TAIPAN

PROFITS COURAGE FORESIGHT

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Buy ANT:NYSE at or below US$24 with a target of US$46 by December 2003!

J. Christoph Amberger

U.S. News & World Report states that President Bush's "top priority is transforming America's military… into the world's most high-tech, highly mobile fighting force." With this issue of *Taipan*, you're one of the FIRST to learn about a stock that my analysts say has incredible upside potential. (Some of them believe it could show an upside of 500% to 600% within the next twelve months.)

But even if they've got it all wrong and it only goes up by 100% in six months, it still would be a *Taipan* kind of stock. Why? Because the way Dell changed computers and Microsoft changed software, this company is revolutionizing modern warfare. Revenue has grown 39% a year from US$109 million in 1996 to US$715 million today. Still, the stock is enormously undervalued. Their huge growth is just starting. They have a patented, proprietary line of products. And they're first in an industry that's soaring in size.

At *Taipan*, we consider it our mission in life to help you make more money faster, with far less risk. Here's the *perfect* example. This quietly booming enterprise has developed such sophisticated weapons systems, they seem like they're straight out of a Hollywood movie. But these *aren't* theories. They exist right now. Their weapons systems help combat terrorism, bring security back to our shores and enforce our policies abroad. The US military services have no choice but to change the way they fight the enemy. That's why they've quickly become this company's biggest customer.

The respected Center for Strategic and Budgetary Assessment recently stated "…the ability of the United States to field effective military forces depends critically on having access to a healthy defense technology base, one that's capable of developing the right kinds of weapons systems…"

This company makes the *right* kind of weapons systems. They're on the forefront of modern warfare. Their systems are precise, deadly and effective.

Still waters

Few people have heard of this company and the stock is vastly undervalued. Once it's "discovered," chances are it's going up very quickly as others recognize its enormous potential. Right now, almost no brokerage houses cover it. It's received very little press coverage. While everyone was running around talking about Global Crossing, MCI and Enron, this firm was busy developing next-decade warfare systems that are bringing in millions in profits. Not only is the US government a huge customer, companies and governments around the world are lining up. They have over 600 customers—and that's not surprising. This is because public safety and national security have taken on a new meaning.

Look at the results. Sales grew from US$109 in 1996 to US$715 million in

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2001. From January 1, 1996, to September 30, 2001, revenues increased at an annual compounded growth rate of 39%. Records continued to be set in 2002. Net income rose 67.5% and sales hit a new high. In 2002 alone, they won 19 industry awards for quality and innovation. This is extraordinary!

Cold War math

Gone are the days when the Mutually Assured Destruction theory worked. Known as MAD, it went like this: Russia knows where we are and we know where Russia is. If they launch a thermonuclear attack on us, we will launch one at them and we will both die. Knowing this, both sides gladly refrained from such insane attacks.

This worked for over 57 years. The Cold War cost us approximately US$8 trillion dollars, but it allowed an entire generation to grow up in peace, security and comfort. Our entire military strategy was based on this "I know where you live" idea. But that's dead. Overnight, it became obsolete.

Terrorism changed the rules. *We don't know where they live because they're all over the world.* We're not sure what kind of weapons they have or do not have. We know that they're working on nuclear capabilities. And they blend in with the local population until they strike with deadly force and precision. September 11 sadly proved that point. This war will take decades to win. And our military is now considering terrifying scenarios that could make the nightly news tomorrow:

- The New York Stock Exchange comes tumbling down because of a three-ton bomb planted outside in the street.
- The Internet freezes up because billions of electronic "worms" are released by our enemies.
- A 20-kiloton atomic device is placed in New York City. This is the precise size weapon Iraq was working on. From Washington Square Park up to 60th Street—60 blocks—every single building is flattened, killing 3.2 million people outright and giving over 1 million others cancer from the radiation. This device literally has the power to destroy *three square miles of buildings.*
- A deadly virus is released in a Chicago subway at noon. By early evening, over 750,000 people have become infected with a disease that overwhelms the local medical facilities.

These are not unfortunate occurrences in far-off foreign lands that we see on the evening news. We now live with the fear of these things in our offices and living rooms. Whether it's al-Qaeda or the late and unlamented Saddam Hussein, this threat is real and growing.

My point: we have to address this problem no matter what the cost or politics involved. We have no option. They have to be stopped. And one of the major players in this new era of warfare is this little-known company. That's why it's such an outstanding stock.

Timing is money

Timing is the essence of great investing. It's when you got in that counts the most if you look at the great investments of the past. Sure, you could have bought Microsoft, Dell, Coke, and Cisco in the last few years with high expectations of profits. But it didn't work out that way. Consider the timing:

If you bought Dell sometime in 2000, you're down at least 53%. Yet if you had gotten in for a six-year stretch that ended right before the stock started declining, you would have seen it go from US$2.75 to US$48.50—making 16.6 times your money. If you bought Microsoft less than three years ago, you've seen 54% of your money vanish. But if you had gotten in just three years before then, you would have seen the stock go from US$21 to US$122, an increase of 480%. That's exactly why we say timing is everything!

Their market capitalization is just US$793 million. If you want to see how high this stock could go, compare this figure to the biggest defense companies. Boeing Company: US$25 billion. General Dynamics: US$16.1 billion. Honeywell International: US$20.3 billion. Lockheed Martin: US$24.9 billion. Northrup Grumman: US$11 billion. To achieve a valuation that even *approaches* those of these larger enterprises, *the stock would have to go up 24 times.*

There's another reason why it's relatively unknown. The stock market, and investors in general, have historically been very slow to recognize the emergence of a new industry and the death of an old one. THAT'S why they miss getting into the great investments early.

This company is poised to capture an impressive share of this new military market, and could grow very rich along the way.

Let me turn you over to our Special Projects Editor, Beirne White, for details on this incredible story:

How to grow rich with this little-known defense dynamo

by Beirne White, Special Projects Editor

When it comes to warfare, there may be only one thing that remains constant. And, not surprisingly, the same thing can be said of investing. It's the groups that are smarter, faster, more dynamic and focused on the future that ultimately come out on top. Here at *Taipan*, we consider ourselves just such a group. We've made a lot of money by keeping a keen eye on what's to come. We take a lot of pride in recognizing when new technologies and market forces will come together and produce a massive amount of wealth for those who get in ahead of the masses.

We think **Anteon Corp. (ANT:NYSE)** is this kind of opportunity.

Not your daddy's defense contractor

Anteon supplies state-of-the-art information technology (IT) and advanced engineering services to government clients. IT and systems engineering are their core businesses. They design, integrate, maintain and upgrade cutting-edge systems for national defense, intelligence, emergency response and other high-priority government missions.

As the probability of "five more years" of Bush, Cheney and Rumsfeld increases, so do the odds that this company will become the next Honeywell or General Dynamics. That's because this administration's priority is to move the military and intelligence agencies, as well as local, state and federal police and emergency response units, into a state of preparedness on an asymmetrical battlefield. Before the end of this decade, trillions of dollars will be spent on digital information and communication technologies and advanced weapons systems.

That's great news for Anteon, because virtually all of its business is with the Federal government. A whopping 75% of its contracts are with the Department of Defense and the intelligence agencies. In addition, Anteon supplies all of the military services, nearly all of the cabinet-level agencies, and numerous other civilian and defense agencies within the government.

For the Federal Emergency Management Agency (FEMA), Anteon has already built a nationwide, distributed enterprise system that can be deployed in the event of a disaster to quickly assess damages, coordinate emergency response and manage payments for qualified losses. And today they are upgrading the system to include current web and wireless technologies.

Anteon has a highly diverse client and contract base with more than 600 individual clients and about 440 contracts. Several of these contracts are "umbrella" type agreements under which any federal government client can open task orders. These are commonly referred to as Government Wide Access Contracts, or GWAC's. Anteon is a primary contractor on four of the five largest GWAC's, and is currently working on more than 3,000 task orders.

Contract work

One of the best things about government work is the revenue visibility provided by long-term contracts. Anteon's current backlog of about US$4.3 billion has an average contract period of performance of between four and five years. They have GWAC's that extend for seven to ten years and one Air Force contract, awarded in December of 2000, that has a period of performance of 15 years. While these contracts typically comprise one or more base years extended by additional option years, it is extremely rare for a contract to be canceled or an option not to be exercised.

One of the significant trends that have taken place over the last five years is the downsizing of government personnel. This has led to contracts becoming larger and larger in size, because certain duties and expectations are now passed off to the systems providers. Contractors must be able to provide one-stop shopping—design a system, build it, deliver it, and train the work force. The bottom line here is that Anteon is certainly one of the companies that can deliver. And they've got the track record to prove it.

When it comes to government procurement, past performance is vital. Companies have to show a record of competence in delivering quality services within the same market space and the same skills that the new contract they're bidding on requires. Anteon has a 26-year corporate history marked by continual growth in revenue and customer base. They've also won a bevy of prestigious awards (Cogswell, Hammer, Nunn-Perry), and have been rated with the top contractors by a number of major publications. They consistently rank among the top-performing information technology and engineering service providers to federal government clients based on customer evaluations, and they have

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received numerous industry accolades for performance excellence. As you might imagine, this stands them in very good stead as they bid for new business.

They compete

Anteon competes mostly with the larger defense bellwethers like Northrop, Lockheed Martin, and General Dynamics. But they're also up against CSC and EDS in their federal business groups. And there are a few other midsized public technology players, like CACI, Titan and SRA, with which they compete from time to time.

Just how big is this market?

Currently, it's more than US$100 billion and growing rapidly. Believe it or not, the industry started on a growth spurt long before September 11, 2001. Over the few years leading up to 9/11, the industry grew at 7% to 8% per year. As you might expect, acceleration in the growth of the industry since 9/11 has taken it up to 10% to 11% per year. And it's predicted to continue to grow that way over the next three to five years, as the government buys technology to protect the homeland against terrorism.

One of Anteon's most promising IT initiatives is combining information exchange and command and control expertise with the latest chemical and biological threat detection technologies. The result will be an automated, integrated and comprehensive chemical and biological threat management system called FAST (fluorescence-activated sensing technology).

This system will rapidly and simultaneously detect multiple chemical (nerve gases, cyanide, and mustard gases) and biological (all CDC-listed biological threat agents—e.g. anthrax, smallpox, plague, botulinus toxin) threat agents. FAST will identify these threat agents using multi-scan mass spectrometry combined with confirming DNA fluorescence technology.

The FAST detection strategy is coupled to an integrated, operational information system capable of notifying all relevant personnel of the nature of the threat, its location and needed countermeasures, as well as acting to limit relevant machinery systems (where implemented) to control spread of the threat.

On the borders

Another Anteon undertaking involves accounting for the massive flow of people and goods that cross our borders and enter our ports. This potential terrorist and weapons of mass destruction (WMD) conduit is where we are most vulnerable. The company that can reduce or neutralize these risks will be rewarded with government contracts of unprecedented scale.

Imagine the market for an "eye-on-the-badge" and "pocket eye" surveillance system that links a camera on a customs official to a database with face recognition capability. A similar link could be made between a database and an aircraft inflight video surveillance system.

Anteon is already providing detection, prevention, and consequence management for port and border control agencies with such things as OWL underwater surveillance systems, smart cards, handheld and desktop trace detection instruments, and wireless sensors. And with their significant operational experience with the Coast Guard, Air Force, Army, Navy, Marines, and Special Forces, they can test and validate these new port and border control procedures with realistic training, simulations, and exercises.

Getting the place wired

Linked Operations Center Europe (LOCE) is an Anteon-developed system to support web-enabled exchange and collaboration on operations and intelligence information. It provides near-real-time intelligence through imagery, shared early warning, and interfaces to US and NATO systems. LOCE provides secure capability for international coordination on counterterrorism and other security issues among NATO nations.

Building on LOCE's success, Anteon's Combined Enterprise Information Exchange System (CENTRIXS) is currently being deployed at the four geographic unified command centers. CENTRIXS is operational now, supporting coalition operations, intelligence, and information exchange in the global war on terror. More than 50 countries and hundreds of users are already connected by CENTRIX.

Anteon's Secure Infrastructure for Rapid Information Exchange Solution (SIRIXS) meets the demands of today's dynamic homeland security and emergency management agencies. SIRIXS allows local, regional, state, and government agencies and departments to rapidly exchange information. With SIRIXS, decision makers and first responders can assess available resources for daily operations and response during crisis, emergency, or disaster situations.

Of course, these are just a few of Anteon's IT capabilities. There are literally dozens more of their systems that are currently operational. And many more that are still in development.

The most successful shipbuilding program in US Navy history

There are 27 Aegis cruisers and more than 30 Aegis destroyers in the active US Navy fleet. There are approximately 20 more destroyers under contract, with the potential for an additional 10 destroyers. The older Aegis cruisers are scheduled to undergo an extensive conversion to upgrade their capabilities and retain them in the active fleet.

Since 1985, Anteon has provided combat systems integration and test support as a subcontractor to Lockheed Martin Naval Electronics and Surveillance Systems and to the Aegis program office. Anteon also provides engineering, technical, and administrative services for the Aegis combat system in US Navy cruisers and destroyers. Support services include installation and testing, interface data development, baseline configuration management and combat systems integration. Additionally, Anteon provides engineering, technical, and administrative support for the planning and execution of Aegis destroyer combat system ship qualification trials.

Anteon also has a growing Sensors Technology Division that is focusing on airborne sensor systems. This business area has numerous support and technology development contracts with the Air Force Research Laboratory, Sensors Directorate. Anteon is playing a vital role in bringing new and improved technologies to Air Force weapon systems to meet next-generation fighter requirements.

One such program involves automatic target recognition technology. You see, today's combat environment is populated with mobile units (tanks, trucks, antiaircraft weapons, radar vans, ballistic missiles) that survive by constantly moving to new locations. Recognizing these targets is a prime concern for the military services tasked with destroying them. When a mobile vehicle is hidden under camouflage, or even ordinary trees, it becomes extremely difficult to locate and attack. Anteon's ATR technology will provide the means to locate these mobile targets.

The numbers tell the story

Anteon's growth has just started. And it's directly linked to our new national awareness that terrorists can strike America within her borders. From January 1, 1996, to September 30, 2001, revenues increased at a compounded annual growth rate of 39%. Sales in 1999 came in at US$400.9 million with EBITDA of US$28.3 million. That's up 76.9% from a year earlier when the company made US$16.0 million. In 2000 the trend continued. Sales grew to US$542.8 million, up 32%. EBITDA shot up to US$36.3 million. In 2001 it got even better. Sales grew to US$715.3 million, up 31.7%, with earnings of US$47.4 million, up 30%.

2002 also produced record numbers: for the nine months ended September 30, 2002, sales were US$608.9 million—up 15.6% from US$526.8 a year earlier. Profits rose 33.8% to US$47.1 million. It's only common sense. You're NOT going to have this kind of booming prosperity without a sharply rising stock price. And soon. Demand is about to go through the roof.

<u>NOW</u> is the time to buy!

Even at US$715 million for the last full fiscal year in 2001, this enterprise still has *<u>enormous</u>* room to grow. While US$715 million sounds like a lot, put in context of the entire defense market, it's not. And that's good news: there's so much room to grow, it stretches out to the horizon and beyond. Let me be more specific so you can see exactly what I mean.

- <u>Lockheed Martin</u>: for the nine months ended 9/30/02, sales rose 13% to US$18.8 billion. Net income totaled US$875 million. (Their net income was more than this company's sales!)
- <u>The Boeing Company:</u> for the nine months ended 9/30/02, net sales came in at US$40.4 billion with a net income of US$1.7 billion.
- <u>Northrop Grumman:</u> For the six months ended 6/30/02, net sales rose 50% to US$8.48 billion. Net income increased to US$319 million.
- <u>General Dynamics:</u> for the six months ended 6/30/02, revenue rose 18% to US$6.63 billion. Net income came in at US$492 million.

Here's my point: compare sales of US$715 million to the billions upon billions you see above. There's room to grow. When you buy this stock, you're getting in at the very beginning of the long boom that's just about to occur.

ANT:NYSE is currently around US$23, somewhere in the middle of its 52-week trading range of US$18.90 to US$29.35. At a current P/E ratio of just under 27, we think its upside for the next twelve months is upward of 100%.

Buy ANT:NYSE at up to US$24 as a long-term play on America's newfound will to stake out its place in the world. ■

Saddam's statues are falling... and the American stock market is next

Protect yourself now from an imminent -33% re-rating of the S&P 500

Adam T. Lass
Taipan Chief of
Index Forecasting

As I sit down to write this, the Baghdad circus is over. Now the mind of the herd will inevitably turn back to thoughts of bread. In other words, once again, "It's the economy, stupid." I use James Carville's famous slogan quite deliberately, as a potential repeat of Bush père's stinging loss to Carville et Cie after basking in the ostensible glory of GWI (Gulf War I) will become the one of the principle forces acting on the market over the next two years.

Now the herd rolls its collective dull-red eye back to the perceived reality of the home front, and more and more, that reality is sad. Let's take a quick survey of the main factors burdening the market's sagging shoulders:

On the industrial capacity front, we are currently running at about 75%, the lowest level in the past two decades. More than 2.6 million private sector jobs have evaporated since Bush fils took office. This number has been offset by approximately five million new hires by the central government. But Washington's largesse is about to run into a major stumbling block as the bills for homeland security mandates, tax relief and the aforementioned geopolitical games hit the federal purse.

Dark clouds on the horizon

Meanwhile, any economist not directly employed by the Treasury department (and even a few of them, if you promise not to repeat their names out loud) are downgrading the rosy expectations of 3%-plus growth in 2003 that powered last November's rumblings of a V-shaped bottom. The Institute for Supply Management recently weighed in with its index of activity in the non-manufacturing portion of the economy, indicating a tumble from 53.9 in February to 47.9 in March, the first indication of contraction since January 2002. The institute's index for manufacturing has also shown a similar sharp swing from expansion to contraction.

2002 new home starts totaled 1.7 million units, 7% higher than in 2001 and 9% higher than in 2000; meanwhile, existing home sales were a record 5.6 million, up 6% from 2001 and 9% from 2000. This boom, fueled by record low mortgage rates, has been the central prop of the economy since the tech stocks crashed and burned.

Now word is circulating that by historical measures, home prices have overshot values by 15%. Even the most optimistic prognosticators are speaking in terms of a flat resale market. Pessimists are talking bubble, as in "about to pop."

"Sub-par"

Well, there's always international trade, right? Wrong! The Pollyannas at the International Monetary Fund have been unusually negative of late, describing global economic growth forecasts as "sub-par." In its semiannual World Economic Outlook, the global über-bankers called for 3.3% growth for 2003.

According to Chief Economist Kenneth S. Rogoff, "It is not just the war—a number of other risks weigh on the outlook." Rogoff went on to cite the lingering impact of the burst stock market bubble as one of the main factors that will continue to hamper growth in the year ahead, and cautioned against expecting a rejuvenation of major economies anytime soon. *"As near-term uncertainties over the conflict recede, the question of the hour is whether present sputtering global growth will suddenly lunge ahead into an immediate strong recovery."*

All this grumbling must sound awfully familiar to the president, who has told many of his confidants of his shock and awe at how quickly control of the great gestalt slipped away from his father. The battle is over, now the real war, the one for the hearts and souls of America, begins. Arrayed on one side are the forces of Karl Rove, easily the match of the social and political dwarfs the DNC fielded two years ago. Lining up on the other side is an array of similarly stunted political sharks who smell blood in the water.

The battlefield

The first thing you will note as we survey the map of the war to come is that we are dealing with the S&P 500 instead of the more familiar Dow Jones Industrial Index chart. With its broad underlying assets and deep liquidity, it has become our target of choice for the next phase, both for market analysis and exploitation. Bryan Bottarelli will cover this in more depth in his column.

On to the details: the most obvious feature to catch the eye (one that has been of great concern to *WaveStrength* traders of late) is the nine-month range-bound run commencing last July. This run has been one of the more difficult I have experienced when it comes to pulling serious cash off the table.

It's not that there are no tools for capitalizing on a steady-state market of this nature. Rather, these tools are higher in risk than many of our readers' accounts will allow, as they involve selling both put and call contracts at the beginning of a play rather than reselling them at the end as we currently advise.

Too much risk

This form of trading in essence bets that nothing extreme will take place over a limited time period. The catch is that while buying contracts only exposes you to the risk of losing a portion of the money you have already placed on the table, selling contracts limits possible gains to the amount you are paid for the contract, but exposes you to nearly unlimited losses should you become obligated to cover it.

But our more conservative strategy is about to enter another golden period, as the form on the chart for 09/02-04/03 is not actually a range-bound rectangle but a pennant that is rapidly coming to a close. And that close is right on time, as the total run of that aforementioned pennant also represents the "upleg" of an arcing waveform, part of a wave train with well-established parameters. That horizontal run is about to hit a virtually unbeatable resistance node at the confluence of the post-bubble bear trend top and the Fibonacci -61.8 retracement of the 1994-2000 rally.

The probability of a substantial breakdown in the next 30 days is almost overwhelming, perhaps as high as 80%. The parameters of that breakdown are equally overwhelming. Should the next down-leg match the previous one (03/02-07/02), we can expect the S&P 500 to drop to at least the one-quarter mark of the falling trend, peeling off 265 points from current levels.

Burning down the house

In other words, another -33% re-rating of the American market's broadest list of stocks. We're not just talking over-pitched tech stocks here. No, this would be an across-the-board burnout.

Not that there aren't support points below this, points which I thoroughly expect the White House and its supporters on Wall Street (supporters—ha! a technical joke!) to defend. Look for strong oscillations around the nodes at 800 and 700 to be major skirmishes, with "mystery" buyers making major long future bets at these key potential turnaround points. (For more historical context on these "mystery men," I refer you to Ron Chernow's fine biography, "The House of Morgan.")

The question is, will they succeed, and my call right now is no, not until the plunge hits the trend's one-quarter mark at 600 some four to six months from now. (This is actually an optimistic call. I do believe that the White House may actually get some traction before the ultimate trend bottom at 500.)

In a nutshell, I strongly recommend placing 80% of your allotted cash on SPX puts, with a small reserve in either stocks or, preferably, out-of-the-money calls to hedge against the chance of some kind of holding action at or around the support node at 800... with an unlikely but possible move to the recent high at 950. Properly constructed, this hedged basket ought to reap substantial gains, with limited exposure to "upside risk" in the event of some new propaganda ploy. ■

S&P 500 by month 01/01–04/03 with Fibonacci Studies

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The popularity of index options continues to explode

S&P index options offer a trusted and profitable way for you to join this new market trend


Bryan Bottarelli

When it comes to investing trends, index options are a relatively new toy. After all, the very first index option offered by the CBOE was called the CBOE 100 Index. It was launched on March 11, 1983.

In the beginning, volume in the new OEX options was a mere 4,827 contracts. But by the end of the first year, OEX average daily volume had soared to more than 100,000 contracts, quickly establishing it as one of the most popular investment vehicles for traders all over the world.

At the time, it was a groundbreaking investment. And today, 20 years later, the popularity of index options is still growing rapidly.

In the two decades since their inception, volume in index-based options has grown from a total of 10,662,498 contracts traded in 1983 to a total of 94,365,744 in 2002. It's one of the strongest advances in any investment vehicle in market history. This ought to make any clear-headed trader wonder: "Why are investors switching over to index-based options as opposed to stocks or stock options?" The reason is simple.

In the wake of terrorism, a war, a market mired in scandals and a depressed economy, investors have been using index options either as portfolio protection or to profit off the downtrends in market indices. Each day, more and more investors are catching on to the tremendous opportunity offered by index options. In fact, volume at the CBOE has increased for the past ten months straight, up 37% over last year.

On the flip side, volume in individual stock options is falling. Total stock options volume for 2002 tallied 173,207,520 contracts (105,620,741 calls versus 67,586,779 puts), *down* 26% from the 232,851,089 contracts traded in 2001.

Why are investors flocking to index options?

Adam and I have been beating this drum for 3 years now, and it seems like the market is finally catching up. Index options provide you with broad market exposure. You profit off the overall moves of the market instead of individual stocks, which put you at risk of a freak analyst downgrade or an unexpected accounting scandal.

Index options offer greater security than individual stock options. They do this by allowing you to own a "basket" of companies that represents the market as a whole. They are fast becoming the very best way to profit off the "herd mentality." They tend to me more predictable than single stocks.

Today, more than ever, utilizing the power of index options is your best way to make consistent money in an inconsistent market climate. One look at the recent volume figures proves this point.

In 2002, index options volume totaled 94,365,744 contracts (42,863,031 calls and 51,502,713 puts), a 28% increase over the 2001 level of 73,777,171 contracts.

The floodgates have opened

In the 20 years since the first index option was created, the growth of these investment vehicles has been absolutely stunning. Right now, the CBOE lists options on a total of 30 indices, such as the S&P 100 (OEX), S&P 500 (SPX), Dow Jones Industrial Average (DJX), Russell 2000 Index (RUT) and NASDAQ-100 Index (NDX and MNX).

In addition, CBOE offers a wide range of options on industry-specific sector indices, including Dow Jones Transportation Average (DTX), Dow Jones Utility Average (DUX), Morgan Stanley Biotech Index (MVB), Morgan Stanley Retail Index (MVR), Goldman Sachs Technology Index Internet Index (GIN), Goldman Sachs Technology Index Software Index (GSO), CBOE Oil Index (OIX) and CBOE Mexico Index (MEX).

And the list of new index options is growing longer by the day: As I write, the CBOE has introduced two additional indices: the Asia 25 Index (EYR) and the Euro 25 Index (EOR). Also getting popular are the "offshoot" Exchange-Traded Funds.

These ETF's seek to mirror the success of the index products, but with a slight twist. ETF's are index-based investment products that allow investors to buy or sell shares of entire portfolios of stock in a single security. For example, you can buy EFT's on the QQQ, OEF, and SPY, which all represent baskets of companies that trade like stocks.

The selection is enormous… so where to start?

Starting with this issue of *Taipan*, Adam and I are going to begin utilizing our proprietary *WaveStrength* forecasting system to trade index options on the S&P 500.

The reason we chose the S&P 500 Index (symbol SPX) was because it is currently the most actively traded index option on the CBOE, with a volume of 29,939,598 contracts in 2002. This represents a 31% increase over 2001's total of 22,829,042 contracts.

Since SPX options were the first index options on the CBOE (in July 1983, CBOE reached an agreement with Standard and Poor's whereby the original CBOE 100 Index was renamed the S&P 100 Index; as part of that same agreement, CBOE began listing options on the S&P 500 Index), we feel they offer you the most convenient, liquid, popular, and leveraged way to increase your wealth by playing overall market trends.

So, in accordance with Adam's S&P 500 market forecast, which puts 80% odds on a move to S&P 600 (a total of 250-some points lower than current levels over the course of the next three to six months), here is the play we recommend:

To profit off this potential 250-point down-move in the S&P, buy the S&P June 900 Put (SXB RT) at market. As a hedge against Adam's 20% probability move up to SPX 950, also buy the S&P June 950 Call (SXB FJ) at market.

For continuing updates and commentary on this position, please refer to our FREE daily email newsletter, the 247profits e-Dispatch. ■

From the battlefields of Baghdad to your SUV

This US$12.50 company wants to put a satellite TV in every American car

Brian Hicks, *Taipan* Microcaps Specialist

As a kid, my three favorite movies were "Patton," "Midway," and "Kelly's Heroes." All war movies... and in that order.

When "First Blood" was released in 1982, that quickly became my favorite movie.

And my favorite television show? Well, do you remember "Rat Patrol"? Set in North Africa during World War II, the show glorified a four-member team of commandos armed with Jeeps equipped with .50-caliber machine guns.

But even though many of my role models were Tommy-gun-toting movie actors, I've never owned a gun in my life. I never enlisted in the military and have never been arrested. Heck, I've never been hunting. In fact, it may come as a surprise to you that I wasn't exactly on-board for the war in Iraq.

Even with this impromptu disclaimer, I know that the stock I'm recommending this month will probably enrage the legion of self-proclaimed child experts who have written countless books and articles on how too much television is bad for American kids.

To make matters worse—especially for the Berkeley crowd—the company I'm recommending in this issue of *Taipan* will not only keep kids connected to the tube 24/7, it also makes the navigation units currently used on the M1A1 Abrams Main Battle Tank and the Bradley Fighting Vehicle.

It's a double whammy.

Taking the family on a cross-country road trip

If you've ever taken your kids on an extended vacation, like I have, you know this scenario all too well. It's the trip the wife and kids have been begging you for, to Disney World. But instead of dropping the coin to buy five tickets on Southwest for the two-hour flight to Orlando, you decide to drive down.

That's a 13-hour, 600-mile trip from the *Taipan* headquarters. You're about two hours into the trek when it starts from the back seat.

"Mom, Jimmy is staring at me!"

"Dad, I'm bored!"

"Are we there yet?"

"How come dad was too cheap to buy airline tickets?"

You're not even out of the state, and you're ready to give your oldest a "flying Melnick" to his sternum. That all changed for me in 2001 when I purchased the modern-day version of the family station wagon, a minivan. And this minivan came weaponized. It came with a TV/VCR unit.

The TV/VCR is a godsend. But unless you want to constantly carry around a suitcase full of tapes,

over, please…

the second generation of automobile entertainment will prove to be more practical: a satellite feed straight into your car.

And that's exactly what a company called **KVH Industries (KVHI:NASDAQ)** is doing. They've developed something called TracVision that beams the programs right into your van.

Now, I want you to understand something: TracVision isn't a shot-in-the-dark venture. It's been selling like hotcakes in the RV market, an industry that has exploded in the past five years.

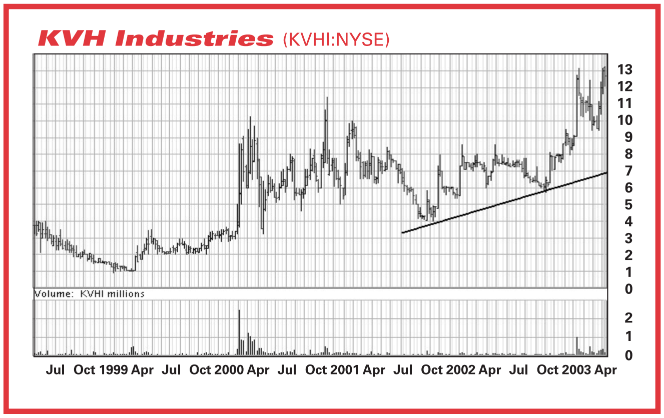
Check out the revenue numbers for KVHI:

	1999	2000	2001	2002
revenues($mil):	23	30	33	44

Though these numbers aren't entirely attributable to sales of TracVision, the overall growth in sales for KVH Industries is something I definitely look for when investing in a small-cap stock.

Currently, KVH Industries trades at a market cap of just US$143 million.

I believe the stock's upside is 20% in the near term, as the company is expected to post its first profitable year in five years.



The story behind the numbers

I know you're probably wondering how you get satellite television (300 channels!) in your car. But it's fairly simple. If you're like me and you already have a television in your car, then the process is even simpler.

The only thing needed is the installation of an antenna in your vehicle of choice. The antenna picks up satellite signals from all over the world and delivers them straight to your car's TV.

The antenna is only 14.5 inches tall and takes up about as much room as a sixpack. And with today's backseat televisions taking up less space, the TracVision should be completely unobtrusive.

And really, there's no way to avoid it. More than a million backseat entertainment systems were sold in 2002, and that number is expected to grow dramatically in 2003.

Almost every 2002 model SUV and minivan offered these systems as options—and the uptake has been tremendous, with 96% of Nissan Quests, 31% of Ford Expeditions and 30% of Ford Windstars shipping with video systems.

Summer rental

According to the company, TracVision will be ready for deployment this summer. That's when I think you'll see shares of KVH Industries start to rally… big time.

The stock has been in a major uptrend since October 2001, going from a low of US$4.00 a share to a current price of US$12.50.

Since KVHI continues to make new highs, I believe the stock will see US$15 in the short term.

Buy it at current levels. ■

Taipan's Chinese stocks hit 52-week highs… what now?


Siu-Yee Ng

On American television all we hear about is the war with Iraq. And although SARS has the potential to be a worldwide epidemic, it's only secondary news. But in China and Hong Kong, where infections are the highest, SARS is no laughing matter. Schools are shut down, people are afraid to leave their homes and masks are the hot item of the month.

What does this mean for our China plays—**China Yuchai (CYD:NYSE)** and **China Petroleum & Chemical (SNP:NYSE)**?

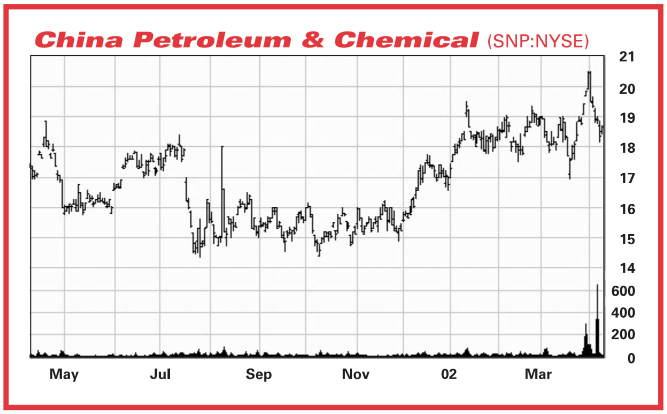
Neither the war nor the SARS epidemic has prevented these two stocks from hitting 52-week highs. Let me tell you why.

On March 25, 2003, China Yuchai International announced its 2002 year-end results. Net income for 2002 jumped to US$49.8 million compared to US$30.3 million in 2001.

The strong market for Guangxi Yuchai's engines is responsible for this robust performance. Net sales for 2002 increased 97% compared to the same time last year. Total unit sales of diesel engines alone increased 76%.

According to China's government statistics, there was a 30% increase in the sales of light and heavy trucks and buses in China. And the demand for diesel engines in China will only increase with the expansion of highways and toll roads.

Since this announcement, there's been spike in buying. *We're already up 65% and more profits are in the horizon.* And the icing on the cake is that the company has announced an ordinary dividend of US$10 per share to be paid on May 19. You can't beat that.



China Yuchai was not the only company to see a strong year. Sinopec saw its 2002 revenue increase 6.8% compared to 2001. China's GDP growth rate is expected to exceed 7% this year. With that in mind, we can expect the demand for refined products to increase. After this announcement the stock broke *Taipan's* US$20 sell target.

Maintain a sell on China Petroleum and Chemical Corp. at US$20.■

When the going gets tough, the tough write updates

Briton L. Ryle

I'm not going to mince words. The current market is acting very strangely, and I don't think it's a great time to be buying stocks.

So what will the official waving of the white flag bring for the markets? I don't know. But a big old rally and a quick return to a healthy economy seems unlikely. Because, like it or not, the US economy was hurting before Bush started beating the war drums, and it'll be hurting after the shooting stops.

And for that reason, I'm not in a stock-buying mood. In fact, I feel more like taking some profits right now. While it's possible that stocks are headed higher over the next six months, summer is not a historically good time for them. So lessening one's exposure to the market at the present time seems prudent.

Number one on my sell list is **Brilliance China Automotive (CBA:NYSE)**. For one, it's up 40% from my recommended entry price of US$18. And two, this stock has taken us on such a wild ride, it's a relief to be able to take a profit.

But perhaps most important for us is the current strength in the stock price. If you're holding this stock,

over, please…

you're undoubtedly aware that it's pretty thinly traded. The average daily volume for CBA is just 15 thousand shares. That's it. So long as the outlook for the stock remains positive, there should be enough buyers to allow us to exit our positions without driving the stock down too much.

However, if we wait until there's bad news to try and get out, we would undoubtedly drive the share price significantly lower in a very short period of time. So we'll take advantage of the current strength and sell CBA above US$25. And please, use a limit order when you go to sell. A market order on a thinly traded stock is practically a written invitation to the floor traders to screw you.

Workin' on the Cheney gang

In the February issue of *Taipan*, I recommended **Halliburton (HAL:NYSE)** as a play on postwar Iraq. The stock was trading between US$19 and US$20 at the time. During the brief war, Halliburton stock did virtually nothing in response to news, good or bad.

There was a slight pop in price when Halliburton won the contract to put out any oil well fires in Iraq. And there was a slight decline when it was announced that Halliburton was out of the running for reconstruction contracts.

But, all in all, the stock is essentially right where I recommended it. And I think I know why. It's asbestos. It seems that any good news will be tempered by the potential multimillion-dollar overhang created by asbestos-related claims. And any bad news is tempered by the fact that the stock trades at a pretty attractive valuation.

All this puts us in a bit of a pickle. Why hold a stock when the main catalyst for a move higher could take years to manifest itself? That's a good question, and I'm not sure I have a good answer for it. Because the simple fact is, it may take a while before we see any nice gains on this stock.

So, I'm going to lower my rating on Halliburton from "buy" to "hold."

When I call something a "hold," I mean exactly that. I don't think there's a lot of downside risk for Halliburton. But, now that the Iraq war is basically over, there's no near-term catalyst for the stock price. And that means it's a "hold."

King for a day

You may recall from my recommendation of **King Pharmaceuticals** last month that I felt the recent announcement by King of an SEC investigation into some pricing practices looked like a good opportunity to enter a position in the stock.

And when the stock began recovering shortly after that issue of *Taipan* hit your mailbox, I was feeling pretty confident that it was ready to make a recovery back to the US$14-15 range.

Unfortunately, that has not been the case. Since clearing US$12 in mid to late March, the stock has steadily drifted lower toward current levels just below US$11. Even the announcement that King was backing out of the Elan deal failed to lift the stock.

I thought this was odd, because stocks usually rally if a planned acquisition is called off. In this case, King had actually seen its debt downgraded due to the uncertainty created by this bold acquisition. With the uncertainty removed, I expected to see King's debt re-rated to reflect its pre-acquisition status. That has yet to happen. And I'm starting to wonder why.

I haven't been able to dig up anything on why the stock's been drifting lower. I speculate that the SEC investigation has put potential buyers on the sidelines. The floor traders then have to keep lowering the price to attract buyers looking for a bargain. The result is a steady drift lower on no news. And that always looks worse than it is.

For now, I'm content to hold this position. But I am going to reiterate that our stop-loss is at US$9.60 (assuming a US$12 entry). There should be strong support for King Pharmaceuticals at US$10 a share. I don't anticipate the stock trading down to US$10, but the market has a funny way of doing exactly what we don't expect.

I want to make sure everyone is watching the stop-loss. Because if King Pharmaceuticals does break below US$10, that's going to be a big red flag that says there's something more wrong with the stock and we'd be better off selling. ■

TAIPAN

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