TAIPAN

FORESIGHT COURAGE PROFITS

August 2001
Volume 14 Number 10

INSIDE:

Taking profits in the roller-coaster markets of 2001

by J. Christoph Amberger

When Mark Twain toured India in the mid-1890s, he thought he recognized three established "municipal" professions in the average Indian village. One of them was the municipal dream reader; the other public servants were the tiger persuader and the hailstorm discourager:

"The one kept away the tigers if he could, and collected the wages anyway, and the other kept off the hailstorms, or explained why he failed. He charged the same for explaining a failure that he did for scoring a success. A man is an idiot who can't earn a living in India."

This passage has always reminded me of my bearish colleagues in the business… the ones who have been predicting market Armageddon since 1995, and are still losing their shirts on gold, platinum, and antipodal swampland…

Earning our keep

The *Taipan* philosophy is a tad different. We just don't believe in dogma… or the ability of gurus to neatly squeeze the world and its markets into a nifty little system that can be explained and expounded within the confines of an 8-page newsletter.

Taipan is pragmatic. Our aim is to prove to our members—over and over again—that the world is full of profit opportunities, no matter what the markets are doing.

Over the years, many of our subscribers have made lots of profits on our recommendations. And why not: there was no shame in making money on the Great Big Bull Market. *And there's really no reason why we shouldn't be making money in the vicious ups and downs of the current climate.*

To better serve you, we even went all the way to give you a daily update on what's going on… the Taipan Group's 247profits e-Dispatch. It's an electronic newsletter free to every *Taipan* member. And if you invested the five minutes it takes to read each issue, you have been able to make and take some nice profits over the last couple of weeks.

Instant gratification

Like when Brit Ryle's January recommendation of South Korean telecom player **Hanaro Telecom Inc.'s Sponsored ADR (HANA:ADR)** was facing downward pressure in late June. After a mid-May peak of US$3.50, the stock was trading in the US$2.50 range. If your -20% trailing stop didn't get you out at US$2.80, our sell recommendation in the e-Dispatch allowed you to lock in 30+% YTD gains…

Two of *Taipan's* speculative January 3D Prototyping stocks seemed ripe for the picking: **3D Systems Corp (TDSC:NASDAQ)** went from around US$12 last January to hit US$18.50 in early June. It was recently approaching our -20% trailing stop at around US$15. We told e-Dispatch readers to take 25% profits and run!

Likewise, **DTM Corp. (DTMC:NASDAQ)** was a buy at US$3 last January. After kicking up its heels above US$5.50 in early June, it was trading above US$4.15 when we recommended you lock in what you could… and walk away with a 35+% profit!

(over, please...)

TAIPAN

Publisher: J. Christoph Amberger

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

Managing Editor: Ned Humphrey

Webmaster: J. Vince Skelley

Art: J. Lindsay Willey

Fulfillment: Tracey Holman

Tours and Conferences: Barbara Perriello

Customer Care: Call (410) 234-0691 9 a.m. to 5 p.m. Eastern Time

email: editor@taipanonline.com

Taipan (USPS#008-049) is published monthly for US$129 per year by Agora, Inc., 808 St. Paul St., Baltimore, MD 21202, USA. Periodicals Postage Paid at Baltimore, MD, and at additional mailing offices. **Postmaster: Send address changes to *Taipan*, 808 St. Paul Street, Baltimore, MD 21202 USA.**

www.taipanonline.com

USERNAME:

taipanmember6

PASSWORD:

6monkeys

Independence day profits

The Taipan Group's editors—die-hard cynics that they are—usually have more than one iron in the fire. They're not fazed by the market pulling a fast one on them.

For those of you who followed **South African Breweries (SAB.L:London)**: the stock price hit the 540p stop loss we recommended you observe in our June 22 *Taipan Group e-Dispatch*. If you did what we told you, you locked in 31.7% profits. If you were smarter than us, you got out at this week's high of 565p, and can brag about 38% gains over our recommended entry price.

Don't get us wrong. We love the stock. It's a perfect safety blanket. And we'll be back in later this year.

On June 29, we also said goodbye to **Lukoil Preferred ADR (LUKPY:NASDAQ),** which traded around US$18 and change at our January carryover level. (We had logged 104% profits on our position in 2000 already.) We told you to sell at US$24 or above and take another 30%-plus year-to-date (YTD) profit.

The same day, our Moscow energy play, **Mosenergo (AOMOY:NASDAQ),** was up 50%+ over its January rollover level. Our recommendation: sell at or above US$3.80.

Our 2001 carryover entry level for **Surgutneftegaz ADR (SGTZY:NASDAQ)** was US$10.50. If you added to your position in January, you could have picked up the stock at US$9 and change. On June 29, it was time to walk away with your YTD profits of 20% and more: sell at or above US$12.50.

TymenAvia Trans Sponsored ADR (TYAVY:OTC) began the year at around US$1.50 (after bagging 200% for *Taipan* subscribers in 2000). It was up to US$4.50 on June 29. Another 200% gainer for the first 6 months of 2001!

Managing risk

The importance of observing a strict -20% trailing stop cannot be overemphasized, especially in this crazy market. Just take Chris DeHaemer's pick of QQQ:

If you bought **QQQ:AMEX** on April 23, the day the *Taipan* issue was posted on taipanonline.com, you paid US$44.89 and rode it to a high of US$51.95—then sold on hitting your -20% trailing stop. At that point you would have seen a total gain of 12%.

(On April 23, the **QQQ Sept 58 Calls** were trading at US$1.20. They got as high as US$2.75 before pulling back. A -20% trailing stop would have banked 105%.)

But of course, trailing stops not only lock in profits… they also limit losses. Like the one generated by **Uni-Charm (8113, Tokyo)**, which was stopped out at the US$39 price equivalent earlier this year. We don't plan to follow it any longer. Neither will we bother with any further Japanese turnaround plays: **Casio (CSIOY:NASDAQ)** hit its YTD trailing stop at US$68 in early March. We consider it closed out at a loss of 20%.

Demegen (DBOT:OTC) was stopped out at a 20% loss at US$0.60 in late March. And **Avant Immunotherapeutics (AVAN:NASDAQ)** rose 21% from its January carryover level of US$7 to its YTD high of close to US$8.50. The trailing stop was triggered at US$6.90. Which means we closed the position at a 1.4% loss. After a 198% gain in 2000, we can live with that!

If you didn't observe your -20% trailing stop on **Ventspils Nafta (VNFT:Riga)**, *Taipan's* play on the Baltic port's revival with the turnaround of Russian oil, we alerted you to do so on July 13. After rising from US$0.94 to US$1.20 in 2000 (a 28% gain), it dropped back to US$0.93. If you let your position ride since inception, you're down 1%. No harm done. If you observed the -20% trailing stop based on our 2001 carryover price of US$1.20, you would have automatically closed out at US$0.96, up a measly 2% over the duration of the play, but down -20% for this calendar year.

The same goes for whatever you have left riding on **Leisure Canada (LCN:CNDX)**, which today was moving in the US$0.70 range. Based on our 2001 carryover level of about US$0.96, you'd have been out at US$0.76. We take a YTD trailing stop loss of 20% and close the books on it.

Upside protection

But again, for a number of positions, the trailing stop still put money into your pocket: after reaching highs of close to US$13.75 off our 2001 carryover price of US$9, **Exponent (EXPO:NASDAQ)** was trading in the vicinity of US$11 today. Close out your position at or above US$11, for another 22% gain (on top of the 29% it produced last year.)

Xoma (XOMA:NASDAQ) also triggered our trailing stop on July 12. After rising from its January carryover level of US$9.75 to US$17.75 (a 82% YTD gain), the position was closed out at US$14.20, for an overall YTD gain of 45%. (That's on top of our 228% gain in 2000!)

Aramex (ARMX:NASDAQ) has made up some of last year's losses (when *Taipan* lost about 4% on the position). It's gained nicely since January, giving us in excess of 20%. Sell at or above US$10. We will discontinue coverage of this stock with this issue.

As you can see, there's always a way to make money on your *Taipan* subscription. (We will be posting our *Taipan* track record for the first two quarters of 2001 on the Internet simultaneously with this issue.) And once again, this issue is packed with recommendations for you. So let the dog out, put your feet up, and join me for yet another expedition into *Taipan's* World of Global Profits.

Fibonacci's Waltz

The NASDAQ's recent retrenchment is only a small step in the great dance… and the next move will be a big one

by Adam Lass

Three steps forward, two steps back. Get used to it: the market will be dancing this way for the foreseeable future. Not that this is a bad thing—a little dizzying perhaps, but actually an ideal pattern for the nimble investor.

Phenomenalists will insist that the market is reacting to the stimulus of Fed rate changes, profit warnings, and a continuous flow of despairing government reports. But students of technical analysis know that the market's recent spasmodic twitching is just a momentary pause in a long and graceful dance, a pause that can be tracked and predicted—but only by ignoring short-term news-driven hysteria.

Note how much more sense the NASDAQ's recent advancing and declining moves make when placed in the context of a standard Fibonacci retracement pattern. (For more on the great and powerful Fibonacci, see my article, "Where there's smoke, there's fire," in the May 2001 *Taipan*).

Grace… and profits

Every recent high and low falls neatly on predetermined support and resistance points. Transpose those steps onto a WaveStrength predictive chart, and what seems irrational and chaotic becomes elegant—and potentially profitable.

The trick to profiting from this waltz is relatively simple: the best stocks—companies that have every reasonable expectation of flying further and faster—will fly higher in an ebullient market. And even the most fundamentally sound blue chip will offer a better entry point with the weight of a falling market on its shoulders.

These techniques have set regular *Taipan* readers up for several nifty payoffs over the past few months. Last May, I used them to guide you to **Harris & Harris (HHGP:NASDAQ-NM)** mere moments before it popped up 50%. The same rules governed the timing of **Ceradyne's (CRDN:NASDAQ-NM)** move to US$9.50 in early June, and will control the destinies of both my Israeli tech plays, **ACS-Tech 80 (ACSEF:NASDAQ-SC)** and **Eltek (ELTK:NASDAQ-SC).**

Dancing to the bank

This rhythmic pattern will afford you multiple windows of opportunity as the market surges forward and then retraces its steps. The winners are always clear, and there is almost always a second entry point when you can take advantage of the pack leaders' temporary losses.

That's why, although my proprietary WaveStrength analytic system predicted the current retrenchment to a T, I do not advocate withdrawing from the market. In fact, just the opposite: I firmly believe that the next two quarters will offer repeated chances to snatch up prime Wall Street real estate at a substantial discount to true value.

And the best of those values continue to be in the downtrodden high-tech sector, which has suffered—for the most part, deservedly—from the collapse of exorbitant expectations. Perhaps they didn't deliver "every movie ever made in every room," as a recent Qwest ad campaign promised, but many "I" and "E" players that have focused on genuine business and corporate needs continue to thrive and grow, despite rumors to the contrary.

For example, the bright boys and girls at **Autonomy Corporation plc. (AUTN:NASDAQ-NM)** have come up with a new type of search engine that can rake through enormous piles of information and extract the nuggets that are relevant to you—if you're a Fortune 500 company, that is.

Wisdom in a box

We're not talking Jeeves or Google here. Autonomy's artificial intelligence programs can look at far more than just the Net. They can search videos, phone conversations, emails, microfiche, newspaper archives, book indexes—any place that a corporation has info stashed. They can turn it all inside out looking for gems, and deliver those nuggets to precisely the right person who cares, placed in a context he will understand and find immediately usable. *That's robot wisdom, baby!*

The advanced pattern-recognition technology that fuels Autonomy's software is based upon the work of Reverend Thomas Bayes, an 18th-century Presbyterian minister and mathematical genius. Based on Bayes's Theorem, Autonomy's software automatically processes "unstructured" digital content to identify concepts and establish relationships between pieces of information.

The golden chalice

This is the Holy Grail of corporate intranets. A way to make sure that everyone who needs to know knows, no matter where the facts are squirreled away. And a sizable list of major corporate players has already lavishly rewarded Autonomy for its discoveries.

The language independence of Autonomy's proprietary technology has provided a springboard for international expansion and enabled access to an ever-growing market and customer base. Autonomy now has full-service offices located throughout North America and Western Europe—as well as in Sydney, Australia, which forms the foundation of their Asia-Pacific operations.

With key relationships in Japan, Korea and Eastern Europe, they expect to expand operations into the Middle Eastern and Latin American markets such as Brazil, Mexico and Argentina in 2000 and 2001. All of these offices foster and manage key partnership networks, bringing together leading local integrators and global service providers.

Lining up to pay up

Over 425 Autonomy customers, 100 partners, and 35 original equipment manufacturers are discovering that the permutations are seemingly limitless. Indeed, some envision a world where Autonomy technology provides a completely automated infrastructure for all information processing.

Autonomy's launch in 1996 was based upon the unique pedigree and groundbreaking work of Cambridge Neurodynamics Ltd. Founded by Dr. Michael Lynch in 1991, Neurodynamics' software and systems stem from world-leading probabilistic modeling and digital signal processing technologies developed in-house from research originally undertaken by Dr. Lynch at Cambridge University.

Spreading like a virus

And as I write this, Autonomy has just announced that it has extended its reach into the manufacturing sector with the addition to its client list of Ingersoll-Rand, a diversified, multinational manufacturer of industrial and commercial equipment and components.

With information scattered across the globe, Ingersoll-Rand needed a way to automatically deliver and retrieve business-critical data for its 50,000 employees via the company intranet. Ingersoll-Rand implemented Autonomy Server and Autonomy Fetch to automate the aggregation, management, retrieval and delivery of information related to employees' projects and accounts from multiple unstructured sources worldwide.

Breathless

After years of dealing with solid nuts-and-bolts companies, AUTN's valuations leave me a little stunned. Its price/earnings ratio of 50.66 alone was enough to put me off my feed for a week. And when I saw that that ratio was a third higher than those of AUTN's competitors, I almost abandoned the play.

Small Steps

It just gets worse: at 14.74, its price-to sales ratio is similarly skewed, more than double the industry's figure of 6.6. I swear, I will never get used to the speculative valuations sported by these e-businesses. So I showed the numbers to some compadres who specialize in the sector and are numb to astronomical stats like these.

They pointed out to me that AUTN's saving grace is its growth and profitability figures: sales are up 25% Q-over-same-Q and 175% year-over-year, all without sacrificing a penny in profits. And this is where things really get phenomenal: gross margin is 94.42%, more than double the trade's 45%, while net profits ring the bell at 29.13%, 37 times the trade's anemic 0.78%.

Infinite

The simple story: the numbers may be speculative, but Autonomy's technology and business plan are not. The promise of the Net was that, once the product was invented, it would be infinitely reproducible at next to no cost. Most of the young kids pushing that remarkable idea were naïve at best, and totally full of it at worse. The folks at Autonomy really have figured out how to do it.

Buy Autonomy Corporation PLC. (AUTN:NASDAQ-NM) below US$7, with a twelve month target of US$21 and a -20% trailing stop. For more information, check out their website at www.autonomy.com.

MICROCAPS

Invest in your youth

This company is emerging as the top toy-maker in the U.S.

by Brian Hicks

Perhaps the most maligned person in history was Prince Vlad III Dracula, also known as Vlad Tepes. You may have heard of him under his Western nickname: "Vlad the Impaler."

Because it's Vlad's cruelty that most historians remember: After ascending the throne, Vlad allegedly invited many beggars and other old, sick and poor people to a banquet at his castle. When his guests had finished their meal and were drinking a toast to him, Vlad asked them, "Would you like to be without cares, lacking nothing in this world?"

Yes, they said enthusiastically.

So Vlad had the castle boarded up and set it on fire.

Nobody made it out alive. And his promise was fulfilled—they had no more cares in this world.

Apart from this inflammatory way of managing his social programs, Vlad's favorite form of execution was impalement. It was a slow death, often taking days. He liked to impale many people at once, arranging the stakes in fancy designs. Nothing was too brutal for Vlad—he also enjoyed having people skinned or boiled alive.

But Vlad's most memorable contribution to humanity was his quest for immortality. And he believed man's "fountain of youth" was to be found in the human body: blood.

Blood rubbed on the face was believed to make the skin look younger, more vibrant. And under Vlad's rule, fresh blood was always abundant. This is perhaps the source of the vampire legend that grew up around the figure of Vlad Tepes.

A fountain of youth has been one of the eternal quests of man. And I've found it. It's on eBay.

Through a child's eyes

No, I'm not recommending eBay. Quite the contrary.

You see, man's fountain of youth is found in his childhood. And last December, I found mine. I was scouring eBay's toy soldiers auctions when I also ran across hundreds of Marx playsets.

During the 1960s and 1970s, Marx was the largest and most successful toy company in the world—putting out such classics as *Fort Apache*, *Davy Crockett At The Alamo*, *Rin Tin Tin*, and, of course, *The Guns of Navarone*.

I was going to bid on a *Guns of Navarone* set from 1974, until the bidding broke above US$500. I think the winning bid was somewhere in the neighborhood of US$850.

(Just take this one in again: that's US$850 in cold, hard American currency for assorted unicolored blobs of plastic!)

More importantly, even though I couldn't see their faces, I knew for sure that the dozens of men bidding on these playsets were all around my age—in their early 30s. And all of them were trying to recapture their youth.

Toy Story, Part 3

"Buy what you know." Peter Lynch became a legend at Fidelity by espousing and exercising that principle.

I'm no Peter Lynch. But I do know this—I can detect a trend when I see one.

When I went toy shopping for Christmas last year, I noticed one thing: JAKKS Pacific was involved with all of the hot toy themes.

Now, I can't really say I'm a Vince McMahon fan. His monumental blunder with the XFL puts him in the same company as Howard Hughes and the Spruce Goose—incredibly stupid ideas that were doomed to failure even before they started.

But that doesn't mean Vince isn't a genius. He is. At wrasslin'. And the WWF has made a fortune off of McMahon's promotional brilliance.

As a result, the JAKKS Pacific toy company benefits from marketing WWF back-end products.

JAKKS Pacific struck a deal to market WWF action toys. This turned JAKKS into the fastest-growing toy company in the U.S.

But, knowing it couldn't capture the market with just one line of product, JAKKS is also offering a line of Harry Potter toys and activity sets, Battlebots, and Road Champs.

And they just inked a deal with one of the hottest British T.V. shows—Junkyard Wars.

This gives the company a leading edge over the rest of the competition. And as a result of JAKKS's foresight, the company's top line has exploded.

Don't take my word for it—check out the numbers

JAKKS Pacific (JAKK:NASDAQ) is quickly emerging as one the hottest toy companies in the U.S.

True to *Taipan's* philosophy of finding small stocks with massive top-line growth, JAKKS Pacific fits the bill perfectly.

Take a look at the graphic above: JAKKS's revenues grew massively between the years of 1997 and 1999.

And although revenues grew 37% between 1999 and 2000, the company still expects to enjoy +17% sales growth this year—generating revenues of US$295 million in fiscal year 2001.

As I write this, JAKKS is trading for just US$18 a share.

Currently, the company has a market cap of about US$327 million. If you subtract JAKKS's cash position of US$52 million from its market cap, you get an enterprise valuation of US$275 million.

Going by its enterprise valuation, the stock has a very attractive price-to-sales ratio of about 1.0. Remember, if the company is growing, a P/S multiple of 1.0 is compelling: for every dollar the company brings to the top line (revenues), the market awards it exactly US$1 in valuation.

So if you assume JAKKS can maintain a market cap equivalent to its sales, then we can accurately say that JAKKS is trading on par with sales.

But nothing tweaks me more than the EPS growth rates compared to the stock's P/E multiple, also known as its PEG ratio.

PEG ratios are little used. But they should be the basis of every small cap investor's analytical criteria. Because the PEG ratio helps determine if a small cap stock is a bargain or not. Basically, it compares the company's stock price (in terms of its P/E) to its growth rate. A reasonable market price would be one that puts the P/E ratio at the same level as the earnings growth rate.

According to this premise, a company that is growing at 20% per year should be awarded a P/E of around 20. The idea is to determine the future value of the stock.

Now here's where it gets interesting. JAKKS Pacific is expected to grow the bottom line by 36%. Yet the stock is trading at a P/E multiple of 13. In terms of PEG, it's at 0.36. A PEG ratio of 1 is fair value. Anything less than 1 is considered to be undervalued.

In other words, JAKKS is trading at a 64% discount to its earnings growth. A fair market value would be this: a P/E of 36 multiplied by US$1.92 (estimated EPS for next year) = US$69.00.

Right now, the stock is trading at US$18 a share.

I think a 50% gain over current levels is easy. **Buy JAKKS Pacific (JAKK:NASDAQ) under US$20 a share.**

IPO TRADER

Cash in on a company that's benefiting from the market slowdown!

by Siu-Yee Ng

The first half of 2001 has come and gone. And good riddance! In Q1, a mere 17 new deals raised a measly US$8.1 billion dollars—compared to the 128 IPOs raising US$31 billion during the same time last year.

The second quarter wasn't all that promising, either. There were only 3 IPOs in April, raising US$621 million. But things started to pick up in May and June: 23 companies went public during this time, raising a whopping US$17 billion.

Excitement began to build. Investors saw the second biggest IPO in U.S. history with Philip Morris's spin-off of Kraft. The world's largest coal company, Peabody (BTU:NYSE), decided to capitalize on the public's growing demand for fuel. Not to mention the much-hyped debut of the world's largest electronic stock trading marketplace, Instinet (INET:NASDAQ).

IPOs were big in almost every way, from deal size to hype. But they failed to deliver the big returns the market once saw. Don't get me wrong. Performance was very healthy. A total return of 19% is not so bad, especially when it outpaces the Dow, S&P, NASDAQ and Russell indexes. **We recommended you take the money and run with your profits on Riverstone**

Networks (RSTN:NASDAQ) in the *Taipan Group's 247profits e-Dispatch* on June 21… having originally recommended it between US$12 and US$13 in the February issue of *Taipan*. You could have bought it as low as US$7 in April, and sold at a top of US$24 in mid-May. Even if our recommended -20% trailing stop didn't kick you out at around US$20… now's the time to take your money off the table. (At worst, this was a quick 50% gainer for you… at best, you made over 300%!) But hurry: institutions and insiders will start unloading this stock very soon, in view of the upcoming lock-up expiration on August 14!

My March *Taipan* pick of **Biomarin Pharmaceutical Inc. (BMRN:NASDAQ)** was up between US$12.50 and US$13 from an entry price of around US$8.50. Given the strength the stock has recently exhibited, we say Hold. Just observe your standard -20% trailing stop!

But overall, we're just not seeing the unreasonable returns of the late '90s. And I'm not complaining. This creates more stability in aftermarket trading, and even allows you to get in at a reasonable price if you missed the IPO.

What's hot and what's not

The energy crisis made fuel a hot sector earlier this year—until the fear of price caps and other regulatory measures threatened these companies. They quickly fell out of the spotlight. This just shows how fickle investors are now.

Thus far, the biggest winner this year has been the health services industry. And this sector appears to have staying power. One of Taipan's IPO picks, **United Surgical Partners (USPI:NASDAQ)**, is operating well in this market. **Since its IPO on June 8, 2001, United Surgical is up a healthy 57%.**

So what's in store for the second half of the year? Healthcare and health services will remain strong. Financials are also looking good. And this month, we're going to look at a company that debuted on February 12, 1999, and is now trading below the offer price of US$6.

American National Financial, Inc. (ANFI:NASDAQ) provides title insurance, financial, and informational services—such as escrow, real-estate information, trustee sale guarantees, and appraisals—to the real-estate market. American offers specialized services to its customers, including tax reporting, exchange intermediary and courier services, and others.

American National's primary focus is on the residential real-estate market. Most of its revenues come from issuing title insurance policies as an independent agent on behalf of Fidelity National Title Insurance Company, a title underwriter.

For sale

During the early 1990s, home sales were relatively slow. But since the decrease in mortgage interest rates that began in late 1995, real-estate activity has increased dramatically, including refinancing transactions, new home sales and resales.

The overall economic environment, stable mortgage interest rates, and strength in the real-estate market, especially in California, contributed to very positive conditions for the industry throughout 1996 and 1997 and into the first half of 1998. As the Fed continued cutting interest rates, the housing market began to flourish in 1999 and early 2000.

But as the economy slowed down, so did the growth of the housing industry. To stimulate the economy, the Fed is once again cutting short-term interest rates. We've already seen six rate cuts this year. The rate of new home sales has reacted positively. It's not surprising to see this since the housing market is often the first area to respond to Fed cuts.

Buyers are anticipating a decrease in mortgage rates, so they see this as a favorable time to purchase homes. And this increase in real-estate activities will benefit American National Financial. I'll tell you why.

History repeating itself

Historically, as interest rates decrease, the number of housing starts rises. Historical data shows the correlation between mortgage interest rates and title policy premiums: as interest rates fall, the volume of title policies goes up.

Here's another bright side to this market downturn. Mortgage rates are down in part because of the six short-term rate cuts from the Fed this year. But it's mostly the longer-term bond market that influences mortgage rates, not short-term interest rates.

As the market hits lows that we haven't seen in two years, money has shifted away from stocks and into bonds. With an increase in demand for bonds, longer-term interest rates have dropped, and mortgage rates have followed suit.

If stock market performance improves, money will again flow out of bonds, causing upward pressure on interest rates, and mortgage rates too. It's the basic economics of supply and demand. So you can see why this is a great market environment for American National Financial.

Buyer's game

American National Financial was incorporated in November 1996, and in July 1997 acquired 60% of the outstanding stock of American Title Company (ATC) from Fidelity National Financial (FNF). In August 1997, under the control of American National, ATC agreed to purchase all of the outstanding common stock of Santa Barbara Title Company.

The company also formed its other subsidiaries, American Document Services, West Point Appraisal Services, West Point Support Services and West Point Properties, in 1997.

American National operates throughout California (nearly half the premiums come from Los Angeles and Orange County) and Arizona, and has opened offices in Florida and Tennessee. The company has also acquired National Title Insurance of New York, Bancserv, Pioneer Land Title, and Emerald Mortgage Assistance in its efforts to expand. FNF owns about one third of American National.

It's a positive sign to see American National expanding into other geographical areas. With the collapse of the dot-coms, California real estate has depreciated. Nevertheless, real estate in the Golden West remains high compared to other regions.

Cash cow

Since its incorporation in 1996, American Financial has steadily increased its income. Total revenues were US$15.4 million, US$30.9 million and US$65.7 million for the nine months ended September 30, 1997, the year ended December 31, 1997, and the nine months ended September 30, 1998, respectively.

The interest rate hikes and the booming economy of 1999 and the first quarter of 2000 ate into American Financial's bottom line in 2000. Remember, in a good market, money flows out of bonds and into the stock market, causing rates to go up. Refinancing transactions declined, personnel costs increased as a percentage of revenues, and operating expenses rose.

Net earnings for the year ended December 31, 2000, were US$2.0 million, compared with US$5.6 million for the year ended December 31, 1999. Revenues for the year ended December 31, 2000 were US$82.7 million, compared with US$89.3 million for the comparable 1999 period.

But things are picking up.

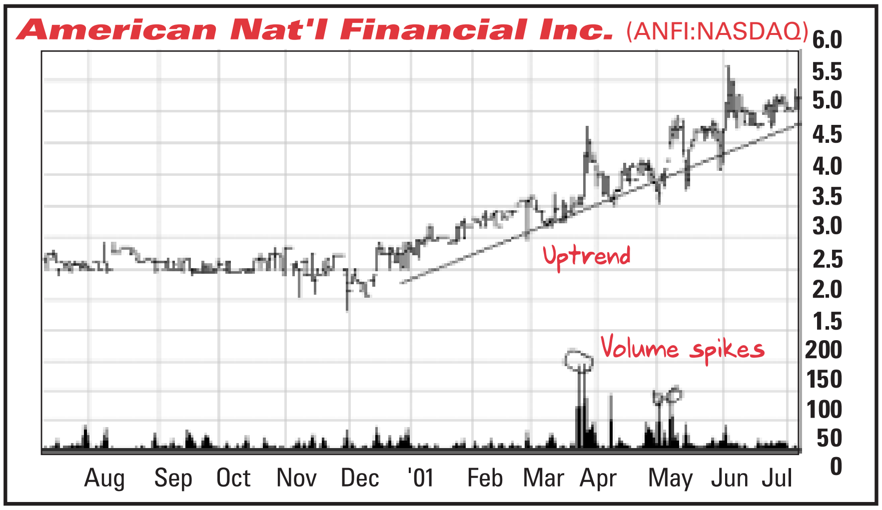
For the quarter ended March 31, 2001, earnings were US$2.3 million, compared to a net loss of US$332,000 for the quarter ended March 31, 2000. Revenues for the quarter ended March 31, 2001, increased to US$28.3 million, from US$17.7 million for the comparable 2000 period.

Cash benefits

American National recently announced a quarterly dividend of US$0.10 a share. This is its tenth consecutive quarterly dividend. We missed this quarter's payment, but we'll benefit from the next quarter.

To further increase shareholder value, American Financial has repurchased 894,000 shares of its common stock from Fidelity National Financial.

American National Financial has been on an uptrend since January. There was a volume spike in March. I think last-minute buyers were getting in to take advantage of the quarterly dividends.



American National has a market cap of only US$41.5 million. This is still a very small-growth company compared to its competitors. First American (FAF:NYSE) has a market cap of US$1.18 billion, and LandAmerica Financial Group (LFG:NYSE) has a market cap of US$544.2 million. LandAmerica is not generating any profits and it only offers a 0.66% annual dividend yield. American National has a P/E of 9.42 and offers a 7.65% dividend yield.

So you can see that American National has a lot of room to grow. **Wait for a pullback and buy under US$5!**

INVESTMENT OPPORTUNIST

Cash in like James T. Kirk
For the next 6 months, pre-IPO's the way to go

by Christian DeHaemer

In March of 1998, William Shatner took US$125,000 worth of pre-IPO shares in Priceline.com as payment for a commercial. One year later, it was worth US$7.5 million, and the good captain had the logic to cash in US$3 million worth when the share price was still at US$95.

In September of 1999, big-mouthed weltschmerz bard Alanis Morissette turned US$217,355 worth of pre-IPO shares from MP3 into US$41 million—more than she ever made from hit records, music videos or concerts.

"Isn't it ironic..."

Here at *Taipan*, your humble analysts are constantly on the lookout for wealth-building ideas and profit opportunities. We don't care if you make money buying equities, selling options, or franchising pony rides—just as long as you come out a winner.

It is no secret that fortunes are made by getting in early on pre-IPO startup companies. As luck would have it, our global network of spies has put me in touch with a unique business opportunity. And if you have the means, you have the chance to get in on the ground floor.

The homebuilding market is doing better than recently forecast, though it's off a bit from the record-setting pace of the recent past. The Commerce Department reported groundbreaking for new homes fell 0.4 percent in May, to a seasonally adjusted annual rate of 1.622 million units. That decline comes after a revised 2.3 percent increase in April. These numbers exceeded forecasts at an annual rate of 1.595 million in overall starts.

According to Fannie Mae, the housing market should continue its strong performance through 2001 as the economy rebounds and long-term interest rates stay low. New home sales are expected to climb to a record 889,000 units in 2001.

You ungodly CAD

Most home improvement money is spent on refurbishing the bathroom or kitchen. US$30 billion is spent on architectural surfaces annually. Ceramic tiles, stone tiles, and terrazzo together account for 12% to 16% of that US$30 billion.

Mosaicad is a start-up company that uses computer technologies to custom-build intricate mosaics at a fraction of the cost it would take to import a sweaty little guy from Barcelona. And the installation is about 20% faster. These tile mosaics are sold through high-end specialty tile stores, but can also be purchased directly from the company's online gallery (www.mosaicad.com).

The process begins with a computer-aided design (CAD) program such as Adobe Illustrator or AutoCAD (proprietary design software is in beta). Customers can start with a photograph or a sketch and customize their own mosaics themselves or with the help of an artist. Or they can pick from a gallery of ready-made designs—suns, moons, petroglyphs, flowers, fish, Greco-Roman nudes, they have it all.

On a tangent, artists who wish to build a series of signature mosaic designs can build a profit chain, as these will sell at a 10% premium.

The customized CAD mosaic is attached to an email (just like a spreadsheet or a Word document), sent to the production house, and is spit out the other end ready to mail back to the consumer. The finished product is joined together by non-corrosive wire mesh, and comes in squares up to 12 by 12 inches.

Better, cheaper, faster

The best part about this whole Bob Villa-esque affair is that each square foot costs only US$40 to US$130, depending on the type of tile, compared to US$150 to US$800 per square foot for the old fashioned way.

The market for Mosaicad's US$130/sq. ft. mosaics is estimated to be US$150 million. The market for the US$40/sq. ft. mosaics is estimated at US$300 million. Mosaicad believes that it can boost sales and margins as it lowers costs through increased manufacturing efficiencies.

Marble market

Ceramic tile sales are up 74% since 1992. As people move away from the staid beige of their parents' split-level, they want style. Tile dealers report an unprecedented demand for custom marble-chip mosaics. This is Mosaicad's market to conquer, as it has installation, cost and design advantages over traditional marble mosaics.

Mosaicad's mosaics can be made to look like classical handmade mosaics costing far more. But Mosaicad also brings the art to a whole new level. The company can create, for an affordable price, mosaics that have never before been seen… or even imagined. In a very real way, Mosaicad has created a whole new art medium that is both mass-produced and customized.

"Poetry in Motion," 6'x36' mural

Cash cow

Current production costs average US$17/sq. ft. for multicolor glazed porcelain. Mosaicad's wholesale prices range between US$50 and US$64.50/sq. ft., and its products retail online for US$99 to US$139/sq. ft.

FOLLOW-UP: GONE, BUT NOT FORGOTTEN

by Briton Ryle

If you followed our recommendations in the Taipan Group's 247profits e-Dispatch or on our website, you took profits on **Hanaro Telecom (HANA:NASDAQ)** at US$2.60 a share. Taipan members who bought on my recommendation got in at around US$2 a share, for a 30% gain in six months.

Hanaro is in the sweet spot of an exploding high-speed Internet market in South Korea. In a near-perfect world, Hanaro stock would be around US$9 a share. But the world is far from perfect these days.

And that was the basis for my sell recommendation. Volume has all but disappeared for Hanaro. That tells me that investors have no time to worry about the South Korean economy. There's plenty to worry about right here at home, thank you very much.

I believe there'll be another opportunity to buy Hanaro around US$2 in the near future. We'll keep you posted.

Third time's the charm

Geoworks (GWRX:NASDAQ) is in the process of completing a triple bottom. And the Bollinger bands are as tight as any I've ever seen. I continually read the company's financial reports and press releases, and I've been unable to find a catalyst for a move up.

But from a technical standpoint, this stock is wound tight. Any good news could spark a 50% rally in a matter of days. **As a technically-based speculative trade, buy some Geoworks (GWRX:NASDAQ) under US$1.40 a share, in anticipation of a rally to the US$2 level.**

Take a flying leap

In a special members-only article on taipanonline.com, I profiled a company called **Navigant International** as a play on the corporate travel market. Despite the company's absurdly low valuation at the time of the article, I advised Taipan members to wait for an entry price of US$12.

The basis for the US$12 entry price was my anticipation that the corporate travel market would suffer a slowdown, along with everything else. On July 2, 2001, Navigant warned that revenues and earnings would be lower than expected because of dwindling bookings.

The news took Navigant down to US$12.50, just shy of my entry price. The stock has since rallied to US$14 on the news that Navigant has been named to the Russell 2000 Small Cap Index. So we think it's time to raise the entry point. **Buy Navigant International (FLYR:NASDAQ) at or below US$14.**

At these prices, gross margins are projected in excess of 75% retail and 60% wholesale. That's good. And it should be enough to support a local and national marketing effort, as well as continued R&D.

Projecting success

Mosaicad believes that it will grow from US$35,000 in sales today to US$250,000 next year and one million the year after. The company expects at some point to achieve annual sales of US$10 million and annual profits of US$3 million.

Now, I can't guarantee that this company will come even close to these projections. There are many risks in business, as there are in life. But I can tell you that I like the product, and the management comes to me well recommended.

Mosaicad is seeking funds through an initial-round private placement offering, to be used to hire staff, scale up production, continue a strategic marketing program, complete the mosaic design software, and establish additional barriers to entry beyond the original patent.

ACTION ALERT

If you are an accredited investor who wants to find our more about this opportunity, please contact: Lance McKee, CEO, Mosaicad, 40 Jackson Street, Worcester, MA 01608, home office phone/fax 508-752-0108, cell phone 508-868-2295, email lmckee@mosaicad.com, website www.mosaicad.com.

INCOME INVESTOR

Cash in on mortgage demand : Impac's vanishing tax loss could produce profits of 50%

by Charles Wolpoff

You probably never heard of **Impac Mortgage Holdings, Inc (IMH:AMEX)**. For a good reason.

But that doesn't mean there's no money to be made. In fact, here's a company that's poised to make money no matter what.

Because IMH is a mortgage loan finance company that invests mostly in non-conforming, high-yield mortgages. Non-conforming mortgages are those that do not qualify for purchase by federal agencies.

It's a small company, with only US$146 million in market cap, barely one tenth of one percent of the mortgage investment industry. Oh. And it's a REIT—a real estate investment trust. Most figure those are just for people looking for income and defensive plays.

Impac has thus far flown under the radar of most analysts. Meanwhile, like a rocket on speed, the stock price has shot up from under US$2 to more than US$7.

One reason more attention hasn't been paid to this high-flying stock is that the company's been piling up nothing but losses. Losses that have helped to hide the stock from the public. Which should give you a chance to get in while there's a lot of fuel left in this ride. After all, the stock went as high as US$18 a few years ago.

Magic act

You see, there's magic in the making. The losses have been misleading—and are about to disappear. In the last twelve months, the company lost almost US$18 million, with net profit margins of minus 11.50 percent.

BUT… those ugly, ugly numbers are actually the result of a tax loss carried forward that IMH has been using to offset income. And its income has been growing at a faster pace than expected.

IMH reported income of US$7.5 million in the first quarter of 2001, as compared to US$1.4 million for the previous quarter. And that income has been tearing into those tax losses like a hungry bull shark. Perhaps as early as the third quarter of this year, the tax loss will be all gone, meaning the company will start to recognize taxable income.

So what, you ask?

Well, first of all, with the tax loss out of the way, the red ink will quickly turn to black, meaning more investors—and analysts—will start to take note. More specifically, income investors will get interested. REITs are required to distribute at least 90% of their taxable income to investors. So with the tax loss gone, the company should soon resume paying dividends.

At one point, back in the glory days of 1998, the dividend reached 49 cents a share. Investors will once again start to get a steady dividend, as well as the potential for sizable capital gains.

Mortgage mania

Impac is also benefiting from an upswing in the cyclical mortgage industry, aided significantly by sink-

ACTION ALERT

To contact Impac, call Investor Relations at 949-475-3700. Their website is: www.impac-companies.com.

ing interest rates. Which is only fair, since the mortgage industry had been suffering in recent years from the low rates dictated by the inflation-wary Alan Greenspan.

Mortgages are getting cheaper. Companies issuing mortgages, and charging fees to do so, see more business coming in their doors.

They also get to borrow at lower rates, while selling mortgages tied in at higher rates. And, because a significant portion of IMH's high-risk and high-yield loans charge prepayment penalties, the effect of potential refinancing due to low interest rates will be limited.

IMH is a good play on the recovering mortgage market. With and interest rates continuing to fall, this industry is ripe for the plucking. **Buy IMH no higher than US$7.20 before, not after, you start hearing more about it.**

FUTURE FILE

The future of power

by Jay Salomon

Back in 1994, *Taipan* introduced you to a truly innovative technology: American Flywheel Systems, Inc. of Bellevue, Washington had developed an electromechanical flywheel battery system (EMFB) that promised to power all kinds of energy-consuming machinery—from cars to satellites to power tools.

Our hunch seems to have been right on the money; in fact, we're even more excited about flywheels in light of the current energy woes. AFS merged with rival Trinity Power Corporation in December 2000 to become an industry powerhouse.

While automotive applications of flywheel technology have thus far failed to materialize on a serious scale, AFS has turned to government contracts in new arenas. DARPA (the Advanced Defense Research Project Agency) provided much interim seed money, particularly for the development of an electronic vehicle drive for stealth applications.

AFS is now applying flywheels to space technology, especially in satellites. (Payloads are critical and the goal is to reduce the weight of batteries, transponders and other structural and mechanical enablers.)

NASA wants to replace the heavy batteries on its stations and spacecraft and has provided several grants to research the incorporation of flywheels into its systems.

Down to earth

But even as the company focused its attention on the stratosphere, they plowing ahead with applications for reliable distributed power generation on the ground.

Just as mainframes have been pushed out by powerful PCs, the power grid itself is now being supplemented by on-site distributed generation for large numbers of users. And flywheel technology has critical advantages over gasoline or oil-powered generators and chemical battery systems. They require no fuel. They're compact. And they have life spans of up to 20 years.

Flywheel batteries deliver power instantly, follow the load, are cost effective, pose no environmental problems and eliminate the operational problems that plague their chemical cousins.

Vision of the future

The attractiveness of this emerging industry can be determined by two recent IPOs. In August 2000, Active Power completed the first IPO involving flywheel powered products, and was recently valued at over US$1billion; in November 2000, Beacon Power completed a second flywheel IPO, with a recent valuation of about US$330 million.

While all three companies produce similar products, AFS Trinity flywheels are smaller and lighter overall, and have a real advantage in their ability to recharge quickly. AFS makes the most efficient rotor, the most advanced bearings, and provides the greatest versatility for different applications. At the same time, the potential market is so vast that room exists for all three.

Taipan Feature: The Art of Options
Reduce market volatility, hold stock, and protect your gains: playing "puts" for fun and profits

by Bryan Bottarelli

You want to know if the worst is over? If you can safely buy stock again?

My response: Who cares what the markets are doing? Mind you, I'm not completely indifferent to moving markets. Quite the contrary.

Investing is a game that revolves around taking what the market gives you and profiting from it. Profiting no matter what the markets are doing: that has been the Taipan Group's motto since our inception back in 1988, as the members-only publication of the profit-seeking Passport Club…

If you subscribe to *Options Underground*, you're familiar with my approach to protecting stock positions with downside option "puts." And you're also familiar with the gains your option puts have made you, like 63%, 177%, 125%, 34%, and 87%. Now, it's time to start applying this winning strategy to our new *Taipan* recommendations.

Volatility = being long on stocks

As a hedge against these violent swings, I am going to be implementing a new twist in *Taipan*, one involving stock options. Now, don't get scared off. Sure, options are esoteric. And sure… you can lose your shirt on uninhibited options gambles.

But, when used in a limited, controlled way, they can make you huge profits and protect your stock gains at the same time.

Whenever you open a new position in a stock, you can simultaneously buy an option "put" on that stock. One great place to find option price listings is on Yahoo Finance. Just enter your stock's symbol and follow the links to the options listings.

Buying an option put will serve as your hedge against your stock going down. Think of the option put as an insurance policy.

Sure, a hedge will cut into your profit margin, but it will also cut down on your losses.

The basic idea of hedging is simple. Invest in something that moves in the opposite direction of your investments. When your hedge loses money, your investments make money. When your investments lose money, your hedge makes money.

The key to successful hedging is spending as little as possible on your hedge. A hedge should cover potential losses without eating away too much at profits. If your US$10,000 stock portfolio appreciates 10%, and your hedge costs US$1,000, you don't make any money.

Options are the best way to leverage yourself and your stock portfolios. An option put is the right (but not the obligation) to sell 100 shares of stock at a specified price and a specified time. Puts (and all other options, for that matter) allow you to take positions in the underlying stock with a minimal amount of capital. Most times, it's pennies on the dollar.

For example, say you buy US$10,000 worth of Amgen stock. Using this new hedging strategy, you will also buy an "at the money" put option. (You're buying Amgen stock for US$60 a share, and simultaneously buying a put—which gives you the right to sell 100 shares of Amgen for US$60 a share.)

Currently, these options cost roughly US$5 per share, and they'll give you the right to sell 100 shares of Amgen stock for US$60 a share (US$6,000 worth of stock) for US$500 (US$5 premium/share multiplied by 100 shares). You only have to put 8.4% down for the right to sell the stock for US$60.

This means if Amgen (which you just bought for US$10,000) ticks down to US$56 a share, you'd lose roughly US$800. But your option put, which appreciates as the stock goes down, would cover those losses. After a while, you'll see that you can double or triple your money on a premium if the stock goes down only a few points.

With the NASDAQ continuing to sell off, I suggest contacting your broker and getting your accounts set up for options trading. I foresee a robust end-of-summer rally, and when it happens, we want to be ready to protect our gains.

For more information on options trading, log on to *Taipan's* newest options trading service: www.indxtrader.com.