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A kick in the pants for cancer:

Heal your portfolio while the market writhes in pain...

J. Christoph Amberger

A few weeks from now, fund managers all over the United States will once again face an odious task… they'll run the Q2 2003 perfomance numbers for their portfolios, pull what's left of their hair, and then sit down and type up a mush-mouthed letter to their shareholders, trying one way or the other to gloss over the fact that their particular fund has lost money yet again.

Of course, it's not their fault. Everybody knows the market is to blame.

But wait a moment: There's a fresh new set of numbers to show that fund managers—rather than the market—are responsible for a sizeable chunk of the losses.

A research paper by McKinsey & Co. executives Tim Koller and Zane Williams entitled "Anatomy of a Bear Market" is taking a pickax to the mutual funds' favorite excuse. Its observations are quite revealing:

Between January 2000 and October 2002, the S&P 500 dropped a stomach-turning 40%, from 1,469 to 886. That hurts! But, interestingly, the decline was tightly concentrated on those 95 stocks in the index that have a market capitalization above US$25 billion. They dropped an average of more than 33%.

Then there are the 110 stocks with market caps ranging between US$10 and US$25 billion. These fell 19% on average.

But here's where it gets interesting: The remaining 295 stocks in the index—mostly solid Middle American companies—saw positive gains. Over 40% of the companies in the index actually saw their share prices increase! Koller and Williams: "Indeed, while the overall index plummeted, the share prices of over 50% of S&P 500 companies either increased in value or declined by less than 10%."

Hand a chimp a gun

A close analysis of the various sectors comprising the S&P 500 reveals that the stocks most ravaged by the bear market were concentrated in two areas, information technology and telecommunications, with losses averaging between 60% and 64%.

The McKinsey conclusion: *"Larger capitalization companies have lost their bull-market premium over the rest of the market, a logical development since they don't grow faster over the longer term. And if the bear market, despite the real pain it inflicted on investors, represents more the bursting of a sector bubble than the outgrowth of broad economic weakness, in the end the market may demonstrate that it is not ailing as badly as it has seemed to be."*

Too bad all those red-faced mutual fund managers whose missives you're about to receive appear to have placed their bets on the wrong horse… again and again and again.

At *Taipan,* we've had our share of losers over the years. But at least we have

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made risk management one of the cornerstones of our investment philosophy: Our general strategy is implementing and closely observing a -20% trailing stop on each and every investment recommendation we make. Sometimes, for particularly risky or speculative plays, or investments hit by unforeseen events—last year's recommendation of Argentine telecom giant TEOBF comes to mind—we're content to suspend that trailing stop, riding out short-term adversity.

But, most importantly, we focus our research on companies with genuine growth potential. And as the S&P 500 report bears out, these opportunities still abound… in pharmaceutical, biotech, even Internet-related microcaps. Those who believe the greatest profits of the new market have come and gone with the likes of Cisco, Amazon, Microsoft, Yahoo and others simply don't understand what's happening in laboratories throughout the world. It is one thing to have a doohickey that'll let you get sports scores on the top of a mountain. But it's a whole other thing to "own" the cure to cancer… or to erase heart disease, diabetes, Alzheimer's—even the common cold—forever.

This month, the *Taipan* editorial board has pinpointed one particular investment that fits the bill:

Putting a kink in the tumor chain

Fight cancer and hit the biotech jackpot for under US$3.50

Brad Colburn

Roughly 1.2 million Americans are diagnosed with cancer each year. Close to 500,000 of them die. That's around 1,500 people dying every single day. It's a good thing there are hundreds of companies that make it their goal to fight cancer, right?

These companies are paving the way for the eradication of cancer. If you remember, I even talked about one in the February issue of *Taipan:* Guilford Pharmaceuticals (GLFD:NASDAQ). As I write, GLFD is up a hefty 70%… not bad for a period rocked by "war jitters" and other fortitudinal shortcomings, if I say so myself.

One of their products is a chemotherapeutic wafer placed directly on the brain's surface for treatment of brain cancer.

Trials show that the Gliadel wafer is working. But that's not good enough. What the fight against cancer needs is a swift kick in the pants. I've found that kick, and its name is EntreMed.

EntreMed, Inc. (ENMD:NASDAQ) is a clinical-stage biopharmaceutical company developing angiogenesis therapeutics. These are drugs that inhibit abnormal blood vessel growth (angiogenesis) associated with a broad range of diseases such as cancer, blindness and arteriosclerosis.

The company's strategy is to accelerate development of its core technologies through collaborations and sponsored research programs with pharmaceutical and biotechnology companies, universities and government laboratories.

With a rich pipeline of new proteins, genes, and small molecules under development and in preclinical studies, the company owns exclusive worldwide rights to approximately 300 U.S. and foreign pending and issued patents.

As of November 2002, EntreMed had initiated or completed 14 human clinical trials with its four product candidates—Panzem (2-Methoxyestradiol, 2ME2), ENMD 0995, Endostatin and Angiostatin. In addition, the National Cancer Institute is sponsoring trials with Endostatin and Panzem.

The candidates are being tested as single agents and in combination with other chemotherapy or radiation. Panzem entered Phase II in March 2000, Endostatin entered Phase II in October 2001, Angiostatin entered Phase II in July 2002, and ENMD 0995 entered Phase I trials in November 2002.

I'd like to zero in on Panzem, which seems to have the best chance of taking EntreMed into the upper echelons of the war on cancer.

Chop-blocking cancer

Panzem is a handy little drug with some big goals. It is the first drug candidate from EntreMed to attack both components of cancer: tumor cells and their blood supply.

Panzem is a recombinant pill-form version of a naturally occurring compound that shows significant benefits when compared with traditional cytotoxic therapies.

How does it work, you ask? It's pretty simple. All Panzem does is block angiogenesis, using the body's own inhibitor. It causes connective tissues around the tumor to send out these inhibitors and stall the angiogenesis process.

A tumor is basically a lump made up of abnormal cells. What you might not know is that a tumor has the ability to feed itself.

This process is called angiogenesis. Here's how angiogenesis works in a nutshell:

- The tumor sends out proteins that act as growth factors.
- The proteins attach to nearby blood vessels via endothelial cells.
- The endothelial cells have receptors that accept the growth factor; once the union happens, new molecules are created.
- The new molecules tear holes in the blood vessels.
- Endothelial cells escape from the perforated blood vessels and head towards the tumor.
- Once they reach the tumor, additional enzymes mold the tumor around the endothelial cells.
- The endothelial cells roll up and form blood vessels, providing blood flow to the tumor.

Sounds like something cooked up by H.P. Lovecraft, but this is real. Thankfully, EntreMed is here to put a stop to tumor madness.

They have the skills, but can they pay the bills?

They stand a good chance once their drugs get FDA approval. Panzem is going through four different FDA trials as I write. So far each trial has had at least a 95% success rate. One trial has already seen Panzem work 100% of the time.

Though FDA trials can be costly, ENMD is in a good place. At this point, they have done US$1.18 million in sales and have a price-to-sales ratio of 46.76. Cash on hand is US$4.79 million. They're not at the level of some top companies, but that could change.

ENMD was part of the big biotech boom in 2000, reaching stock prices of over US$90 a share. The possibility of a resurgence in the biotech sector has me excited about the future of EntreMed.

Cure for cancer or just another bust?

Five years ago, a little Maryland biotechnology company came into the spotlight. In May 1998, the New York Times quoted a Nobel Prize-winning scientist saying that drugs in EntreMed's pipeline could "cure cancer in two years." Investors rushed to buy the stock, sending it from US$12 to more than US$51 that same day. Some paid as much as US$80. But we soon learned that EntreMed was only able to shrink some tumors in mice, not in people. This was nothing new. Scientists have been curing cancer in mice for decades. Great, if you're a mouse.

Sui-Yee Ng

But it was enough to send the stock flying. EntreMed's stock price went up as high as US$98.50 during the 2000 bubble. But this was speculative hype. Like many other biotechnology companies still in the early stages, EntreMed couldn't deliver on their promises fast enough to satisfy demanding and impatient investors.

But today, many biotechnology companies are on the verge of major breakthroughs, maybe even EntreMed.

Burning cash

Three years ago, we took a group of investors to tour three biotech companies in Maryland. One of them was EntreMed. The stock was trading at around US$30 at the time. And, unlike the other two companies that were ready to kick us out the door after their presentations, EntreMed was more than eager to court us.

The company provided us with food, drinks and even gifts. The executives came out to greet us before the presentation. And former CEO and ex-military man John W. Holaday was the king of the carnival. His presentation was simple and easy to understand. He was personable and casual.

But his sales pitch was not enough to convince us that this stock should be trading at such high valuations. It was burning through cash too quickly, especially since they didn't even have a product on the market yet. And neither Holaday nor the CFO ever answered our questions about the company's finances.

It seemed as if the company was spending more dollars on PR than on research. And as much as we appreciated all the attention, the company looked more like a short than a buy.

The cash-strapped company never took advantage of the technology boom. Unlike other biotechnology companies that raised capital through large stock offerings, EntreMed settled for a series of lesser financings that left it in financial uncertainty.

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...continued from p. 3

And the company was going through executives faster than J. Lo goesthrough husbands. Rumor had it that Holiday was a tough man to work for. Employee turnover was extremely high, further crippling the company.

But EntreMed may be turning around. Holaday has stepped down as CEO. And the company has secured additional funding. There are plans for further cutbacks and to refocus remaining funds on its top drug candidate, Panzem.

The company runs a lot of risk by putting all its eggs in one basket. This is a very speculative play. But... they have the game down pat. They know how to sell themselves and their stock. If the pieces fall into place, the profits could be spectacular.

If you want more proof, check this out:

Just recently, EntreMed Inc. completed the sale of 4.1 million common shares to institutional investors for about US$10.25 million in gross proceeds, which will be used to fund planned activities through 2004.

In connection with the sale, the company issued warrants to purchase an additional 1.025 million shares at an exercise price of US$3.375 a share.

Directly following this news, ENMD experienced a massive volume spike. On April 21, ENMD saw 52,000 shares trade hands. The next day volume rocked up to 8,507,100. On April 23, ENMD hit a volume of close to 13 million. If that doesn't show faith in a company, I don't know what does.

The potential for Panzem's success is proving helpful for ENMD's stock price. As of this writing, ENMD is trading around the US$3 level.

Even further proof that ENMD will soon become a big-time biotech player is an earnings report released on May 14.

Entremed's first-quarter revenue of US$$513,547 improved thanks to a US$300,000 clinical research grant from the FDA's Office of Orphan Products Development, said president and chief operating officer Neil Campbell. The rest of the revenue came from externally funded commercial research collaboration.

I'd like to place a buy on EntreMed under US$3.50. But be warned: ENMD is indeed a high-performance company. They've continually ridden positive stock activity for all it's worth, based on company news.

But just how trustworthy is that news? Was that huge volume a sure thing, or was it the product of manufactured news bites? And why, if the news is wholesome, is the company considered a black sheep among the cancer-fighting flock?

Taipan IPO specialist Siu-Yee Ng has followed this stock for years... and has detected an interesting pattern that could work out for you even if half of the company's good news turns out to be pure baloney. *(See Sidebar on p. 3)*

Fasten your seatbelt... and prepare to send your portfolio skywards with this little-known airline stock!

Martin Denholm

In crisis. Doomed. Dead and buried. These are just a few of the phrases commentators are bandying about in reference to the airline industry.

Don't get me wrong... things really are pretty desperate. Since September 11, 2001, airlines have taken a serious beating, racking up losses of US$20 billion. Over the last year the major airlines saw 40% of their share value wiped out. The US$2 billion in losses and slump in passenger numbers in the first quarter of 2003 was on a par with the immediate post-September 11 period, as fears of war and terrorism and the rising price of oil choked the industry. And the airlines are expected to flush away another US$11 billion this year.

But lost amid all the shouting is the fact that when an industry gets slapped around as much as the airline industry has been, it's often the best time to invest. People are always going to need airlines, and the industry will recover.

Let me put it this way: if you think the airline industry is dead and buried as an investment option, I've got news for you. Poke through the smoldering ruins long enough and there's a good chance you'll eventually find what you're looking for.

Leading the charge is a so-called "budget airline" that has found a way to buck the trend and is taking the industry by storm. And now that summer's here, there's no better time to invest.

Burning up the skies… and the balance sheet

At just three years old, **JetBlue Airways (JBLU:NASDAQ)** has already been dubbed the "new Southwest." Since taking to the skies in February 2000, JetBlue has carried over 12 million passengers, operating almost 200 flights each day between 21 different US cities, mainly along the eastern seaboard and to Los Angeles/Long Beach, CA.

But there's a big difference between JetBlue and Southwest. JetBlue is in a much richer growth trend than its Dallas-based counterpart. Since it started trading publicly in April 2002, JetBlue has enjoyed nine straight quarters of profits and five straight quarters of double-digit operating profit margins. That's enough to raise anybody's eyebrows.

For 2002 overall, JetBlue scooped up US$635 million in revenue, US$55 million in profits (a rise of 45%) and ended the year with US$260 million in cash and investments. For the first quarter of 2003, the results are even more impressive. Revenues surged by 63% to US$217 million, with overall earnings of US$17.6 million translating into 25 cents per share. Annualized, this equates to 35% earnings growth.

Two million people flew with JetBlue in the first quarter, as the airline filled 81% of its seats. That's a 70% gain on the same period in 2002. This is remarkable when you consider that there was no added travel boost from the Easter holiday (which came unusually late this in April this year) and that the first quarter featured war, terrorist threats and a significant decline in overall passenger numbers as many opted for other means of transportation. This is where JetBlue's practice of flying long haul within the continental United States paid dividends. Quarterly sales growth skyrocketed by 63% against the same period in 2002, thrashing the industry average of 28%. Because of this, JetBlue saw a 34% increase in operating profits and a quarterly operating margin of 16%. Even better… earnings are set to rise by half this year.

The power to persuade = the path to profits

Possessed of a strong entrepreneurial spirit and deep powers of persuasion, JetBlue's down-to-earth owner and CEO, David Neeleman, managed to negotiate his way to US$130 million of venture capital funding for JetBlue when the airline launched. This was the largest amount for a fledgling start-up ever raised in American aviation history. Even renowned investor George Soros climbed aboard as part of the investment team.

JetBlue's business strategy is simple: Neeleman identifies routes that are either sparse or overpriced and attempts to improve the service. Another clever piece of negotiation saw JetBlue land at New York's JFK airport for its main base of operations. To get what he wanted, Neeleman simply played on the long-standing desires of New York politicians to have an airline in the city that could offer lower costs and cheaper fares. With little low-fare competition in New York, growth is easier to come by and JetBlue now has 75 gates at the airport. It will likely be a while before other airlines are able to encroach on JetBlue's stomping ground at JFK or dent its profits.

The phrase that pays: "Cost effective"

For a guy with a learning disorder that affects his attention span, the 42-year-old Neeleman certainly has no trouble focusing on cost effectiveness.

When he started Morris Air in 1984, he famously recruited housewives in Utah (Neeleman is from Salt Lake City) to take phone reservations from their homes in order to save on costly office overhead. But this is only the tip of the iceberg. While at Morris Air, Neeleman also created "Open Skies"—an online ticketing system designed to cut down on salaries and paper. He then sold it to Hewlett-Packard in 1999 for a cool US$22 million. He has continued that theme at JetBlue—all travel is ticketless and booked online (with no pesky Saturday night stay required, either).

Another major way in which Neeleman is able to keep JetBlue's costs down and increase efficiency is by using just one type of aircraft—the European Airbus A-320. JetBlue currently has a fleet of 41 new Airbus planes, which are cheaper and easier to maintain. And you can't accuse Neeleman of being a corporate "fat cat." He makes around US$300,000 a year in salary—pretty humble compared to many other CEO's. In addition, he makes a point of meeting his customers by flying on his own planes once a week. On occasion, he even helps with the post-flight cabin tidy-up and luggage duties (how often do you see a CEO do that?) in an effort to achieve JetBlue's target turnaround time of 35 minutes… and thus make more money.

The numbers behind the success

JetBlue has a current market cap of US$2.02 billion. That's almost as much as the combined market cap of "bigger" airlines American, Delta and United. One of the factors I pay very close attention to is

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cash flow, and in this regard JetBlue's coffers are swelling to the tune of US$254 million. That equates to sales-per-share of US$10.60 and cash-per-share of US$4.

Bottom line: JetBlue's return-on-equity is a highly impressive 18.3%—three times higher than the industry average of 5.9%, with investors over the last year getting back 87 cents per share (25 cents in the first quarter). For a real-life example, consider that if you'd invested US$1,000 in JetBlue six months ago (mid November 2002), you'd have made 30% profits by now. By contrast, American and Southwest would have returned you just 7% each. Investing in one of JetBlue's regional competitors, SkyWest Inc., would have lost you 18%.

JetBlue's price-to-earnings ratio is 36, which you may think is a tad pricey, but compared to the industry average of 44 it's pretty reasonable. And it's no problem at all when you consider that earnings growth over the next five years is expected to rise by 31%—more than double the industry average of 14%. Still not convinced? Then take a look at JetBlue's strong institutional ownership, which makes up 80% of total shareholdings. Leading the pack is the George Soros Fund Management Group and Fidelity Management & Research Co. Combined, they make up 35% of institutional holdings.

JetBlue's stock blitzed through its 50-day and 200-day moving averages in mid March—and still sits well above both marks. This could mean the stock is due for a mini-selloff... which would be good news for you (see my investment recommendation below).

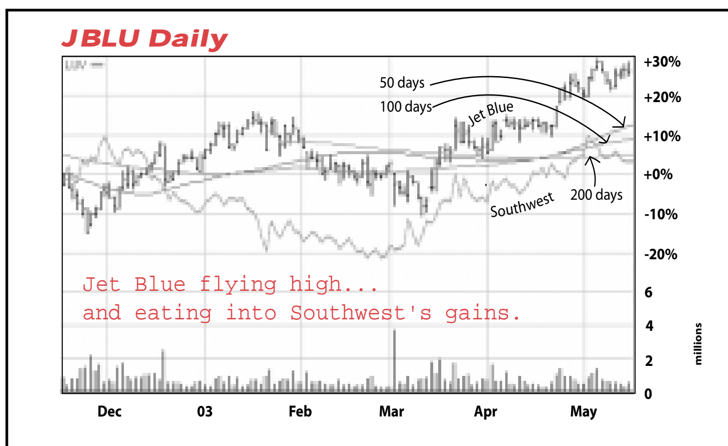
No summer swoon for the Blue Boys

JetBlue is primed to take advantage of vacation season (think of all those packed flights from New York to Florida). With 80 flights each day, JetBlue garners almost half its revenue from this lucrative route. Even with increased competition from Delta's new budget airline, Song, I believe JetBlue's strong dedication to customer service and enhanced on-board features will win the day. Also, the end of the war has removed a significant geopolitical obstacle. And, partly because there's less international tension, oil prices are dropping again, so aviation fuel costs will be lower.

But, like I said earlier, JetBlue is also in an aggressive growth trend. April alone saw an 80% rise in passenger traffic. Because of its success, JetBlue recently ordered 65 new planes. At a cost of around US$4 billion, they will be phased into service gradually, with 12 new ones this year bringing the total fleet to 53.

JetBlue is using the new planes to launch several new services. In early May, the airline started three new routes: one between Long Beach and Washington DC... a daily flight from Fort Lauderdale to Long Beach... and three daily flights from Atlanta to Long Beach. As you read this, another daily haul between JFK and San Diego is about to get underway, as well as a new flight between Long Beach and JFK.

With this in mind, there's good reason to believe that the best is yet to come for JetBlue. With a smart "walk before you can run" domestic business strategy, the airline has managed to ride out the worst aviation storm in history, with September 11, war in Iraq and the SARS outbreak posing remarkably few problems. Meantime, the so-called heavyweights have got themselves into an almighty financial mess and are now much less able to compete with JetBlue. For evidence, just take a look at JetBlue's healthy profit margin of 8%, compared to the rest of the industry's paltry 2.6%. Having exceeded earnings estimates for the first quarter, JetBlue's second quarter outlook was recently revised upward as well. The coast seems clear for Neeleman and his crew to go from strength to strength and turn what is technically classified as a regional airline into a major player in the industry. I expect to see strong growth from JetBlue for several years.



ACTION ALERT: As I write this on May 12, shares in JetBlue are available for US$32.33. This is at the high end of its 52-week trading range, so I suggest you buy on dips at around US$27 (as recently as mid March, the stock was hovering in the US$23 to US$29 range). Once you do, fasten your seatbelt, grab a bag of Blue chips, kick back, and enjoy the ride.

Once we bid adieu to SARS, say hello to big fat profits!

Ian L. Cooper

As long as the media continue to fuel the fear of SARS, the havoc in the travel sector will continue. But once SARS is replaced by the next big story on the media agenda, it should be possible for us to pull in profits from those travel plays stuck at the bottom. These days, we are particularly interested in the hospitality sector, which has been rocked by SARS fears, geopolitical uncertainty, and homeland security issues.

When insiders lay out cash for their own stock, it's a bullish sign. So when we came across **Prime Hospitality Corporation (PDQ:NYSE)**, we knew we had a future winner on our hands. With SARS and the war wreaking havoc on the travel industry, many companies like PDQ bottomed out and became screaming buys. It doesn't hurt that the CEO just increased his holdings in PDQ to 4.8 million shares, buying 450,000 shares on April 11 at US$5.30 per share. You don't put out that kind of cash for a play going belly up in the muck pond.

To bring you up to date, PDQ owns, franchises, and manages hotels, with 31,426 rooms in 245 hotels located in 33 states. The company controls AmeriSuites, Wellesley Inns & Suites, and Prime Hotels and Resorts, in addition to other full-service hotels under franchise agreements with national hotel chains.

It runs and has ownership interests in about 126 hotels, operates 28 under lease agreements, and manages 45 for third parties. As of now, its portfolio includes 149 AmeriSuites, 73 Wellesley Inns & Suites hotels, one property by Prime Hotels and Resorts, and 22 non-proprietary brand hotels.

What's nice about this play is that once summer travel season picks up, vacation time gets taken, school is out for the summer, and SARS and Iraq get bumped from the media hot list, this play could fly. Right now, it's not doing great. But that's because of the reasons already mentioned.

Good time to buy

For Q1, PDQ posted a net loss of US$6.6 million or 15 cents per share, compared to net income of US$0.8 million or two cents per share in Q2 2002. Total revenues fell by US$8.2 million to US$90 million because of lower sales and the impact of asset divestitures. Revenue per available room was down 7.1% compared to Q1 2002. This decrease is blamed on lower average daily room rates. For Q1 2003, this rate actually dropped by 7.9% to US$66.93. The announcement should rid the play of weak hands, allowing us to go bottom fishing and catch this guppy on the rise.

Like we said, we do expect to see improvement in the travel sector. Once SARS loses attention, schools shut down for the summer, employees take much-needed vacations, and new retirees hit the highways, hospitality plays such as PDQ could rise nicely and load your pockets with green.

PDQ:NYSE is a speculative buy recommendation under US$7 per share. Contact: 700 Route 46 East, Fairfield, NJ 07004, tel. 973-882-1010, fax 973-882-7691. Visit www.primehospitality.com. ■

Agora Wealth Symposium, San Francisco, CA

August 13 through 17, 2003

Sui-Yee Ng

Don't miss out on the best 54 ways to earn today's biggest profits… like the 633% bonanza some of our investors cashed in on last year with just a single idea they took home from the Agora Wealth Symposium.

Nowhere else in the world will you find 20 internationally renowned investment minds in one place… in an excellent setting like San Francisco's Fairmont Hotel in summertime.

You'll meet face to face with **Adam Lass** and **Bryan Bottarelli**, editors of *X-Wave, Q-Wave* and *D-Wave*. If you missed Adam and Bryan in San Francisco last year, let me just tell you—they stopped the show (and put the conference behind schedule). That's because so many people got so excited about the revolutionary WaveStrength

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Analysis strategy they unveiled. Why the buzz? The "hottest team in the investment world" has developed an options prediction device that allows their clients to make an average 30% profit on options every five days. That's more than 1,550% a year. That's why there's a waiting list to join these hot profiteers' services.

You'll also meet **Brian Hicks**, editor of *Cutting Edge* and *Rogue Trader*. Find out what low-priced stocks the world's most successful investors are buying today. And **Lynn Carpenter**, editor of *The Fleet Street Letter* and founder of *Contrarian Speculator*. Those who attended the Oxford Club's Investment University conference in March cashed in on a 129% option winner just 10 days after Lynn gave it to them. That's nothing new for Lynn, whose world-renowned *Contrarian Speculator* options service delivered 51 winners that ranged between 57% and 299% in the last two years alone.

A proper investment strategy doesn't attempt to overcome uncertainty, it accepts it, deals with it, then profits mightily from it. That thought is the single most important strength of the proven investment authorities at Agora Inc. That's why more than 500,000 people worldwide turn to our experts each day.

And it's why our annual Agora Wealth Symposium always sells out early. Investors across the globe know that this is their annual chance to find all our experts and their best money-making ideas for the coming year under one roof. It's where they have the chance to meet one-on-one with our experts.

In past years, the Agora Wealth Symposium was the place where attendees gained early, firsthand knowledge of investments that would later explode into huge profits like 78% and 171%. Investments like Northrop Grumman, Boston Properties, H&R Block, Office Depot, Barrick, Tiffany, WalMex, Dun and Bradstreet, TJX Companies, EMCOR and Air Express.

This year will be even better, because along with the usual cavalcade of more than 54 top recommendations, we'll be paying particular attention to the lucrative world of options. This is the world of massive profits that regularly make more than 115%. And Agora experts have been deep into options for more than a decade…with proven track records for excellence.

And if you're a *Taipan* Lifetime Member, you're also invited to our annual gathering. You'll get a chance to pick our gurus' brains. This is the chance for you to meet with Brian Hicks, Brit Ryle, Adam Lass, Bryan Bottarelli and Siu-Yee Ng, among others. Make sure to mention that you are a *Taipan* Lifetime Member when you register.

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Picture 334% gains this summer

Chris DeHaemer

Here's the deal: portable memory is huge thanks to digital pictures and phones. SanDisk (SNDK:NASDAQ) just reported an 80% gain in sales of cards that allow cell phones to store digital pictures. The company jumped 35% over the past month.

Its biggest competitor, **Lexar Media (LEXR:NASDAQ)**, is the only other pure play in the field. It is now trading at US$6.07. These two stocks are my favorite plays on the evolving trend of digital photography.

Both of these stocks took off *after* earnings came out. The standard Wall Street play is to buy a few days before earnings and sell right before they come out. This is why you see so many stocks sell off after announcing better-than-expected earnings.

That has changed. The market is priced for bad news. Any good news is unexpected—even hitting the low number. Lexar announced that for the past months revenues increased 90% to US$54.6 million.

Net income totaled US$4.3M vs. a loss of US$4.9 million. That kicked the stock into high gear.

The gizmo of the moment

I was buying a computer the other day at the local Office Depot. The sales manager told me that digital cameras and the printers that go with them were their best selling items last Christmas. He also told me that they generally go on sale right before the summer vacation season.

They are hot because the cost of a digital camera and the quality of the printers have reached parity with film. You can now print a 4x6 picture in your home office and have the same quality print as you would taking your film to the local drugstore.

Plenty of pixels

Again: There are only two pure plays on this type of portable digital storage—Lexar Media and SanDisk Corp. That means if you want to play in this area you have to buy one of these two companies. And you want to play.

As you can tell by the chart, Lexar is moving up quickly. I expect that by the time you get this it will have sold off a bit and allow for a nice buying opportunity.

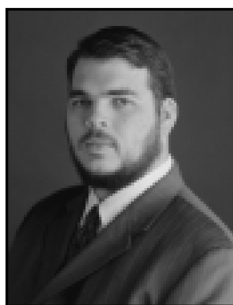
This chart tells me that we have significant upside potential. There was some resistance at US$8 last December. We might shuffle around there a bit. But given the strong growth rate, new profitability, and looming busy season, I believe this company will see the top of its trend during this up cycle and hit US$10 to US$15 over the next three months.

The company has a market cap of US$400 million, year-over-year growth of 136% (and that seems to be accelerating) and a price-to-earnings ratio of 32. That's a high P/E a first glance, but not outrageous. And when you factor in the growth rate that gives you a PEG ratio of 0.23. According to this valuation method, you'd have to rise 334% to hit fair value. *That would put the stock price at US$20.27!*

Buy Lexar (LEXR:NASDAQ) on dips under US$10.00. ■

Surgical renaissance

Bringing a bright idea to fruition, for US$6.70 a share


Brad Colburn

You're strapped on a hospital gurney and wheeled towards the pungent and incessantly beeping operating room.

The anesthesiologist gets ready to do his magic, remarking to you that it's about time you got the old ticker fixed. After a short while you feel yourself floating up into the air. And then you look down.

What you see doesn't look like any normal operating room to you. In fact, you're pretty alarmed to see robotic arms maneuvering inside your body. And there's no doctor in sight. That is, until you see him comfortably seated… six feet away from you. He's behind what looks to be a giant virtual reality video monitor.

Actually, he's performing a CABG (coronary artery bypass graft) on your heart. How's he doing this without even touching your body? By using the product of a blindingly inventive new company.

A stroke of genius

Intuitive Surgical (ISRG:NASDAQ) is the market leader in surgical robotics and has developed the da Vinci Surgical System, still the only surgical robot cleared by the Food and Drug Administration for sale within the United States.

The da Vinci Surgical System is the first totally intuitive laparoscopic surgical robot. It has received FDA clearance for many surgical procedures, including general laparoscopic surgery, thoracoscopic (chest) surgery and laparoscopic radical prostatectomies.

The da Vinci system has a bit of a complicated setup, but once you see it, everything becomes clear. The system consists of a surgeon console, patient-side cart, instruments and image processing equipment.

The surgeon operates while seated comfortably at a console viewing a 3-D image of the surgical field. The surgeon's fingers grasp the master controls below the display with wrists naturally positioned relative to his or her eyes.

The technology seamlessly translates the surgeon's movements at the controls into precise, real-time movements of the surgical instruments inside the patient.

The patient-side cart provides two robotic arms and one endoscope arm that execute the surgeon's

over, please…

Profit update on our Chinese Dragon plays

Sui-Yee Ng

China Petroleum & Chemical Corp. (SNP:NYSE) was added to *Taipan's* portfolio in January 2002 with a sell target of US$20. In March 2003 that target was met. But for those who missed the sell target, you had the chance to sell again on April 30, 2003. That's a 48% profit!

SNP reported an increase in its first-quarter 2003 profit due to surging oil prices and strong demand for its petroleum products.

Of course, China has been getting a lot of bad press lately. Does this mean we should liquidate all the Chinese holdings in our portfolio? Absolutely not. Despite the SARS outbreak, exports and manufacturing remain strong. After a pullback on its earnings announcement and the SARS scare, **China Yuchai International Limited (CYD:NYSE)** is rebounding.

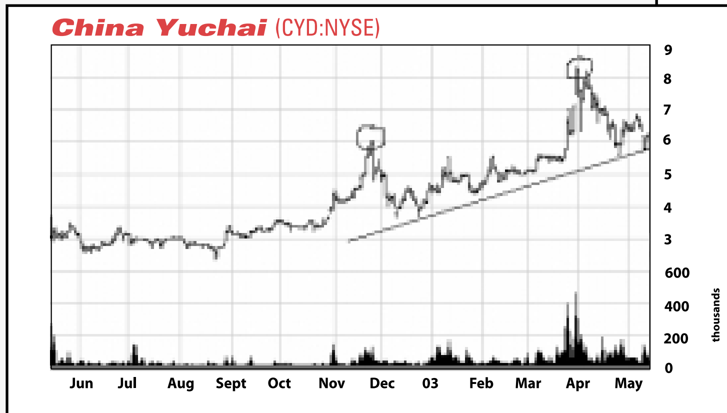
But there are a couple of rumors circling around China Yuchai. First, Guangxi Yuchai Machinery Holdings Company has yet to pay past dividends to its parent company, China Yuchai. But the company has already paid its minority shareholders. So it looks like Guangxi Yuchai and China Yuchai's management are butting heads.

Second, there's speculation that there may be a problem with the company's listing filing in China, and that the Chinese government will delist the company because of it. We saw a selloff in the stock. But it's been recovering since then, a positive sign.

We already knew about the dividends dispute from the earnings release. But I'm confident that management will come to a compromise. As for the delisting rumor, I find it hard to believe that there will not be some kind of compromise there also.

We saw a similar pattern last year when the stock ran up in November and pulled back the following month before continuing its run. The company is in a growing market and the stock will continue to grab market attention.

Hold China Yuchai for more profits. But in case the parties are unable to compromise, I want you to still be able to lock in profits, so maintain a 20% trailing stop. We're currently up 39%. ■



commands. The arms pivot at the 1-cm operating port, eliminating the use of the patient's body wall for leverage and so minimizing tissue and nerve damage.

Can ISRG back it up?

You bet. It may seem like this idea is too far-fetched to have any serious financial backing, but ISRG will surprise you.

Sales for the year ended December 31, 2002, were $72.0 million, up 39% from $51.7 million for the year ended December 31, 2001. Sales growth was driven by higher da Vinci Surgical System placements and increased revenue.

ISRG shipped 14 da Vinci Surgical Systems during the third quarter of 2002, compared to 10 in the third quarter of 2001. Total system revenue for the year ended December 31, 2002, was $56.9 million, compared to $44.7 million in the year ended December 31, 2001.

ISRG did run into some trouble early in their existence. In 2000, shortly after their IPO, ISRG was sued by a similar company for patent infringement.

After several years of bickering back and forth, ISRG has now made enough money that they are soon slated to buy out the rival company in a US$63 million deal.

With the people largely refusing to take care of their bodies, expect the number of critical surgeries to increase. And expect ISRG to increase in value at the same time.

Buy ISRG around US$6.20. ■

Taipan readers beat Buffett to the punch:

How the Oracle of Omaha made us 27% on Petrochina!

Brit Ryle

One of the first rules of investing in illiquid stocks (stocks with a low daily average volume) is that you wait for an increase in trading volume to exit the position. Unless the volume arrives courtesy of the legendary Warren Buffett, as was the case with our **Petrochina (PTR:NYSE)** play.

I first recommended Petrochina in the January 2002 *Taipan* Forecast issue. I called it a strong buy under US$20. The stock traded below US$18 for the first six months of last year, and any volume over 100K/day was a big deal.

Now, thanks to Mr. Buffett, a big volume day is 1 million shares, and anyone holding the stock from US$18 is up nearly 30% and has cashed in a year and a half's worth of Petrochina's fabulous 8.8% dividend.

Since *Taipan* readers and Warren Buffett are now shareholders in the same company (I'm going to let the fact that we bought the stock first speak for itself), I feel like we can dispense with the formality and start referring to him by the infinitely more friendly "Warren."

Warren's investment company, Berkshire Hathaway, already owned 7% of Petrochina when it went on a buying spree starting April 7. Since then, he's added 771 million Hong Kong-traded shares of Petrochina. 771 million. I think I'll go back to calling him Mr. Buffett.

Petrochina stock has been in a steady though not spectacular uptrend ever since it was listed on the NYSE in 2000. But Mr. Buffett's buying has launched the stock from approximately US$20.50 to current levels of US$23.40. And trust me, a US$3 gain in this stock absolutely classifies as a launch.

Now that Buffett has declared it a safe bet, we can expect to see the stock get added to income mutual funds. It may be a long time before we see this stock below US$23. **Continue to hold Petrochina (PTR:NYSE).**

Shallow Halliburton

My post-Gulf War II recommendation, **Halliburton (HAL:NYSE)**, has done pretty well, as expected. And the gains have come mainly from the discovery of a "loophole" in its postwar contract.

At first, careful pols threw Halliburton a pretty meager bone, while other oil services companies were getting invited to the all-you-can-eat buffet of postwar Iraq contracts. But the revolving door between business and politics rarely stays still for long, and it turns out there was a nice chunk of meat on that bone. Plus, the company is still free to do subcontracting work.

Halliburton had been trading in a relatively stable range around US$20. Anyone that want-

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over, please…

ed to pick up the stock could have done so at or below my recommended US$20 entry point. Halliburton is currently trading just above US$24 for a 20% gain since March.

As you may recall from my original article, I said an investment in Halliburton should return 30% in six months. That implies a price target of US$26. But with the stock covering two thirds of my estimated advance in just two months, risk management would say that waiting another four months for the additional 10% is a poor risk/reward scenario. In other words, it's time to take profits on this little piggy.

Sell Halliburton (HAL:NYSE) above US$24 for a 20% return in two months. ■

My car satellite TV play rallies 46% in a month!

Brian Hicks

In last month's *Taipan*, I wrote:

"The TV/VCR [in the car] is a godsend. But unless you want to constantly carry around a suitcase full of tapes, 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.

"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."

What has happened since

When I wrote that report, KVH Industries was trading for US$12.50 a share.

Since the report, the stock has rallied to a high of US$18.20 a share, for a profit of 46% on 36% revenue growth.

KVH Industries recently issued a press release which I think tells the story better than I can.

According to the announcement on May 14, virtually every vehicle now can be equipped with video entertainment systems.

Some 2003 models even come with DVD players as features.

The systems are so prevalent that 1 million video systems were sold in 2002 alone. Here's a snippet straight from the press release:

"The opportunity to add live satellite TV on these screens using TracVision A5 has taken the industry by storm, creating tremendous interest among consumers, dealers, industry members, and the media. With a nationwide dealer network in place, orders being placed, and the first antenna shipment targeted for the end of June, KVH is ready to change how families and businesspeople stay connected and entertained while traveling."

KVHI blasted off after this news.

But this is just the beginning of a long bull market. Here's why:

Improving fundamentals in KVHI's core business have pushed the company's EPS growth to 171%.

In this fiscal year (2003), the company is expected to post an EPS of US$0.28. For fiscal 2004, KVHI expects an EPS of US$0.76. That's a growth rate of 171%.

Now, based on this year's estimated EPS of US$0.28 a share, KVHI currently trades at a P/E of 64. That's pretty high for today's market. But this can definitely be classified as a growth stock.

Most growth stocks, or at least growth stocks during the 1990's bull market, can trade at P/E multiples equivalent to their EPS growth rates. That would put KVHI at US$129 a share (171 x US$0.76 = US$129.96 a share).

That's nuts.

I'll take its current P/E of 64, cut it in half, and multiply that by US$0.76 (32 x US$0.76 = US$24.32).

That's my target price. ■

TAIPAN

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

Managing Editor: Ned Humphrey

Art: Elliana Brocato

Fulfillment: Alex Ferguson

Tours and Conferences: Barbara Perriello

Customer Care: Call (508) 368-7498 9 a.m. to 5 p.m. Eastern Time

Email: editor@taipanonline.com

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T #123384745

www.taipanonline.com

USERNAME:
taipanmember8

PASSWORD:
8sabers