



TAIPAN

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The Meaning of "Is": Wary Taipans make a mint as the Dow crashes time and time again!

by J. Christoph Amberger



Remember the 90s? An era in which complex philosophical conundrums were pondered in public, if there ever was one. Like: is oral sex covered under "sexual relations"? Or: what is the meaning of "is"?

Paradigms shifted without clutch, and investors poured money into start-ups whose CEOs sported Maynard Crabbe goatees and ugly shoes as proud statements of perma-adolescent rebelliousness.

New Economy math supplanted earnings (let alone profits) with razor scooters and nose piercings. GNP grew, bolstered by unholy amounts of stock transactions and investment "gains."

Watching the President of the greatest nation on earth sheepishly niggle his way out of yet another slippery affair made for primetime entertainment.

So who can really blame the Armani-suited crooks at Enron, WorldCom and Arthur Anderson if they, too, took their cue from popular culture. (After all, finding creative new ways to redefine corporate "profits" is child's play compared to the theological underpinnings required to parolocate extramarital frolics in the Oval Office...)

Unfortunately for all of us, the market is still digesting the legacy of the 1990s-style pushing of legalistic envelopes. The can-do generation of the Clinton era sure did a number on the most hallowed precepts of capitalism.

Time to pay the piper

Back in the early 1990s, when they were still selling pieces of the Berlin Wall and Boris Yeltsin was a fresh face on the happy hour circuit around Lenin's tomb, I had the opportunity to interview two American visionaries who were setting out to introduce a new entrepreneurial magazine to Eastern Europe.

Its name was "Profit." And within a year or so, its concept was deader than a doornail. You see, "Profit" was a dirty word in the newly reformed Eastern Bloc countries. (You might as well have tried selling a magazine called "Bazooms" to the Mormon Tabernacle Choir.)

The two enterprising Americans were clearly ahead of their time. Today, Eastern Europe, save for some ne'er-do-well codgers, has fully embraced capitalism. The Moscow stock market is roaring while the American and Western European markets limp along. And the young Polish colleagues at the Krakow office of our German partners have impressed me far more than the U.S.-trained academics I've had the questionable pleasure to work with in the past.

Capitalism, if your recall, is built around the concept of profit. Which is what you end up with if your expenses are less than your total revenues. If

(over, please...)

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you want to have more profits, you need to increase revenues or cut expenses. Or both.

But here's exactly where the legalist philosophers at Arthur Andersen, Enron, and maybe even Merck came in. (Though the Merck case cannot be considered along the same lines as Enron.)

The current accounting scandals are not at all the product of capitalism run rampant. By their very nature, they are clear affronts to the capitalist philosophy, creating profits not by increasing revenues or cutting costs, but by redefining the terminology.

The natters and pundits who are "losing trust in the system" conveniently overlook that it is the very system that is purging the abuses as we watch. And, of course, there is no other viable system: In fact, all planned and state-run economies historically have been examples of the same undiluted corporate corruption we're now seeing emerge in individual cases from the Arthur Andersen corporate client list.

"The Dow is CRASHING...take profits NOW!"

In last month's issue of *Taipan*, our *WaveStrength*TM market oracle Adam Lass made a stunning prediction. His system indicated that a frightful drop in the Dow was imminent. A drop so steep it would reduce the Dow to levels not seen since late 1998.

It was serious. So serious, in fact, that I decided to warn Taipans ahead of time. I usually don't like to mess with our publication dates... but this one called for immediate action: Using our daily e-Dispatch, the taipanonline.com home page, and our instant alert posting system at 247profits.com, we warned our members what was coming: the Dow was about to drop. And drop it did.

And again, our electronic warning system was called into action: on Wednesday, June 26, 2002, at 10:36 A.M., as investors ran screaming for cover, we followed up our warning with an instant profit alert. Bryan Bottarelli's breathless missive read:

"Two weeks ago, Adam and I sent you a special alert warning of a major Dow sell-off. To profit off this plunge, I recommended two Dow puts. One was the Dow 100 December 2003 put and the other was the Dow 102 December 2002 put. Both of these options gave you the right to sell the Dow anytime before December of 2002 and 2003 for 10,000 and 10,200, respectively. The buy price each option was executed for was

between US\$8 and US\$9 per contract.

"As I write this, both contracts are trading above US\$14.00. This represents a gain of between 64% and 75% on both options!"

There's more to come

Can it all be blamed on Osama bin Laden and Arthur Andersen? That would be too easy. In fact, these drops were ALREADY in the system. Just look at several interesting parallels between the two events.

By 9/9, the NASDAQ was already off 3,463 points from its 2000 high. As gory and horrifying as the events of 9/11 were, when the market reopened, the NASDAQ "plunged" only another 282 points.

Adam Lass comments:

"By the time the clowns at WorldCom fessed up, the stock had already fallen from US\$16.06 a share to less than a dollar. The news-driven plunge last month only took WCOM's already worthless paper down to about US\$.80. Clearly, in both circumstances, the damage was done prior to the supposed triggering events.

"The real reason that the market is groveling today, while certainly related to this latest accounting scandal, is simply the continuing wave pattern of more disgusted investors leaving the market at the bottom of each dip than enter it, hat in hand, during each forlorn, pathetic rally. It is that wave pattern that *WaveStrength*TM quantifies, and that quantification that yields our superior predictions."

Adam's warning... *updated and fine-tuned based on the latest trading date on page 4 of this issue...* still stands. We take it seriously. Just look at the chart: it is so accurate it even defined the appropriate levels for Bear Traps in the past four weeks!

The plunge in the week after July 4 saw the Dow slam on the brakes a mere 100 points away from Adam's high probability target at 8,500. And if our system is right, the worst is yet to come: the potential low at 6,800 still comes with a comparatively low probability. But it's less than 1,800 points away from becoming reality. We have watched the Dow shed more than that in the last three months!

Black list

Investors have now suffered a compounded loss of market value of nearly US\$7 trillion (based on a 41+% decline since March 24, 2000). Just wrap your mind around that figure: 7 trillion!

And they could lose another trillion in the next four weeks simply based on an impending wave of new disclosures. *Taipan Trader's* Chief Trading Strategist, Briton L. Ryle, wrote the other day:

“With earnings season approaching, I’d suggest that it might be worth any investor’s time to do a little digging for himself. And a great place to start is with a list of former Arthur Andersen clients.

“You’ll find Oracle, Freddie Mac, Merck and many others. I’m not pointing any fingers here, mind you. Most companies probably do a pretty good job of keeping their noses clean.

“But now that the SEC has published a list of companies ordered to certify their financials, those that aren’t keeping it clean are in a pinch. And the SEC’s certification order goes into effect immediately. Which means this earnings season could get really interesting.

“As of August 14, the SEC will hold most corporate officers personally responsible for the accuracy of their financial filings. With earnings season upon us, many of the companies who report in the next few weeks won’t get their actual filings in until after the cutoff date. Those books better be squeaky clean!

“Over the last two weeks, I’ve already nailed one accounting scandal with Vivendi/Universal—and turned it into triple-digit profits for my readers. My *Taipan Traders* made 480% and 206% as the stock dropped from US\$32 to US\$18. We’re currently on our third Vivendi trade in just over a month. And it’s up 72%.

“Why should bad-to-the-bone suits be the only ones profiting from their financial shenanigans? I’ve got a couple more of these ‘problem accounting’ trades I’m looking at right now for my *Taipan Traders*. But in the meantime, take a look at Oracle. It’s high on my list of potential bomb-droppers. And those August 10 put options are pretty cheap...”

Of course, it was just a few days later that the bad news about Merck hit the mainstream media. You read it here first.

Schizoid dichotomy III

Are the markets completely out of synch with the U.S. economy, or are they the only true indicators of things to come? I think that over the last couple of years, the markets’ role as a reflection of real economic growth has changed dramatically.

U.S. manufacturing, for one, appears to be on the path to recovery... no matter what the markets are doing. The Manufacturers Alliance/MAPI reported that its composite business index rose to 63% for the quarter ending June, the highest reading since June of 2000. Shipments rose to 68% (up from 53% in March). Inventories rose to 30% from 20%, and export orders climbed to 52% from 38% in Q1. Those are substantial gains!

The U.S. economy continued to strengthen: the Commerce Department published new data for Q2 2002 U.S. GDP growth. Gross domestic product grew at a

revised rate of 6.1%, up considerably over earlier estimates of 5.6% growth for the quarter.

The Institute for Supply Management reported that its key gauge of manufacturing activity rose to 56.2 in June—up from 55.7 in May. (Readings above 50 indicate economic expansion.) The ISM’s production index even jumped to 61, the highest since June 1999. New orders rose to 63.1, and employment to 49.7.

Overall, I felt vindicated: my introduction to the July issue of *Taipan* was entitled “Schizoid dichotomy”... and examined the apparent disconnect between market perception and economic reality. At this point, the rift can be expressed by the distance between the positive and negative growth rates of markets and economy. (That would give us about 12 points, give or take a few decimals.)

Profit Parade:

Meanwhile, even a bad market is no excuse for not making profits. Even if some of them are generated by risk-control features:

Stop losses snapped to attention for our January 17 and the February 27 positions in **Key Production Company, Inc. (KP:NYSE)**. On June 5, they were closed out for gains of 9.19% and 17.59%, respectively. On June 20, the trailing stop bell tolled for the January and March positions in **Ao Taftnet (TNT:NYSE)**, yielding gains of 21.76% and 23.61%, respectively.

And on July 12, Adam Lass used our Internet presence to close out the remaining open positions in his Oil Patch portfolio. The January and February positions on **Devon Energy Corp. (DVN:AMEX)** brought home profits of 25.58% and 26.40%, respectively.

On June 19, *Taipan's* World Investor, Christian DeHaemer, wrote:

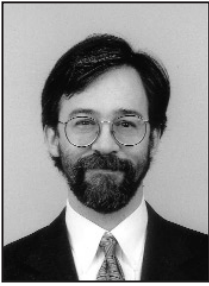
“It’s time to take up to 72% profits on **IBN:NYSE**. I know, it’s not as much as I believed we could squeeze out of this play after the run-up above US\$8 last week. But still, it ain’t bad for 5 months. ICICI Bank has taken a turn for the worse. There was no follow-through after the breakout from the triangle formation. The system tells us to sell if it breaks the trendline at US\$7.35. This has happened. Plan your trade and trade your plan—bank 72% profits on ICICI Bank.”

And again...

I know I have been saying it for a year now: In today’s market environment, you have to be able to act fast. But you only can act fast if you take advantage of the fastest information transmission system at your disposal. That’s why I urge you to make daily use of our 247profits e-Dispatch. I consider it so important to the *Taipan* strategy that I won’t even let another writer touch it. It’s yours free... just sign up for it at our taipanonline.com or 247profits.com home pages. We don’t rent or sell your email address... but you get the latest and most urgent news straight to your email account *each and every trading day*.

Waves of pain

Why Bush's attempts to prop up the market are destined to fail



by Adam Lass

Forget 9/11. There is worse to come.

No, no, this is not about the dastardly deeds of the terrorists or the wonderful heroism of the NYFD and NYPD. These acts should and will live on forever in our collective consciousness. I am referring specifically to the market lows set in the weeks

following the events of last September.

Over the past few months, I have demonstrated quite conclusively how that day's events were relatively meaningless as far as the market was concerned. I say conclusively, because, as I sit down to write this, the NASDAQ has moved below that disastrous day's benchmark low... despite our ostensible victory on the ground in Afghanistan.¹

Worse yet: however dramatically bad the news has been concerning the "bubble-driven" NASDAQ, the looming danger to—and from—the Dow is far worse.

Now it is clear that we are no longer discussing whether the market will crash *but rather how far*. I will share with you my latest calculations on the Dow's rather dark future in a moment or two, as well as what I mean by danger to the larger market from the loss of investors' faith in the Dow.

A long, hard look at the "short" story

All the recent talk of insane buyers and crooked sellers rang awfully familiar to my ear, leading me to spend some serious time on the couch with my dog-eared editions of Mackay and de la Vega in search of a bit of *der lange Atem* (German for the long view or more literally "long wind").

For those who aren't cozy with the financial classics, Charles Mackay was a multitalented chap, proficient at journalism, poetry and songwriting. (Imagine the reception a résumé like that would get these days at the Wall Street Journal?) His 1841 *Extraordinary Popular Delusions and the Madness of Crowds* is the source of most of the modern language of bubbles. Someone starts to rant about herd mentality, tulip mania, or South Sea Fever, they are probably cribbing from Mackay.

While Mackay's prose is a bit archaic, his basic theory is still of interest. He stipulates that, while any given adult may be reasonably intelligent, as soon as they gather into groups, they are prone to "avaricious frenzies." Indeed, he basically blames all sudden market booms and crashes not on the snake-oil sellers who pitch the stuff but rather on the compulsive foolishness of large groups of investors as they attempt to pile on to a perceived "good thing."

Most commentators are partial to his dramatic recounting of a sailor's accidental meal of a priceless rare bulb during the Dutch tulip mania. Personally, I prefer his tale of the fiduciary genius, professional gambler and ladies' man John Law, whose insanely popular Mississippi land bond scheme is reputed to have triggered the French collapse of 1720 (in fact, the French government was already teetering on the edge of bankruptcy due to the profligate habits of Louis XIV and his cousins and minions).

This preference is purely due to a tickled ego on my part: according to Mackay, the French, in order to avoid the ungainly and un-Gallic "aw" phoneme, addressed Mr. Law as "Monsieur Lass." Unfortunately, there is no familial connection that I know of.

Clandestine conspiracies

More germanely, it was in Mackay's analysis of John Law's "Mississippi Scheme" that rocked the French markets in 1720 where I first encountered Defoe's epigram on market schemers:

*Some in clandestine companies combine;
Erect new stocks to trade beyond the line;
With air and empty names beguile the town,
And raise new credits first, then cry 'em down;
Divide the empty nothing into shares,
And set the crowd together by the ears.*

By placing this quote so prominently in his treatise, Mackay would appear to undercut his own thesis, backing instead the ideas expressed by Joseph Penso de la Vega in 1688 to the effect that it's all just one big con job.

The fixers

In his *Confusión de Confusiones*, this wily veteran of the Amsterdam stock exchange² insists that the market's apparent erraticism is hardly the result of madness. Rather, the herd is being deliberately led astray by sly market manipulators intent on reaping enormous gains by lightening the pocketbooks of gullible investors.

De la Vega declares that the market only appears to stumble drunkenly because you cannot see the sub roseate actions of cabals and consortiums: *...at the stock exchange innumerable men try with Herculean strength to catch the Fly of Money* [a bit of a pun here: the Spanish word "mosca" can refer to both insect and coin], *and for this purpose, many speculators spread poison and invisible threads*³...

More than 300 years ago and those in the know were already referring to the "enigmatic business" as a "paragon of fraudulence." So it's probably a little late for anyone to run crying from the table.

Depressed investors

But cry they will, and I'll tell you why. These accounting crises will continue to hold the headlines... and continue to depress prices... for the simple reason that they excuse buyers of overvalued paper from their own stupidity. If the whole "bubble" was really just a question of fraudulent bookkeeping, then it wasn't their fault if they sank their life savings into Pets.com.

Right.

Now you know why my long-term stock holdings are at zero. Nil. Nada. How can you use any of the accepted metrics—be they value- or growth-oriented—when your inputs are poisoned? The only method that continues to make sense is to measure the ebb and flow of the buyers as they reel about. In other words, merciless short-term trading using technical analysis in general, and *WaveStrength*TM in particular, has become the only acceptable modus.

Ill and ill-fated

As to my market forecast, the waves of investors heading for the exits have brought the Dow to within a gnat's whisker of the high-probability target I wrote to you about last month. **Now, having fulfilled my secondary prophecy of a Fibonacci-driven rebound, the probability of another 500-point drop is so high as to seem fated.**

In fact, I think it's safe to say that the Dow's recent low of 8,831 was not a "buying opportunity." Rather, the subsequent high of 9,435 may have been the last exit

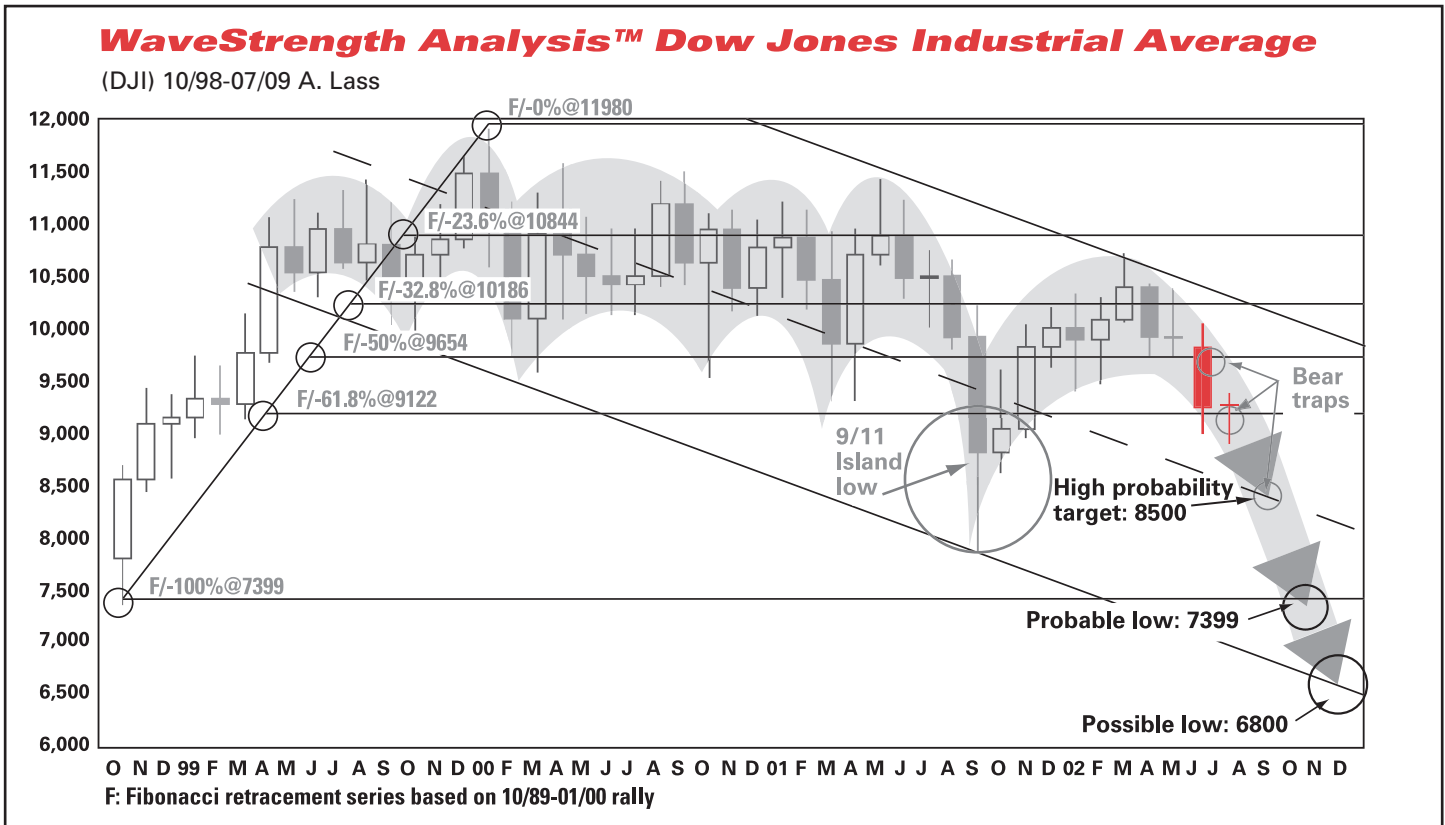
before a very long express ride to a very dark place.

Let's take a look at the chart. Once again, I am using a chart of the Dow Jones Industrial Average marked off with monthly Japanese candlesticks. I have noted a Fibonacci descending retracement grid using the run-up from the October 1998 low of 7,399 as the -100% mark and the January 2000 high of 11,980 as the -0% mark. Additionally, I have indicated the subsequent falling trend as well as the wave pattern within that trend. Finally, I show a series of three probable targets and three bear traps.

Waves of pain

This chart was first published on June 12 on the *Taipan* website, and the only alteration here is the introduction of subsequent market action. I'd like to point out two items worthy of special attention: First, note how precisely the recent plunge hews to the downstroke of the current waveform. Second, observe how close June's open and close are to the Fibonacci -50% and -61.8% markers, respectively.

These are important benchmarks in my system. These precise confirmations of the predicted pattern indicate that the market's perception of the gestalt—the total available information load—remains constant. Whereas significant variations from pattern would indicate the introduction of new information into the herd's consciousness, the lack of variation greatly increases the likelihood of an equally precise follow-through.



In plain English, this market is on rails, and no wan promise from the White House to spank bad guys' wrists twice as hard is going prop it up. (Especially when that message is undercut by comical explanations of the Prez's Harken Energy and Vice President Cheney's Halliburton troubles as "honest disagreements about accounting procedures.")

"Clandestine companies" indeed. No, the next stop for this train is Dow 8,500. The only question is how long this rot in public faith will continue and how bad things will get before the gestalt changes.

¹ For more information on just how long we can expect our "victorious" campaign in Eastern Asia to last, I suggest reading *The Great Game*, Peter Hopkirk's excellent history of British and Russian "successes" there.

² As a Sephardic Jew of Spanish and Portuguese descent, de la Vega really had very little choice but to become a writer and a speculator, as access to most other trades was forbidden by Amsterdam's rigid guild structure. I suppose he could have been a butcher...

³ For those of you who have never read Mackay or de la Vega—or who have so thoroughly marked up your copies that they are unreadable—the folks at John Wiley and Sons have reissued both *Extraordinary Popular Delusions* and *Confusión* in a single trade paperback, complete with an interesting introductory essay by Martin Fridson.

PROFIT ALERT

Special profit alert:

If you liked banking 35% off your AOL short, you will love selling your two Dow LEAPS for gains of 62.5% and 75%!



by *Bryan Bottarelli*

If you've been reading Adam's and my bearish comments on the Dow in past *Taipan* articles, you've heard plenty about why we feel the Dow's in for a dive. You've also hopefully read about my two recommendations to position yourself in Dow LEAPS puts—which give you

the right to sell the Dow for a fixed price by a specific date. These two puts were designed to go up in value as the Dow goes down... thus helping you profit off massive market selling pressure.

Well, I hope you're holding the puts, because the dive has officially begun.

When Adam and I started warning about a Dow correction, it was trading just a hair over 10,000. As I write this, the Dow has dipped below 9,000 and is showing no signs of buying interest whatsoever.

As a result of this 1,000-point selloff, your two Dow

LEAPS puts are approaching triple-digit gains. After an entry price between US\$8 and US\$9 per contract, the **Dow 100 December 2003 LEAPS (ZDK XV)** trades between US\$13.40 and US\$14.40, netting a gain of around 75%. And if you got in between US\$7.70 and US\$8.50 on my second, "latecomer" Dow put recommendation, the **Dow 102 December 2002 LEAPS (DJV XX)**, it's now trading between US\$12.60 and US\$13.30, for a sweet 62.5% profit.

Although there's most likely more room for the Dow to drop, I want you to take your profits off the table. Sell both Dow put positions now!

But stay tuned... should we get any sort of bounce on the Dow, I'll be ready with a new set of Dow puts to buy. And this time, I'll design the plays to be shorter-term, with even more explosive gains. Until then, enjoy your profits!

We will alert you like we did last month: With postings at taipanonline.com and 247profits.com as well as a special alert in the e-Dispatch.

I P O T R A D E R

How would you like to make US\$15 million dollars in one year?



by *Siu-Yee Ng*

Yesterday I was listening to Jack Grubman's testimony about his role in the WorldCom scandal. Back in the heyday of the IPO market, in 1999, Grubman pulled in a whopping US\$15 million. This is just his personal cut! Even with the IPO slow-

down in 2000, he still managed to make half that amount. I'll take that kind of payoff any day.

You see, when the market was good, an IPO only needed to be in the right sector with a high-profile underwriter. And when an analyst like Grubman or Blodget issued a buy, the stock doubled. But those days are over.

Grubman is under scrutiny, and Blodget is no longer

at Merrill Lynch. In the harsh market climate of 2002, it takes more than an overpaid analyst and vaporous profits for IPOs to survive. Investors are demanding earnings quality and survivability is this negative business cycle.

And I've found an IPO that may just meet these criteria.

One sector has been resilient in this market. Defense IPOs continue to buck the market downtrend. In 2002, six IPOs debuted—raising US\$930 million and averaging over 38% in returns.

Home invaders

You see, the September 11 attack was unlike any past terrorist attacks. The bombing and destruction of Pan Am Flight 103 in 1988, the 1993 World Trade Center bombing, the 1998 bombings of the United States embassies in Tanzania and Kenya and the 2000 terrorist attack on the U.S.S. Cole in Yemen did not take place on U.S. soil.

Since the destruction of our landmarks in New York City, Americans' sense of security has been shattered. But this was a wake-up call. America needs to beef up its security! And this has sparked an increase in both public and private funding for enhanced security, especially in the use of trace detection.

Trace detection products first gained popularity in the late 1980's as a way to detect explosives. Then they expanded to detect drugs and other suspicious particles. Trace detection systems attempt to detect and identify traces of a targeted substance found on a sample obtained from an object or person.

The presence of explosives or illegal drugs may be detected by vapors given off by the substance or residues left behind during handling. Modern trace detection products are capable of detecting and identifying both vapors and particulate residues with extreme sensitivity.

I'm going to let you in on a company whose net revenues have tripled since September 11. More about that in a minute.

Big Brother to the rescue

Since the September 11 attack, Congress has allocated an additional US\$40.0 billion for fiscal 2002, approximately US\$10.6 billion of which is for homeland security. The Bush administration has also proposed a fiscal 2003 federal budget that includes a request for US\$37.7 billion for homeland security. And there's no doubt that companies that offer trace detection products will benefit from this funding.

Congress even took a step further, mandating that by December 31, 2002, United States commercial airports must be able to screen all checked baggage for explosives. On April 24, 2002, the U.S. Transportation Secretary announced that the Transportation Security Administration (TSA) would deploy up to 4,700 explo-

sives trace detection instruments at the nation's 429 commercial airports.

Terrorism is a worldwide concern. Even before to the attacks on September 11, 2001, the European Civil Aviation Conference had mandated that all European airports be equipped to screen checked baggage by the end of 2002. In December 2001, the Canadian government passed the Anti-Terrorism Act and committed Cdn\$7.7 billion over the next five years to combat terrorism, including Cdn\$2.2 billion for the creation of the Canadian Air Transport Security Authority and the purchase of explosives detection equipment.

To help fund these measures, the Canadian government recently passed legislation mandating that air travelers pay a Cdn\$24 security charge per round trip ticket for travel between Canada's largest airports and to international destinations.

Right on Track

I did say earlier that I would let you in on a company that provides high performance instruments used to detect trace amounts of targeted explosives and illegal drugs.

This company is gearing up for an IPO, and I expect it to do well in the public market. The company is called **Ion Track**. Its products are used worldwide to protect people, high-threat facilities, public venues, vehicles, aircraft, ships and equipment against terrorist attacks using explosives, and to detect and deter trafficking in illegal drugs.

Ion Track's trace detection products are found in the United States Capitol, the United Kingdom's Houses of Parliament, the Kremlin, the Indian Parliament and the Great Hall of the People (People's Republic of China). Not to mention approximately 150 airports, 220 United States embassies and consulates and 52 nuclear power facilities that use Ion track's equipment. And who do you think supplies the Olympic Games with trace detection equipment?

Other customers include the TSA, the State Department, the Department of Defense, the Customs Service, the Federal Bureau of Investigation, the Drug Enforcement Administration, nuclear power facilities, state and federal correctional facilities throughout the U.S., parcel and mail services and many foreign government agencies.

Track record

Ion Track was founded in 1973. Until 1995, Ion Track exclusively sold handheld and walk-through explosives detection equipment based on electron capture technology to military, law enforcement and nuclear power customers. In 1987, it won a United States government contract to conduct research into new explosives detection technologies.

In 1993, Ion Track patented its trace detection technology, known as Ion Trap Mobility Spectrometry

(ITMS), and began a series of product developments leading to the introduction of several important ITMS-based products.

ITMS technology is capable of detecting minute particles or vapor emitted from targeted explosives and illegal drugs in quantities below one billionth of a gram (one nanogram). ITMS technology has been shown to provide approximately one hundred times greater ionization efficiency—a key factor in sensitivity (the ability to detect small amounts of a targeted substance)—than the ion mobility spectrometry technology upon which the principal competing trace detection products are based.

Ion Track's Itemiser(3) product is the only trace detector commercially available with the ability to detect and identify traces of targeted explosives and illegal drugs simultaneously with a single detector and one sample. The technology that permits this simultaneous dual-mode capability also gives the instrument the ability to more readily detect a wider range of substances.

Breaking the barriers

Getting into this business is not easy. Government agencies generally subject explosives and illegal drugs detection products to extensive and lengthy testing and trials before accepting and purchasing them. You can see why this could hinder new companies entering into the market. Ion Track's Itemiser(2), Itemiser(3) and VaporTracer(2) have all been tested and approved for use by the TSA, the lead agency of the United States government for explosives detection.

On May 28, 2002, the TSA placed a US\$7.5 million order which includes US\$3.6 million for the purchase of 100 Itemiser(2) units and replacement parts to be delivered to up to 22 United States commercial airports on a schedule yet to be determined. The order will also provide Ion Track with US\$3.8 million to purchase components, which require advance ordering.

The United States Navy has conducted military trials of the VaporTracer(2) against competing trace detection products for force protection. Based on the results of these tests, in May 2002, the United States Navy placed a US\$14.0 million order for 609 VaporTracer(2) units with delivery scheduled over the period from June 2002 through July 2003. The maximum amount of the contract will be approximately US\$36.0 million.

The TSA and the United States military (for explosives detection applications) and the United States Customs Service (for illegal drug detection applications) are currently testing the EntryScan(3).

Small but big clientele

Normally I don't like to see just a small number of clients account for a large portion of revenues. Think about it. If one of its clients should decrease its orders or even go under, this would greatly affect Ion Track's revenues. But in this case, I'm not too concerned. Let me tell you why.

For the year ended December 31, 2001, net revenues from its three largest customers, the FAA, the State Department and the United States Customs Service, accounted for approximately 24%, 7% and 6%, respectively, of Ion Track's net revenues. For the year ended December 31, 2000, net revenues from its three largest customers, the State Department, the FAA and Securair Technologies (its former agent in Hong Kong), accounted for approximately 55%, 12% and 3%, respectively, of net revenues.

You see, government agencies have been the big buyers. And spending will not decrease anytime soon. Especially now that there's an increased focus on worldwide security.

Numbers game

Net revenues grew at a compounded annual rate of 42% from 1997 through 2001. And get this: net revenues for the first quarter of 2002 were 301% higher than in the comparable period in 2001 because of the September 11 attacks.

In the first quarter of 2002, Ion Track fulfilled several large orders from the TSA, the United States Customs Service, the Consulate General of Japan, the Brazilian Post Office and the Korean Airport Authority.

Gross profit increased 248% in the first quarter of 2002 compared to the same quarter last year. These numbers are much more dramatic than in the past thanks to the heightened security after September 11. But Ion Track has been increasing its revenues yearly.

For the year ended December 31, 2001, net revenues increased 24% compared to the same period in the prior year. Gross profit increased 15%. Net revenues increased 21%. Gross profit improved 31%.

These numbers show Ion Track's ability to sell its products. And remember, the more products the company sells, the more service and replacement parts its clients will need.

Ion Track plans to raise US\$100 million under the proposed ticker symbol IONT. The underwriter is Deutsche Bank Securities Inc.

For more information on Ion Track, please contact Investor Relations at 205 Lowell St., Wilmington, MA 01887, tel. 978-658-3767, fax 978-657-5954, website www.iontrack.com. One thing to remember: After filing with the SEC, Ion Track is restricted from giving out any information, unless in a public broadcast.

Time to sell!

Congratulations to all those who got in on **Anteon International Corp. (ANT:NYSE)**! You've made anywhere from 38% to 48% in a little over three months.

WCI Communities (WCI:NYSE) has yet to hit our sell target of US\$30. I don't want to hold on to this much longer with the lock-up expiration coming up. Put a sell on it at US\$28 and take the 47% profit.

If it looks like a bottom and feels like a bottom, it's probably a bear market rally



by **Brian Hicks**

Before I recommend one of my favorite small-cap stocks, I want to ask you: have you ever heard of the Center for Science in the Public Interest?

If you haven't, you're about to... in a very big way.

The Center for Science in the Public Interest is the group responsible for all of the recent anti-obesity coverage in the media.

Through what can only be called pop science, the CSPI has essentially declared obesity to be public enemy number one. And they've been so successful in their sensationalism, they were able to convince the U.S. Surgeon General to release an official government weight chart.

Now before you think this is a good idea because little Johnny down the street looks like he swallowed a car, you might be surprised by who meets the federal government's definition of "overweight."

According to Big Brother's official height and weight chart, Michael Jordan is overweight. Cal Ripken Jr., an exercise and health nut, is overweight. And 12 players from this year's NCAA final four also qualify as "overweight."

But that's not the worse part. According to the government's body mass index, Russell Crowe and Tom Cruise are considered "obese."

It's gotten so bad that parents of fat kids have been hauled off to court to answer for their children's bulging waistlines.

But this is just the beginning.

The CSPI wants to go after (read: sue) companies like McDonalds, Burger King, Hershey and Wendy's for selling fattening food.

And if a food company or restaurant can't prove its food is healthy, they might be held financially liable—in the same way big tobacco has been taken to the cleaner's.

If you think it's just bratwurst and Budweiser that are on the chopping block, think again.

After big food is defeated, next on CSPI's list are soda companies like Coca-Cola and Pepsi. After soda pop, coffee and whole milk are on the hit list.

Don't believe me? Just check out CSPI's website. They want to either tax heavily—or outright outlaw—food and drink considered unhealthy.

A nation of wimps

I know I'm beating a dead horse here, but the U.S. is quickly becoming a nation of whiners. And it isn't just

CSPI doing all of the whining. Everywhere you turn, people are complaining that we're eating too much, drinking too much, watching too much television, or not eating enough granola.

But that pales in comparison to the relentless stream of complaints coming from disgruntled investors over their 401(k) returns.

I could go on for days about the hypocrisy of this... if weren't for the silver lining inherent in all this whining. You see, all of the complaining and investor lawsuits have produced a level of pessimism in the market that hasn't been seen in years.

Which is why you might be surprised when I say that market fundamentals are actually quite compelling.

Currently, the Dow is trading at a P/E multiple of 18.8. The S&P 500 is trading at 17.6. And the small-cap index, the Russell 2000, is still trading at a discount to the broader market at 16.7.

Those numbers mean nothing—unless you compare them to something significant, like earnings and earnings growth.

And if you compare these numbers to earnings growth, you'll see that these P/E ratios are reasonable.

Earnings growth for the Russell 2000 this year is estimated at 14.9%. The S&P 500 is estimated at 13.7%.

But what's even better are the estimates for next year (if you can rely on them, that is).

The S&P 500 is trading at a one-year forward P/E multiple of 14.86. And its EPS growth is estimated at 15.4%. So you could argue it's trading at a discount to EPS growth.

It's even more dramatic in the Russell 2000. It's trading at a forward P/E multiple of 14.2. Yet its EPS growth is estimated at 19.5% for next year.

And that's where the bull market is—small caps. The small-cap stock I'm recommending now is expected to grow its earnings by a whopping 36% next year.

South of the border

This time I have found a great company in South America.

During my research into CCK, I stumbled on a South American bottling stock that has absolutely stellar fundamentals. And I mean *stellar*.

It seems that **Vitro S.A. (VTO:NYSE)** has it hands in everything. From wine and liquor to cosmetics, VTO is involved.

Vitro is a major participant in three principal businesses: flat glass, glass containers, and glassware. And if that's not enough to get a yawn out of you, how about the fact it's only a US\$3.30 stock...

But I don't care. VTO's subsidiaries serve multiple

product markets, including construction and automotive glass; fiberglass; food and beverage, wine, liquor, cosmetics and pharmaceutical glass containers; glassware for commercial, industrial and retail uses; plastic and aluminum containers. Vitro also produces raw materials, equipment and capital goods for industrial use.

I love the stock's fundamentals. Check it out:

Vitro currently trades at a market cap of US\$360 million. Yet it does US\$2.8 billion in trailing-twelve-month revenues and US\$246 million in EBITDA.

VTO is expected to post a net profit of US\$0.50 per share this fiscal year. At the current per share price of US\$3.40, it trades at a P/E of 6.8. As you can probably calculate for yourself, VTO is trading at a deep discount to the S&P 500, which trades at a forward P/E of 14.8. Now you might think this is justified since VTO is nothing

more than a bottle maker. But nothing could be further from the truth.

VTO is expected to grow its EPS next year (fiscal year 2003) to US\$0.68 a share. That's a growth of 36% from this fiscal year, and more than double the growth of the S&P 500.

PEG ratios are easy to calculate, but it's hard to predict if the market will value a stock based on its PEG.

With that in mind, I'm discounting VTO's PEG by 50%. In other words, if the market awarded the stock a P/E of 18, we're talking about a stock that could trade at around US\$12.25.

Buy Vitro S.A. (VTO:NYSE) under US\$3.50 a share. Contact: Rodrigo Collada, Investor Relations Manager, email rcollada@vitro.com tel. +52 (81) 88631240.

M O M E N T U M T R A D E R

As good as gold: bucking the downtrends



by Ian L. Cooper

Since January 2002, accounting irregularities, cooked books, crooked analysts, unethical CEOs, and acts of terror in the U.S. and abroad have cost the NASDAQ more than 24% of its value, and the Dow more than 7%. As for the S&P 500, it just got its 12-month target cut to 1,050 by Merrill

Lynch. And our point is... who cares?

Over the same time period, the dollar discount sector has been bucking the trend, outpacing the S&P 500 by at least 24%. That's great news for our pockets, because we get to ride a sector in a decidedly strong uptrend.

If you thought that no one could compete with the likes of Wal-Mart, Target, and Kohl's, think again. Just take a look at the dollar discount stores. They're popping up faster than new McDonald's franchises all over the country. By combining both convenience and value, they've struck a strong chord with consumers and investors alike.

But how do you find the best company for your investment? Simple. There's nothing better than seeing institutions and insiders flocking to a stock like it was going out of style, a P/E of 29, a 0.67 dividend yield, and a 200%+ increase in volume. And it doesn't hurt that this company trades 6% above its 13-day EMA and more than 12% above its 50-day EMA.

Dollar General (DG:NYSE)

Living off of big-ticket retailer crumbs with comfort and decent profits, Dollar General has a chain of more than 5,500+ discount stores in 27 states, primarily in the Southeastern and Midwestern United States. DG is discount retailer of quality general merchandise at low prices. Through conveniently located stores, the company

offers an array of basic merchandise, including health and beauty aids, packaged food products, home cleaning supplies, housewares, stationery, seasonal goods, basic clothing and domestics. Dollar General stores serve primarily low-, middle- and fixed-income families.

Projected annual growth rate for 2002-2006

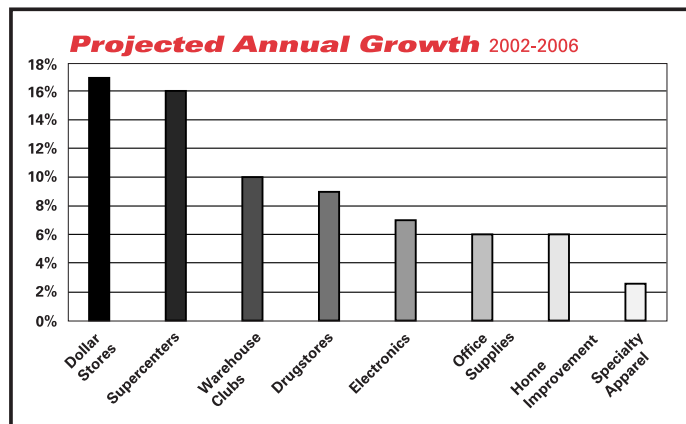
The industry is hot even as it battles with the retail giants already mentioned. With the second highest sales growth in the retail sector, it expects annual sales growth of 17%, just under the 16% anticipated by the super-centers.

The chart below shows the solid uptrend in dollar discount stores as compared to the S&P 500 Index. Compare that to the downward slide of super-centers like Wal-Mart and Target vs. the same index over the past six months. There's a considerable difference.

That's because consumers would rather pay less in an unstable economy.

Growth in numbers

Though recently beaten by accounting scandals and



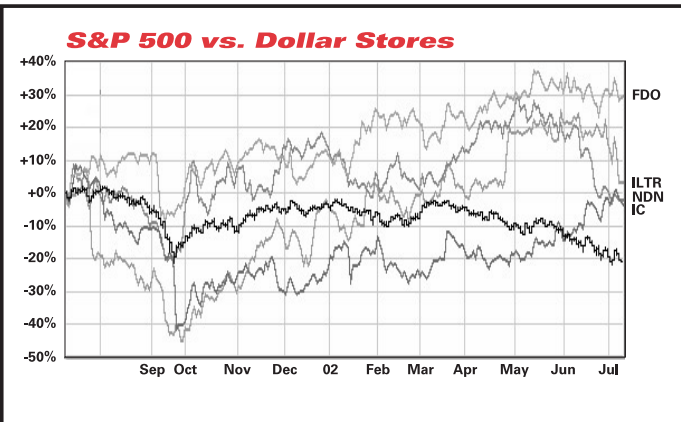
earnings restatements, the company managed to beat Wall Street earnings estimates for Q1 2002. Net income rose more than 26.8% to US\$45.9 million or US\$0.14 per diluted share, from the US\$36.2 million or US\$0.11 per diluted share posted in Q1 2001. Net sales came in at US\$1.39 billion as compared to the US\$1.20 billion in Q1 2001, a 15.5% upsurge resulting from the addition of 535 new stores and a same-store sales increase of 6.7%.

In March 2002, DG's net income came in at US\$97.4 million or 29 cents a share for the quarter, compared with a loss of US\$32.2 million or 10 cents the year before. And, with investment-wary consumers flocking to the discount stores, revenue rose more than 10% to US\$1.59 billion from US\$1.44 billion a year ago. This marked a decent recovery for the company, whose stock suffered after some accounting irregularities were uncovered.

The company said it expects to see 2002 sales jump 14% to 16%, and earnings to climb 13% to 15%.

Catalysts for growth

Who wants to spend US\$5 on a cheap product that you can get at a dollar store for a buck, especially in



today's dog-eat-dog economy? That's why consumers love to shop at discount stores, which continue to strip market share from the department and specialty stores. We see no reason for this trend to break down.

Discount retailers have been applauded for their undying strength over the past year. While consumers turned a cold shoulder to the department

and apparel stores, they were over at the leading discounters, helping to create some stability in an unstable retail environment.

Obviously impressed by its growth potential, Merrill Lynch has upgraded Dollar General to "overweight" from "underweight," citing strong improvement in business fundamentals and lessening concern over accounting issues. Earlier this year, the company restated its earnings for 1998 to 2000 after accounting for some leases and liabilities.

Even Wachovia has upgraded Dollar General to buy from hold, citing an improvement in earnings visibility and stronger-than-expected sales figures. They, too, believe DG is an attractive buy at current levels because of strengthening comparable-store sales trends.

In early June, the company's same-store sales were up more than 9.6% in a year's time. Total retail sales were up 18.8% to US\$446.1 million, with the average consumer purchase clocking in at US\$8.20, a 2% improvement over a year's time.

The company is scheduled to report June sales results on Thursday, July 11, reflecting performance through the fourth week of the June period. Total sales for the five-week fiscal period ending in June are expected to increase 14% to 16%. Same-store sales are expected to increase 5% to 7% compared to last year.

Buy Dollar General under US\$19

A cheap stock with strong sales, earnings, and growing square footage is

nothing to scoff at, considering that the accounting mess it had gotten itself into earlier this year seems to be fading. **Dollar General (DG:NYSE) is a speculative buy under US\$19 with a short-term price target of US\$25.**

Contact: 100 Mission Ridge, Goodlettsville, TN 37072, tel. 615-885-4000, fax 615-386-9936. Visit www.dollargeneral.com for more information.

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Speculative buy on 99 Cents Only

Also take a look at the **99 Cents Only Stores (NDN:NASDAQ)**, a speculative buy under US\$26. The stock's recent pullback is presenting us with a decent buy opportunity. With its distinctive discount stores that also operate as supermarkets, square footage growth above 25%, and an outlook for 20% EPS growth, NDN is a great story stock.



An average NDN store generates more than US\$4.6 million in sales a year. These numbers are recession resistant, helped in part by the fact that food and beverages make up close to 41% of sales. NDN currently operates 138 stores in three states—California, Nevada, and Arizona—and expects to maintain a 25% unit growth rate over the next three years, following 2001's 30% growth rate.

99 Cents Only Stores (NDN:NASDAQ) is a speculative buy under US\$26. Earnings are due on July 27. Contact: 4000 Union Pacific Avenue, City of Commerce, CA 90023, tel. 323-980-8145, fax 323-980-8160, website www.99only.com.

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247 PROFITS

Join us for the Agora Wealth Symposium in San Francisco, August 14-18, 2002

by *Siu-Yee Ng*

The Agora Wealth Symposium in San Francisco will be the fifth annual meeting for me. And no matter how many I attend, it never ceases to amaze me the amount of knowledge and contacts one gains at these events.

Not only will you meet and get to know the *Taipan* editors personally, but you'll also get a chance to see what make these guys tick. Plus, with nearly 200 business executives, real-estate tycoons and analysts in attendance, you'll increase your contact base considerably!

The goal of the Agora Wealth Symposium is to provide you with the widest—and most prudent—array of investment options and the shrewdest analysis of the factors that will not only make you money... but let you keep it.

You'll probably not have another chance this year to meet one-on-one, in a single venue, with so many clear-headed, incisive, profit-driven investment minds. Remember, for the most part these are financial experts who live on the very same investment profits and strategies they'll bring to San Francisco.

Here's just a sampling of the analysts you'll meet... the expert advice you'll get... the cocktail receptions and gala celebration you'll share... at San Francisco's world-famous Palace Hotel.

Brian Hicks, Editor, *Cutting Edge* and *Rogue Trader*: "Crisis Investing Made Easy"

Brian Hicks has been the editor of *The Cutting Edge* since 1996. Of the top 10 best-performing stocks for the first quarter of 2002, Brian's followers were in two of

them: Crown Cork & Seal (+230%) and Providian Financial (+106%).

These days Brian is "dumpster diving," as he calls it. He buys stocks so beaten down or unknown that the only people who own them are the "corporate insiders." The strategy is paying off. Brian has had a stellar first quarter, with one reader turning a profit of US\$100,000.

Find out how the drought and water shortages that many experts expect to continue for years will make you a fortune.

Adam Lass and Bryan Bottarelli, Editors, *Q-Wave* and *X-Wave*: "Whopping Profits... Fibonacci, Yodoyama, an ex-CBOE Trader and You"

If you missed Adam and Bryan in Las Vegas last year, you missed how they stopped the show. That's because so many people got so excited, demanding to know more about the revolutionary *WaveStrength™ Analysis* strategy they unveiled.

Why the buzz? This dynamic duo has developed a prediction device that has allowed clients to turn an average 30% profit every five days. Now *WaveStrength™* is even more accurate. Find out the three strategies that can make you great short-term profits today.

This is your last chance to register! So don't delay. Call Agora Travel toll-free to register for the conference and airline reservations at 800-926-6575, email tours@gate.net, or visit our website at www.awaionline.com/taipan.

Taipan will also hold our Annual Lifetime Meeting in San Francisco. When calling, please let us know if you will be attending the Lifetime Meeting.