Revenues are projected to grow 23% (to US\$2.1 billion) between 2003 and 2004, and earnings are expected to grow 17%.

Finally, for the vulture capitalist, this company is uniquely positioned to capitalize on macroeconomic trends that are weighing on the biotech and pharmaceuticals industry.

The company is **King Pharmaceuticals (KG:NYSE)**. And I'm going to tell you why an investment in this stock could easily net you a 50% return over the next eight months.

Headquartered in Bristol, Tennessee, King Pharmaceuticals was founded in 1994 as a contract manufacturer of pharmaceutical products. That year, King had 90 employees and did US\$13 million in revenues. By 2002, King was doing US\$1.18 billion in annual sales.

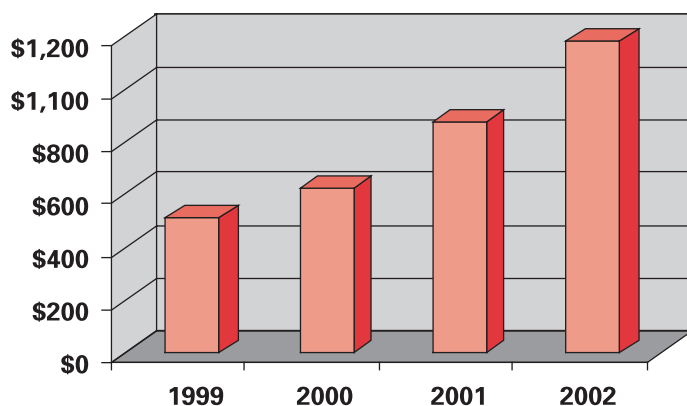
This year, King is expected to do US\$1.7 billion in sales. And next year, 2004, King is expected to surpass the US\$2 billion annual revenue mark. Gross margins hit a Microsoft-like 79.1% in 2002. How has this company managed to grow so fast?

The answer is simple. Number one: King's management understands that marketing is the single most important factor contributing to a company's success. And number two: They know that you don't have to reinvent the wheel to be successful. (Also, having the biggest IPO of 1998 didn't hurt.)

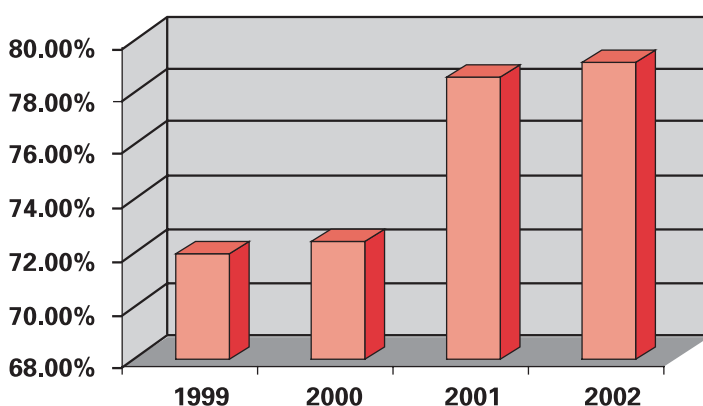
Every year, biotech companies and their giant pharmaceutical partners spend hundreds of millions of dollars developing new drugs. Needless to say, there are risks involved with drug development.

As we've seen demonstrated repeatedly by the likes of Ligand (LGND:NASDAQ), Imclone (IMCL:NASDAQ), and most recently VaxGen (VXGN:NASDAQ), failure to have a drug approved can be devastating to a company and its

### Revenue Growth (millions)



### Gross Margin



investors. In fact, biotechs often don't survive failure.

So King decided early on that it would skip the development process altogether and grow by acquiring already approved drugs with a clear position in the marketplace. Since 1996, King has introduced 30 acquired products to the market.

This strategy allows King to avoid the perils of drug development and maximize the value of its products through manufacturing, marketing and product expansion. To illustrate, I'll discuss King's most important product, Altace.

### Altace: the cash cow

Flush with cash from its IPO, King made its most important acquisition in 1998 when it pur-

*over, please...*

chased three drugs from Hoechst Marion Roussel (now Aventis) for US\$363 million. One of these drugs, Altace, proved to be a blockbuster. You may have seen the ads featuring the Golden Bear, Jack Nicklaus.

Altace is an ACE inhibitor. I don't know exactly what that means. But Altace is one of the most effective treatments for high blood pressure. It's widely prescribed for high blood pressure and hypertension.

In 2001, sales of Altace hit US\$285 million, a 76% increase from US\$162 million in 2000. It more than paid for the acquisition with just two years of sales. The rest is gravy... until 2008, when the patent expires and generic competition begins.

But a recent study suggests that ACE inhibitors like Altace are an effective treatment for heart failure in patients who have had a heart attack. Specifically, heart attack patients who were given these drugs had a 20% lower chance of going on to develop heart failure.

As a result, King has received new FDA approval to market Altace as a preventive treatment for stroke, heart attack and heart failure in at-risk patients. This heretofore unknown application could dramatically boost sales of Altace.

Plus, this new use for Altace may allow King to extend the patent protection that's due to expire in 2008. News of such an extension would likely add 25% to the stock price overnight.

**The portfolio**

It's a rule of thumb that you never want to invest in a biotech or pharmaceutical company that has just one blockbuster product. And while Altace represents the lion's share of King's revenues, around 40% for 2002, it's not the only moneymaker.

In 2000, King acquired Jones Pharma Inc. in an all-stock deal. This landed them Levoxyl, an FDA-approved levothyroxine sodium product used in hormone replacement therapy for patients with thyroid problems. In 2001, sales of Levoxyl grew 81% to US\$105

million. Levoxyl represented approximately 15% of 2002 sales.

Also from the Jones acquisition came Thrombin JMI, a critical care drug, which contributes another 6% to 8% of revenues. Other drugs in the arsenal include Cortisporin, Neosporin, Lorabid, Pitocin, and Aplisol.

In May 2002, King acquired the exclusive rights to Ortho-Prefest from Ortho-McNeil. Ortho-Prefest cost US\$108 million, does approximately US\$26 million a year in sales, and is patent protected until 2012.

In December of 2002, King acquired the rights to three drugs from Aventis—Intal, Tilade and Synercid. The three drugs totaled US\$66 million in sales for the 12-month period ending September 30, 2002. The cost was US\$199.5 million with potential additional milestone payments of US\$75 million. Tilade is patent protected until 2006, while the other two are protected until 2017.

In January, King completed its acquisition of Meridian Medical Technologies. Meridian pioneered the development and manufacture of autoinjectors for the self-administration of injectable drugs. This acquisition is expected to add US\$90 million in annual revenues and 2 cents a share in earnings.

**King: all this and a culture capitalist, too**

If you follow the biotech-pharma industry, you're probably aware of the problems at Elan (ELN:NYSE). A series of bad investments and accounting problems crushed the company, and it had to begin selling assets to meet debt obligations. In its most recent quarterly report, Elan

**RELATIVE VALUATIONS**

	<u>KING</u>	<u>INDUSTRY AVG</u>	<u>MERCK</u>	<u>PFIZER</u>
<u>RET. ON EQUITY (5 YEAR)</u>	34%	11%	44.00%	32%
<u>REV. GROWTH RATE (5 YEAR)</u>	89%	27%	19.20%	11.70%
<u>CURRENT P/E</u>	12	25	16.3	19.6
<u>PRICE/SALES</u>	2.6	8.8x	2.3x	5.3x
<u>PRICE/BOOK</u>	1.5x	4.5x	6.6x	9.5x

says it lost US\$451 million as revenues were cut by 54%.

Not good. Unless you're King Pharmaceuticals.

In January of this year, King made what could be its most significant acquisition yet. For US\$850 million King picked up the U.S. rights to two drugs, Sonata and Skelaxin, that did approximately US\$238 million in sales in 2002. Sonata has patent protection through 2008 and Skelaxin is protected through 2021.

But what may be even more significant is that King picked up 400 Elan sales reps as part of the deal. That's 400 trained, experienced and presumably productive salespeople added to King's marketing juggernaut.

This acquisition is a bold move. As a consequence, King had its outlook downgraded by Moody's from positive to stable based on increased debt and the potential difficulty of integrating a sales force that's become 70% bigger virtually overnight.

## The balancing act

At US\$16 a share, I believe much of the future risk for King Pharmaceuticals is priced into the stock. Of course, the biggest risk of all is King's business plan, which is essentially growth through acquisition. But if King continues to perform as it has in the past, the current price of the stock represents a very compelling opportunity.

I've included some charts intended to illustrate King's valuation relative to its sector and a few select companies. I think you'll agree that on a purely fundamental level, King Pharmaceuticals is grossly undervalued by the market.

King's stock would have to double just to achieve a PEG (price-to-earnings growth ratio) of 1, which would mean the stock price is consistent with earnings growth. And if King is successful in quickly integrating its sales force and new prod-

*over, please...*

# Welcome to the first-ever Agora Wealth Options Seminar... "The World's Greatest Options Event"

*April 24 & 25, 2003, Baltimore's Pier V Hotel*

by *Siu-Yee Ng*

On April 24 and 25, *The Oxford Club* and *Agora Financial* will present the first-ever **Agora Wealth Options Seminar**—featuring the inside secrets of five of the world's leading experts on turning stock options into instant wealth.

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But, I urge you to make your reservations now, because only 200 seats are available for this first-ever, hands-on Options Seminar. If you are one of those select 200, the Seminar could guarantee your success in the remarkably rewarding stock options trading market.

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ucts, the potential for the stock price over the next few years is much greater.

I'm rating King Pharmaceuticals a strong buy on the fundamentals. I believe a year-end price target of US\$25 is very reasonable. And if King is successful in overcoming current self-imposed challenges, this stock could trade north of US\$30 within the next 12 months. Anything below US\$17 is a very attractive entry price for this stock.

There is a minor hitch, however:

During the production of this issue, it was announced that King Pharmaceuticals was the subject of an investigation by the SEC. The

matter under investigation is pricing policy for certain Medicare-related reimbursements in 1999 and 2000. The total dollar amount in question appears to be approximately US\$57 million.

**In light of the 25% drop in share price following the announcement of the investigation, I don't believe that US\$57 million dollar figure is enough to materially affect the company's past earnings or future growth. In fact, the 25% drop in the stock price—from US\$16 to US\$12—appears to be an excellent buying opportunity. ■**

## The lady or the tiger

### *The Dow faces a tough choice: A rally to 9,122 or a plunge into the depths of despair*



Adam T. Lass  
Taipan Chief of  
Index Forecasting

No WWII references this month. Rather, another "vintage" parable: Long ago, in a faraway land... (I have been unable to ascertain which one. In his 1896 retelling, that prolific compiler of moralistic primers for middle-school students, Frank Stockton, coyly places the story in a "barbaric Eastern kingdom." But the tale may be much older, possibly even pre-historical: the noted author, playwright and historian Shel Silverstein has described it as "the second oldest

story in the world.") But that's not important. Anyway, in this antediluvian land, justice was meted out in a most peculiar fashion.

A young man of lowly origin, having offended the natural order of things by seducing a lady beyond his rank and years, is brought to the "Arena of Judgment," where he is made to choose between two large wooden doors set into a mud and stone wall.

### **Tough choices**

Behind one door is a large, hungry and irritated tiger, while the other conceals a beautiful woman (of lower rank, of course, someone's maid or third daughter: you know how it was in those days) to whom, if he chooses the right door, he will be instantly and permanently wed.

Seated beside the king is the young man's lover, who has somehow managed to find out which door holds which fate. As her paramour looks to her for guidance, she gestures with her fan toward one of the doors. The tale quite pointedly does not reveal whether she chooses to lose him to death or marriage, leaving young readers to determine the preferable fate.

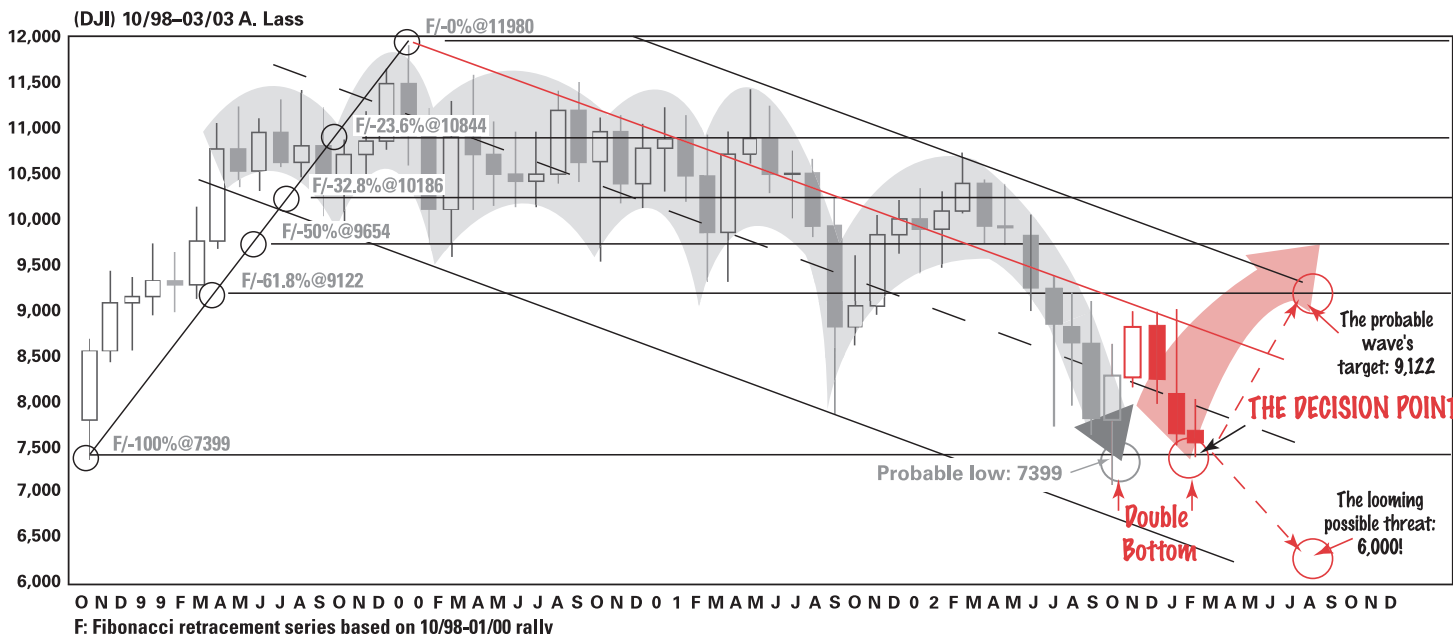
(One could easily assign roles from this tale to various players currently bestriding the world stage. I shall refrain, however. As tempting as it might be to place President Bush on the boards dressed as an overly amorous damsel in a periwig, eye shadow and bustier, it would just encourage a flood of non-germane email that I simply have no time to answer. If you don't like my parables, you are in good company: Bill Bonner has always discarded the first page of everything I write.)

### **Two fates**

Much like those young lovers, the Dow Jones Industrial Average (DJIA) stands in the arena, confronting two highly divergent fates: behind one door lies the path to a substantial short- to medium-term recovery. And the foundation for this rebound is already quite visibly in place.

The double bottom formed by the October '02 low of 7,117 and the February '03 low of 7,602 (not to mention the DJIA 7,399 of October '98) could provide a technical jumping-off point for the

**WaveStrength Analysis™ Dow Jones Industrial Average**



postwar boom I described in last month's column. The parameters of this rally are easily determined (and also described at great length in previous columns): a move up to the confluence of the wave top and the Fibonacci -61.8% retracement of the great bubble at DJIA 9,122 by late August or early September.

This move would not be without its moments of terror. Of particular note would be resistance-driven turbulence at the bear trend's 50% line just below DJIA 8,000... and the 75% line just above DJIA 8,500.

**The other door**

Believe it or not, this whole long, long talk has just been a warm-up to this: behind door number two is a fate that most stock investors would feel is considerably worse than death. I believe anyone currently exposed to the Dow's blue chips might think a minute before making a choice between evisceration by an angry tiger and another -50% "rerating" of the market. But that's exactly what's in store if the aforementioned double bottom doesn't hold.

Should this "fate" come to pass—the lack of a foothold at or around DJIA 7,450—the Dow's current waveform would continue downward to the next logical support points. The first would be one to two months out at the bear trend's 25% line at or around DJIA 7,000.

But should this downside scenario play out (and I must emphasize that its probability, while not domi-

nant, is growing daily), I have serious doubts that 7,000 level would hold, as we already tried that trick last October. No, once this train to hell gets rolling, its next likely stop would be the trend bottom at DJIA 6,000. And a bounce there would be the good news.

**The pendulum and the pit**

Since I started this piece with one bit of hoary storytelling, allow me to close with another.

It's a common adage that the stock market hates "overhang." Try to imagine what the stock market would look like with the overhang from war with a country with an enormous standing army.

And enough artillery loaded and aimed point-blank to instantly erase one of the world's largest producers of microcircuitry.

And nuclear-tipped intercontinental ballistic missiles capable of reaching major U.S. cities within 15 minutes.

And a mad, Stalinist leader bandying phrases like "turning America into a lake of fire."

You don't have to imagine. The answer is: this Damoclesian threat would drop the Dow to the Fibonacci -161.8% retracement at DJIA 4,567. But remember: this is merely a fairy tale. No American president would ever put his personal distaste for such a country and its "pygmy" leadership ahead of the good of the country and indeed the world. ■

*over, please...*

## Three very scary numbers: Dow 7,000, 6,000... and 4,567

### Use this out-of-the-money DJX put to protect your portfolio from the hungry tiger lurking behind Door Number Two



Bryan Bottarelli

Now that you've finished reading Adam's article, I have a confession to make. Much like Bill Bonner, I really don't pay much attention to Adam's political views, war chatter and fairy tales. In fact, I probably understand only half of what Adam says in the first place. But when it comes to his forecasting, that's a different story.

Adam has called every major move throughout the course of this four-year rise and fall of the market... with uncanny precision. And for that, I give him my utmost respect as a market forecaster.

So I'm all ears when Adam tells me that if we do not hold ground at current market levels, we could witness a situation that chops off half the value the Dow, dropping it to the obscene level of 4,567. In the course of this free-fall, the Dow would most likely stop and hiccup at 7,000 and at 6,000.

### Marginal probability could equal major profits

Now, I acknowledge that a fall of this magnitude is what Adam calls "marginally probable." Nevertheless, I feel it's wise to enter into a cheap Dow put position that would certainly protect you from his milder predictions—and possibly reap spectacular profits should the more alarming numbers in my headline become the Dow's new reality.

### Time to change pitches

Right now, I'd like to take a moment to talk about a major change coming in our columns. This will be the last time Adam and I focus on the Dow in *Taipan*.

The reason for this is simple: We are proud to announce that we've launched our third *WaveStrength* product. Called **D-Wave**, it is set up for the sole purpose of trading options on the Dow Jones Industrial Average. This new service's Weekly Briefings are where you can find our continuing

coverage of the Dow index. You can learn much more about **D-Wave** at [www.dow-wave.net](http://www.dow-wave.net).

Now, don't get in too much of a lather yet.

First of all, we will continue to alert you to changes in our existing portfolio of open DJX positions, both here in *Taipan* and in the daily 247profits e-Dispatches. But we have even better things in store for *Taipan* readers...

### Get ready to score

In future *Taipan* articles, Adam and I will accommodate the growing demand for coverage of the S&P Index. Adam will do the S&P forecasting, and I will follow up with highly structured SPX options plays to capitalize on the pending move.

**Since S&P options have historically been the most actively traded index options (in terms of volume), Adam and I feel they offer you a fantastic way to continue trading overall market trends for fun and profits! ■**

## Protective Dow Play:

**Buy the DJX May 76 Put (DJX QX) between US\$3.10 and US\$3.55 per contract.**

*This option gives you the right to sell the Dow for 7,600 anytime before the third week of May. According to my Black-Scholes software, it can be expected to move up in value approximately US\$0.50 for every 100 points the Dow falls.*

*Just a move to Adam's first checkpoint at Dow 7,000 could place the value of this option at US\$6.90 per contract, good for a clean double. And, if you're wondering: a move to Dow 4,567 could put the value of this option at US\$19.10. That's what I call a six-bagger! ■*

## Outlook for biotech stocks in 2003



Brian Hicks,  
*Taipan*  
Microcaps Specialist

I don't know if you've been keeping an eye on the biotech sector. I have... but with one eye shut and the other squinting. That's how bad things have been for biotech stocks lately.

The widely followed NASDAQ Biotechnology Index has gone from a height of 1,500 in 2000 to its current level of 500. The index lost more about 67% of its valuation in the past three years... which isn't all that bad when you consider the NASDAQ itself has lost more—a bowel-shaking 73%.

That's not exactly a comforting thought. And I don't intend it to be. All I'm saying is that, given the speculative nature of biotechnology stocks, I'm thankful for small miracles.

But the start of 2003 hasn't been encouraging.

Biotech investors thought there was some relief on the horizon as the world waited for the clinical trial results from VaxGen to be announced.

VaxGen is a biotech that was conducting a final phase trial for a new AIDS vaccine called AidsVax.

The results the company announced were *inter-*

*esting*, to say the least.

I won't get into the specifics, because clinical trial-speak is very esoteric. But in a nutshell, VaxGen claimed the drug was effective... but effective in only two ethnic groups: blacks and Asians.

I could be wrong about this, but if it's true, this might be the first ethnic-specific vaccine.

I'm not holding my breath.

And the market didn't exactly greet the news with whoops of joy.

The stock is currently trading for US\$3.75. Two months ago it was trading for nearly US\$20 a share.

But my outlook for biotechs isn't all bad, as you're about to find out.

### ***Same argument, different year***

The argument I'm making now is pretty much the same one I made in 1997: on a purely fundamental view, the biotech sector as a whole appears attractive. That's not pie-in-the-sky enthusiasm. I can back this up with numbers.

Check this out: If you add up all the market caps of all the publicly traded biotech stocks (300+), the combined market cap is only US\$378 billion.

I say "only" because I'm about to compare the entire biotech sector to just three companies: Pfizer, Merck and Johnson & Johnson. Those three companies have a combined market cap of US\$475 billion. In other words, for the price of these three companies, you can buy the entire biotech sector, including biotech giant Amgen.

There's more. Given the recent debacles in the land of biotech, the current valuations in that sector are actually quite compelling. I mean, many of the highflying biotechs of the 1990's are now trading near, at, or (in some cases) well below cash.

Take Human Genome Sciences, for instance. During the height of the biotech bull market, Human Genome had a market cap of more than US\$12 billion and a per-share price of US\$100.

My members made over 100% on the stock.

In fact, I even declared that HGSI would emerge as one of the best

*over, please...*

## Agora Wealth Symposium, San Francisco, CA

*August 13 through 17, 2003*

by *Siu-Yee Ng*

Please mark your calendars for the next **Agora Wealth Symposium**, August 13 through 17, 2003. This year it will be held at the Fairmont Hotel on Nob Hill, San Francisco.

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biotechs in the world.

Today, Human Genome Sciences trades at a market cap of US\$850 million, and you can pick it up for the severely discounted price of just US\$6.50 a share. Though I wouldn't recommend that you do so.

But a case can be made for HGSI. As you read this, it has a rich cash position of US\$1.35 billion. That's about US\$10.50 in cash per share.

Human Genome Sciences isn't the only biotech that has fallen on tough times.

Medarex (MEDX:NASDAQ), another small but promising biotech I was high on, has seen its market valuation chopped by as much as 97%.

In 2000, Medarex traded for up to US\$90 a share.

Today, it trades for a mere US\$3.00 a share. And it, too, has a mountain of cash sitting in the bank: US\$369 million in long green, compared to its market cap of just US\$224 million.

But Human Genome Sciences and Medarex aren't the only biotech stocks trading at rock-bottom prices. Here's a list of stocks that are trading near the cash they have sitting in the bank:

<u>COMPANY</u>	<u>STOCK PRICE</u>	<u>CASH PER SHARE</u>
<b>Protein Design</b>	US\$7.25	US\$7.01
<b>Gene Logic</b>	US\$4.96	US\$6.36
<b>Genome Thera</b>	US\$1.56	US\$2.33
<b>Celera</b>	US\$8.33	US\$11.70
<b>Millennium</b>	US\$6.75	US\$6.10
<b>Elan</b>	US\$3.50	US\$3.93
<b>Vertex</b>	US\$10.50	US\$8.32
<b>OSI Pharma</b>	US\$14.25	US\$11.92
<b>CV Therapeutics</b>	US\$16.50	US\$15.91
<b>Incyte Genomics</b>	US\$3.15	US\$6.67
<b>Alexion</b>	US\$10.75	US\$15.57
<b>Guilford Pharma</b>	US\$3.31	US\$3.21

Given the thoroughly distressed levels many promising biotechs are trading at, I don't see too much downside for the sector. But I don't see much upside, either... at least until the Iraqi situation is resolved. Stay tuned! ■

## Heat seeking heaters: Gulf War wonder laser!



Christian DeHaemer

Ever since one protohuman monkey first picked up a rock to bash the brains out of some other protohuman monkey and steal his protobanana, the race for military supremacy was on. Leonardo da Vinci devised a rotating scythe for a chariot that literally mowed down the enemy as it advanced.

In the U.S. Civil War, someone developed a device whereby two cannonballs were attached to each other with a chain and fired from two separate cannons. The downside of this was that one canon would always fire first—destroying the other in the process.

During World War II, the Germans invented a curved barrel that attached to the end of an MP44, allowing a bullet to be fired around corners. The shooter looked through a prismatic sight. Oddly enough, it worked. Sort of.

### ***Might is right***

Necessity is the mother of invention. And for some reason, man has always sought news ways to help his neighbor shake off this mortal coil.

You'll be happy to know that innovation hasn't stopped. Today, the military-industrial complex has evolved into a very sophisticated high-tech

killing machine.

There are those who might pontificate on the morality war, or the notion of nation-states. I'm not one of them... at least not today. I'm here to tell you about some cool new gadgets that are being created for the next battle.

### ***Spaceman spiff***

The U.S. has been trying to come up with an antimissile system ever since Ronald Reagan saw the movie "Star Wars." Antimissile warfare has gone through several incarnations. There are electric Gatling guns on ships that throw up a wall of lead. There are chaff and flares from aircraft, and there is the ineffective Patriot antimissile system used in the first Gulf War.

Of course, these days everybody figures we ought to have a laser that can shoot down missiles. And so we do. In his more lucid moments, Ronnie's probably wagging his finger and saying, "I told you so, Sam. I told you so."

That's right, we got lasers—the Tactical High-Energy Laser or THEL. This bad boy locks onto missiles with a pivoting laser projector. It generates a great deal of heat, which triggers the missile to blow itself up.

The THEL has shot down more than 25 Katyusha

**There aren't too many three year charts that look like this (BLL:NYSE)**



missiles and even picked off an artillery shell. It can hit incoming missiles traveling at up to 1,000 miles per hour and has a range of 20 kilometers.

It is made by **Ball Corporation (BLL:NYSE)**, a company that is primarily concerned with producing containers for beverages and foods. But they are also a supplier of aerospace gadgets and other technologies.

As you can tell by this chart, Ball Corp. has been on a steady climb while the rest of the market has sold off. In general, soda bottles and cans are safe markets. It has a P/E of 18, a price-to-sales ratio of 0.76, a market cap of US\$2.91 billion... and a dividend!

In addition, you get the added kicker of a possible wartime boost. Think about a THEL laser shooting down a Scud—that's got to be worth at least ten points.

**Buy Ball Corporation as a long-term climber or war speculation—your choice. Either way, it's a good buy under US\$51.**

## Blimps are back

Of course, you have to find the incoming missiles first. That's why TCOM, a company right here in Maryland, has developed radar blimps. There's no ground clutter if you are in the air. Of course it's not called a blimp, it's called a

Joint Land Attack Cruise Missile Defense Elevated Netted Sensor.

TCOM has a variety of blimps, some as long as 230 feet with a payload of 3,500 pounds and an altitude of 15,000 feet. They attain lift from helium, and can stay aloft for 30 days even in a moderate hurricane. Ok, blimps aren't new, but they're still cool.

## X-ray glasses

Do you remember those ads in the back of comic books selling X-ray glasses? They were just cheap plastic things with little swirls on them, and you couldn't really look through a girl's shirt with them. I know. I tried.

## Well, now you can!

No, not really. But with a low-power through-wall surveillance device, you can look through walls 30 feet away. The SoldierVision handheld device uses low-power radio pulses, which give off different patterns as they rebound from different types of material like wood or skin.

You can tell where the bad guys are without even going into the room. The U.S. Army picked up a few of these in October. They are made by Time Domain, a non-public company. ■

*over, please...*

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# The modern-day Jed Clampett

## Drilling the U.S. out of danger for US\$2.70



William Bradley Colburn

If you're reading this and we haven't started raining death and destruction down upon Iraq with great fury, consider yourself lucky. Nobody really wants to go to war. The potential casualties, both physical and mental, are too numerous to list.

Not to mention the economic loss. Financing a war is a costly thing. Sustaining an army of more than half a million during Desert Storm cost US\$60 billion. That's not even taking into consideration the extra money spent domestically for the nation to survive during wartime.

When everything boils down, war is about greed. No matter how virtuous the convictions are, war is about need and want. No matter how strong the rationale for making war, there is always something to gain.

In our present situation, and in past scenarios, oil is one of our greatest concerns. The U.S. is strongly committed to protecting Gulf oil, since about 10% of oil used in the U.S. is imported from the region.

During the Cold War, U.S. strategy was largely aimed at ensuring that Gulf oil did not fall into hostile hands. Gulf oil was and is important because of its effect on the global economy.

Well, the other day I came across a company that could really bail the United States out of an urgent crisis, if the need arises.

**KCS Energy, Inc. (KCS:NYSE)** is an independent oil and gas company engaged in the acquisition, exploration and production of natural gas and crude oil. Its operations are predominantly in the Mid-Continent and Gulf Coast regions.

The company also purchases reserves (priority rights to future deliveries of oil and gas). And right now, KCS is again

coming into a good position.

I say again because, in the period following Gulf War I, KCS enjoyed a boom in business. They had just gone public in 1992 and fell right into an oil surge. Stock prices quadrupled in value in a very short time.

On February 12, 1992, KCS closed at US\$12.00. Less than a year later, on December 9, 1992, it was selling for US\$40.00.

The U.S. has been in somewhat of an oil lull for the past decade. Not that oil hasn't been important, but there haven't been too many crises where it was a matter of dire urgency.

But now we're in just such a crisis. Saddam, though he is slowly complying with UN regulations, has threatened to use scorched-earth techniques if there is military action. In plain English: he'll burn his own country to ashes to prevent anyone from taking what's his.

Though we get oil from other places such as Saudi Arabia and Venezuela, relations with those countries aren't going too well. If Saddam torches his oil stash, we may be in some trouble.

There is a slew of domestic oil companies out there, but KCS has a proven record of success.

KCS has reported a second straight year of earnings of US\$65.6 million. They've had an 87% success rate with a total of 106 drilled oil wells.

KCS has US\$31,455,000 in total revenue, with a net income of US\$3,649,000. Assets as of September of last year were US\$281,483,000.

EPS is expected to be US\$0.10 but is presently at US\$0.40. KCS has a 52-week stock price high of US\$4.01.

**If history repeats itself, as it often does, KCS could find itself sitting on a black goldmine. KCS is selling for US\$2.57 right now. Buy under US\$3.50, and watch the gains well up. ■**

## TAIPAN

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