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TAIPAN

PROFITS COURAGE FORESIGHT

The group that recommended Taser International at US$4.00 and watched it rally to US$64.00 now says...

"MAKE THE TERRORISTS PAY!"

J. Christoph Amberger

Admittedly, it's just a minor annoyance to be asked to take your shoes off at airport security. If you've got nothing to hide, I'm sure you, too, don't really mind having your carry-on luggage checked by high-powered imaging equipment… removing your trusty Leatherman from your belt before entering a public building… or finding the metered parking in front of your local municipal courthouse blocked off by orange traffic cones and concrete barriers.

After all, there's a war going on…

(Our colleagues in London and our associates in Ireland and the Middle East assure us that they have been living with far more stringent antiterror measures for decades now…)

Of course, we'd like nothing better than to see each and every terrorist low-life wiped off the face of the earth for good. That—if history is any indicator—may take a while. Meanwhile, there's a simple, almost foolproof way to make several times your money—all at the expense of America-hating terrorists.

You see, there is a handful of companies working round the clock to help secure America's homeland. These companies are on the verge of creating breakthrough antiterror security systems unlike anything you've ever seen. And it's not just the new technologies that make these companies investments with superb profit potential.

The real secret behind this opportunity that there is a major shortage of shares in these stocks—which is pushing demand to record levels. In one instance, one that *Taipan* readers are very familiar with, **this shortage already turned US$50,000 into US$3,225,000 in one year**. In fact, it happened several times in the recent past. When it happens again (and it will, no matter who's elected President) some folks are going to make a lot of money.

Our Chicago-based editor and CBOE options specialist Bryan Bottarelli believes that this shortage "will cause a huge shift in certain market sectors, perhaps more powerful than the human genome boom that allowed Arthur D. Levinson, CEO of Genentech, to make US$18,543,750 in one day."

I take Bryan's assessment very seriously. After all, it was he who called

over, please…

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the "antiterror" pick of **Taser International (TASR:NASDAQ)** last year. He recommended shares of Taser in a special *Taipan* Members Only report that we posted on our website in January 2003. Back then, it was "just another microcap" trading for US$4.04 a share. It didn't stay that way for long…

Taser's supply/demand equation quickly got out of balance, causing what's called a "squeeze play." Taser, as you may recall, develops "conducted energy" devices—high-tech weapons that use compressed nitrogen to shoot two small, electrified probes up to 21 feet. One hit from these weapons and you can't control a single muscle in your body.

We knew that these small handheld devices would represent the new era of security in America. After all, they are safer and more effective than handguns among large crowds of people (like in shopping malls or airports). In the cockpits of commercial airliners, these devices would be perfect.

In one year (April 2003 to April 2004), Taser's trading volume went from 110,600 shares to an astonishing 26,688,300 shares a day. **Just the other day, Taser hit a pre-split price of US$299 a share. You're reading that correctly. Taser is up 6,410% since January 2003**!

Play it again, Sam!

Truth be told, we recommended selling Taser for a 1,500% gainer. Nevertheless, we were the only "gurus" to recommend it 15 months ago when it was still overlooked and undiscovered. One look at the chart and you'll see what I mean:

Taser shares went up 60-fold in just one year. You could've turned US$50,000 into US$3,225,000 from this one single squeeze play!

But, if you missed out on these gains, don't worry. Because Taser is just the beginning…

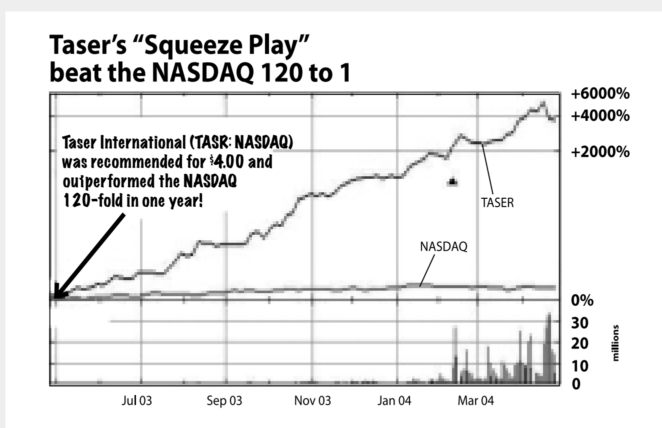
With the US entrenchment in Iraq being a long-term, strategic positioning of US armed forces right at the jugular of terrorist spawning grounds, there'll be an increased demand for stocks providing any type of support, technology or infrastructure to US military or defense systems. The opportunities going forward will be just as good—if not better—*no matter which way the market goes…* up, down, or sideways. In short, a perfect environment for our Dynamic Market Theory. And the same supply/demand disequilibrium I just showed you in Taser will soon be exhibited in other small, undiscovered defense and security stocks.

145 major American cities spend US$70 million per week on Homeland Security

According to a new 145-city survey by US Government Technology (a publication that constantly monitors the spending patterns of the US government), cities nationwide are likely spending about US$70 million *per week* on additional homeland security measures due to the war in Iraq and the national state of high alert.

That's why it's essential for you to have our new **"Homeland Security Winners"** in your portfolio. Homeland security stocks are not correlated to the market. They trade higher according to government funding and the American public's demand for their technology. Find the right company and you can make tremendous returns no matter what happens to the stock market as a whole (just look at our results in Taser—up 6,000%+ in less than 16 months).

The *Taipan* board of editors will be introducing you to a select few of these opportunities right



here in the July issue of *Taipan*.

But we'll do you one better: Our researchers have compiled another exclusive Members Only report that will show you exactly how to find these winning stocks. Each stock, they estimate, has the potential to go up 1,275% in the next 12 months. Each stock trades for less than US$20 today—even though they could soon be US$70, US$90, even US$200 stocks.

With ten opportunities for you to follow, there's a very good chance that several of these stocks will boom this year, making some investors millions. It is, without a doubt, the best situation I've ever seen—even better than Taser (much less risk). The floats are small, the companies are young and growing, analysts don't know about them, they have high relative strength readings, and they're all in the red-hot field of high-tech homeland security… exactly the situation that Taser was in one year ago.

This report is waiting for you in the Members Only section of www.taipanonline.com. Simply log on and type in your user name and password—no strings, no additional fees, no fine print. It's the *Taipan* way of making sure you enter the tumultuous months ahead with your portfolio in the best possible position for profiting on whatever the markets may throw at us! ■

Cashing in on the terror premium


Ian Cooper

This isn't the same world it was on September 10, 2001. With media buzzwords like rocket attacks, suicide bombings, poisonings, and assassinations filling daily headlines, spreading global fears of when, where and how the next terror attack will occur, the world—already teetering on the brink of madness—is seeking to protect itself. And we're hoping to profit from the process.

Take the Olympic terror exercises in Athens. It's not as if people haven't gone ahead with terror plots at the Olympics. Back in 1972, for example, the Black September group carried out the first major terror attack at the summer Olympics in Munich strictly for coverage. And then again in 1996, a terror attack took place at the summer games in Atlanta, ruining a wrongly accused person's life.

The bomb hoax in early May only revived fears about security as many rush to guard against terror at the world's largest sporting event. And then there was the homemade bomb that exploded outside the Athens police station, injuring none, but instilling fear. Since then there has been a steady stream of hoaxes involving ferries and the economic ministry.

As for the August games, security forces are being trained to respond to 77 scenarios including rocket attacks on planes, suicide bombings, poisonings, hostage situations, you name it. But, while Greece has already put up over US$1 billion for security, there are still concerns because it is at the crossroads of a lot of Middle Eastern traffic. You can never be too safe.

The train in Spain

The 2004 G8 Summit in June is also gearing up to protect itself, calling on IPIX Inc. for help. In early June, the company announced that its full 360-degree video surveillance systems would be deployed for multiple uses at the G8 Summit. In fact, the cameras are reportedly being installed at critical locations over a 120-mile area from Savannah to Sea Island, GA, allowing images to be viewed by security and logistical agencies.

If IPIX were to be tapped to work the Democratic or Republican Conventions, the Olympics, or even the presidential elections, there's no telling how high the price would spike.

You can bet that security will be extra tight come election day. You know as well as we do that terrorists would like nothing better than to see Bush Jr. ousted from office and from Iraq. We all remember what happened on the Spanish railways just days before the elections. Not only did it alter the outcome, it helped remove Spanish troops from Iraq amid fears of further terror attacks.

In addition to the Olympics and the G8 Summit, here is a list of other events that may see an increase in security, raising the likelihood of increased demand for antiterror products.

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July
• Democratic Convention in Boston

August
• Republican Convention in New York

September
• The beginning of the presidential campaign

November
• US presidential elections
• Australian elections

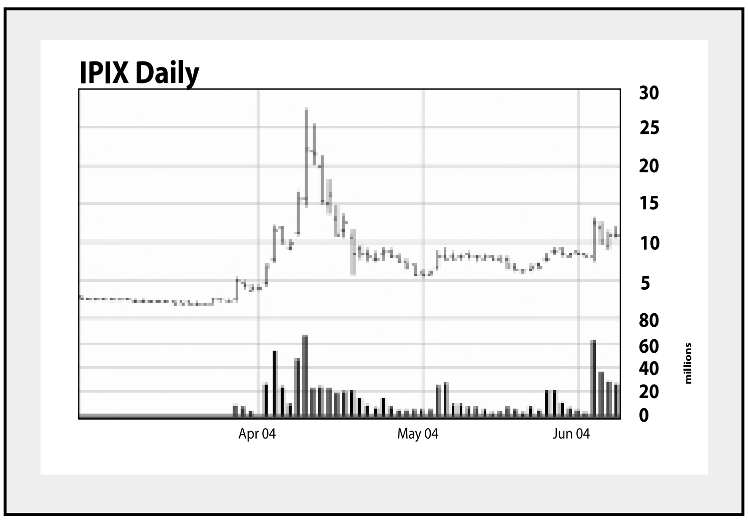
Here are two companies we believe will grab most of the antiterror protection spotlight.

Nowhere to hide

IPIX Inc. (IPIX:NASDAQ), a company that Tom Ridge just commended for helping to secure America, may stand out the most with its Command View 360 network and video surveillance camera, which provides a "see everything" function that can look in all directions with no blind spots.

EVS readers already took 246%, 107% and 144% gains in less than three weeks on IPIX in April. Then they jumped back into the play as terror again gripped worldwide headlines.

In fact, we recommended it the very same day that TheStreet.com panned security stocks in general as having a "risk/reward [that] is not very attractive." According to the Cramerites, the "easy money has already been made in these (...) stocks this year, which is why we think they should not be bought this morning."



Sometimes it pays to swim against the current: the Street's opinion shored up our bullish position even more. Hopes of again taking triple-digit gains were further reinforced when the stock soared more than 51% on Tom Ridge's words of praise. While you're not likely to hear TheStreet.com say they were wrong, we're more than happy to say it for them.

Bolstering our position even further is the attention the company is likely to garner from the G8 Summit. And with other high profile events like the Olympics, the Democratic and Republican Conventions and the US presidential elections just months away, some are already betting on the cameras being used there, too.

This undervalued leader has low debt, enough cash on hand to weather any problems, and the potential to skyrocket once the orders begin flowing in. Daily spikes in volume are signaling what may be coming down the pipe. We believe the G8 Summit is only the beginning.

Plus, with 44% of the eight million share float shorted, any good PR could squeeze the shorts for all they're worth. **We're buyers of IPIX shares under US$15 per share with a near-term price target of US$22.**

Secure, smart profits

We're also bullish on **Viisage Technology (VISG:NASDAQ)**, which announced in May that it has received a US$10.2 million Department of Defense order. The company will be supporting the production of the Common Access Card smart card program.

But wait, there's more. Just days ago, the company announced an upgrade of three of its biometric products that are already being used in both the US and Europe. They are:

- FaceTOOLS, integrating biometrics into applications for driver's licenses, passports, visas, border crossing, criminal investigations, and suspect ID programs.
- FaceFINDER, helping in surveillance and watch list screening.
- FacePASS, providing biometric access control and area security with improved face recognition performance.

Here, too, a large chunk of the 23 million share float is short—about 12.7%, or three million shares. Any short squeeze will be good for us should the positive news continue. **We're long VISG shares under US$11 a share with a near-term price target of US$15.**

Don't rely on the Saudis to relieve your pain at the pump…

Here's an oil and gas company straight from the domestic heart of fuel… the Gulf of Mexico.


William Colburn

Pain at the pump.

You know what I'm talking about. Every time you drive near a gas station, you can almost hear the cries of frustration. Heck, I don't even drive and I was cursing under my breath while pumping a friend's gas the other day.

I wasn't paying but it hurt.

The good thing is, OPEC will deliver some relief, increasing oil production by 2.5 million barrels per day by August. That's fine and dandy… until you realize that the world plows through about 80 million barrels a day.

That's mind-numbing. And an extra 2.5 million barrels per day does about as much good as a US$50.00 tax refund.

So, what does this mean to investors? Any oil and gas stock you come across is going to be huge. You may have heard the expression "throwing darts at the market." When investors find themselves in a good situation, they could throw darts at the market and the steely tip would pierce a winning stock.

Right now, you could be scoring bull's-eye after bull's-eye in the oil sector. But I've decided to put down my darts and put my fundamental analysis to the test.

PetroQuest Energy Inc. (PQUE:NASDAQ) is an independent oil and gas company is engaged in the exploration, development, acquisition and operation of oil and gas properties onshore and offshore in the Gulf Coast region.

Sound familiar? It should. We've played a stock called **KCS Energy (KCS:NYSE)** in *Taipan* before. We came out with a total profit of 535%. Both companies are in the same field. But, in *Taipan* terms, KCS is that old dog sitting in the corner of the yard.

It's time to make room for the new dog now. PQUE could greyhound us an easy double by the end of the year.

How? Well, I decided to apply the Forward Earnings Forecaster to PQUE. The FEF is one of the tools I use in my *Value Edge* service. It uses growth estimates and earnings figures to tally up a future fair price for any stock.

The Forward Earnings Forecaster has put this stock at US$20+ a share.

I like to think conservatively, so I'll cut the price in half. I see this stock at US$12.00 by December. Given PQUE's current price, that would be a cool 247% gain.

As I write, PQUE is trading for US$3.45. It's a buy anywhere under US$4.00. ■

The flat market is coming to an ill end

All signs now point to a multi-month 285-point drop


Adam Lass

What truly makes the market move? Corporate profit stories? Good economic news? Bad overseas news? Higher or lower interest rates?

Actually, none of the above.

While word of a brother-in-law's new job at a Weehauken warehouse or a indefinitely-deployed son's email from the Green Zone in Baghdad might seem to influence the individual investor's frame of mind, they are hardly sufficient to stir the totemic animal spirits.

But you might be surprised to know that major changes in the central bank's monetary policies appear to have truly little effect as well.

The ultimate mover and shaker?

When I am called to the podium to speak before groups of enquiring investors (an event that hap-

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pens with unfortunate regularity), I like to ask members of the audience to name one person who can truly move the market with a word.

Inevitably the selected candidate is Alan Greenspan, who is apparently credited with well-nigh supernatural powers. After all, did he not lance the great tech-stock boil single-handedly with his dour warning that investors were exhibiting "irrational exuberance?"

Well, no, actually he did not: The date of that famed speech was December 5, 1996. The S&P 500 closed that day at 744, some 39 months and 808 points away from its eventual peak at 1,552.

So if it was not simple jawboning, then it must have been actual policy changes that moved the herd off the mark. Well, that doesn't seem to work all that well either.

Ineffective!

Over the course of 17 months (November 1998 through May 2000), the Fed raised short-term borrowing rates a total of 175 basis points to a high of 6.50%. During that time, the S&P rose from November 1998's low of 1,098 to the previously mentioned March 2000 high of 1,552.

It then proceeded to peel off 213 points over the next month, which incited the Fed to raise the key rate 50 basis points. The herd celebrated this supposedly negative event by buying up virtually all the S&P's recent losses. In fact, it wasn't until February of 2001 that the bottom truly gave way.

My point here is simple: It does a trader relatively little good to simply study news events and act in anticipation of the investing herd's reaction. For it is not the events themselves that act as triggers, but rather the penetration of these events into the gestalt, the collective mindset of the herd.

Fortunately, there are methods of analyzing the rate of penetration and isolating the moments when an adequate number of investors have processed these events through the filter of their presuppositions and are prepared to act *en masse*.

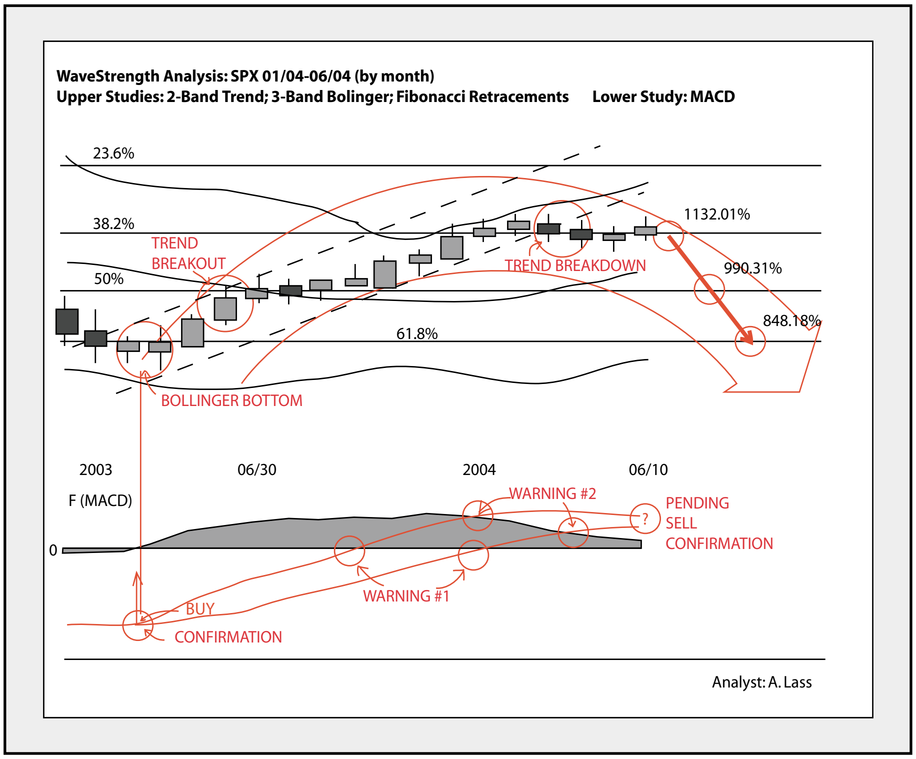
Clear historical evidence

In the aforementioned case, had an astute observer overlaid a Bollinger band pattern on the S&P's price action and then cross-correlated that with an MACD study, said observer would have been apprised of February 2001's rupturing of the bottom of trend as early as six months prior to the actual event.

We are currently in a similar position: The recent economic news has gotten "better and better." Deflation has all but vanished from the discussion. Inflation is now the threat (as I predicted over a year ago). Productivity and employment are up (sort of: much of the reportage on these figures has been called into doubt).

And now oil has "come down" in price (but is still well above the White House's own "inflationary baseline" as expressed by Mr. Cheney when he was pressing Congress to act on the administration's energy policy).

The market has run flat for the past six months, setting no new highs or lows and closing each month within a percent or so of its open. Neither news events nor simple price analysis offers any clue as to the herd's next major move. But astute technical analysis does.



Strong signs to the trained eye

The first item that catches the casual peruser of the S&P's chart is of course the flat run of the past six months. But there are several technical events that one should pay special attention to.

The first is the 12-month rising trend commencing in February 2004. This trend's launch is marked both by a breakaway from the bottom Bollinger band and a confirming “buy” indication on the MACD oscillator, where the faster-moving line has clearly crossed over the slower averaging line. The resulting uptrend was quite well formed, showing respect for but not being stymied by the Fibonacci 61.8%, 50% and 38.2% retracement lines.

Yet during the course of this uptrend, the MACD offers the initial warning signs of its eventual demise. The first set of these signs was when both the fast and slow lines crossed the zero demarcation and moved into the shadow of the MACD’s histogram.

The second set of warnings came when both lines moved clear of the histogramic penumbra. These events also coincide with the breakdown of the rising trend’s bottom line, as well as a marked breakaway from the top Bollinger band and the flat run that followed. Now we are simply awaiting the MACD’s confirming “sell” signal, when the faster line clearly crosses below the slower.

An upside breakout is highly improbable

While there is no guarantee that this event will happen on a particular day, it does appear to be on the near horizon, and it is certainly more probable by orders of magnitude than the complete reversal of signals that would be required for this flat run to be a simple consolidation event prior to another rally.

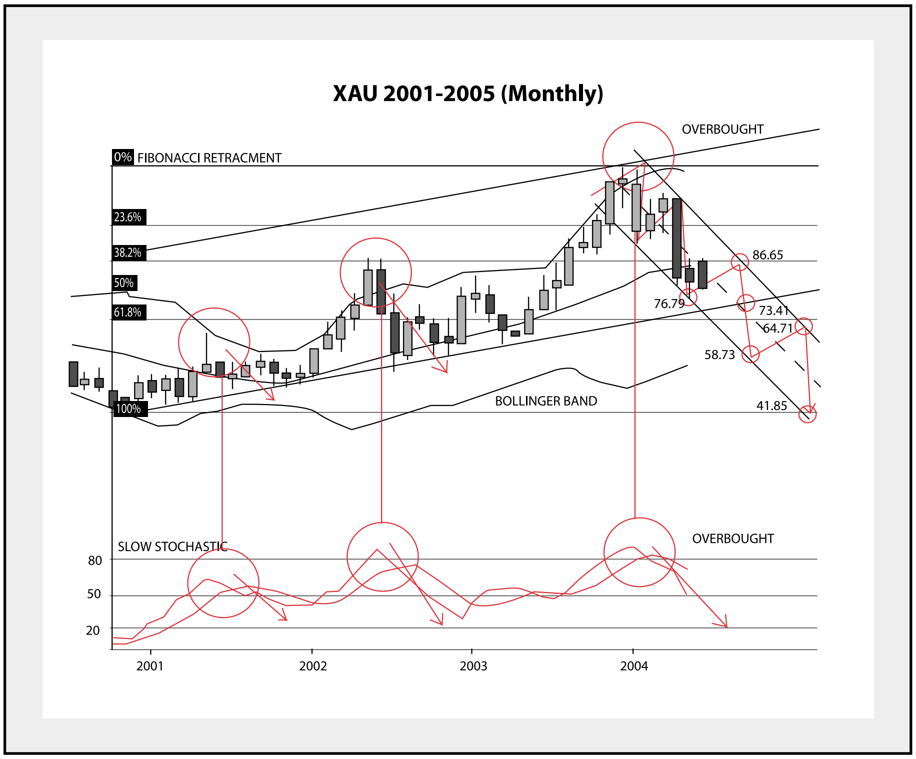
Given those probabilities, it behooves the observer to note the arc formed by these combined signals, as it yields three strong price/time targets: The first is the resistance forming at current levels as the S&P spindles along on the 38.2% line. The second marks a brief struggle with support on the 50% line at 990.31 in the next 30 to 60 days. The third is an attractive node on the 61.8% line at 848.18, 90 to 120 days out.

Please understand that this is not in the least a “dire prediction.” Should the node at the 61.8% marker hold up, a substantial multiyear rebound could easily ensue. Should it fail, however, the major drop that so many on Wall Street and inside the Beltway have worked so hard to prevent during the trough of August 2002 to March 2003 could quite conceivably come to pass.

Where will the capital flow to?

The question that frequently comes up at this point in the conversation is: “We all know that capital doesn’t simply disappear. Rather, much like energy, it is conserved and will flow toward more deserving asset classes. If you are so sure of the pending failure in stocks, where do you anticipate the smart money running to?”

Not gold, I can assure you of that. As you can see from the updated chart, last month’s prediction of a flat run has come to pass. Now the senior gold and silver producers of the XAU are at the bottom of that modest cycle (a move that *WaveStrength Advanced* players were positioned to capitalize on to the tune of some 33% over 48 hours).



As I write, the index is some 3.5 points below its cap of 86.65, so I suppose one could make a weak case for going long at this juncture. But I shall refrain from doing so. The corollary metrics such as Bollinger and MACD are so overwhelmingly negative that I must believe their predicated plunge is coming sooner rather than later. Indeed, by the time this article crosses your desk, that high may have come and gone, and the drop might very well be underway.

As to the other common shelter, the very nature of an anti-inflation effort on the part of the Fed makes trading US Treasuries awkward for all but the

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most expert hands. Rather, I continue to prefer a shaped index-option portfolio as the ideal vehicle for converting the risk inherent in this probable drop into good clean capital.

Playing it down

Turn the S&P's triple-digit loss into triple-digit gains with August put contracts


Bryan Bottarelli

We're presented with a simple enough scenario. Right now, the S&P finds itself sitting at 1,133 at the 38.2% line. From here, the high odds are a move down to support at the 50% line. This will mean a 142-point drop over the next a 30 to 60 days. The other (more bloody) scenario is a carry-on move to 848.18, which Adam notes would take 90 to 120 days. This would be a 284.82-point down move.

Armed with this ugly forecast, we'd like to reiterate our SPX August 1,100 Puts (SPT TT). Last month, we recommended them for US$25.15 per contract. Right now, you can get them for even less. At last check, they were trading for US$15.00 per contract.

But who knows what the price will be by the time this clears your mailbox. We'll therefore be issuing a special "Taipan Investment Briefing" with updated prices the day this issue hits the Web. Stay tuned to your daily *247profits e-Dispatch* for exact pricing.

Meanwhile, as a protective measure (something we failed to emphasize last time), place a stop-loss at US$9.00 per contract. ■

For updates on this and all our other plays, you might consider signing up for our free daily WaveStrength Market Report: www.247profits.com/Wavestrength/marketreport/signup.html.

Double your money with the Fridge Vendor

Chris DeHaemer

If you work in the stock markets, there is no better time to go on vacation than the summer. From now until late August, signals will be weak and the market will float about on low volume much like a blue plastic shopping bag wafting down the streets of Baltimore, buffeted this way and that by an old truck or bicycle.

Here we are five months from a presidential election, on the verge of Greenspan rate hikes, two weeks from indigenous rule in Iraq, a month and a half from earnings, and volume on the NASDAQ is an anemic 1.1 billion shares. Not exactly a feverish bull market rally.

But it is my job to find stocks that go up, and at this time of year you have to find the micro-trends that are defying the market. Allow me to present **Graphic Packaging International (GPK:NYSE).**

Longtime readers will remember that packaging companies rise in the early part of an economic expansion. This makes sense, as companies that start to pick up volume need more cardboard containers.

The entire industry is growing

According the packaging industry we are in the nascent stages of a bull market. The containerboard industry showed superior growth in April. Box shipments were up 5.1% from a year ago, and three-month rolling box shipments were up 5.2% from the same period last year. In May, average weekly shipments of cardboard boxes were up 6.2% from a year earlier.

The American Forest & Paper Association reports that the operating rate for US containerboard facilities stood at 97.5% in May, up from 94.3% in April. That means we are at almost full production.

Disruptive technology

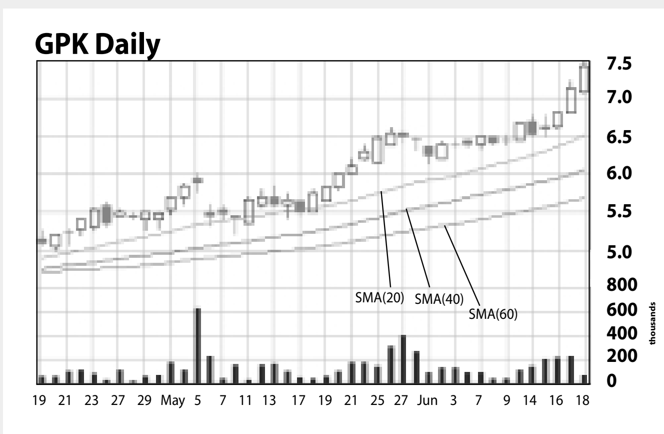
GPK has the added benefit of being an innovator. These guys had one simple idea: make 12-packs fit in everyone's refrigerator. To do this, they stacked cans 2 by 6 instead of 3 by 4. The container is longer and thinner. It fits on the second self—pure brilliance.

GPK provides paperboard-packaging solutions to the beverage, food and consumer product industries. Coca-Cola North America named them the "2003 packaging integration Supplier of the Year," saying, "12-pack sales have increased by a double-digit rate and consumer excitement has been palpable. The Fridge Pack (Coca-Cola's trademarked name) is the most innovative packaging idea in the soft drink industry since the contour plastic bottle."

That's a plaque that will look good in anyone's den, right above the wagon wheel coffee table and next to the wet bar. The Fridge Vendor beverage carton is so hot, Miller uses it as a unique selling point in its national commercials.

Fully patented

Just in case you were wondering, GPK has the Fridge Vendor patent through its merger with Riverwood International Corporation: US Patent 6,578,736, issued June 17, 2003.



The company has almost doubled this year, climbing to an all-time high of US$6.78 based on a 93% gain in revenue. Net sales were US$575.9 million for Q1 2004, compared to US$298.0 million in Q1 2003.

GPK has a market cap of US$1.42 billion. Its nearest competitor in size is Packaging Corp. of America (PKG:NYSE). PKG has a market cap of US$2.51billion on revenues of 1.74 billion. Those of you who know how to divide will ascertain that this equals a price-to-sales ratio of 0.72 for GPK versus 1.44 for PKG.

Our hero's share price would have to double to US$14.28 to equal the P/S value that PKG has right now.

But wait, it gets better. PKG grew revenue a paltry 3% last quarter compared to 93% for GPK.

Debt

The company has a lot of debt (4.6 times equity) and is the creation of a merger a year and a half ago. But interest rates are low and in the most recent quarter debt declined and the turnaround seems assured.

This is a bet that the current trends will continue. The stock is hitting all-time highs and its three moving averages are equidistant and sloping in a positive direction. This is our buy signal.

Buy Graphic Packaging International Corp (GPK:NYSE) below US$8.00. It is now trading at US$7.14. Contact: Graphic Packaging International, 814 Livingston Court, Marietta, GA 30067, tel. 770-644-3000, fax 770-644-2962, email investor.relations@graphicpkg.com, website www.graphicpackaging.com. ■

This small-cap could soar as a US$5.6 billion bill aims to wipe out deadly diseases


Erin Beale

On the heels of the devastating World Trade Center attack, Americans developed a new fear in the fall of 2001: their mailboxes.

After many in various states and even then US Senate majority leader Tom Daschle received letters containing strains of deadly anthrax, panic ensued. Ricin-contaminated mail was also sent to prominent political figures. Paranoid people flocked to clinics and doctors' offices in droves to score doses of Cipro, the coveted antibiotic to treat exposure. Government offices were shut down left and right for suspicious mail arrivals. Hardware stores sold out of duct tape as people furiously taped their windows to seal out toxins.

The bioterror threat had gone mainstream.

Today, as our troops remain in the Middle East on their hunt for chemical and biological weapons,

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the threat of a future bioterrorism attack remains. Sarin gas was discovered just last week in Iraq via a roadside bomb. Deadly diseases such as anthrax, Ebola, West Nile virus and smallpox could run rampant if released in a dirty bomb attack.

Plan of attack

Government action has finally been formulated to protect our citizens from the threat of bioterrorism. Recently, the US Senate unanimously passed a US$5.6 billion bill encouraging public and private companies to step up to the plate and develop preventive measures.

The 10-year program, dubbed Project BioShield, will give drug and biotechnology companies incentives to increase research, development, and manufacture of treatments for deadly diseases. The government will purchase these treatments and accumulate a stockpile to have on hand in case of an emergency.

There's an interesting clause in the measure, which is set to easily travel through the House (similar legislation was already passed there last year) and then seek George W.'s signature. In the event of a dire emergency, certain pharmaceutical treatments could be distributed without conventional FDA approval.

Needless to say, the doors have just swung wide open for small biotech and pharmaceutical companies to break out. Some companies have already gone on an anticipatory ramp. When President Bush signs the bill into law, which could be as early as next week, an even brighter media spotlight will shine on the issue and the key company players. Here's how we can profit.

Stroking the Ebola monkey

We've found a small-cap biotechnology research company striving to perfect highly effective treatments and vaccines—and you can currently buy shares under US$7.00!

Vical Incorporated (VICL: NASDAQ) of San Diego is making a name for itself among the big pharma players. The company focuses on DNA delivery technologies to prevent and cure serious infectious diseases. Both pediatric and adult applications are under development.

Vical's foremost research is on Ebola, the potentially fatal virus native to Africa's Congo River. Found sporadically in humans and primates like monkeys, gorillas and chimpanzees, Ebola is widely feared to become the next bioterror agent. The virus can spread quickly among families via direct contact with secretions, and no standard treatment or vaccine exits.

Phase I of Vical's Ebola project is already underway, with the company sharing co-development rights with NIH. As Vical is one of the only companies working to develop an Ebola vaccine, Project BioShield will likely throw funds their way for further R&D.

Anthrax, West Nile virus, cytomegalovirus (CMV) and HIV are also in Vical's near-term focus. Preclinical research on potential vaccines is underway. A second-generation anthrax vaccine is currently being funded by a three-year, US$5.7 million grant from NIH.

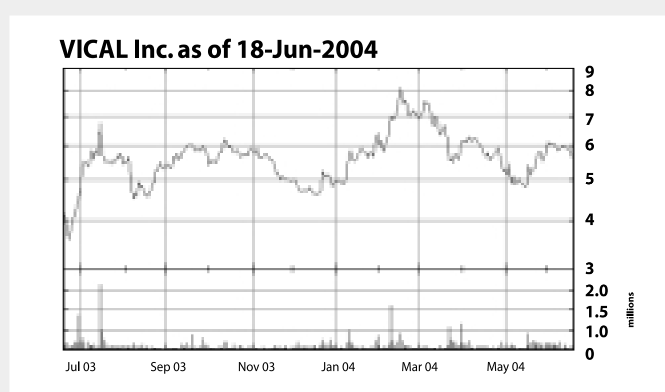
Vical's most high-profile product of late is Allovectin, an immunotherapeutic vaccine for melanoma, the often-deadly skin cancer. An FDA approval meeting recently established that "a meaningful response rate with a reasonable duration of response could be acceptable as the surrogate endpoint for efficacy." Further testing is needed, but future approval could help to launch Vical even further.

NIH grants, genetic technology patents, valuable clinical trials—in short, Vical has a lot going on.

Beaten down and on sale

A rave about Vical's outstanding financials would be false in this case. Truth be told, Vical has been dealt some tough blows over the past few quarters. Q1 2004 earnings showed a loss of US$9.1 million or US$0.45 cents per share. In short, they've put themselves into the hole by spending some US$191 million on research and development.

Vical is in the process of drastically expanding its preclinical programs and building a new facility. R&D expenses are expected to continue to rise in 2004. But in the end, we don't think those millions will go



to waste because of BioShield's great potential.

Vical has significant cash reserves (about US$94 million) that are continually increasing, aided by the sale in March of over 3 million shares of common stock for US$5.50 per share. After testing highs in the US$8 range last year, VICL has fallen back around the US$5 mark.

Insider buying has been light but steady since last summer. Institutions are steadily increasing their stakes, and VICL has been added to many popular funds like Merrill Lynch's Small-Cap Value and Evergreen's Health Care Fund.

Don't expect Vical to skyrocket overnight. Another pop may occur when Bush puts his John Hancock on BioShield, but we're looking for longer-term growth here. Remember, the US$5.6 billion is to be funded over 10 years, not 10 months. According to analyst Scott Greiper, "The government is slow—they're dealing with a huge amount of dollars and the process can go on for several years. There's very little visibility on who's going to be the ultimate winner."

But keep in mind that the bioterrorism threat is being taken so seriously that a 99-0 vote in the Senate has directed billions of dollars to this national problem. That's *zero* opposition, folks. We should take this as advance notice to get into affordable players like Vical now.

Vical could become a prime takeover candidate as trials progress and big pharmas begin to shop. But this potential lies a ways down the line, and Vical has already taken precautions to ensue top value for shares if M&A talk becomes a reality. When the time comes, share prices could be driven up further on rumors and speculation.

And remember the clause mentioned earlier—some of Vical's products could be released even without FDA approval in the case of a national emergency.

Buy shares of Vical Incorporated (VICL:NASDAQ) under US$7.00. This is a speculative play and could experience periods of high volatility. Contact: Vical Inc., 10390 Pacific Center Court, San Diego, CA 92121, tel. 858-646-1100, fax 858-646-1157, mail aengbring@vical.com, website www.vical.com. ■

The next great economic empire...

Siu-Yee Ng

I've had several discussions with a colleague about today's and tomorrow's economic powers. Without a doubt, the US remains the economic powerhouse behind the world economy. Let's face it, if it wasn't for the US backing Taiwan's independence, Taiwan would be under the rule of China now. China relies on the US for many of its exports and its most-favored-nation status.

Today everyone is looking for the next economic power. China is in the running and that's why we saw a bidding war over Chinese stocks in 2003 and early 2004. The Chinese economy was growing at a pace that many economists deemed unsustainable. And that's why we've now seen a pullback in Chinese stocks in 2004.

The Chinese government has already taken steps to slow China's growth and prevent it from overheating. After extreme growth, whether it be a company or country, there are periods of slowdown before the growth continues.

Let's recap our China plays.

China Yuchai International Limited (CYD:NYSE) has been a strong player in the *Taipan* portfolio. We first bought this back in December 2002, before the Wall Street fat cats or anyone else knew about the stock. That gave us the chance to buy it under US$4.50 a share. We sold half our position nine months later for a 289% gain!

Since then, CYD has traded as high as US$37.24, but has recently pulled back. If you followed *Taipan's* 20% trailing stop rule, you could have sold at US$29.79 for a 562% gain. But if you didn't sell, CYD could be a long-term winner. The company

over, please…

announced strong performance for the quarter ended March 31, 2004. Net income increased 66% compared to the same period in 2003. Market demand remains strong for Guangxi Yuchai's diesel engines. And with the further growth of China's infrastructure, China Yuchai will continue to see its revenues increase.

Zindart Limited (ZNDT:NASDAQ) sold its printing operation, Hua Yang Holdings Company Limited, for US$24 million, with indebtedness of US$10 million, resulting in net cash consideration of approximately US$14 million. This cash will go towards the continued growth of Corgi Classics in the US. Investors didn't like this. Most were expecting the sale of the Corgi unit. ZNDT reached a high of US$10.30, and if you followed *Taipan's* 20% trailing stop, you would have sold it at US$8.24 for a gain of 65%. But if you are still holding I would wait to see what the stock does this holiday season.

Quarter after quarter, we've seen **LJ International (JADE:NASDAQ)** increase revenue guidance. The company has even increased its 2004 outlook. Keep in mind that this is supposedly a slowdown period. Sales are mostly to North America, specifically the US.
And we know US consumers have been spending even during the recession. With JADE now expanding into China, it will have a whole new avenue for sales. And the possibilities in China are endless. There are a lot more people who can afford JADE's products.

Youngsters especially are not going to curb their spending. I expect revenues to continue to grow even with China's slowing economy.

After a pullback in May, **Guangshen Railway (GSH:NYSE)** is coming back to its support level of around US$13.50. GSH remains a dominant player in China's growing infrastructure. It's at the head of the class as far as Chinese railways are concerned. And it remains an affordable way to travel in China.

The Chinese semiconductor industry expects to see strong growth. And despite **Semiconductor Manufacturing's (SMI:NYSE)** increased output, it is still not able to meet this demand. This is a good sign. Demand outpaces supply. SMI is still suffering from the Chinese slowdown. But this stock will eventually be recognized as a big chip player. Now, it did hit our 20% trailing stop. If you initiated this stop loss then don't sweat it. But if you are still in this, continue to hold.

Now for our oil play**. OMI Corporation (OMM:NYSE)** has declared a regular dividend of US$0.05 per share payable on July 14, 2004, to holders of record June 24, 2004. OMI has also withdrawn its offer to merge with Stelmar Shipping. Both these announcements were accepted positively on Wall Street. The stock hit another 52-week high of US$12.58. That's a 74% gain so far. ■

TAIPAN

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