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Summer bull… or just bear market rally?

Frankly, my dear, in a dynamic market, opportunity abounds regardless of trend:

Here are 5 rock-solid speculations for the Summer of 2003!


J. Christoph Amberger

"I tell ya, Christoph," said *Taipan* editorial board member and *Taipan Trader* chieftain Brit Ryle to me the other day, "I haven't seen stocks move like this since 1999-2000! The downside to this rally is like Japanese interest rates—virtually zero. At least for the next couple of weeks!"

His colleague Brian Hicks concurred: "People still sitting on the sidelines waiting for 'confirmation' of a bull market better break out their checkbooks and send some funds to their brokerage accounts," he says. "It's a bull market all right, even if it's only a baby bull."

But let's take a step back. What's been going on over the past couple of weeks?

Ever since the broader market put in a solid bottom back in October, here's what the major indices have done:

- NASDAQ—up 48%
- Dow—up 28%
- Russell 2000—up 43%
- S&P 500—up 30%

This, my friend, is a textbook bull-market rally from a major bottom. But it's not so much the performance of the major averages that have me so optimistic. We're seeing real, honest-to-goodness speculation returning to the markets. And speculation is not only the lifeblood of capitalism, but of bull markets as well.

You don't have to look too far to see it: the NASDAQ Biotechnology Index is up 62% since its October 2002 lows… and up 43% this year alone!

And it's not just the Yanks: the Nikkei 225 has shown exemplary resilience after hitting rock bottom in February, and is now flirting again with 9,000. Hong Kong is trending back up to 10,000… and Indonesia was up a stunning 21% for the year until "TLK-Gate" hit. (More on that later.)

Better still, we are not yet seeing "irrational exuberance" re-entering the market. In fact, those "weak hands"—novice and amateur investors lured by the mercenary lust for unearned gains that became the trademark of the Internet Bubble—are either out of the market for good or sitting on decimated positions vowing not to risk another buck until they have recouped their losses.

Instead, we're seeing the return of institutions. Like the Bank of Japan, which has been buying dollars like there's no tomorrow to keep the yen as weak and dollar-generated export profits as high as possible. And they're buying US stocks and bonds with

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the cash. That's money that isn't going to wait for a dip to buy. Add that to the billions the Fed's been pumping out every day, and you get an "irresistible force" that just might be able to take stock prices higher. And I mean significantly higher!


Brit Ryle

Brit comments:

"When the NASDAQ takes out 1,700 (which I think is likely in the VERY near future), 2,000 will be the next stop. It sounds crazy, especially coming from someone who did so well in the bear market, but the techs are on a beeline for 2,000."

Glass half full

But even as the summer bull market in US equities continues, our friends the Perma-Bears keep grousing about stocks going up.

Sometimes I wish I had it in me to throw in my lot with this crowd. Life could be so easy: If the markets go down, lose money while blaming Alan Greenspan. If the markets go up, blame Alan Greenspan, lose money AND let the opportunity go by unused.

But *Taipan* looks at the equity markets as dynamic processes, not as products of static worldviews. We are too fond of motion and challenge… and the mutually refining give and take of stimulus and response… to find solace in the financial equivalents of air-conditioned indoor zoological exhibits.

Part of investing is the privilege of taking on risk, which your living intellect has to process, anticipate, and disarm—by rationally reconciling your own emotional well-being (and that of your spouse!) with your most unbridled optimism.

That can be done by developing your own constellations of indicators that you like to refer to before making an investment decision. This is how the members of the *Taipan* editorial board developed their respective systems… which can have spectacular successes.

That's why, although each and every one of our editors fiercely believes that he or she has the best approach to investment (and considers him- or herself in constant internal competition with the others), we have all grudgingly arrived at the conclusion that the more informed views you are able to process before forming an opinion yourself, the better the result is going to be.

The Return of the Living Dead

So what do we make out of this seasonal upward trend? Our IPO specialist Siu-Yee Ng, for one, is see-

TLK-Gate will spell bottom-fishing opportunity for intrepid Taipans!

Long-term *Taipan* readers will undoubtedly remember our various plays on Indonesian telecommunications giant PT **Telekomunikasi (TLK:NYSE)**—a stock considered by most of the *Taipan* editorial board as the best, most easy-to-trade proxy for the Jakarta Composite Index.

It's been a while since we last took profits on TLK… walking away with a nice chunk of change generated by a temporary buying opportunity in the aftermath of the terrorist bombing of a Bali resort.

Events in mid June underscored our selection of TLK as a market proxy: after a respectable bullish run in Jakarta—up 21% since the beginning of the year!—the index closed down 13.907 points or 2.7% at 501.806 on June 12. This was almost exclusively the result of selling pressure generated by a bit of highly unpleasant news on TLK… which opened more than 6% lower in New York that day.

What's behind the drop?

The SEC just rejected a TLK financial audit report for not complying with US security laws. This could result in nasty fines (rumored to be in the tens of millions of dollars) and a possible delisting of its shares on the NYSE. Mandatory deadlines for resubmission appear just about unreachable.

Given Indonesia's crucial role in the Administration's global campaign against terrorists, we wouldn't be surprised if the State Department takes a special interest in this case. In the meantime, we'll be putting TLK back on our watch list… ready to strike if and when the price is right.

ing indications for a revival of a segment that was the poster child of the Internet Bubble.

"Get ready for a hot IPO market in 2003," she writes:

Siu-Yee Ng

"In the heyday of the bull market, you could throw a dart at a list of IPOs and walk away a happy investor. Well, let me qualify this: You could walk away happy if you were an underwriter, a promoter, or an overpaid analyst working for either.

"But the past three years have been the worst IPO market in recent memory. Just check out the statistics: there were approximately 486 IPO's in 1999 and 406 in 2000. But when the bubble burst in March 2000, so did the IPO market. We saw only 83 IPO's in 2001 and a paltry 70 in 2002.

"But if you think 2002 was a bad year for IPO's, consider that as of June 5, 2003, only six IPO's had debuted—compared to 37 in the same period last year. The downturn, however, may not be all bad. You see, the IPO's that are coming out the door are pricing at a discount. And this is capturing investors' attention.

"The six IPO's that have debuted so far this year have shown an average aftermarket return of 35.9%. Not bad, considering the NASDAQ is up only 21% thus far. In the past, one of the worst things an investor could do was to buy on the first day an IPO debuted. But because of market conditions, IPO's are either pricing at a discount or opening at or close to the offer. The hype is gone, and what remains are companies that have strong business models and revenues.

"What we are seeing in today's market is a lot of consolidation. Companies that once saw triple-digit gains have either been acquired, merged, filed for bankruptcy or are now proving they can make it as public companies.

"Remember Palm (PALM:NASDAQ) and Handspring (HAND:NASDAQ) debuting back in 2000? The founders of Handspring came from Palm, and at the time both were trading at obscene valuations. But then again, what wasn't? When the market turned sour, so did these two stocks. And on June 4 they announced a merger. Smart move.

"What is left today are the companies that have a chance at survival. And many investors see that too. IPO's from the Internet boom are coming back from the dead. Just take a look at the table.

Name	Ticker	IPO Date	High Since IPO	Low Since IPO	% Gain From *
Tut Systems, Inc.	TUTS	1/29/99	$120	$0.45	159.00%
Pacific Internet	PCNTF	2/4/99	$104	$1.10	187.70%
iVillage Inc.	IVIL	3/18/99	$130	$0.40	47.50%
Priceline.com	PCLN	3/29/99	$165	$1.05	184%
TheStreet.com	TSCM	5/10/99	$71	$0.92	96.50%
E-Loan Inc.	EELN	6/28/99	$74	$0.40	183.90%
Packeteer, Inc.	PKTR	7/27/99	$77	$2.00	116.40%
Internet Capital Group	ICGE	8/4/99	$210	$0.15	95%
Foundry Networks, Inc.	FDRY	9/27/99	$210	$4.25	119.30%
Satyam Infoway Ltd.	SIFY	10/18/99	$450	$0.90	158.60%
Finisar Corp.	FNSR	11/11/99	$61	$0.45	71%
Caliper Technologies	CALP	12/14/99	$201	$2.75	70.70%
Register.com	RCOM	3/2/00	$115	$2.50	33.30%
Sina.com	SINA	4/12/00	$55	$1.05	185.80%
Sonus Networks	SONS	5/24/00	$94	$0.20	437%

* *from Jan. 1, 2003 to June 5, 2003*

"Does this mean you should go out and buy all these beaten-down IPO's? Not at all. Due diligence is still required. There are many things to look for in a

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10.8% five-month average gain—good dogs!

In January 2002, Christian DeHaemer recommended that you sink funds into a diversified portfolio of Dow stocks. Though battered beyond recognition, they still paid out hefty dividends in the bear market of 2001. Known as the "Dogs of the Dow," these 2002 picks returned an average gain of only 8%. But, with the idea that 2003 would be a turnaround year, we bet money on this theory once again this past January, rode the wave of economic and war fears, and shot back out into a bull market phenomenon.

Company	Dividend Yield	Entry Price	Gain / Loss
Altria Groups Inc. (MO:NYSE)	5.91%	US$39.52	11%
JP Morgan (JPM:NYSE)	3.88%	US$25.20	44%
Eastman Kodak (EK:NYSE)	5.76%	US$36.58	-11%
SBC Communications (SBC:NYSE)	4.07%	US$28.51	-5%
Honeywell Intl. (HON:NYSE)	2.73%	US$24.50	15%

The idea was straightforward. You buy into the Dow stocks with the highest dividends and watch them rise. They were good buys for many reasons. One, a bull market would have a nice impact. Two, these stocks are not likely to go belly up. Three, the companies are financially sound. Four, they pay dividends.

The best part of our Dogs portfolio, besides the current gains listed below, is that Bush's US$350 billion tax cut will lower taxes on dividends and re-ignite the market. Instead of playing all ten of the Dogs, we chose five that have provided us with a nice return in less than six months.

The key to making extraordinary gains with these plays is to hold them for a period of a year to 18 months. This gives management time to bring the stock values back up to par. Plus, if you sell your investments after 18 months, any gains you pull from the Dogs will be treated as long-term capital gains rather than short-term.

But wait, there's more.

According to the US Department of Defense, Honeywell International is being awarded a US$34.6 million contract for the Capital Expansion Project, which provides capitalization funds for radiation hardened microelectronics production facilities.

Altria Group Inc. recently declared a regular quarterly dividend of US$0.64 per common share payable on July 8, 2003, to shareholders of record on June 13, 2003.

JP Morgan, up more than 44%, continues to rise amid hopes for lower interest rates and a bullish report that said strong demand for bonds in May could boost the market.

A 10.8% gain since January 3, 2003, is not too shabby. Hold them all for more. We'll look to take profits at a later date. ■

winning company. Among them are low market cap and stock price, high industry group strength, increase in trading volume and new 52-week highs.

"Many of these stocks are seeing their first major rally since the NASDAQ topped out in March 2000. These stocks crashed with the market when their original backers ditched their positions. Now a new group of investors is coming in at low valuations. There are a lot of gems out there. If you chose the right ones, it will pay off."

But what exactly should you be looking for? What stock is going to be the Netscape of 2004? Ian L. Cooper, editor of *Red Zone Profits* and the brains behind the brand-new *Extreme Volatility Speculator* trading service, has his eye on one particular candidate. Says Ian:


Ian L. Cooper

"In the post-bubble world of broke college-aged Internet hipsters who once filled New York harbors with their million-dollar yachts, if you can find the gems hidden deep within the muck, you can make a mint in no time at all. Sure, the IPO market has taken a beating worse than Martha Stewart, but there are still moneymaking plays to be found.

Take Google, for example. In only five years, Google has gone from the simple brainchild of two college kids to a goldmine of information that has advertisers and rivals tripping over each other to garner the attention of the search engine's millions of users. Its gateway provides access to about three billion web pages. More than 10,000 networked computers comb the web, ranking them with mathematical equations that reduce those billions of pages to a few thousand listings. Your search takes about 500 milliseconds.

"The portal is growing so quickly, in fact, that millions of former Yahoo users are switching over to Google. For Wall Street, Google is one of the few bright spots left in a world of IPO's that have seen better days. In fact, only 70 IPO's were issued in 2002—the lowest number since 1979. The hope is that a Google IPO could revive lifeless stocks and bring the Internet incubators back from their comatose state.

Making money from a Google IPO

"Your best bet for making money would be to play Internet incubators like **Internet Capital Group (ICGE:NASDAQ)**. A strong Google IPO would not only bring back forgotten dot-coms, but also consumer confidence. This could lead to further IPO issues from the likes of ICGE, reloading your pockets with the green you lost in the dot-com stock implosion.

"Internet Capital Group is an Internet holding company actively engaged in business-to-business e-commerce through a network of partner companies. Sure, ICGE, like many Internet stocks, is extraordinarily volatile. But just because it is volatile doesn't mean that it's not worth buying.

Fall in love with B2B e-commerce all over again

"When B2B e-commerce first appeared in the early 1990's, no one expected it to grow to a US$340 billion industry. Online B2B revenues could hit US$5 trillion by the time 2005 rolls around.

"A growth rate of that magnitude (fivefold!) may seem unimaginable. But with the public's wider use of the Internet for shopping, homeland security concerns keeping many at home during holiday seasons, and the convergence of new technology with older business needs, it's not that far-fetched.

"If a Google IPO becomes reality, you are likely to see more Internet-based IPO's hit the marketplace, IPO's that could be backed by incubator companies like Internet Capital Group. Couple that with future revenues of US$5 trillion B2B, and ICGE could climb out of the under-US$1 hole where it's been languishing.

"Look to buy into Internet Capital Group (ICGE:NASDAQ) under US$1."

Contact: 435 Devon Park Drive, Building 600, Wayne, PA 19087, tel. 610-989-0111, fax 601-989-0112, web www.internetcapital.com.

Three summer profit hogs in one big company

Hotels, rental cars and real estate—you can't go wrong!

Martin Denholm

Surf's up, my friend! It's July—the height of summer. Independence Day. Barbecues, ball games and trips to the beach.

I figure President Bush's US$350 billion tax cut should be kicking in nicely for millions of Americans now, too. Wow! All that extra cash to spend and so many places to spend it. This poses two key questions: Where will Americans spend their newfound riches? And which companies will profit most from the summer culture of consumption?

Well, as you know, the month of July is also the peak of vacation season. A time when millions of Americans pack up and pile into planes, trains and automobiles in search of some summer utopia. And not just Americans. July also marks the start of the summer vacation for millions of Europeans and others around the world, making the annual pilgrimage away from home something of a global event this month.

over, please…

With such a rush of activity, what better way for you to profit than to cherry-pick among the ruins of a downtrodden industry now primed to take full advantage?

Sure, the travel and tourism industry has endured a pretty rough ride in recent months. But cut them some slack. Who wouldn't suffer a sharp depression from the potent mixture of a worldwide economic downturn, terrorist attacks, a full-blown war in the eternally messed-up Middle East, and of course the SARS epidemic sweeping the globe? I hardly need to remind you of the devastation these developments have wreaked upon the industry.

Down... but not out

But although the industry might be a little sick, it's not dying. People will always travel. And people will always take vacations. I believe the worst is now over and the threats to the industry are receding. But don't just take my word for it. At a conference in New York in early June, top executives from the travel and hotel industries stated that this summer is set to beat previous downbeat expectations. They base their confident forecast on a solid Memorial Day weekend, which raised hopes that the trend will continue into the summer. Since the conference, the World Health Organization has further boosted expectations, saying that it believes the SARS virus has now peaked and should start to decline soon.

But the factor that might have the most impact on the American travel and tourism market this summer is the recent decline of the US dollar. Its dramatic slide over the last year means America is now a much more attractive place for foreign visitors. Think of all those European vacationers I mentioned a moment ago. The dollar has sunk by a remarkable 25% against the euro since last summer, and around 12% this year. Canadians and Australians also have considerably more purchasing power, having seen their dollar currencies soar by 16% and 20% against the US dollar this year.

The companies still standing after the depression should soon see a welcome change of fortune. In **Cendant Corporation (CD:NYSE)**, you've got a powerhouse company that is one of the frontrunners in the industry. Why?

First of all, the company has proved extremely resilient to severe market shocks in the past. Two weeks before the September 11 terrorist attacks, Cendant was riding high at US$20.61. Like most other stocks, the company got hammered when the markets reopened after the attacks, falling to US$11.03. But by Christmas 2001, the stock had surged back to just under US$20. It also recovered pretty well after the industry suffered a disappointing performance last summer. Had you invested $1,000 in mid July 2002, you'd be up 28% today.

Second, as a multinational company, Cendant can take advantage of a wider industry recovery this summer, because whatever plans the world's vacation-goers may have, chances are they will involve one of the corporation's subsidiary franchises.

A wealth of franchises under one umbrella

One of Cendant's most appealing benefits is that it owns so many different franchises, across several different business sectors, in many countries around the world. This diversification maximizes its chances of turning a profit. Hotels, rental cars, vacation services and real estate are just a few of the sectors in which Cendant owns and operates other well-known companies.

Take the hospitality market, for example. As the world's largest hotel owner, Cendant is undoubtedly the industry leader. The company owns almost 6,500 hotels across the world and is the parent company of nine chains, including Ramada, Days Inn and Howard Johnson. This is arguably Cendant's most important division, so in hopes of attracting more families this summer its franchises are offering a variety of incentives.

Days Inn recently launched its "Sizzlin' Summer Days" promotion (which offers free children's meals and, in a cross-promotional effort, discount coupons for two other Cendant franchises—Budget car rentals and Resort Condominium International vacation homes). Howard Johnson's promotion—"Celebrate Family Memories"—goes a little further, including free children's meals, children's scrapbooks, games, posters, and discounts on future hotel bookings, Budget rentals and Discovery.com purchases. In addition, all children under 18 stay free at Howard Johnson when rooming with their parents.

Cendant also just signed a deal with Newtek Small Business Finance Inc. that will enable its hotel franchises to apply for extra funding to carry out building construction, renovation and upgrades.

Get those wagons rollin'

But Cendant's industry leadership doesn't stop at hotels. The company is also the world's largest provider of car rental services—another sector that should see a healthy increase in activity this summer.

Although sector revenue declined slightly last year, it is now primed for a recovery. Airport traffic is steadily increasing again, with the low-budget airlines helping to get people back on planes. Cendant believes the gradual improvement of the business travel market is also helping the sector to bounce back. This could lead to brisker trade at the car rental desk, where Cendant owns and operates the Avis and Budget franchises.

Avis in particular offers attractive new features. It recently installed global positioning technology (GPS) in 3,000 cars in Florida, California and Nevada (all major vacation destinations). Cars are also equipped with the OnStar navigation and roadside assistance system. In addition, 7,000 Avis cars in 30 US cities now have XM Satellite Radio—a service that provides 101 digital music, sports and talk radio stations. With almost a million subscribers, XM is America's leading satellite radio provider and will become highly visible in many of the leading car brands later this year. Avis is the world's second-largest car rental company, with around 2,000 locations around the globe, and was ranked as the top company among 158 in a 2002 customer survey.

Your one-stop Cendant travel operator!

Ready to book your holiday? Cendant is the parent company of CheapTickets.com and Lodging.com—two of America's leading discount travel and vacation websites. Both services allow customers to book flights, hotels, rental cars, cruises and other leisure reservations. Having just agreed to a joint partnership with Carlson Hotels, Lodging.com is poised to increase its market share dramatically this summer. Carlson owns several hotel chains, including Radisson and Country Inns & Suites. This agreement gives Lodging customers instant access to almost 900 more hotels at discounted rates.

Add all this up and you'll see Cendant could easily be a part of vacationers' plans from start to finish. First, you book your flight and hotel online with CheapTickets.com or Lodging.com. Then you pick up your Avis or Budget rental car and drive to your holiday lodgings. Hey presto—Cendant turns a very nice triple play of profits!

As if that weren't enough, Cendant is also the world's largest real-estate operator. This is a market that seemingly refuses to back down. Sales of new homes rose 2% in April, while existing home sales climbed by 6%. This represents the third and fifth highest monthly results in history. Rather than declining, the US housing market so far this year looks set to match the record-breaking 2002 numbers. Moreover, US demographics suggest the long-term outlook is very positive. The president of Century 21, a leading real-estate company, says Americans create 1.25 million new households each year—many of them moving into new homes. Better still… if the Federal Reserve reduces interest rates down to 1% at the end of June (as is expected), that should ensure the boom is sustained for a while yet.

All of which is good news for Cendant, since it owns two of the biggest names in real estate. Century 21 is one of them! It has total of 6,600 offices in 25 countries. Cendant also has another big real-estate name under its wing: Coldwell Banker, with almost 100 years of experience and over 3,000 offices in the US.

Poised for a summer breakout

Given the number of leading franchises it owns across different business sectors in countries around the world, it's no surprise that Cendant's market cap is a massive US$18 billion. What is surprising, however, is that Cendant's share price isn't higher than US$17.66 (as of this writing). But all that could be about to change if this summer brings the spike in profits that I expect to see.

For such a large-cap company, Cendant remains oddly undervalued. Its price-to-earnings ratio is a cheap 17—half the industry average. More tellingly, though, Cendant's PEG ratio (price-to-earnings divided by annual income growth) is 0.87. Since a figure of 1.0 generally indicates fair value for a company, you can clearly see that Cendant is undervalued. To support this (and in keeping with its reputation as a "value stock"), Cendant expects to continue its strong 14.5% average five-year growth rate for the upcoming five-year period… which would beat its industry counterparts.

Cendant's strong growth outlook comes from an impressive sales record. In the last 12 months, sales totaled US$15.6 billion, translating into a price-sales ratio of 1.17, which is a pretty good indication that Cendant is a robust value company. Over the same period, Cendant investors have scooped up US$1.03 earnings per share. Moreover, I like what Cendant is doing with its cash flow (on the balance sheet, you'll find this under EBITDA—earnings before interest, taxes, depreciation and amortization). With US$4.6 billion available, the company is using a sizeable chunk to pay down its debt. It recently bought back almost US$400 million worth of bonds, and expects to reduce its debt load by US$1 million by the end of the year. This savvy business plan gives the company a very healthy current return-on-equity of 12%.

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Revenues rose by 56% to over US$4 billion in the first quarter. This gives the company a healthy profit margin of 7%. But what struck me more was that these gains came in an off-peak travel season, and one in which the industry was weighed down by the SARS outbreak. There's reason to think there's bigger and better things to come in the summer season. The market thinks so too. Cendant has had an average daily volume of around 5.5 million over the last three months. But volume has increased by almost half a million during the first two weeks of June, resulting in five new 52 week highs. Is this a sign that more investors are viewing Cendant as a good buy as summer approaches? I think so. What's more… they're right.

Buy Cendant (CD:NYSE) between US$16.50 and US$17 and prepare to hold throughout the summer. ■

12 insider buys so far this year…

This small-cap stock has all the earmarks of a winner!

by Siu-Yee Ng

It's no surprise that many companies are exporting jobs to Asia. The labor pool is well educated and, most importantly, cheap.

Companies are outsourcing their billing and accounting services to places like the Philippines and India. And of course many companies manufacture their goods in China.

What I've found this month is a company with a market cap of only US$41 million, trading below book value, and with an increase in trading volume that has made the stock hit a 52-week high. These are all signs of a winning stock.

Its manufacturing plant is located in China. Worried about the impact of SARS? It shouldn't be a factor. Manufacturing in China remains robust, and with a 78% market share for its products in Great Britain alone, this company looks ready to explode.

Christmas in July?

Zindart Limited (ZNDT:NASDAQ) is a turnkey manufacturer, which means it does everything for its customers—component outsourcing, product engineering and design, model and mold making, manufacturing, assembling and packing the product. Its one-stop shop helps increase efficiency while lowering costs for its customers.

Zindart is known for its high-quality die-cast, injection-molded and paper products. These isn't just rinky-dink stuff. If you've ever seen the company's die-cast collectibles, you'll know that they require a significant degree of engineering and hand assembly expertise to produce.

The company also manufactures collectible holiday ornaments and toys and, through its acquisition of Hua Yang, hand-made books, specialty packaging and other paper products.

Okay, we're just now heading into summer, isn't it too early to position ourselves for the holiday buying spree? Not at all. Let me tell you why.

You see, Zindart's products are not only for the holiday season. Collectibles appeal to nostalgic baby boomers year round. And don't forget they make books that children just adore. Think about the number of parents that gave in to their children's tantrums… not just at Christmastime.

Zindart's operating divisions include Corgi Classics Limited, Hua Yang Printing Holdings Company and Zindart Manufacturing. Corgi Classics Limited produces a high quality line of die-cast replica items sold in the United States and in the United Kingdom, where Corgi holds a 78% market share.

Money to burn

You've most likely seen Zindart's products before. It manufactures a wide range of die-cast metal collectible scale model replicas of contemporary automobiles, such as Mercedes Benz, BMW, Corvette and Mustang; trucks, planes, farm implements and construction equipment, like John Deere and Caterpillar; and classic cars, like the 1932 Cadillac, the 1964 Aston Martin and the 1956 Ford Thunderbird.

As a matter of fact, I recently bought one for my father-in-law, whose new hobby is collecting old car replicas.

These replicas, which come in various scales from 1/12 to 1/64 the size of the original product, are medium- and high-feature products that must meet exacting standards. Many of the die-cast replicas have complex designs that require high-quality workmanship and decorative details, with pad printing of up to one hundred imprints.

The most complex of these models incorporate up to 200 parts. Zindart's die-cast scale model replicas are sold through hobby shops, collectors' clubs, car and equipment dealers, toy and gift stores and other channels.

Replicas typically cost between US$150.00 and US$180.00 for high-feature products, between US$25.00 and US$60.00 for medium-feature products and between US$5.00 and US$10.00 for small-scale products.

Many of these products have nostalgic appeal for adult consumers. And some, especially the automobile replicas, have attracted a following of collectors and are traded on a secondary market.

For example, Zindart annually turns out several products for which molds were made between five and ten years ago. These include the '70 Ford Mustang, '68 Pontiac GTO, '67 Corvette convertible, Ford Roadster, Allis Chalmers Model "C" Tractor and John Deere Skid Steer Loader.

Competitors as customers?

The toy making industry is very competitive. But Zindart has a pool of cheap and skilled labor. And many of its competitors know this.

With the increasing popularity of NASCAR racing, Mattel has introduced a successful NASCAR Hot Wheels line called "Pro-Racing." In March 1997, Zindart started a business relationship with Mattel to produce the Hot Wheels Pro-Racing and Legend Series. This line of 1/64 scale model replicas are highly detailed, requiring 40 to 60 imprints per car body.

Other renowned designers and marketers of die-cast collectibles like Revell-Monogram and SWG of Germany have been customers since 1987 and 1989, respectively.

Revell-Monogram is a leading worldwide designer and marketer of plastic model kits and die-cast replicas of airplanes, automobiles and ships marketed under the "Revell" and "Monogram" brand names. SWG is one of the largest designers and marketers of die-cast replicas in Germany, sold under the brand name "Siku."

Zindart also manufactures action figures and miniature figurine play sets for various designers and marketers like Hasbro and Galoob Toys. These products, primarily sold as toys, include miniature replicas of popular television and movie characters like Thomas the Tank Engine & Friends and various Disney and Sesame Street characters.

There's a developing trend in the toy industry. It's not the quantity but the quality of the toys that will make a company profitable. To achieve profitability, many toy makers are moving into the sale of higher-priced toys. And this requires high-quality and detailed manufacturing skills like Zindart's.

Precious moments

Another big customer is Hallmark. Known for its greeting cards, Hallmark has successfully diversified into collectible holiday ornaments and giftware products. Hallmark relies on Zindart to manufacture many of its Keepsake Ornaments, a variety of Christmas ornaments, holiday-themed pieces and other giftware both in die-cast zinc alloy and plastic.

Hallmark's Keepsake Ornaments also include freestanding decorations such as die-cast replicas of pedal cars. These products require highly developed hand spray-painting skills and attention to quality in order to meet Hallmark's exacting aesthetic and quality requirements.

Now we know Zindart makes ornaments for Hallmark during the holidays. But if you've been in a Hallmark store you'll have noticed many other collectibles depicting characters from storybooks and films like the Wizard of Oz, Star Trek, Pocahontas, the Flintstones, Peanuts, and various American icons like Lou Gehrig and Babe Ruth.

Setting up shop

Zindart's Hua Yang Printing Holdings Company produces high-quality books and specialty packaging.

Book products include "pop-up" books, novelty books and board books. Pop-up books are books containing specially die-cut, folded and glued paper pieces. When the book opens, they pop out in three dimensions. Most of these books are targeted at children, but a small segment also caters to the adult and young adult markets.

Novelty books, sometimes referred to as "books-plus," have extra or unusual elements that make the book interactive or provide play value. Examples include an electronic device, a noisemaker, plastic, vinyl, textured or scented materials, or a plush toy. Kids just love this.

Board books are usually die-cut or punched into an unusual shape, thus requiring hand assembly. These books are made of heavyweight, stiff, durable paperboard and usually targeted at the children's market. Often board books come in a set of three or more titles and are grouped together in a hand-assembled slipcase, sleeve or custom-made box.

Specialty packaging includes paperboard and E-flute (corrugated) boxes and, to a lesser extent, blister cards and inserts. Box packaging often requires advanced printing techniques, including six and seven color printing, hot foil stamping, spot or total coating, varnishing, embossing and lamination.

In the pipeline

This company has been around since 1978, and had its IPO back in 1997. After an impressive run, the stock price has fallen. But it looks as if the market is turning around.

For the third quarter of 2003, revenues were US$29.2 million and net profit was US$0.7 million.

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That's an increase compared to the same period last year.

Revenues for the nine months ended December 31, 2002, were US$91.3 million, with net profit of US$0.8 million. Revenues were slightly down from the previous period. But instead of posting a net loss as in the previous nine months, the company was able to post a profit.

People are still spending, and when the market recovers further, so will Zindart's share price. This should be an exciting year for Zindart. We've all heard about the world's most popular game, Cranium. Both the Hua Yang and Zindart Manufacturing business units will be responsible for making the deluxe edition of Cranium due out this fall. Cosmo, a team building game, is scheduled to launch this summer. And a new children's treasure-hunt game, Cranium Cariboo, will be on the market in time for Christmas.

This company has winning elements that are triggering a buy signal now. Zindart has seen 12 insider buys since the beginning of the year. It has a low float. This may pose a liquidity problem for some, but should resolve itself when the stock price rises and attracts more attention. You'll want get in before everyone else.

Zindart recently hit a 52-week high on increased volume. These are all bullish signs for the stock.

Zindart Limited (ZNDT:NASDAQ) is a buy under US$5. ■

KVH Industries hits US$23.50 a share, putting our gain at 88%!

Let me show you how I discovered this stock… and how the system that identified KVHI as a buy has produced a track record of 18 winners out of 22 buy recommendations.


Brian Hicks

I recommended **KVH Industries (KVHI:NASDAQ)** in the May *Taipan* for US$12.50 a share.

Today, shares of KVHI trade for US$12.50, giving us a gain of 88%.

But did you know that I originally bought this stock on January 30, after my Value Stock Screen selected it as the number-one buy for the month?

My initial entry point was US$10.50.

I'm currently sitting on a profit of 124%. Not that you should feel slighted. After all, an 88% gain is nothing to sneeze at.

And I'm about to reveal the number-one buy for the month of July selected by the Value Stock Screen.

But before I do that, I want to tell you more about the system that discovered KVH Industries, and how, in the past two-and-a-half years, it has identified 22 stocks as buys. 18 have been winners, with only 4 losers. The average gain for the entire portfolio is 91% (even with the 4 losers).

The return of investing in profit growth

Since I was *Taipan's* microcap guru during the 1990's, I had two choices when the bull market imploded in 2000: 1) find another line of work or 2) adapt to the changing investment landscape and make some serious money.

I chose the latter.

Back in late 2000, I began tinkering with a stock picking system known as a stock screen.

In a nutshell, a stock screen allows you to tell a computer what you're looking for in a stock. It scans the entire equities universe looking for those stocks that meet your criteria.

I used the PEG ratio as the core of my stock screen. PEG is an acronym for price-earnings to earnings growth. It's a ratio that measures whether a company is fully valued or undervalued. To get the ratio, you divide the P/E by earnings growth.

For instance, if a stock is growing its EPS (earnings per share) by 20% per year, the stock should trade at a P/E multiple of 20. That would be a PEG ratio of 1.

A stock that is growing its EPS 20% per year but trades at a P/E below 20 is said to be undervalued. So if the PEG ratio is less than 1.0, it's undervalued.

Basically, what I was attempting to do was buy profitable companies in the beginning stages of strong earnings growth. The idea is to lock in gains in EPS and an expansion of P/E multiples as investors hitch a ride on a stock's growth.

Even in a bear market, there are companies still growing their EPS at a strong clip. This is the "sweet spot" of the stock market.

This "sweet spot" has yielded 18 winners out of 22 buy recommendations:

Great Atlantic and Pacific Tea	+156%
Crown Cork and Seal	+42%
Crown Cork and Seal	+105%
Zoran	+139%
Williams Cos	+527%
Level 3	+70%
Qwest	+148%
Williams Industries	+31%
Midway	-16%
BE Aerospace	-58%
Jakks Pacific	+130%
Jakks Pacific	+41%
Jakks Pacific	+53%
Acclaim Entertainment	-50%
KVH Industries	+128%
Orbital Sciences	+26%
Mikohn Gaming	+271%
E*Trade	+194%
Vitro S.A.	-11%
ICN Pharmaceuticals	+70%
Mesa Air	+22%
Availl	+86%

As you can see, out of 22 buys the screen has selected, 18 have been winners, only 4 were losers, *and the average gain for the Value Stock Screen portfolio is 91%.*

And within the past month, the Value Stock Screen has selected what I think will be our 23rd winner.

The stock is **DHB Industries (DHB:AMEX)**, and it trades for about US$3.75 a share.

You may have never heard of this company, but you definitely have seen its product in action

During Operation Iraqi Freedom, every news channel you flipped to had war coverage. You couldn't avoid it. That's neither new nor all that interesting.

What's interesting is the news outlets' use of "embedded" journalists.

The embedded journalists were discreetly placed in select military units in order to give us firsthand accounts of the war.

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What's amazing is that none of the journalists were picked off. While the journalist safe-houses frequently came under attack, Ted Koppel, Geraldo, and various CNN fall guys remained out of harm's way.

How'd they do it?

It's not a big mystery. They were equipped with the newest and finest in 21st-century military technology. They used DHB's bulletproof combat vests. And, get this, DHB Industries has an 80% share of the military market when it comes to combat vests.

The big picture

DHB is a holding company with two divisions: DHB Armor Group, which develops, manufactures and distributes bullet- and projectile-resistant garments, bullet-resistant and fragmentation vests, bomb projectile blankets and related ballistic accessories; and DHB Sports Group, which manufactures and distributes protective athletic apparel and equipment, such as elbow, breast, hip, groin, knee, shin and ankle supports and braces, as well as a line of therapeutic products.

DHB Armor Group consists of Protective Apparel Corporation of America (PACA), Point Blank Body Armor Inc. (Point Blank) and Point Blank International S.A. (PB Int'l). DHB Sports Group consists of NDL Products, Inc. (NDL).

For our purposes, we're sticking with the Armor Group.

Point blank

DHB's Point Blank Body Armor group has set the standard when it comes to body protection through concealable armor. They have a veritable goldmine of products.

In 1994, Point Blank's Genesis Series set a new benchmark by which concealable body armor was judged. Now, through innovative design, Point Blank combines the Genesis and Traditional Enhanced styles to create a new body armor style—The Legacy. With its extremely light weight, futuristic design and high level of comfort, The Legacy is the new standard for concealable body armor.

Here are some specs for The Legacy:

- New high-durability adjustable neoprene shoulder strap construction is more comfortable while retaining strength.
- High-durability neoprene shoulder straps are removable and replaceable.
- Direct attachment straps attach directly to the ballistic panels, preventing the panels from shifting during wear and extreme conditions while eliminating the common problems of rolling and sagging found in soft, flexible vests.
- Patented ballistic stabilizer tab prevents "riding up" and holds panels in place while allowing torso movement.
- Built-in 5x8-inch and 8x8-inch pockets on ballistic panels for trauma shields and anti-stab panels.
- These inserts are made from titanium, rubber, and steel. But they aren't bulky as you'd think. The inserts are crafted in such a way as to fit inside the vest and contour to the body.

As the U.S. military becomes even more high tech, one thing will remain constant—the need for lightweight protective body armor. And the low number of U.S. combat troops killed in action in Iraq is a testament to the protective vests of DHB Industries.

Based on the Value Stock Screen, DHB has a minimum fair valuation of US$9.88.

Between fiscal year 2002 and fiscal year 2003, DHB is expected to grow its EPS by 26%.

The stock currently trades at a P/E of 11, which is less than half its estimated EPS growth rate.

Assuming it traded at P/E of 26 on this year's expected earnings ($0.38), the stock would trade for US$9.88 a share. That's roughly 163% higher than its current per share price.

According to the Value Stock Screen, I'm recommending shares of DHB Industries up to US$4.25.

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