



TAIPAN

FORESIGHT

COURAGE

PROFITS

June 2001
Volume 14 Number 7

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Exclusive on taipanonline.com

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Profits galore for Taipan readers

How to make money in the deadbeat market of 2001

by J. Christoph Amberger

They've cloned cows, sheep, and monkeys. There are robotic dogs, vacuum cleaners and lawn mowers. There are TV screens as flat as a newspaper that you can roll up and take with you.

It seems like they're finding new cures for genetic diseases every other week or so. For a while, there even was a man walking around with a corpse's hand that looked just like Frankenstein's—all twitchy and bloated—but it was fun while it lasted.

There are hybrid cars that get 80 miles to the gallon, buses powered by fuel cells that emit water as exhaust, and high-tech materials that can stop a rifle bullet and yet weigh next to nothing. Recently, a couple of smart guys in California managed to beam a proton across their lab. (Don't ask me how they did it or what it means to society as a whole. It's the closest thing to teleportation that we've seen—yet... and I'm afraid we may be in for another revolting sequel to Jeff Goldblum in *The Fly*...)

Financially, some of these things are wild speculations. But in some cases, we know exactly how they will affect the future. *And we can make scads of money with this knowledge.*

This month, *Taipan's* Future File technology reporter, Mike Riska, is going to introduce you to a technology that will revolutionize data display from desktop monitors to the operating room. The company behind this breakthrough has already produced gains of 1,000%

plus for some *Taipan* readers... (more about that on p. 11.) Brian Hicks will point out the Next Big Thing in combating male impotence... a drug that could find double or triple the market of Pfizer's Big Blue Viagra... and Adam Lass... uncovers good old-fashioned value in a major military innovator...

Courage, Foresight, Profits

These companies are all huge opportunities. But they're not at all like those high-flying Internet and tech stocks that had no fundamental value. They all have solid, real-world products... even earnings! And last but not least: profits for you, our loyal *Taipan* subscribers!

Despite the gloomy outlook for the U.S. markets, our staff of editors has once again proven the validity of the *Taipan* investment approach...

Chris DeHaemer's pick of the QQQ:AMEX went from US\$38 to US\$49 in less than a month, a 28% gain. The 58 September Calls (QQQIF:AOE) hit a high of US\$2.70. That is up 125%. South African Breweries is up 19%, and we took up to 37% in one month from Indonesian Telecom, and another 41% on "the Hammer's" short play on The Medicines Company. Cipla Ltd. posted gains of 28% since our recommendation.

We'll tell you how you can find out about more profitable opportunities in just a moment—but first, let me remind you how we find superb investments in any market...

(over, please...)

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TAIPAN

Publisher:

J. Christoph Amberger

Editors: Christian DeHaemer, Brian Hicks, Siu-Yee Ng, Briton Ryle, James Passin, Charles Wolpoff, Michael Riska, Bryan Bottarelli, Eric Lapp

Managing Editor:

Ned Humphrey

Webmaster:

Alexander Nosevich

Art: J. Vince Skelley

Marketing Director:

Mark Gardner

Marketing Manager:

Kenneth Salzman

Fulfillment: Tracey Holman

Tours and Conferences:

Barbara Perriello

Customer Care:

Call (410) 234-0691

9 a.m. to 5 p.m. Eastern Time

email: editor@taipanonline.com

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T 123384745

www.taipanonline.com

USERNAME:

taipanmember5

PASSWORD:

5bulls

A bit of Taipan history

At *Taipan*, we believe in a fearless, forward-looking view of the world. That's why we took our name from the intrepid traders who tamed the seas and markets of Asia many years ago.

What we've done is try to capture that same fearless spirit and worldwide, forward-looking vision. To that end we've built a network of contacts around the globe, and a research team that's without parallel in the investment world.

And that's why I'm writing to you today. To invite you to stick with us as we look for our next big profits, and to show you how we approach the topsy-turvy world of investing in the 21st century.

That's what we're all about. We look anywhere and everywhere to make our money. *Nothing is sacred, nothing is overlooked.*

Right now, it's a time to be careful. Very careful. We've seen wild swings in the past few months... the Dow up almost 52% in

less than three years... only to plunge almost 20%.

And the NASDAQ... well, that's been enough to put a scare into Evel Knievel.

But the truth is that this is a very exciting, profit-rich time for investors. While the worrywarts complain about a down market, bargains abound. We've watched this same scenario time and time again over the years. And it's really the best time to make money.

We're going to do the same thing we always do, hunting the world over for the companies and investments that are going to build fortunes. From the highest of high-tech and biotech to the lowliest, dullest, nuts-and-bolts companies in the world. We're looking to make you rich. And we don't care who or what it is that helps us do it.

To see exactly how we get our information, and how we profit from it, take a look at the companies I told you about at the beginning of this letter—and see if you don't think they're going to do exactly what we say.

TECHNOLOGY

Universal soldier

This could be the clear winner in modern warfare—and the Bush administrations new military budget

by Adam Lass

After 55 years of Cold War arms dealing, just about every tin-horn despot out there has some fairly modern equipment. Heck, even downtown Baltimore street gangs now have enormous four-wheel-drive tankettes for their drive-bys. And when it comes to command and control, a Palm IV PDA makes GI Joe's walkie-talkie look like a tin can on a piece of string.

The U.S.'s key advantage—its ability to bring overwhelming resources to the field—doesn't do a bit of good in these little hit-and-run wars. In the 21st century, the odds are that we will not have any advantages in intelligence, infrastructure or manpower the next time we have to wade in and settle someone's hash.

But ideas like the U.S. Land Warrior program are now percolate out of the back halls of the Pentagon. The simple thrust: equip our boys in green in forward positions with the same level of technology that the Air Force has been giving its pilots for years.

Loaded for bear

The new land warrior will be armed with multipurpose guns that see through walls and around corners—day and night—and can take out an enemy with either kinetic or explosive rounds. They will be tuned in to secure, encrypted battlefield Internets that are both vertically and horizontally integrated—meaning they will know what every other soldier, spook and general knows, in real time. And the brass can see the whole battlefield, from the headiest satellite heights to the view down the barrel of every soldier's gun—again, in real time.

It doesn't stop there. Your average grunt will be protected by body armor that would put a 20th-century tank to shame. Forget about flack vests. This stuff can stop a direct .50 cal. fusillade. All of this gear will be ultra-light, ultra-rugged and incredibly versatile, able to be reconfigured in the field for maximum effectiveness as new threats pop up and unpredicted challenges play out.

It may sound like science fiction, but it's

exactly what the president promised to the military last year.

Bigger ain't always better

This paradigm shift in military thinking is already underway. Defense Secretary Donald H. Rumsfeld recently proposed sweeping changes in U.S. military strategy, including the formal abandonment of the "two major war" yardstick used to determine the size of the military. The possibility of having to fight wars in two places (Korea and Iraq are the black hats in the current favorite scenarios) is used to figure out the minimum number of troops, airplanes, ships and gear needed.

Losing this bloated strategy will remove a floor that for years has kept the active-duty military at about 1.4 million people, and free up resources for the new high speed, hyper-intelligent approach. The strategy responds nicely to the U.S. military's new focus on East Asia over Europe. Our sources indicate that Rumsfeld has urged planners to do a better job of assimilating new information-age technologies and of countering the proliferation of missiles in the Third World.

You can expect to see a request for a supplement to current spending as well as an amendment to the proposed fiscal 2002 budget before Congress. Additionally, in the coming weeks, Rumsfeld will give the armed services broad guidance that will enable them to begin preparing their fiscal 2003 budgets.

Word has it that the White House is preparing a huge amendment to the defense budget for fiscal 2002, which begins October 1. The "placeholder" budget submitted earlier this year sought US\$310.5 billion. *Expect that to skyrocket by about US\$20 billion.*

First in war and first to the banquet table

In both the shooting and equity battlegrounds of the next century, the victory will go to the swift and the well prepared. The trick is to pick shares of companies that are already at the head of the line for land warrior monies—and that have interesting new programs ready in the wings to siphon off even more. **Have I got a new pick for you!**

Ceradyne designs, makes and markets advanced technical ceramic products and components for industrial, defense, consumer and microwave applications that meet or exceed specifications rival products made of metals or plastics can't touch.

On the military front, Ceradyne has developed (and is currently producing) lightweight ceramic armor capable of protecting against threats as great as .50 caliber armor-piercing machine gun bullets. Compared to traditional steel armor plates, Ceradyne's ceramic armor offer weight savings as great as 50% (for protection against .50 cal.) and 75% (against 7.62mm armor-piercing projectiles). Its hot-pressed Ceralloy ceramic armor plates are laminated with Kevlar, Spectra or fiberglass and formed into a wide variety of shapes, structures and components.

Ceradyne also produces conical, precision-tooled ceramic components that are designed to be mounted by its customers on the front end of defensive missiles. These nose cones, or "radomes," are designed for applications where the velocities and operating environments are severe enough that the thermal shock and erosion resistance, high strength and microwave transparency properties of advanced technical ceramics are required.

Ceradyne's industrial wear components are made primarily of its Ceralloy 147 sintered reaction bonded silicon nitride (SRBSN). These SRBSN ceramic components are frequently incorporated in industrial machinery where severe abrasive conditions can wear out vital components.

These wear-resistant parts are used to replace conventional materials such as tungsten carbide or ceramics such as alumina or zirconia. Applications include metal-cutting tool inserts, paper- and can-making equipment, and abrasive blasting nozzles.

Chips and dips

The newest equipment used to make semiconductor devices has to function in operating environments that are harsh enough to severely limit the life of traditional ceramic and metal components. Ceradyne is positioned to offer a new generation of non-oxide ceramics that have exceptional corrosion resistance. This is especially important to the expanding Asian 12-inch wafer market.

Fused silica ceramic does not materially expand when heated, or contract when cooled. Fused silica ceramic shapes of up to 14 feet in length are produced in the company's facility located near Atlanta, Georgia.

Ceradyne also produces a wide variety of hot-pressed Ceralloy ceramic compositions—precision diamond-ground to close tolerances—primarily for microwave tube applications. The interior cavities of microwave tubes often require ceramic components capable of operating at elevated temperatures and in high vacuums.

Engines of wealth

The company has provided a number of civilian prototype parts made of Ceralloy 147 SRBSN materials for evaluation and testing in internal combustion and diesel engines. In the fourth quarter of 1999, the company began preproduction qualification of a component for a high-pressure fuel pump used in light duty diesel engines. Also, Ceradyne is engaged in a joint development program with Ford to develop ceramic components for automobile engines. Together with marketing partner 3M/Unitek, the company developed and marketed ceramic orthodontic brackets made of Ceradyne's translucent ceramic, Transtar. This has resulted in a cosmetic substitute for traditional stainless steel brackets.

The payoff

The company's industrial, defense, consumer, microwave tube and automotive products accounted for

approximately 37.7%, 20.7%, 18.6%, 21.0%, and 2.0%, respectively, of net sales for the year ended December 31, 1999. Revenues from export sales represented approximately 11% of total net sales in 1999. For the year ended December 31, 1999, 3M/Unitek accounted for approximately 18% of net sales.

Sales for the quarter reached a record US\$11.9 mil-

Just Check This Out

Valuation Ratios

CRDN	Industry	Sector	S&P 500
P/E Ratio (TTM)			
11.75	19.83	18.13	28.77
Price to Sales (TTM)			
1.29	1.20	1.59	4.20
Sales (MRQ) vs Qtr. 1 Yr. Ago			
7.19	4.84	12.31	14.86
Sales (TTM) vs TTM 1 Yr. Ago			
32.66	21.67	9.48	22.26
Gross Margin (TTM)			
28.09	30.20	22.23	48.00
Net Profit Margin (TTM)			
10.97	1.79	5.08	11.65

lion, a 7% increase from US\$11.1 million in the first quarter of 2000. Net income was US\$1,189,000, or 14 cents per share diluted and basic, compared with net income of US\$1,156,000, or 14 cents per share diluted and basic, in the first quarter of 2000. The tax provision for the quarter ended March 31, 2001, for the combined federal and state tax rate was 30%, compared with 2% in the year-ago quarter. Income before provision for taxes rose 44 percent from US\$1,179,000 to a record US\$1,699,000 in the first quarter 2000.

New bookings for the quarter also increased, rising 11 percent to US\$11.7 million from US\$10.5 million. Order backlog on March 31, 2001, was US\$26.4 million, 16 percent higher than the prior-year backlog of US\$22.7 million.

CRDN's P/E of 11.75 handily beats the trade's 19.83 and weighs in at about a third the S&P's 28.77, while its price to sales figure of 1.29 is 1/4 the S&P's 4.20. In years past, I might have turned up my nose at a double-digit P/E, but I will never walk away from year over year growth of 32.66%, especially not when that year was as bloody as the past one has been.

And, whereas CRDN's gross profit of 28.09% (TTM) may be below the trade figure of 30.20%, it's showing an unassailable net profit margin of 10.97% that dwarf's the trade's measly 1.79%, and return on assets and investment are equally superior.

Buy CERADYN, Inc. (CRDN:NASDAQ-NM) below US\$8 with a target of US\$16 over the next 12 months and a -25% trailing stop.

WORLD INVESTOR

Five stocks, five winners, hot coffee coming through!

by *Christian DeHaemer*

Last month, *Taipan* recommended that you buy the Three Q's based on the Flying V Supply Indicator. This month, chock full of braggadocio, I'm poised to get all up in your grill and hawk my claims of validation.

The **Three Q's (QQQ:AMEX)** leaped, jumped and climbed from US\$38 to US\$49 in a little over a month, for a smooth 28% gain. All the while, people were pulling out what was left of their hair as the Dow and the NASDAQ went to heck in a hand basket. And, not to be outdone, **the 58 September Calls (QQQIF:AOE) hit a high of US\$2.70. It's up a capacious 125 percent.** That's capacious with a "p" as in phat.

(I must admit that these call options have since fallen off to US\$1.90. *Taipan* recommends that you hold on to them and brace yourself for a flagrant summer rally.)

Who let the dogs out?

Taipan's basic investment philosophy is that there is always an opportunity to make a handsome profit, no matter how bad the markets are. And we have proven it time and time again. Of course, if everyone around you is prognosticating the end of the world, it's often hard to stay optimistic. Depression may have yet to be classified as a social disease, but it sure is catching. Be that as it may: it's the trials of life... and the trials of investing in a market gone haywire... that separate the wheat from the chaff, and the weak from the strong.

Taipan's motto of "Courage, Foresight, and Profits" has once again borne fruit!

While I'm blowing my own horn, I hope you'll agree that thus far, 2001 has been a very good year. **South African Breweries (SAB.L)** is up some 19%. *Taipan* booked 37% in one month on **Indonesian Telecom (TLK:NYSE-ADR)**, and we locked in 41% on

our **Medicines Company short (MDCO:NASDAQ)**.

And if those gains aren't enough out of your favorite *Taipan* analyst, I also recommended **Cipla Ltd.** (Script code 87, Bombay Stock Exchange). In the April issue of *Taipan*, I recommended that you purchase this Indian generic drug maker on dips below 900 rupees. Sure, the *Wall Street Journal* jumped on the bandwagon while we were still going to print.

But we turned around and made the story available to our subscribers on taipanonline.com the very same day. (Don't you just love technology?) But even if you got your issue the old-fashioned way, you still had ample opportunity to buy below our recommended price when the stock hit 875 rupees on April 12. Yesterday, it closed at 1125 rupees. That's a gain of 28%. Yee-haw, as they say in Midland, Texas.

Head hunters of Borneo

Being five for five is a nice feat in any endeavor, in the markets it's downright impossible. But then again, we're *Taipan*—built for winners from the ground up.

Therefore, I'm going to press my luck. In fact, one of the same companies we've bought and sold twice now just announced better-than-expected profits and seems poised for another rebound.

Of course, I'm talking about **P.T. Telekomunikasi (TLK:NYSE-ADR)**. This company, widely known as TELKOM, has consistently built its business regardless of the overall chaos in Indonesia or the headhunting philosophy of Borneo.

Buy when no one cares

The trick is to get in when no one is looking and get out when Indonesia shows up on the possibility list. *We are playing the bottom end of the range and taking profits on the bounces.* One can calculate that



this company should trade at a P/E ratio similar to that of its peers—around 22 instead of its current P/E of 8.

It can be argued that its current dividend yield of 5.62 percent is more than enough incentive to buy this undervalued telecom with a monopolistic hold on its home country. Or that the macro view of Indonesia can't get any worse, and therefore can only get better. (What's worse than genocidal headhunters?)

To refresh your memory, TLK is the national telecom provider for Indonesia. Indonesia has the fourth highest population on earth, with one of the lowest phone per capita rates. I also like to recommend this stock because, to date, not a single national telephone company has gone out of business. So if things go very wrong, you know that someday they *will* get better.

Buy for the long haul and be quick to take profits. TLK is a solid company. They currently have a P/E of 8 and a market cap of US\$2.25 billion. As you can see from the revenue and EPS tables below, both are expanding at a healthy clip.

Operating margins are at a whopping 43 percent, and TLK has US\$669 million in cash. TLK trades at less than two times book—very nice. **Buy TLK under US\$4.50 as a speculative play on a solid company in a distraught country.** Any positive news coming out of Indonesia will likely send TLK's share price above US\$7.

Just Check This Out

REVENUE

Quarter s	1999	20 00
MAR	1,753,403	2,228,764
JUN	1,978,572	2,282,318
SEP	2,008,675	2,432,743
DEC	2,049,559	2,431,881
Totals	7,790,209	9,375,706

Note: Units in Millions of Rupiah

EARNINGS PER SHARE

Quarter s	1999	20 00
MAR	32.790	74.600
JUN	125.130	49.400
SEP	0.010	92.490
DEC	72.400	35.390
Totals	230.330	251.880

Note: Units in Rupiah

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Rub-a-dub-dub... three women in my tub

Viagra faces stiff competition from this topical impotence drug

by **Brian Hicks**

You may have read about the alternatives: outrageous contraptions using everything from vibration to motor-powered suction machines... unappetizing brews and soups made from shriveled parts of poached endangered animals you and I would be hesitant to feed to a dog... mysterious powders made from deer antler, rhino horn, ground-up insects.

But the business of putting the sparkle back into a man's eye has been changed forever. And you knew it was just a matter of time before even Viagra got some... competition... from other impotence drugs, that is.

Actually, more than one contender has risen to the challenge and will fight Pfizer for the lion's share of the limp noodle market. (Pfizer's Viagra now pulls down US\$1 billion a year for the drug maker. For those of you doing the math at home—that's US\$2.7 million spent on the little blue pill *every single day*.)

Even though Viagra currently has a lock on the market, there's still about 90% that's left untapped.

Sure, Viagra is the drug to beat. But beating it might not be so difficult. Just think: you get the same unwanted effects from Viagra as you do from imbibing too much alcohol. And the reasons for taking each are pretty much the same (And considering Viagra costs about US\$12.00 a pill, I'd rather buy a bottle of Ripple for US\$3.50 and take my chances.)

Besides, since being approved in 1998, Viagra has lost more patients than it has gained (on a net basis). One of the reasons: those side effects.

Even though Viagra does US\$1 billion in sales every year, there's another US\$9 billion just waiting for a safer, more effective drug.

I've found out the name of that drug... *and it's already been approved by the FDA.*

The shot heard around the world

Before Viagra, there was CAVERJECT by Pharmacia & Upjohn. CAVERJECT was an impotence drug that was injected by needle into the side of the penis. That's right—a needle rammed into the most sensitive part of the male anatomy.

Listen, I don't care how good-looking she is. Even if she looks like Catherine Zeta-Jones, I'm not about to let a needle anywhere close, if you catch my drift.

And apparently a lot of impotent men felt the same way, as CAVERJECT found little market appeal.

But regardless of the pain, CAVERJECT was extremely effective—producing erections in 80% of impotent men who tried it. And it was all because of a substance called alprostadil—the active ingredient in CAVERJECT.

Well, the drug company I'm going to tell you about has taken alprostadil... and put it into a completely painless method of delivery.

But first, let's get a little personal

When I started researching impotence, I noticed one thing: most of my older colleagues tended to shy away from the subject.

I mean, difficulty in "keeping up appearances" has to be every red-blooded man's nightmare.

Estimates say that nearly 30 million American men (mostly over the age of 50) have some form of erectile dysfunction. That's about one in every six men.

Don't get me wrong—I feel for them. Even my libido—at the tender age of 32—isn't what it used to be:

A decade ago, when I was in college, I had enough testosterone running through my body to kill a Clydesdale horse.

(Heck, high school was even worse.)

I bring up the topic of my adolescence because it's important. Because when it comes to sex, men tend to compare their prowess to when they were younger.

You've heard it before: "When I was 18, I could have sex 10 times a day!"

But when you get to be your father's age, having sex 10 times a day is like playing Russian roulette. In fact, the odds of surviving are better with a loaded gun to your head.

That's why, since the dawn of marriage, man has sought a magical drug to lift what the body could not.

As recently as the late 1980s, many men experimented with a cocaine solution. Dripping dissolved cocaine into their urethra, some men experienced the best erections ever. The only problem was... the erection lasted for days—a very dangerous situation.

Many contracted gangrene. The afflicted members finally turned black, shriveled up, and to the horror of their owners, fell off!

But this catastrophe was a blessing. It prompted many biotech companies to begin developing a safe cure for impotence.

Anatomy of an erection

Just like other organs, as you get older, your penis begins to lose normal function. In a normal (younger) penis, blood flows through the blood vessels and into the corpus spongiosum (spongy tissue) around the penis. As the corpora swell, they press against the veins, keeping blood from leaving the penis. Full of blood, the corpora become rigid and erect, making the penis hard enough for vaginal penetration.

But as the years go by, men have a harder time achieving an erection. When a man has impotence,

more times than not, it's a hardening of the arteries. This condition won't allow the blood vessels to dilate—inhibiting blood flow to the penis.

Although there are numerous things that can prevent vessel dilation from occurring naturally, a drug like alprostadil has a specific, direct effect on the vessels, allowing engorgement to occur.

Rub it here

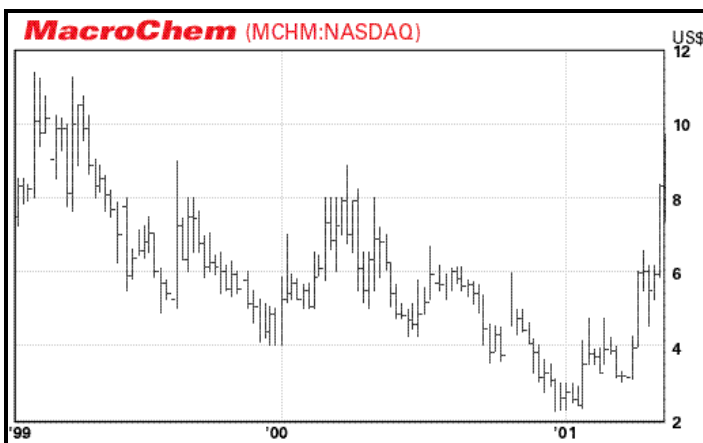
MacroChem (MCHM:NASDAQ) is a Massachusetts drug technology company whose scientific claim to fame is its transdermal SEPA technology—a way to deliver drugs with a topical gel from the surface of the skin into the bloodstream.

SEPA compounds, MacroChem's proprietary transdermal penetration enhancers, when properly combined with particular drugs, create pharmaceutical formulations (creams, gels, solutions, etc.) that enhance the delivery of the drugs via the skin.

SEPA technology allows the drugs to diffuse through the skin by making the outer layer (stratum corneum) more permeable to the drug molecule. Transdermal delivery offers an alternative to other methods of drug administration (injection, oral dosage, inhalation), and may allow selected drugs to be administered more effectively, at lower doses, with fewer side effects.

The biggest benefit of SEPA technology—you might've guessed—is that it can be used to deliver drugs that would otherwise have to be administered by more painful means.

SEPA is a natural for erectile dysfunction.



Buy MacroChem now

MacroChem's impotence drug, Topiglan, is currently in pivotal Phase III trials. This after an excellent Phase II trial that showed Topiglan to be six times more effective than placebo in producing erections.

And, apparently, word has got around about it. There was a mad rush by hundreds to participate in the Phase III trials, and MacroChem had to beat men

away with a stick.

MacroChem trades at a market cap of US\$200 million, peanuts compared to where it would trade if Topiglan gets approved. Quite frankly, if Topiglan gets the go-ahead, not only will it quickly grab a portion of the market that doesn't use Viagra, but it will most likely acquire patients that do use Viagra.

Just Check This Out

Possible Side Effects from Erectile

Disfunction Drugs Under Development

Company (brand)	Active Agent	Side Effects
MacroChem (Topiglan)	alprostadil	minor warmth
Pfizer (Viagra)	sildenafil	headache, lowers blood pressure, visual disturbance
Schering-Plough/Zonagen (Vasomax)	phentolamine	dizziness, lowers blood pressure
TAP Pharmaceuticals	apomorphine	nausea, vomiting

Early estimates for Topiglan call for around US\$200 million in sales for the first year. This is based, in part, on what Vivus did when its impotence drug, Muse, went on the market. Muse was another ED drug that had to be inserted into the urethra (ouch!). Nonetheless, it was effective enough to generate sales of US\$138 million in 1997.

Topiglan could easily surpass that.

Buy MacroChem (MCHM:NASDAQ) under US\$10 a share.

ACTION ALERT

Contact **MacroChem Corporation** (MCHM:NASDAQ) 110 Hartwell Avenue • Lexington, MA 02421 • Tel: 781.862.4003 • Fax: 781.862.4338 • Internet: www.macrochem.com

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Taipan's What to Buy has been moved to: http://www.247profits.com/BUREAUS/247TAIPAN/Taipan_portfolio.html

Bigger is better, especially when it comes to your portfolio!

by *Siu-Yee Ng*

As I write this, the NASDAQ composite index is still down 57% from its high in March 2000. But that's chicken feed if you compare it to the IPO market—which saw its proceeds plunge by two thirds in the same period.

In the first four months of 2000, IPOs raised an unprecedented US\$31.8 billion, with 152 companies going public. This year, the market was only able to raise a measly US\$10.3 billion on 23 offerings.

Here's the good news. In the past month, the NASDAQ has gained 27% and is down only marginally for the year. If you examine the overall picture, things are looking up. Low activity in the IPO market is a sign of a market bottom.

And here's even better news for *Taipan* members: as the NASDAQ is recovering, so are many of the companies in the *Taipan* IPO portfolio.

- **Silicon Laboratories, Inc. (SLAB:NASDAQ)** has recovered 43% of its value since April. Despite posting a first-quarter loss this year, SLAB was still able to beat analysts' estimates. If you're still in this position, consider it a hold.

- **Akamai Technologies, Inc. (AKAM:NASDAQ)** saw its stock appreciate 84% in the past month. Revenue for the quarter was US\$40.2 million, compared to US\$37.2 million for the previous quarter. This represents a 456.8 increase over the US\$7.2 million for the first quarter of 2000.

Despite the market slowdown and the demise of many Internet companies, Akamai continued to grow its customer base. This in itself is a huge achievement. Akamai also created a Japanese joint venture with SOFTBANK Broadmedia Corporation, a subsidiary of SOFTBANK Group. This venture will be the only company to sell, distribute, market, resell and support Akamai's Internet content delivery services in the Japanese market.

Another revenue generator later this year will be Akamai's new EdgeSuite service. Akamai has a lot going for it. This remains a hold.

- **FreeMarkets Inc. (FMKT:NASDAQ)** is also staging a rebound, jumping 84% just this past month. It recently won a contract to provide its online purchasing software to Texas Instruments Inc. As the NASDAQ recovers, so will FreeMarkets.

Life goes on

With the recovery of the market in April and May, IPOs are slowly coming back to life. The average 2001 IPO deal has actually managed to raise more capital than last year. It's the stronger deals that are getting out of the gate. Garbage is out. Quality's back in.

Those companies daring to go public in the face of adversity gained an average of 14% on the offering price. That doesn't seem like much if you compare it to the fireworks of a year ago. But it certainly is better than what

the NASDAQ has done since the beginning of the year.

The near-term outlook for the IPO market is improving, despite an economic slowdown. The market has discounted much of the bad news—higher-than-expected unemployment, layoffs, declining consumer confidence, etc.

In April alone, 55 Internet companies closed up shop. And this trend will most likely continue in other industries struggling with overcapitalization. No one wants to see the Internet debacle happen again. At least for the time being, investors are tired of throwing good money at bad companies.

We probably won't see many triple-digit winners in the IPO world this year, but we're seeing and will continue to see solid winners coming to market. Many of these IPOs, like this one, will be spinoffs from larger, mature companies.

Rainy day meal

Kraft Foods, Inc. is a household name. With its recent acquisition of Nabisco, Kraft became the largest branded food and beverage company headquartered in the United States, and the second largest in the world. (That's based on sales of US\$ 34.7 billion in 2000.) Kraft brands are sold in more than 140 countries and, according to A.C. Nielsen, are enjoyed in 99.6% of the households in the United States.

To expand Kraft's global presence and to strengthen its position in the fast-growing consumer snacks sector, Kraft acquired Nabisco Holdings Corp., the largest manufacturer and marketer of cookies and crackers in the world (based on retail sales), in December 2000.

Kraft holds the #1 global share position in eleven product categories. And it holds the #1 share position in 23 of its 25 most profitable United States categories and in 21 of its 25 most profitable international categories. Its portfolio includes 61 brands, with 2000 revenue topping US\$100 million. Seven of its brands had 2000 rev-

IPO follow-up

- **United Surgical Partners International**, which owns and operates surgery centers and private surgical hospitals in the United States, Spain and the United Kingdom, has set its IPO terms. The proposed ticker symbol has been changed from SURG to USPI. 7.15 million shares are expected to price between US\$13 and US\$15. A date has not been set yet.

- **Optical switchmaker Tellium** is expected to price 7.5 million shares between US\$13 and US\$15 during the week of May 14. But don't be surprised if the deal is pushed back a week or two owing to market conditions. The proposed ticker symbol is TELM.

enue over US\$1 billion.

Kraft Foods North America accounted for US\$25.3 billion, or 73%, of its 2000 pro forma revenue, while Kraft Foods International accounted for US\$9.4 billion, or 27%.

A mother's love

Kraft is currently a wholly owned subsidiary of Philip Morris Companies Inc. According to the SEC filing, Philip Morris plans to control 97.7% of the voting rights in Kraft. Who wouldn't want a powerhouse like Phillip Morris to watch over its shining star?

Phillip Morris plans to sell 280 million shares of

Kraft stock between US\$26 to US\$31 before July 1. But if there's enough demand, it can sell an additional 28 million shares in the offering. This could raise anywhere between US\$7.3 billion to US\$9.5 billion, making it one of the biggest IPOs in United States history.

As you can see, this is a huge offering. We won't see any huge first-day pop, but this is a long-term winner.

Credit Suisse First Boston is the main underwriter.

The proposed ticker symbol is KFT.

For more information after the quiet period, contact Kraft Foods, Inc. at Three Lakes Drive, Northfield, IL 60093, tel. 847-646-2000, fax 847-646-6005, website at <http://www.kraftfoods.com>.

INCOME INVESTING

Keep your stock profits from blowin' in the wind:

2 Healthcare REITs to grow your yeilds

by Charles R. Wolpoff

That "ARRGH" you heard recently was the sound of baby boomers collectively coming to the realization that, on May 24, Bob Dylan turned... 60.

Happy birthday, Bob. Five more years till you qualify for Social Security.

Yes, those products of the post-World War II population explosion are watching their icons one by one lead the way into post-middle age. Like a Rolling Stone, baby boomers are heading downhill, physically speaking. (Just look at me!)

As the members of this huge demographic group head closer and closer to senior status, they will need to rejigger their investments to produce a more predictable stream of income, while still looking for a certain amount of upside potential.

How ironic, then, that one of the best income/growth investment opportunities capitalizes on the problems of aging. Fact is, with our population getting older, there is an excellent double-barreled source for both income and capital appreciation—even for those who aren't part of the Aquarius generation.

We're talking about healthcare REITs

Now, REITs are generally a solid choice for income-type investments. Real Estate Investment Trusts collect rents, and then, as required by the government, distribute 95% of their net earnings to shareholders. Thus, they provide a consistently high dividend yield.

But, just like other equities, they also can appreciate (and, unfortunately, decline) in value.

So with REITs you can get double-digit dividend yields and possibly huge total returns—all while diversifying your holdings.

And recently, for holders of REIT shares, that has

been a very good thing indeed. There weren't many stock sectors that made you money over the past year. The S&P 500 Index, for example, lost close to 14% for the twelve months ending April 2001. We won't even talk about the NASDAQ. But during that same time, REITs appreciated 18%.

Even more significantly, REITs provided total returns—capital appreciation (or decline) plus dividends—of 20%, compared to a negative 5% total return for the S&P 500.

A REIT is especially attractive to investors when it has been paying a high dividend and is likely to continue paying those dividends at the same rate or higher.

REITs are publicly traded companies that invest solely in real estate. There are REITs that own all sorts of properties, such as apartment complexes, shopping centers, office buildings, hotels, or a mixture of various types (these are commonly referred to as diversified REITs).

But at the moment, REITs that invest in healthcare-related property are especially intriguing. Healthcare REITs invest in properties such as nursing homes, assisted living and retirement centers, specialty care hospitals, and medical offices.

And the time seems right to be looking at investing in senior care. You see, the industry had terrible years in 1999 and 2000. Stock prices plummeted. Some companies even went bankrupt.

But prospects for the industry have turned around.

Golden years

Since your investment decisions shouldn't really look out beyond 5 years, the attractiveness of healthcare REITs now isn't much affected by the baby boomers themselves eventually needing senior care.

But even without the baby boomers, the population that is likely to need senior housing and nursing care is growing fast. For example, the age group 85 and older is expected to grow 2.9% from now to 2005. The U.S. population as a whole is projected to grow at an annual rate of only 0.89%.

There are other factors helping the senior care industry. For a while, changes in government Medicare reimbursement policies had shaken up the industry. But since April 2000, nursing homes have been receiving higher federal Medicare reimbursements.

Moreover, the 1990s saw too much nursing home and assisted living development. But this dropped off in 2000 and seems to be dropping more in 2001. So the supply/demand ratio is coming more into balance.

To be sure, there are still problems in the senior care industry, such as high labor and liability costs.

But overall, the substantial good news has translated into profits and healthy total returns for investors.

Through April, the stock prices of healthcare REITs have grown 20%, compared to a flat Dow and a decrease of 5% in the S&P 500.

More growth to come.

Here are two healthcare REITs to consider.

The appropriately named **Health Care REIT Inc. (HCN:NYSE)**, based in Toledo, OH, is the pioneer in the field. Formed in 1970, it was the first REIT to invest exclusively in healthcare facilities.

HCN owns more than US\$1.1 billion worth of real estate located in 34 states. This includes 150 assisted living facilities and 47 nursing homes.

Its dividend yield as of May 9 was 10.5%, and its stock has climbed almost 50% in the 12 months ending April 30, to US\$23.35.

You can contact the company at 419-247-2800, www.hcreit.com.

Based in Newport Beach, CA, **Health Care Property Investors (HCP:NYSE)** owns 175 long-term care facilities, 92 congregate care and assisted living facilities, 82 medical office buildings, 46 physician practice clinics, 22 acute care hospitals, and 9 freestanding rehabilitation facilities.

HCP also recently expanded, acquiring American Health Properties' 70 healthcare facilities.

After increasing its dividend to 77 cents a share, a 5.5% increase over a year ago, the company boasts a dividend yield of 8.4%. Its stock jumped 30% in the past 12 months, to a bit more than US\$36.

For information, you can contact the company at 949-221-0600, www.hcpi.com.

With good growth potential in the stock price of both these REITs, investors are looking at a potential double-digit return in the coming year.

Not quite ready to dive into individual REITs yet? Then you may want to start out with a REIT mutual fund.

For example, there is the no-load **Vanguard REIT Index (VGSIX)**, which reported a total return of more than 26% in 2000. Contact: 800-662-7447, www.vanguard.com.

Another REIT fund, **Spirit of America Investment Fund A (SOAAX)**, has a substantial investment in both HCN (its third largest holding at 3.42%) and HCP (its top holding at 4.11%). In the past year, it has reported a return of more than 24%. But the fund imposes a hefty front load of 5.25%. (Its B shares, which issue a smaller dividend, impose a declining back end load depending on your holding period). Contact: 800-452-4892.

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Taipan World Investor Roundup

by James Passin

Elbit Ltd. (ELBT:NASDAQ)

I first recommended Elbit Ltd. (ELBT:NASDAQ) in 1998 when it traded under US\$2. Following my initial coverage, ELBT rose as high as US\$23, exceeding my original target of US\$17. I downgraded ELBT to Hold after the company sold its Peach subsidiary to Microsoft for US\$70 million, a disappointing valuation in the Internet Bubble days. Based on ELBT's ridiculous discount to net asset value (NAV), I renewed my buy recommendation after ELBT declined to US\$8 in mid 2000.

ELBT has subsequently paid out two generous US\$1.19 per share cash dividends to shareholders, representing a 30% annual yield. If you bought the stock in 1998 and held on to every share, you would have a *negative cost basis* after subtracting the dividends! Show me a tech stock that's ever paid a 30% annual dividend in *cash*.

ELBT has the best management I have ever seen in any company. They took an incoherent pile of legacy assets and converted it into a high tech incubator (before incubators were "hot"), participating in the acquisition of a GSM license and acquiring controlling stakes in sexy telecommunications start-ups. ELBT realized value by flipping Peach to Microsoft and HyNex to Cisco, as well as through the flotation of the Israeli GSM operator on the NASDAQ. ELBT was able to achieve this growth without diluting shareholders by a single share (other than well-deserved management option grants). And, unlike most tech companies, ELBT shared the wealth with shareholders by paying large cash dividends. **Despite the generous dividends and lack of share**

issuance over the last four years, ELBT still has US\$50 million in cash on its balance sheet and zero debt.

ELBT's proven record of generating wealth for all shareholders provides reassurance that the stock will eventually come back, whatever happens to the NASDAQ. Taking advantage of its liquid financial position, ELBT has been quietly acquiring a synergistic portfolio of controlling interests in private tech companies. In this bear market, entrepreneurs are crawling to VC investors for capital. Investors are able to set the terms of deals—a feeding frenzy for a flush incubator like ELBT.

In my opinion, any one of ELBT's new subsidiaries could support the current market cap in three to five years. But the clear synergies between ELBT's subsidiaries should lead to even faster value creation for shareholders of the parent company.

ELBT's portfolio

Recently, ELBT cleaned up several "loose ends." It finally divested its worthless controlling stake in Elbit Vision Systems (EVSN:OTC-BB). As a result of this divestiture, ELBT will no longer consolidate revenues or losses from EVSN (which posted quarter after quarter of collapsing sales and mounting losses). ELBT also settled its tax dispute with the Israeli tax authorities for US\$180,000—a paltry amount relative to the full US\$10 million (with interest and penalties) formerly under dispute.

A number of factors could trigger a pop in ELBT. But the company will remain undervalued relative to its NAV until sentiment towards tech stocks turns around.

FUTURE FILE

Stick it in your eye: The next leap forward in display technology is already installed in your head

by Michael Riska

Your typical neurosurgeon has to work his magic nearly blind, deep in the dismal swamp that is your brain. For reference, he looks to a monitor on his left that displays your last MRI. Your vital signs are displayed on a monitor to the right. The bright overhead lights bring a stinging sweat to his forehead, which runs directly into his eyes as he looks from monitor to brain, monitor to brain.

The slightest distraction could turn you into a drooling turnip.

But the clutter of the operating room, the jumble of visual displays that are so important to guiding the surgery, will soon be a thing of the past. A few weeks ago, the prototype of a new tool called Spectrum was deliv-

ered to the Cleveland Clinic Foundation by **Microvision Inc. (MVIS:NASDAQ)**. Spectrum is a full-color retinal scanning display (RSD) that will superimpose crucial data directly onto the surgeon's field of vision, without hampering his eyesight.

(Incidentally, the same technology could turn *Taipan* publisher J. Christoph Amberger's beloved 19-inch color monitor into a thousand dollar doorstop.)

As a long-time *Taipan* subscriber, you probably have fond memories of Microvision. Back in November of 1996, *Taipan's* resident microcap guru, Brian Hicks, recommended this company as a speculative play at under US\$5. (See "Eye-popping profits in x-ray vision: How virtual retinal display glasses can give you superman

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sight," *Taipan*, November 1996, p. 13f.)

Taipans taking Brian at his word were able to buy in at US\$3.50... and then watched the stock ride the technology boom up to US\$68 in March 2000—for a truly eye-popping profit of 1,800+%! (We issued several buy signals along the way.) As I write this, Microvision is still trading at US\$20... a handsome 470+% above our original recommendation!

New vistas

Microvision, a company out of Bothell, Washington, has had the good fortune to develop and patent the next leap forward in display technology. Its display medium—its screen, if you want to cling to that archaic term—is inside your eyeball.

The rest of the hardware is a tiny projector mounted on a headpiece, attached to a small computer that can be worn on your belt. To create a color image, the projector beams three low-energy lasers—red, green and blue—through the pupil and combines them *directly on the retina* to create the appropriate picture.

The projector “paints” an image, pixel by pixel, so it appears as part of your normal vision and doesn't otherwise interfere with your eyesight. Essentially, it's superimposing another layer of information onto what you see. It's more or less the same way your television creates an image on a screen, except it's all happening inside your eye.

The applications for this are endless. I've already given the example of the surgeon being able to view patient data while operating, without having to break his neck (and concentration) by constantly turning to look at monitors. Remember the retinal displays in the original “Terminator” movie, the way they helped Arnold with various data readouts while he was hunting his prey? Think about firefighters looking at floor plans while running through a burning building; engineers pulling up technical manuals on the job site; think about all the eye-popping new video games.

The next wave

While the enhancements to niche fields will be huge, a really killer

application has to have mass appeal. Here's why this technology is going to give a giant kick in the pants to all our cherished notions of what a visual display should be:

We've been hearing that, in the next few years, more people will be accessing the Internet from non-PC devices than from traditional desktop computers. Mostly they're talking about fancy cell phones with teeny-weensy monitors. But the way things are looking, viewing web pages on a miniature LCD is going to be about as satisfying as licking a rack of pork ribs made of plastic. The screens are too limited, and as soon as you start to expand them, you may as well turn the thing into a laptop.

Microvision is already integrating their RSD technology into handheld devices, like cell phones and pagers. This will completely eliminate the problem of screen capability for handhelds. By using a tiny projector to beam images directly into the eye, a user will have the illusion of looking at a full-size color monitor. If you think cell phones on the highways are obnoxious now, wait until everyone is having “Gilligan's Island” reruns scanned onto their retinas at 80 mph.

Microvision has come up with the technology, they've patented it, and now they have to bring it to the market. The Spectrum prototype is a great first step, and they've got a monochrome version called Nomad ready to hit the streets this fall. To smooth the transition from technology developer to manufacturer of commercial display and imaging products, they've formed an advisory panel chaired by Dr. Aris Silzars, who is president of the Society for Information Display.

ACTION ALERT

Microvision, Inc.
19910 North Creek Parkway
Bothell, WA 98011-3008
Tel. 425-415-6847
Fax 425-415-6600
Email: info@mvis.com
Website: www.mvis.com