



For your **FREE** daily market updates, sign up for our **FREE** e-Dispatch at [www.247profits.com](http://www.247profits.com)

**24/7 PROFITS**

This issue went to print 3-22-04. Prices and margins quoted reflect levels at this date.

## Will terrorist attacks lead to financial Armageddon... or uncover hidden profit opportunities yet to come?

***"Make the right moves now and you could make a not-so-small fortune!"***



J. Christoph Amberger

As global market dynamics surged and ebbed throughout March, the members of the *Taipan* editorial board kept their fingers on the pulse of the markets. On March 15, *Taipan* veteran and *Red Zone Profits* guru Christian DeHaemer recognized that he had a *Taipan* position that was ripe for the picking. "Take profits on the **India Fund (IFN:NYSE)** and bank 36% gains," he wrote. "Last year was great for India. The SENSEX of Bombay went from a low of 2,904 to a high of 6,249—bettering the NASDAQ by about 30%. More recently, however, the index moved sideways, put in a triple top and is now trading at 5,520.

### Friend or foe?

"India has come so far, so fast that it is a hot topic on the US campaign trail. More recently, two Indians were caught up in the al Qaeda bombing in Spain that killed 200 or so folks in ten separate train bombings.

"This tends to remind investors of the nuclear-armed Pakistan looming just north of the Hindu Kush, which doesn't jibe with a safe retirement portfolio. India has run its course, for the time being. Take the 36% profits and treat the wife to some tikka masala."

### 305% gains on KCS's outstanding performance

Not to be outdone, *Value Edge* editor and Volume Spike Indicator virtuoso Brad Colburn alerted his *Taipan* followers a day later to cash in on one of his prize picks:

"Geopolitical tension. My favorite 2003 buzz-phrase is back, and it's sending the masses into fits of rage and defiance. Investors seem to be hiding under the nearest rock, clutching the fattest wallet they've had in quite some time. I don't blame them. The market is going to be very volatile for the near term.

"Now, you might think what I'm about to do lumps me in with the craven

*over, please...*

email: [taipan@agora-inc.com](mailto:taipan@agora-inc.com)

masses. It might, but I have a different reason: I want you to sell the second half of your position in **KCS Energy (KCS:NYSE)**. Not for fear of what's (possibly) to come, but for one simple reason: KCS has outperformed itself.

“Look back to my original recommendation in the April 2003 issue of *Taipan*. KCS traded at US\$8.49, and seven months later we took a 230% profit on half of our position. Four months after that, KCS is trading at US\$10.43. Go ahead and sell your second half and bag that 305% profit.”

(As always, we alert you to these short-term profit opportunities as they arise via email and the Internet. So if you haven't signed up for our daily updates in the *247profits e-Dispatch*—a free and vital feature of your *Taipan* membership—wouldn't you agree that it's in your own best interest to do so? Just go to our daily news portal at [www.247profits.com](http://www.247profits.com) and follow the one-step instructions!)

**246% profits  
on IMH:NYSE...  
not counting the  
dividends!**

Around March 18, *Taipan's* long-term real estate and mortgage speculation, **Impac Mortgage Holdings (IMH:NYSE)**, rocketed past US\$24, hitting an intraday high of US\$24.25. Even if they hadn't released a statement on March 8 hinting that earnings would be far better than anticipated, this upward move should have been sufficient to tip you off that these guys had something positive to talk about... like earnings in the vicinity of 70 cents a share.

We anticipate that the stock could briefly move above US\$25 when the next cash dividend is announced. As in previous quarters, expect a correction of up to 10% right around payday. For the foreseeable future, this REIT remains a solid hold... although you should limit your downside by observing a leisurely trailing stop of around 30% to 35%, depending on your entry price.

IMH's P/E ratio, by the way, is still around

10... despite the record highs. At the March 18 high, the stock price represents a 246.42% gain over our initial entry price in July 2001—not counting the cash dividends. Not bad, considering US real estate has been declared dead more often than the career of Sean Penn!

## What's in store for the markets?

As good as these gains are, investors still wonder if there are more to come. After all, while March handed our readers positive returns, it certainly packed a punch: terrorist attacks... a surging trade deficit... the declining dollar... gasoline at record highs... government deficits as far as the eye can see... anemic job growth. Throw in the

NASDAQ diving 136 points in a single day, down 10% from its January 26 high, and you can see why many investors are beginning to question the health of the market.

Indeed, our dyspeptic friends of the perma-bearish persuasion are once again seeing

Armageddon in every 100-point increment the Dow sheds. With all that woe waiting to materialize, shouldn't we just call it quits, sell all our tech and biotech holdings, buy gold, bury it in the backyard, and wait for the end?

I guess it's a matter of perspective. Back in the old days (say, the Stone Age of 1997), a market decline of 10% was called a correction. And it may surprise you to recall that market technicians used to welcome it, as a correction was the only way the market could continue higher. Our editors still see it that way... and they've spent years chiseling out sophisticated constellations of catalysts and indicators that allow them to pinpoint just when such profit opportunities arise.

And our consensus is that the coming months will be counted among the most challenging... but also the most profitable... periods in your lifetime.

We here at *Taipan* believe in the natural ascent of progress. That means we're extremely bullish

“305% profits on KCS  
in eleven months...  
246% gain on IMH  
since June '01 (not  
counting dividends)...  
what's next?”

on America. Think about this for a minute: In the 20th century, the US was involved in five major wars—WWI, WWII, Korea, Vietnam, the Persian Gulf—and in countless other conflicts like Panama and Grenada. In fact, the 20th century was the worst in history for war, famine and plague. Yet, through all of the mayhem, more technological progress was achieved in the past 100 years than in the previous 1,000 years combined. And this progress is accelerating at break-neck speed.

Scientists argue that we are now entering the knee of the exponential growth curve of progress. We will see 100 years of progress in the next 20 to 25 years. That may even be conservative, as the rate will probably increase with the emergence of nanotechnology.

### Crisis spells opportunity

But let's not deceive ourselves. There's trouble ahead. Spain's heedless capitulation to Islamist sociopaths has set the stage for repeat performances. Further terrorist attacks on civilians in Western cities are not only possible, they've become probable.

And as the past years have shown, each such action will elicit a corresponding reaction in the financial markets.

We've seen it in the aftermath of 9/11 and after the bombings in Bali and Turkey. And every time, *Taipan's* Dynamic Market Theory opened a win-

dow to turn mayhem into opportunity.

Finding opportunities for you to profit has always been the core of *Taipan's* Dynamic Market Theory. Truth be told, we find the hidden profit opportunities everyone else misses.

For example, in September 2002, *WaveStrength* editor Bryan Bottarelli handed readers a 1,500% gain with his recommendation to buy Taser International at US\$4.00 a share. Over the next year, Taser soared to a phenomenal US\$157 per share. While *Taipan* readers who followed Bryan's advice were ecstatic, the investment community was stunned.

Barron's financial magazine even apologized to its readers for failing to catch Taser, saying "we missed it entirely."

### Repeat profit performance

No matter when or where mayhem strikes, you can count on the *Taipan* team to not only keep your investments safe... but also to find the profits among the pitfalls.

In fact, we've already begun to calculate when and where such seemingly external market moves will likely take place. In this edition of *Taipan*, Adam Lass is going to walk you through the numbers... and offer you a way to insure your portfolio against whatever the world might throw at us. In my humble opinion, this play alone could turn out to be the most important investment you make this year! ■

## Will distant danger stymie market advances?

### *The consequences of the Madrid bombing*



Adam Lass

Suddenly, FEAR enters the picture. And I don't just mean lowercase, small-time, nagging-worry fear.

Oh, there's a good bit of that around. It's been quite visible in the S&P 500's chart over the past few months as a capped top in the vicinity of 1,155. But this was just the normal "wall

of worry" that any sane market must climb prior to setting another high.

You know, the usual doubts that run through investor's heads, like: "Darn, the market is climbing: I really need to get on board if I want to retire before I'm 90!" And: "But it's already so high: Last time, I got in too late and lost my shirt! I sure don't want to make that mistake again."

*over, please...*

No, this time I am talking about major fear. Palm sweating, heart-palpitating, "end of days" type fear. The kind of fear where the internal dialogue runs like this: *"It's one thing if those stupid Middle-Easterners want to blow themselves up. Now it looks like it could be someone I know who gets it... or someone I love... or EVEN ME!"*

Now that's real fear.

The worst part is, because it is just beginning to percolate into the collective consciousness of the great American electorate-investoriate, this fear has not been fully factored into stock prices.

Yet.

## ***The spark and the powder***

Yes, I am writing about what happened in Spain. But not specifically the horrid and horrifying terrorist attacks in Madrid. As much as we sympathize with our fellow humans across the water, these events did indeed happen on the far side of the ocean, and we seldom take events there in any sort of visceral fashion.

This event, in and of itself, is only the spark, not the fuse or the powder that will dramatically alter the American investing landscape.

Let's take a moment to parse out the order of things: Prime Minister Jose Maria Aznar's conservative party was significantly ahead in the polls going into the election. Aznar was one of America's few unabashed allies in the war in terror, and the only leader of "Old Europe" to back President Bush wholeheartedly and without reservation.

## ***Jueves Negro***

One day of massive violence later and the Spanish electorate has placed the Socialists back in power with a specific mandate to realign Spain with France and Germany. The incoming Prime Minister, Jose Luis Rodriguez Zapatero, has already pledged to pull troops out of the "disastrous" occupations of Iraq and Afghanistan.

Some will call this shift wise and just, some will call it simple pragmatism, and some will label it traitorous. This point has been argued ad nauseam. In the end, history will be the judge.

It is the judgment of American investors that I am writing about today. For the past few days, they have been trying to price this attack into the market. And as of this writing, it appears that some stability has returned. The lows of March 18 have formed a support node, at least for the moment, and buyers are popping their heads out the foxholes, looking for bargains.

## ***Dubious success***

This relative complacency can and most probably will be destroyed. I can't say when, but I can say why: It is not the fact of the attack on Madrid that is most significant, but rather its success in moving a major player off the field.

Just as the market must test a support or resistance node once it gets a glimpse of it, al Qaeda must test the theorem that the US electorate can be moved off the mark with an attack of sufficient savagery just prior to a closely contested election.

This is not a polemic! I am not telling you which way to vote, or how to react when this attack comes. Just that the attack is coming, that it will occur within the next eight months, and that it has not yet been priced into the market.

## ***Predictable carnage***

When the attacks come, I'm sure there will be quite a strong reaction. But if you were to look at the charts for the post-9/11/01 period, you would note how the parameters of the market's drop were predicated on the previous few years' market action. This was how I was able to make my now fabled "Wall Street Carnage" warning of 9/10/01.

Is the market "doomed"? That depends on several things: First of all, the herd will respond not so much to the attacks themselves than to how the American government responds.

Prime Minister Aznar's attempts to deflect blame from al Qaeda to the Basque separatists of ETA for his own cynical political purposes are now being held up as the primary cause of his removal from power.

Should the American electorate-investoriate judge our leaders' reactions to be shallow and self-serving, all hell will break loose.

## ***Fortress America***

Americans tend to think that they dwell in an impenetrable fortress. This idea is encouraged as much by the country's sheer geographic bulk and relatively secure boundaries as by its astounding wealth, incredible productive power and formidable armed services.

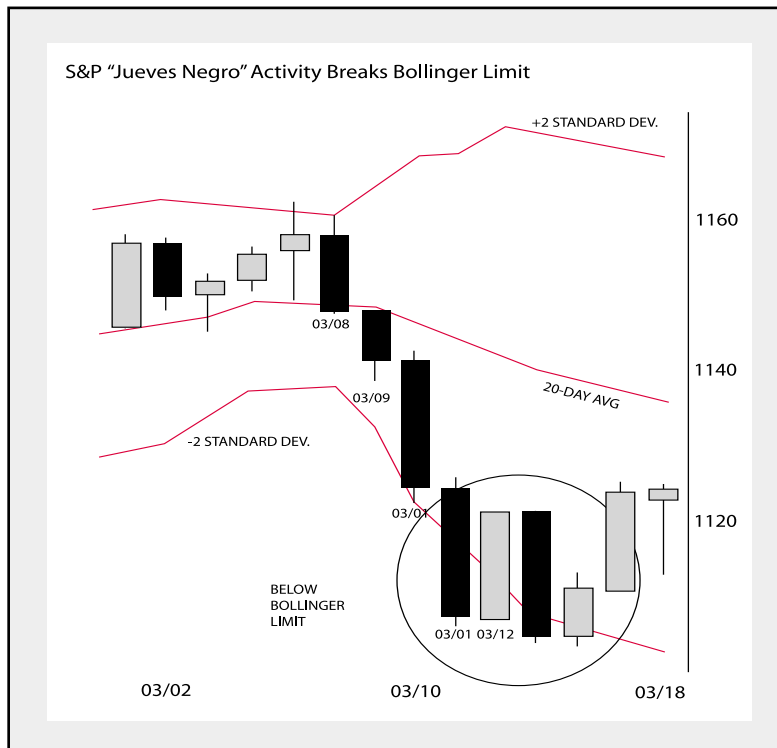
And while it has held up modestly well over time, the occasions when this invulnerability appeared to break down—the attack on a mid-Pacific naval base in 1941, the sale of Rockefeller Center in 1985, and the utter destruction of New York's World Trade Center in 2001—have all triggered galvanic market responses.

I say triggered because in each of these circum-

stances the ingredients for the response were already in place. Indeed, the very parameters of the market's reactions were predicated on its behavior for the many months prior to the supposed stimulative event.

## ***Confusing cause with effect***

This is true once again. On Thursday, March 11, an American market that was already rife with small uncertainties—jobs, inflation, energy costs, multiple international police actions—used the Madrid bombings to trigger a 17-point (1.51%) drop in the S&P 500. I strongly suspect that the week's losses will forever be conflated with the Madrid attack, even though the S&P had already lost almost 33 points (2.85%) from that Monday's open to Wednesday's close.



Historians and economists will no doubt argue over the true cause of the drop. Chartists like me are perfectly satisfied to note that the S&P had penetrated a crucial support line—the trend bottom dating back to March 2003—not on Thursday, March 11, but on Wednesday, March 10. And that Thursday's "post-Madrid" low of 1,105 was within a few points of the low for the next five trading days.

Indeed, the S&P 500's penetration of the bottom Bollinger band (two standard deviations below the 20-day moving average) on "Jueves Negro" clearly

flags a buying opportunity. And in fact the market rallied, showing green candlesticks three out of the next four trading days.

So what do we have here that we can work with? A market with short-term long opportunities that it would be foolish to miss and a nearly inevitable long-term threat that cannot be ignored. With that strategic framework in mind, I will hand you off to Bryan Bottarelli for a tactical solution.

## **Both sides of the Fear Equation offer profit opportunities**

### ***Superior options trading solutions for a queasy market***

*by Bryan Bottarelli*

We're witnessing a major turning point in the sustainability of the current market up-cycle. Will it last? Or will market forces (internal and external) bring the last year-and-a-half of gains to a sudden and traumatic halt?

There's plenty of support for each scenario. As Adam points out, recent terrorist activity overseas has brought the markets to a heightened state of fear. I won't rehash that downside scenario. Rather, I'd like to give the opposing view—support for continued upside.

### ***Easy riding on Hadik's Cycles***

A rather telling article in the March issue of Futures Magazine (published right here in Chicago) notes: "The major stock indices find themselves at an important juncture with a January peak and a March low likely. If certain criteria are met in March, another advance is possible into late June."

The article states that a series of 22-to-23- and 44-to-45-week time periods can be used to forecast future moves in the NASDAQ 100. This series is known as Hadik's Cycle Progression, and its 22-to-23- and 44-to-45-week cycles have correctly called each peak and valley in the NASDAQ since the high of March 27, 2000.

After March 2000, the next major peak was 23 weeks later and the one after that was 44 weeks later.

*over, please...*

The October 2002 low came 44 weeks after the December 2001 peak. If this sequence holds, then the NASDAQ's next high is due between June 14 and June 25, 2004.

## A game of high/low

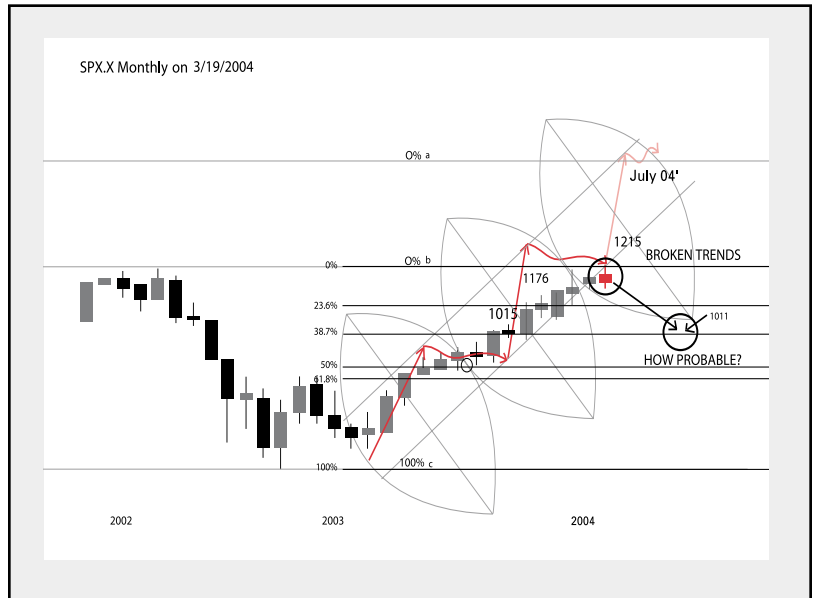
Although this forecast is for the NASDAQ 100, the same idea can be extrapolated to the other major indices. This is the main reason Adam and I continue to recommend **SPX June 1175 calls (SPT FO)** here in *Taipan*. As I write, they're trading between US\$11.80 and US\$13.40 per contract.

But this recommendation doesn't come without an elevated level of portfolio protection. After all, the scenario Adam discusses isn't a pretty one. The last time Adam spoke like this, it was September 2001—just days before the horrible terrorist attacks on America. To protect against those events, we played a series of puts that allowed our readers to secure their portfolios against the massive selloff that followed the attacks.

Right now, I'd like to offer a similar type of protective play. (Don't get me wrong—I'd much rather not have to deal with terrorism. But in today's market environment, we'd be fools not to account for the possibility.)

## The trade

As difficult as it is to "time" the occurrence of any sort of attack, I'll use the November election as a reasonable point of reference. And since we currently have June contracts open, I'd like to use a June SPX put to create an offside strangle (a popular trading position in our *WaveStrength* trading services) to counterbalance the risks and rewards of an upside or downside market. Here's what to do:



Buy the **SPX June 900 Put (SXB RT)** between US\$3.60 and US\$4.60 per contract.

Here is how this protective hedge would increase in value if the SPX trades down to the following levels by May 1:

- SPX 1,000 = June 900 Put at US\$8.23
- SPX 950 = June 900 Put at US\$18.79
- SPX 900 = June 900 Put at US\$37.80

To guard yourself and your portfolio, I recommend buying this **SPX June 900 put**. If we need to buy more time by "rolling" this put into a September contract, we'll alert you here in the pages of *Taipan* and in the daily *247profits e-Dispatch*.

P.S. For an extended version of this article, which also offers protective plays on the Dow and the NASDAQ, look for Adam's and my upcoming *Special WaveStrength Fear Report*. For more information, log on to [www.wavestrength.net](http://www.wavestrength.net). ■

# Make Qaddafi pay! Buy this Libyan oil play



Chris DeHaemer

Libya is back in the fold of respectability—at least as far as countries run by dictators with bad perms go. In the mid 1980's, I was in the US Navy serving on the aircraft carrier JFK. When we pulled into Toulon, France, street vendors were selling T-shirts printed with the words "I Crossed the Line of Death."

I don't know if you remember that Reagan sent in a sortie that took out several of Qaddafi's palaces after the Lockerbie-Pan Am terrorist incident. I still recall graffiti from the bathroom in the "Texas Lounge" (some black hole in Naples) that read "I killed Qaddafi's Daughter."

How things change. Qaddafi is still President for Life of Libya, no one has seen Reagan for years, but Colin Powell, the US Secretary of State, has rescinded

the restriction on the use of American passports for travel to Libya.

That's right, for the first time in 23 years, American citizens will be able to travel to Libya, for tourism, academic research, and family visits. Just in case you have a hankering to see the incredible Leptis Magna.

But that's not the good part...

US companies with pre-sanctions holdings in Libya are now authorized to negotiate the terms of their re-entry into operations in that country, subject to further US approval of any agreements if sanctions have not otherwise been lifted. In addition, some US companies will be able to make new deals with Libya.

Libya's known oil reserves are 29.5 billion barrels, with a production capacity of 1.4 million barrels a day, 74% of which goes to the EU.

I've found a little, unknown company that trades on the London exchange and has a back door to Libyan oil through Qaddafi's son. The company goes by the name of **SOCO International PLC (SIA:London)**. SOCO has around US\$59.4 million in cash on its balance sheet and no debt.

## HIGHLIGHTS

- Sales of £25.5m (2002: £26.0m)
- Net profit of £5.8m (2002: £5.5m)
- Earnings per share of 8.4p (2002: 8.0p)
- Year-end cash balances of £32.9 million, no debt
- Vietnam appraisal program confirmed hydrocarbon potential of Block 9-2 discovery
- Three consecutive high-rate basement discoveries in Yemen
- Successful appraisal well in Tunisia confirmed extension of the Didon producing field
- Gazprombank has acquired a stake in ODEX, the company's Libyan joint venture

SOCO has assets in Vietnam, where over the last two years they've made important oil discoveries in three of four wells drilled—one of which appears to be a major discovery.

The company has also been active in Yemen and Tunisia, boosting SOCO's crude oil reserves. Their

Mongolia explorations are underway, but have yet to yield results.

In the 2002 annual report, SOCO recorded net profit of £5.5 million on sales of £26.0 million. This compares to a net profit of £9.3 million the previous year after excluding a gain of £8.5 million from the sale of some of its Russian operations.

Further excluding the net profit contribution from the sold Russian operations (£2.3 million) yields a previous-year direct comparison of a net profit of £7.0 million on sales of £22.8 million. (Right now, one British pound will get you 1.81 US dollars.)

Daily average production net to the company's working interest was 6,203 barrels of oil per day (BOPD), increasing slightly over last year's output of 5,964 BOPD.

With the price of oil averaging in the mid 30's over the last year and the addition of the Vietnamese assets, one would think that the 2003 annual report will be much better. In fact, at the six-month mark, profits were at 5.8 million pounds versus 5.5 million pounds in 2003.

But these things are already priced into this stock...

My sources tell me that SOCO is aggressively seeking oil-field exploration and development contracts in Libya. Capex has jumped from 15.9 million pounds to 27.7 million pounds over the past six months. These guys are looking to the future.

Over the past year, SOCO has climbed from 260 pence to 400 pence based on the oil discovered off the coast of Vietnam. A significant discovery in the largely unexplored resources of Libya coupled with the continued high price of crude could tack on another 200 to 400 pence. Or more, depending on what they find.

In essence, this company is like buying a map to the lost Dutchman mine, except you don't have to go digging or take much risk, thanks to SOCO's cash position. If they hit it big on the Barbary Coast, the resulting market movement could be huge. If they don't, their current assets will continue to hold up the stock price.

**Buy SOCA (SIA:LONDON) under 335 pence.**

Contact: SOCO International Plc, Swan House, 32/33 Old Bond Street, London W1S 4QJ, United Kingdom, tel. +44 (0) 20 7399 3300, fax +44 (0) 20 7399 3333, [www.socointernational.co.uk](http://www.socointernational.co.uk). ■

*over, please...*

# China is becoming the largest importer and exporter of electronic products... here's how you can profit from it



Siu-Yee Ng

What would we do without our tiny cell phones and personal computers? We've grown accustomed to these amenities, but it was not that long ago that cell phones didn't even exist.

These products can all be traced back to the first semiconductor transistor invented in 1948. The technological world hasn't looked back since.

Semiconductor design technologies have only gotten better. Smaller and more power devices are being produced in mass quantities and at cheaper prices.

This, in turn, has led to more complex integrated circuits with higher functionality. These integrated circuits may now each contain many millions of transistors. That means smaller cell phones and high-tech computers. No more of those big Iridium phones.

The worldwide semiconductor industry, which consists of the integrated circuit market as well as the market for discrete components, optoelectronic devices and sensors, grew from sales of US\$49 billion in 1989 to US\$166 billion in 2003, a compound annual growth rate of 9.1%.

According to IC Insights, semiconductor content as a percentage of the total value of electronic products and systems has increased from 11.0% in 1989 to 19.0% in 2003.

And there's a young company that's making a name for itself in this growing market. Not only that, it already has a leg up on its competitors, because it's been able to penetrate the Chinese market. More about the company in a minute. First, let me tell you why China is not only a potential big buyer of these electronic devices, but why it's possibly the biggest exporter as well.

## **Money to burn**

This shouldn't come as a surprise. An improving Chinese economy means more money in the average person's pocket. According to the National Statistics Bureau of China, annual per capita disposable income has increased from Rmb 1,125

(US\$136) in 1992 to Rmb 4,519 (US\$546) in 2002, a compound annual growth rate of 14.9%. This has led to higher demand for electronic products like mobile phones, personal computers and DVD players, further boosting the need for semiconductor devices.

According to China's Ministry of Information Industry, the domestic market for electronic information products in China has grown from US\$20.2 billion in 1999 to US\$77.1 billion in 2002. In particular, the number of personal computers and mobile phones sold in China in 2002 was 12.3 million and 130 million, respectively. I have to say, in China just about everyone has a cell phone.

Sales of the Chinese integrated circuit industry are set to increase to US\$61.9 billion in 2008 from US\$19.2 billion in 2003, a compound annual growth rate of 26.4%. As a result, China's share of the worldwide integrated circuit market is expected to increase from 13.7% in 2003 to 23.5% in 2008!

The China Center of Information Industry Development says domestic consumption of integrated circuits in 2002 was US\$17.8 billion, of which 88.6% were imported. Even assuming aggressive growth in domestic production capacity, it is estimated that Chinese production of integrated circuits will "only" grow to US\$15.4 billion by 2010, a 44% compound annual growth rate from 2003.

China's domestic integrated circuit manufacturing capacity will represent only around 5.7% of the estimated worldwide market of US\$270 billion by 2010. So China will still be dependant on imported semiconductor devices to bridge the gap between supply and demand.

## **Manufacturing powerhouse**

We know that China is a global manufacturing center for electronic products that are sold both at home and abroad. We see it in practically everything we buy: "Made in China." To capitalize on this opportunity, many international companies have established manufacturing facilities in China for a variety of electronic products, including household appliances, computers, mobile phones, telecommunications equipment, digital consumer products and

products with industrial applications.

It makes sense for companies to relocate. China has a well-educated labor force, significantly lower costs of operations, a large domestic market for semiconductors, and cultural similarities and geographical proximity to Japan, Hong Kong, Taiwan, Singapore and Korea, among other factors.

According to International Finance Corporation, the private investment arm of the World Bank, China will account for US\$46 billion or 77% of emerging markets production growth through 2005. That means China will become the world's third largest manufacturing region behind North America and Japan.

And guess who's in front of the line to benefit from this?

## Helping the "fabless"

Semiconductor Manufacturing International Corp. (SMIC:NYSE) was only founded in 2000. Within three years, it developed the capabilities to offer a wide range of leading-edge integrated wafer manufacturing services, including copper interconnects. SMIC operates 8-inch wafer fabrication facilities in the Zhangjiang High-Tech Park in Shanghai, China. And it recently acquired an 8-inch wafer factory in Tianjin, China. It is currently constructing 12-inch wafer fabrication facilities in Beijing, perhaps the first 12-inch factory in China.

This young company has already won international recognition for its products. Fab 1 at its facility in Shanghai was selected as one of the two "Top Fabs of 2003" by Semiconductor International, a leading industry publication. SMIC was also ranked second in a 2003 readers' poll of top global factories conducted by Silicon Strategies, another leading semiconductor industry publication. And this company is only four years old!

SMIC is a foundry company. That means it fabricates semiconductors for its customers based on their own or third parties' integrated circuit designs. The companies that look for foundry companies are called "fabless."

## Outsourcing to foundries

There are more than 300 "fabless" semiconductor companies and design centers in China. These are companies that don't fabricate the semiconductors they design and develop, but instead rely on third parties like SMIC to manufacture their products.

As the fabless integrated circuit industry in China

matures, there will be an increased demand for foundry services. And with SMIC emerging as a leading foundry in China, it will be able to take advantage of this growth in both the local and international markets.

There's a reason why foundries like SMIC are in demand. Over the past seven years, the cost of establishing new fabrication capacity has grown. So many Interactive Distributed Multimedia Systems (IDM's) have begun outsourcing their fabrication requirements for complex and high-performance semiconductor devices to foundries in order to supplement their own internal capacities and become more cost competitive.

Even bigwigs like Elpida, Infineon and Motorola have announced that they will outsource an increasing amount of their production to foundries.

The growing trend in IDM outsourcing and the further development of fabless semiconductor companies are the two key drivers for the growth of the foundry industry, which is expected to significantly outpace the growth of the overall semiconductor industry.

According to IC Insights, sales of the foundry industry reached US\$14.0 billion in 2003, a 20.5% compound annual growth rate from US\$5.5 billion in 1998, and are projected to reach US\$39.5 billion by 2008, a compound annual growth rate of 21.8% since 1998. In contrast, the overall semiconductor industry is expected to grow at a compound annual rate of 9.5% over the same time period.

## Key player

Foundries now play a significant role in the semiconductor industry. Foundries don't simply provide manufacturing capacity, they've also become key strategic partners offering research and development capabilities and manufacturing process technologies.

SMIC is in a good business. Historically there have been a limited number of semiconductor

### Taipan's Classifieds

In order to devote more of our limited print space to bringing you profitable news and information, we are moving the *Taipan* classified ads to our website, [www.taipanonline.com](http://www.taipanonline.com).

If you are interested in advertising with us, please email Sara Nunnally at [snunnally@agora-inc.com](mailto:snunnally@agora-inc.com).

*over, please...*

foundries in the industry because of the high barriers to entry. But as the overall outsourcing demand continues to increase, fabless semiconductor companies and IDM's have begun to seek credible alternative foundry suppliers like SMIC to reduce their reliance on a limited number of vendors.

SMIC has already established foundry relationships with a significant number of leading fabless semiconductor companies in China. By establishing itself as a key partner for local semiconductor companies at an early stage in their development, it will be well positioned to take advantage of the potential growth of the semiconductor industry in China.

One of its competitors, **Taiwan Semiconductor (TSM:NYSE)**, is looking to build a manufacturing facility in China. But SMIC is already one step ahead of the game.

### Offshore parent

SMIC is a Cayman Islands holding company and substantially all of its operations are conducted through its Chinese operating subsidiaries, SMIC Shanghai, SMIC Beijing, and SMIC Tianjin.

The chart below gives you an overview of each subsidiary:

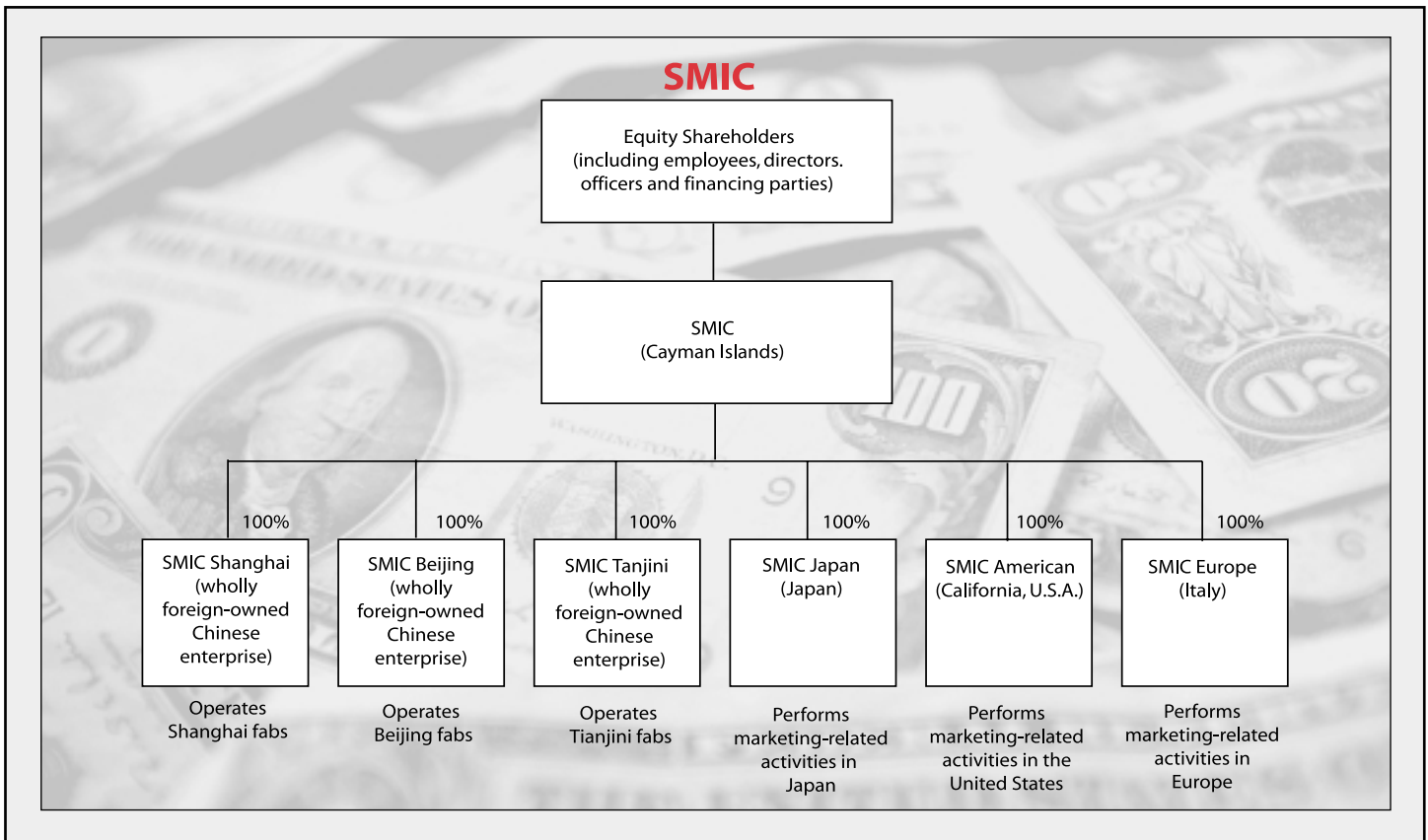
For a young company, SMIC has already established a global and diversified customer base that includes integrated device manufacturers like Fujitsu, Infineon Technologies, Samsung Electronics, STMicroelectronics and Texas Instruments. Fabless semiconductor companies include companies like Broadcom, Elite Semiconductor, Memory Technology and Marvell Semiconductor.

### More green

Since its inception in 2000, sales grew from zero to 476,451 wafers shipped for US\$365.8 million in 2003. Sales continue to increase each quarter, and it doesn't look as if business is slowing down.

There are a few things to keep an eye out for in SMIC. It is currently in litigation with Taiwan Semiconductor (TSMC) in US court. TSMC alleges that SMIC has infringed on five of its US patents and misappropriated technical and operational trade secrets relating to semiconductor fab operations and integrated circuits manufacture.

TSMC also sued SMIC in Taiwan, claiming that SMIC was improperly soliciting and hiring TSMC employees. The Taiwanese court just told SMIC that it could not do this. So we'll have to see if the US court rules that SMIC got trade secrets



from ex-TSMC employees. At this point it's all speculation.

Semiconductor Manufacturing International just made its stock market debut on March 17, 2004. SMIC raised US\$1.7 billion, making it the second biggest IPO of the year. As I write, the stock is trading below its offer price of US\$17.50.

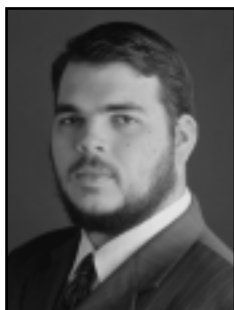
We know that the US has been harping on how China is taking away all its manufacturing jobs. US officials are again complaining that China is breaking World Trade Organization rules by allowing tax

breaks to chip makers based in China.

Nevertheless, the long-term outlook for SMIC is positive. In just four years, SMIC has become the leading foundry in China and established itself as a worldwide competitor.

**SMIC (SMI:NYSE) is a buy on dips under US\$14.**  
Contact: SMIC Investor Relations, 18 Zhangjiang Road, Pudong New Area, Shanghai 201203, China, tel. +86-21 5080-2000, ext. 16012, website [www.smics.com](http://www.smics.com). ■

## Volume leads price: A contrarian play on carbon fiber composites



William Colburn

Wall Street's been in the dumps since the last issue of *Taipan* came out, so it's been hard to find anything bright to write about. Bombs in Spain. Restlessness and violence in Haiti. Osama's reentry into the media. It's all enough to make you want to hide under a rock. At least that's how the market seems to feel.

I can't tell you when relief is coming. That's why I'm writing about **Hexcel Corp (HXL:NYSE)**. When things get a bit hairy, it's nice to know there's something out there that's solid and useful. I believe HXL fills that order quite nicely.

HXL is a producer of advanced structural materials, developing, manufacturing and marketing lightweight, high-performance reinforcement products, composite materials and composite structures for use in the commercial aerospace, defense, electronics and industrial markets. Its products are used in commercial and military aircraft, space launch vehicles and satellites, printed wiring boards, computers, mobile phones, soft body armor, high-speed trains and ferries, cars and trucks, wind turbine blades, reinforcements for bridges and other structures, window blinds, and a wide variety of recreational equipment. HXL's advanced structural materials business is organized around three segments: reinforcements, composites and structures.

We'll stick with composites for now. If you don't know, composites are made by combining

two or more different materials, which gives them different properties than the original materials.

Now, composites are pretty much home turf for HXL. After all, the aerospace industry was the first to use composites to reduce weight in aircraft. Today, HXL continues that tradition. They've got their hands in a huge number of projects in the space and defense sectors. Here's a list:

### Defense

- F-18 E/F
- V-22
- Eurofighter 2000
- Eurocopter Tiger
- Boeing C-17

### Space

- Satellites
- Delta Launch Vehicle
- Ariane 5: European Satellite Launcher

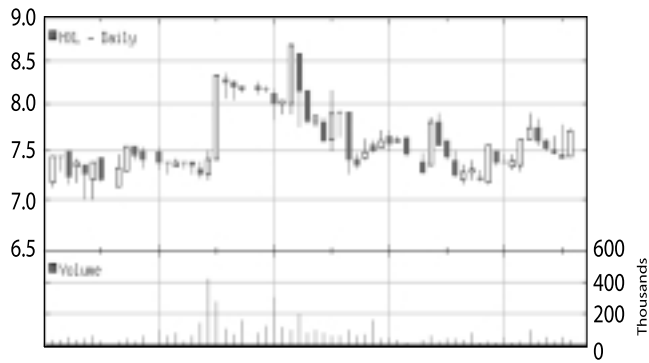
HXL's technology is also found in Comanche helicopters and was part of the foundation for stealth aircraft technology.

Want an example of how HXL's technology is used by the military? The V-22 is made almost

It's new, it's cool, it's daily and it's FREE:  
*The WaveStrength* technical analysts are now providing daily commentary on a vast array of markets, from the Dow, NASDAQ and S&P to oil futures, pharmaceuticals and gold. Get it now at  
[www.247profits.com/Wavestrength/marketreport/signup.html](http://www.247profits.com/Wavestrength/marketreport/signup.html)!

*over, please...*

## HEXCEL CORP as of 12/03/2004



entirely of HXL materials, which enable it to be the only aircraft that can fly both vertically and horizontally.

So, what's the deal with carbon fiber? What's it made of? What's it do? How can it enhance the structure of military vehicles? In place of the dissertation I could launch into here, I'll let you read for yourself at:

[www.psrc.usm.edu/macrog/carfib.htm](http://www.psrc.usm.edu/macrog/carfib.htm).

Once you read that, you'll know why HXL uses carbon fiber in its composites. They're strong as steel yet light as a feather. Did I tell you about the guy who's designing a building made entirely out of carbon fiber composites? I don't know whether it will "get off the ground," but this building has been in the design stage since before the events of September 11.

### Is it lunch or structure?

Within the aerospace and defense division, honeycomb sandwich boards are HXL's focus. They're pretty straightforward: a honeycomb of materials—many different kinds—is "sandwiched" between two strong, lightweight panels.

It's not a shock that the military is so heavily involved with HXL. If you're doing a bombing run over the sands of Iraq under heavy enemy fire, which would you rather have under you? A lightweight, maneuverable machine of destruction, or a plane with a bulls-eye on its tail?

What's shocking is that HXL is not more widely known, if not to the general public, than at least to Wall Street folks.

This lack of recognition isn't because HXL is a blistering-hot, unknown growth stock. To tell you the truth, HXL doesn't even come close. With a forward P/E ratio of 75, it's overvalued compared to its industry.

Now, most investors would probably file HXL

in the "Do Not Touch Under Penalty of Loss" folder, but not me. My contrarian hat is firmly in place with this one. One of *Taipan's* goals is to find opportunities where nobody would think to look.

I think you should invest in HXL based purely on its technology and cheap price. Investing in HXL at this price is like pilfering from a kid's lemonade stand. It currently trades at US\$7.60, with a daily average volume of a little over 67,000 shares. It's got a 52-week high of US\$8.70, and I think HXL is about to break that. Here's why...

January 8, 9, and 12 are important. Those three days established a huge volume spike for HXL. 58,200 shares traded hands on the 8th. The 9th saw volume leap up to 137,200.

The 12th—a Monday—saw the culmination of the volume spike at 425,100. There's no apparent reason for the spike, and I love that. Earnings for Q4 2003 weren't even released for another two weeks. In the chart, those thick white bars are bullish indicators. HXL has been seeing a lot of those recently.

The way I look at it, HXL is a long-term play. The past few years have been great for HXL in terms of price movement. I can see this pattern continuing for some time to come. **Buy at current levels and hold until further notice. ■**

## TAIPAN

**Publisher:**

J. Christoph Amberger

**Editors:** Christian DeHaemer, Brian Hicks, Siu-Yee Ng, Briton L. Ryle, Adam T. Lass, Bryan Bottarelli, Ian Cooper, William Colburn, Martin Denholm, Ann Sosnowski, Erin Beale

**Managing Editor:**

Ned Humphrey

**Art:** Eliana Brocato

**Fulfillment:** Alex Ferguson

**Tours and Conferences:**

Barbara Perriello

**Customer Care:**

Call (508) 368-7498

9 A.M. to 5 P.M. Eastern Time

**Email:**

[Taipan@agora-inc.com](mailto:Taipan@agora-inc.com)

*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.**

©2004 by Agora Taipan LLC. All rights reserved. Printed in USA. Information, opinion, research, and commentary contained herein are obtained from sources believed to be reliable; their reliability, however, cannot be guaranteed. The maxim of Caveat Emptor applies—let the buyer beware!

*Taipan* does not provide individual investment advice, or act as an investment advisor, or individually advocate the purchase or sale of any security or investment.

Agora Taipan LLC expressly forbids its writers from having a financial interest in any security that they recommend to their readers. Furthermore, all employees and agents of Agora Taipan LLC and its affiliate companies must wait 24 hours before following an initial recommendation published on the Internet, or 72 hours after a printed publication is mailed.

Investments recommended in this newsletter should be made only after reviewing the prospectus or financial statements of the company. *Taipan* does not necessarily endorse the statements in advertising inserts or classified ads that accompany this publication.

T #123384745

[www.taipanonline.com](http://www.taipanonline.com)