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In the dynamic market of the 21st century, quality is dead: Bank on it!

When value is irrelevant to the market, commoditization is the only rational, profitable strategy available to investors

Adam Lass

On my desk at home is a lovely old portable Smith Corona typewriter. A gift from my wife's family, it was her father's during World War II. It has a dent in its case where it stopped a small-caliber German bullet intended for my late father-in-law. (Like most of his generation, he didn't like to talk about it.)

Not only does it still work quite well, it is approximately the same size and weight as my current laptop. Unlike my laptop, though, it "prints" in real time, and while inking and winding my own ribbons is a little tedious, I maintain it less often and at less expense than my desktop printer.

Come to think of it, my laptop will probably be obsolete by the time it is a mere three years old. I will probably own another twenty such machines over the course of my writing life. Yet I can expect my Smith-Corona to continue to function that whole time, churning out letter after letter in fine blue-black ink on crisp rice paper till my eyes no longer see and my mind cannot organize its thoughts.

Value is obsolete

Quality is dead. As an investor, the one lesson you should have taken away from the last 20 years is that quality is no longer a relevant standard for choosing the vehicles that will expand and extend your net worth.

Whether this is a good thing or a bad one is a question for historians, philosophers and poets.

The time has come to get used to it. Lousy cars, disposable houses, "starter" wives are the way of the world in the 21st century. In fact, not only have we destroyed value, we've destroyed any way to determine even *relative* value (it was only self-defense).

How are kids raised on vat-grown chicken supposed to know that mean old yard-raised hens taste immeasurably better? They don't know… and so they don't care. They just want their KFC. (They don't even call it chicken anymore.)

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You want to bet against them and short the Colonel? Good luck.

Short on value

A few years back, I shorted e-Bay. The company was only a year or so old, and had just been caught selling illegal arms to street gangs. New York's Attorney General was threatening to toss the CEO in jail. The play was a lock, an easy double-digit gainer.

There was only one fly in the ointment: The stock rallied on the news, and my play was stopped out within 48 hours. The whole sordid affair is legend in the halls of *Taipan*. We use it to teach analysts-in-training never to go against what the crowd wants.

Still want to bet your personal net worth on some strange permutation of a company's publicly reported figures?

You might want to peruse the New York Times' latest reportage on the fuss between HealthSouth and accounting giant Ernst and Young. It seems that the good folks at HealthSouth want to blame their former accountants for approving their shoddy bookkeeping (after new accountant PricewaterhouseCoopers uncovered that HealthSouth did not properly value receivables from outside vendors, even when it was clear that they wouldn't be paid).

Meanwhile, the stock market continues to crank steadily upward, completely ignoring rising unemployment figures, faltering manufacturing numbers, a massive deficit and a government that is solving its past (and future) inflation troubles by printing monopoly money at a record-breaking pace. Since it is impossible to know what is worth a damn these days, the only clues to guide you on the path to success and growth must be obtained by viewing and trading stocks as simple commodities.

Sell them what they want

Commodities are not judged by the quality of any particular producer's goods. Can you imagine reading a report on Joe Ribowski's potatoes? No, commodities traders study the global supply and demand for the asset of choice, searching for a momentary advantage, a blip or wrinkle that will allow them to get ahead of the market. The trick is to have what the people want when they want it—and sell it for a profit.

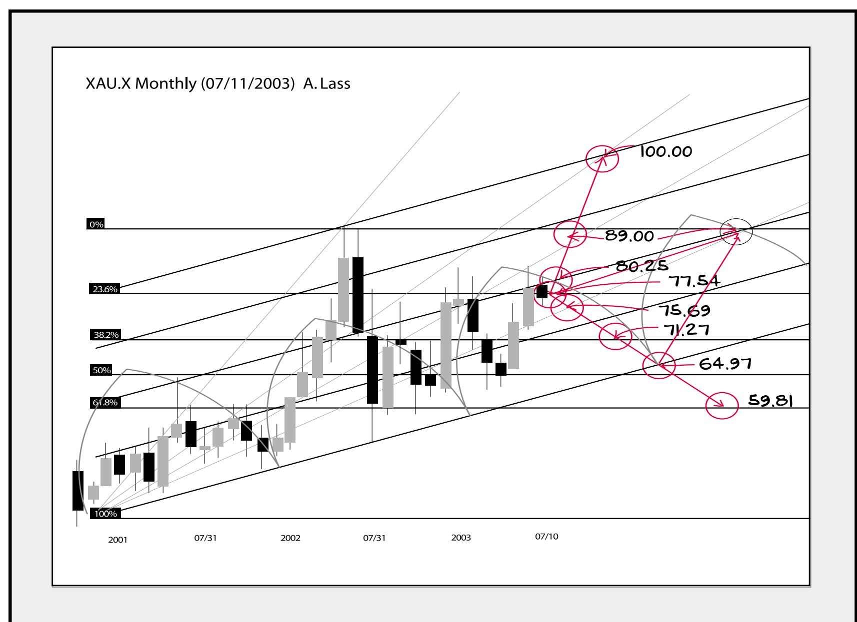
Traders do not search for what is needful or useful, just what is desired… and preferably in short supply.

When it comes to stocks—a fiat currency if ever there was one—measuring supply is stupid. A company can double supply in an eye-blink. And there is still that funny issue of verifiable info. I prefer to measure desire, preferably that of the largest group possible.

The gold standard

To truly commoditize stocks, you need to think wholesale and look to measure and trade to the desire of the greatest herds you can find. Even better, you might try to measure their behavior vis-à-vis the most useless and arbitrary standard possible. At a recent conference where I was a speaker, it was strongly suggested by some fairly canny members of the audience that in these times of debased values and currencies, I should apply my *WaveStrength* method to that most stipulated of standards, gold.

Whereas I personally have never understood what I should do with the "royal metal" if I were unexpectedly to find myself possessing a large quantity of



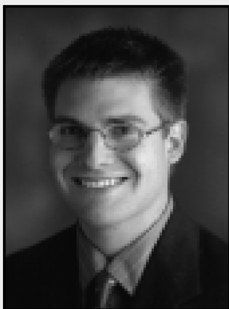
the stuff (the trunk of my roadster can barely hold my briefcase—I doubt it would hold enough gold to buy a full tank of gas, nor do I know of a gas station that would take it), I have already conceded that desire is what counts in this century.

With that in mind, I have had a researcher working diligently on analyzing the XAU (the index that lists most of the major gold producers), and, to my surprise, its behavior corresponds more closely to my system's indicative and predictive turning points than any I have looked at in recent months.

Take this chart showing the gold index's pricing behavior over the past few years. Note that its moves correspond to and are predicted by several cardinal

A golden opportunity to play off the herd's mistakes

A series of date-staggered XAU Puts and Calls will enable you to catch both sides of the gold market's oscillations



Bryan Bottarelli

At a seminar we attended recently, Adam Lass and I were questioned extensively by traders looking for a safe-haven investment. Adam had just delivered his 18-month forecast for the U.S. market (it was very, very ugly, with a strong emphasis on out-month puts), and these folks wanted to know if Adam had any ideas besides shorting the S&P 500.

"Maybe gold," Adam told them, "but it hurts to say it." I haven't seen a crowd light up like that since Sosa's last (uncorked) home run! These people—smart traders all—were telling us they wanted to get into gold in a big way. It was up to us to find a way to wrap our system around a real asset base.

Our answer: XAU options.

The Philadelphia Gold and Silver Index, ticker symbol XAU, lumps together a collection of the top gold and silver stocks on the market and tracks their overall movement. Included in this list are stocks like Barrick Gold, Harmony Gold, Placer Dome, Agnico Eagle, Gold Fields Ltd, Meridian, Apex Silver, Anglogold Ltd, Goldcorp, and Newmont Mining.

As I write, the XAU is trading for US$79.00. Looking at Adam's chart, the most probable move over the shorter term would be a drop to US$71.30. That's not to say a countermove up to US$89.00 is out of the question. For now, though, I'd like to stick to an options play that profits off the move with the highest odds (even if it is just a simple cyclical downstroke). Here's the play:

***G-Wave* Traders: Buy the XAU August 80 Put (XAU TP) between US$3.40 and US$4.10 per contract. This option goes up US$0.50 for every US$1.00 the XAU index goes down. Therefore, a move to US$71.30 would increase this option by US$3.85, giving you a gain of around 93%. To limit your risk, place a stop-loss at US$2.90 per contract.**

Adam's chart shows a high probability of a sizable follow-on upstroke off this projected bottom. Once we approach that bottom, the calls to ride that upward move will be available at a substantial discount to their current price.

Watch out for instructions regarding that move as well as further advice on this initial play in next month's issue of *Taipan* and in your daily *247profits e-Dispatch*. ■

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hallmarks. Of particular interest is the clear reaction to the support and resistance nodes comprised of intersecting trend-quartering lines, Fibonacci retracements, fan rays and time arcs.

This reliability enables me to describe three scenarios with a high level of confidence.

Scenario one: Fool's gold

First, let's start with the (marginally) most likely scenario: The stock market climbing on a flood of cash provided by steady Fed bond purchasing. (Remember, this is the age of the herd: Wiser minds don't have to like it.) Gold would drop accordingly, and you could expect the XAU to drop toward the support node at the confluence of a Fibonacci fan ray and the bottom of the 55-month rising trend at 64.97. The alert in this circumstance would be a move below 75.69 taking the XAU outside its rising pennant structure early in August.

A wise man would probably go long early in this scenario, as the turnarounds tend to be very quick at these bottoming moments. I recommend the confluence of the rising trend's one-quarter line and the Fibonacci -38.2% marker at or around 71.30.

I call this the most probable scenario for one simple reason: In the analytic biz, what's past is prologue. We've already seen this oscillating pattern hold up for several months, and while there are ample philosophical reasons for gold to increase in price, right now the pattern calls for a drop.

Scenario two: Wiser heads prevail

But those philosophical reasons do show up in the chart as the second most likely scenario. In this case, the building wave of distrust in the central government's re-electoral fiduciary shenanigans causes the stock market to lose value quite suddenly. (Regular readers of my Dow and S&P 500 commentaries know that I am braced for exactly this happenstance with an arsenal of September puts.)

On the XAU, this future scenario would be reflected by a move up through the rising trend's midline and a penetration of the pennant formation's top at 80.25. The radical move to follow would be a rapid repetition of the spike toward the top of the rising trend in May and June '02. In this case, however, the trend top is dramatically higher: 100.00. Even the high-probability move (what I like to call the banker's play) would carry you to the strong resistance node at the confluence of the rising trend's three-quarter line, the 38-month high and a Fibonacci fan ray at 89.00.

Scenario three: The stock market does the slow grind

I would like to point out that the XAU's third most probable future path, a modest spindling move around the rising trend's centerline to the point of the current pennant structure, also takes the index to 89.00, although several months later. ■

Buying growth at Buffett valuations

Here's another Value Stock Screen *company that could grow 100% within a year*

Brian Hicks

If you're like me and you watch CNBC on a daily basis, then you've probably noticed certain stocks showing up on the pre-market ticker as often as J-Lo's rear end shows up in the pages of grocery market tabloids.

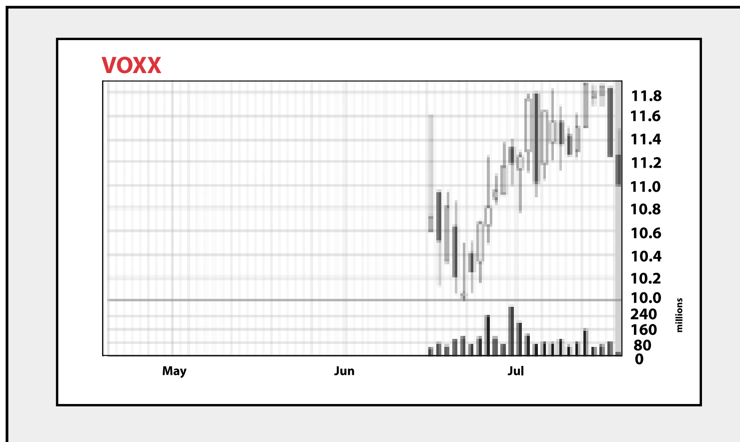
Two stocks have been making the rounds for the past several months—XM Satellite (XMSR:NASDAQ) and Sirius (SIRI:NASDAQ).

Both of these companies make those satellite radios for cars that are becoming so popular—a popularity reflected in the rallies both of these stocks have experienced in the past year.

Sirius, for instance, started the year trading at US$0.64. Today it trades for US$1.80, a gain of 177%.

XM Satellite started the year off trading for US$2.72 a share. Today it trades for US$13 a share, a hefty gain of 378%.

Now, I'm not going to be a Johnny-come-lately



and recommend shares of SIRI and XMSR.

But I do want a piece of the booming satellite radio market. After all, XM Satellite just announced that they've reached 692,000 subscribers, and plan to exceed one million subscribers in 2003.

The radios are available at huge retailer Wal-Mart. And they're also available in Ford, Lincoln, Mercury and Infiniti cars, to name a few.

But instead of playing XMSR or SIRI, I've got something a little bit better.

I've found a company that makes the guts for the satellite radios sold by XMSR and SIRI.

Better yet, it was selected by my *Value Stock Screen* as the best stock to buy in August. It currently trades for US$11.50 a share, but has a fair valuation of US$28.88 a share.

The stock is AudioVoxx (VOXX:NASDAQ).

Same argument, different stock

You may remember me uttering the phrase "buying growth at Buffett valuations" several times in past *Taipan* issues.

I said it when I recommended KVH Industries (KVHI:NASDAQ), now up 60% from my recommendation in May. And I said it when I recommended Orbital Sciences (ORB:NYSE), up 45% over the past two months.

Right now, I'm seeing the same kind of potential growth in shares of AudioVoxx.

Check this out:

In fiscal year 2003, AudioVoxx is expected to post an EPS of US$0.38. For fiscal year 2004, VOXX's EPS is expected to grow at least 76% to US$0.67 a share.

In fact, VOXX's projected earnings growth for the next five years is 65.7%.

Right now, you can buy VOXX at a deep discount to its earnings growth.

Based on FY 2003's EPS estimate, AudioVoxx trades at a forward P/E multiple of 30. Its forward P/E multiple for 2004 is 17.

Considering that it's expected to grow the bottom line this year by 76%… and 65.7% over the next five years… now is the time to take a position in the stock.

But that's not all.

The stock has a book value of US$14.29 a share. So it trades at 80% of book value, a pretty decent discount for a growing company.

It also trades at a deep discount to sales.

For the trailing twelve months, AudioVoxx posted sales of US$1.2 billion. But the stock trades at a market cap of just US$257 million. That means it trades for only 20% of sales, or a P/S ratio of just 0.2.

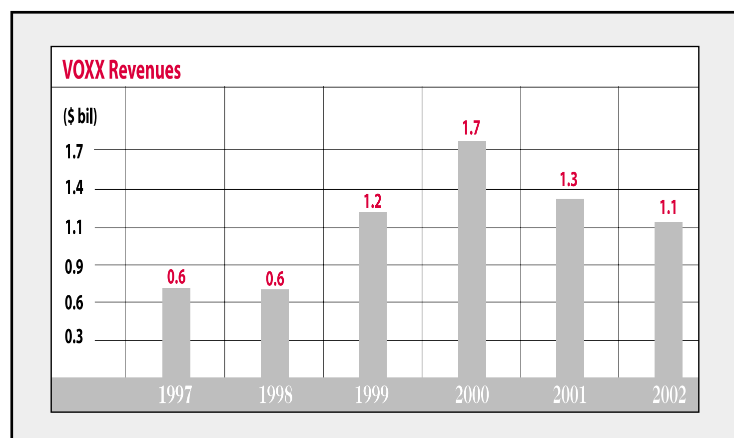
I also want you to understand that AudioVoxx isn't a one-trick pony. They do a lot of other things besides making the innards for satellite radio.

AudioVoxx operates in two big markets through The Wireless Company and The Electronics Group.

The Wireless Company sells wireless handsets and accessories via domestic and international wireless carriers, distributors and retailers.

The Electronics Group sells auto sound, mobile video, mobile electronics and consumer electronics via big retailers like Wal-Mart, Target and Best Buy.

In fact, if you go to their website, www.audiovoxx.com, you'll be amazed by the size of their product selection.



I'm recommending shares of AudioVoxx up to US$12. ■

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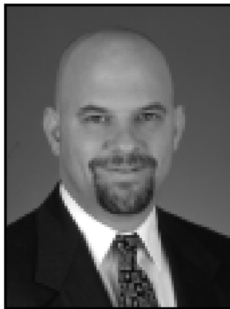
Bond trading strategies for the long-term investor


Brit Ryle

I am a poker player. A couple of years ago, at an Agora conference in Las Vegas, I had the misfortune of having my hand forced by another player at the seven-card stud table.

Another young man at the table was having an amazing night. But when I drew a flush after five cards, I figured I had him dead to rights.

At first, I thought he was being cocky when he kept raising me. But after a few rounds, I started getting a little queasy. I mean, I had a great hand. There was no way I could fold a flush and maintain any kind of self-respect. Nonetheless, I had a bad feeling I was going to lose.

And I was right. He drew a full house, beating my flush. I had been forced to stay in, even though I was getting bad vibes. And to add insult to injury, this young man apologized for winning the hand. It still gives me the shivers to think about it.

It's unfortunate, but there are a lot of people whose hands are being forced by the financial markets right now. Low interest rates have made money-market funds virtually obsolete. A retiree who needs to generate US$2,000 a month in income to survive would need to have around US$2.5 million in a money-market account.

Bonds offer little solace, as it's clear that the bond market is viewing the latest interest-rate cut as the bottom for yields and the top for prices.

These two factors have forced a lot of retirement money into the stock market. But if the current rally proves to be just another bear-market upsurge, you can be sure that no one on Wall Street will be issuing any apologies for the hit a lot of 401(k) and IRA money will take.

I don't want to say that Fed Chairman Alan Greenspan's interest-rate policy has been geared toward driving money into stocks, though there's evidence that this is true. He's on record as saying that any economic rebound begins with renewed corporate investment, and that a rise in corporate investment is contingent on higher stock prices.

And I've heard more than one market guru put forth the theory that all the deflation talk is a smokescreen for the Fed to keep interest rates low and increase the money supply. My personal opinion is somewhere in the middle: I think deflation is a real, albeit unlikely, threat. And Greenspan's assertion that it doesn't cost much to fend off deflation through lower interest rates masks his secret glee at being able to cut rates again.

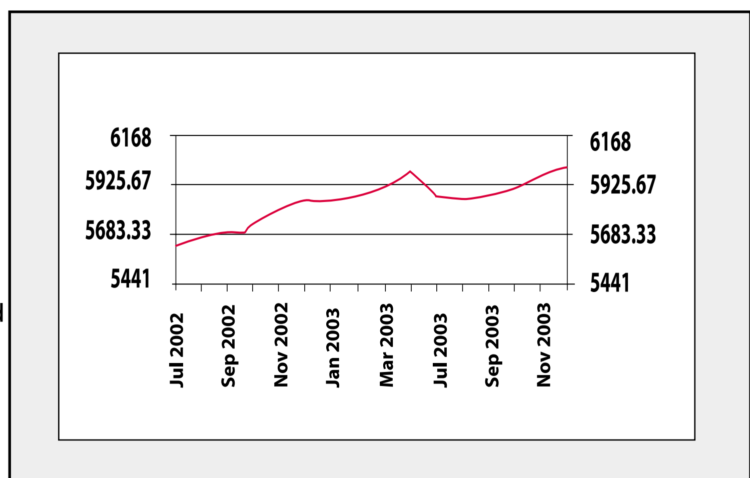
Mo' money

It's no secret that the US economy is driven by consumer spending. It's also no secret that consumer spending has been supported by a refinancing boom as homeowners take advantage of low interest rates.

Consumer spending has held up pretty well. And it's no great stretch to think that spending habits have stayed strong due to the "free" money from refinancing. So why has the economy remained stagnant?

Recent trade balance numbers suggest that a lot of these refi-bucks head right out of the country, and so do not help the domestic economy. And the rise in the services section versus manufacturing doesn't indicate that a healthy, balanced economy is on the horizon.

One thing we do have is cash. Low rates, refi's, and tax cuts have expanded the money supply dramatically over the last year (see chart). Meanwhile, the federal government is ringing up record levels of debt. I can see only two outcomes for the present pickle we're in. And they're both bad for bond prices.



The first outcome is inflation. Now, some would argue that the cheap imports that have kept a lid on inflation for the last few years will continue to do so.

But that's only part of the picture. Oil prices remain stubbornly high, housing prices continue to rise, my grocery bills seem to keep going up, and gold is uncomfortably high.

The only thing that keeps the US out of an inflationary environment is low prices on consumer goods. Still, it's hard to imagine inflation jacking rates to 7% or 8%.

The second outcome would be an actual economic recovery. In which case, the Fed will start hiking rates. That's bad for bonds. 'Nuff said.

In recent congressional testimony, Mr. Greenspan suggested the US economy would grow 3.5% or so in the second half of this year. And bonds got nailed. They took the first step to pricing in a return to GDP growth of 3% to 4%. The yield on the ten-year note has risen to just below 4%. That is still a historically low yield. And there's no reason to think the ten-year's yield can't rise to 4.5% or even (gasp) 5%, despite Mr. Greenspan's pledge to keep rates low.

The problem for many investors is that their hands are being forced. You certainly can't sink your money into stocks right now. Money markets and bonds aren't going to offer enough return on capital to be worthwhile. Gold may have some upside, but you can't rationally put more than a token amount of your investment money in that barbarous relic, because the major gold producer stocks are as ridiculously priced as Yahoo. And owning the physical asset incurs significant costs.

The window for real-estate investing has closed. Which leaves investors with few options beyond the lottery or a ticket to Candlestick Park in the hope of catching a record-breaking home-run ball from Barry Bonds. And even that could generate significant medical bills.

Our portfolio is up over 58%!

Siu-Yee Ng

We've been on fire since January 1. We sold **OraPharma (OPHN:NASDAQ)** for a gain of more than after Johnson & Johnson announced a buyout.

But our profits didn't stop there. Our Chinese oil play, **China Petroleum & Chemical Corp. (SNP:NYSE)**, hit our sell target of US$20, making gains of over 45%. And after that there were still plenty of chances to take profits, because it's currently trading at US$26.

Our current Chinese plays continue to show impressive gains. We're up over 80% with **China Yuchai (CYD:NYSE)**. The stock pulled back over concerns about an illegal share transfer in 1994. But the real problem is the bickering between management in Singapore and its Chinese unit. The latter is refusing to pay dividends to its Singapore holding company, so now the company is trying to terminate Wang, the CEO of the China unit.

Wang has reacted to this power struggle by alerting the Chinese government that the transfer of ownership in 1994 was not properly authorized. Here's the bottom line: neither side wants to see the company collapse. CEO Wang has sacrificed time and money to build his company. And now that he no longer has a controlling interest, he's feeling it. The Singapore and China sides of the company are having a tough time playing nice with one another.

But they have agreed to meet, which is a step in the right direction. Nevertheless, the dispute could get ugly and the stock could see further volatility. I see this stock going higher if this can be resolved, but we have to be ready for the worst. Maintain a 20% trailing stop. It's currently trading at US$8.25, so if it hits US$6.60 go ahead and sell and take the 47% profit.

Zindart (ZNDT:NASDAQ) is up 27%! The company is selling its Corgi Classics Ltd division for US$49 million. This will give it more capital to develop its Zindart Manufacturing and Hua Yang divisions. The icing on the cake is the recent increase in insider buying.

SGL Carbon (SGG:NYSE) was mentioned as a buy in Forbes on July 3. But we got in back in February at US$4. So, depending upon your purchase price, you're sitting on gains of anywhere from 42% to 14%.

There's nothing better than drinking a nice cold beer or sipping a glass of chilled wine in the summer. And it seems it's just not Americans who think this way. CCU, Chile's leading brewer and a unit of **Quinenco (LQ:NYSE)**, saw its second-quarter sales volume increase over 7% compared to the same time last year. Depending upon your entry price, you're sitting on gains of between 31% and 13% since February. Continue to hold.

(continued)

If you can't beat 'em, short 'em

It's little wonder that more and more investors are turning to short-term trading strategies in an effort to grow their investment capital. To be sure, there are risks associated with this approach to investing. And for many, the risk of losing retirement money is too great to justify.

But for those of you who are looking for some trading ideas, here's one for you: short bonds.

Despite a three-year bear market, short-selling is still something of a mystery to many individual investors. The idea of shorting bonds is even more esoteric. That's where I can help.

Stock marketing

In the never-ending search to find more products to sell to the investing public, the big brokerage houses have really expanded the individual investor's universe. From sector indices like the Philadelphia Semiconductor Index (SOX) and the Biotech Index (BTK) to exchange-traded index funds like the QQQ, DJX or SPYs, investors can now trade entire sectors and indices as easily as they can trade stocks.

So it was only matter of time before exchange-traded bond funds became available. My favorite is the **iShares Lehman 20+ Year Treasury Bond Fund (TLT:AMEX)**. It has good liquidity on both the stock and the options. In fact, the last time Greenspan cut rates my Taipan Traders doubled their money overnight on some put options when this fund dropped from 94 to 92. I know, I know, we should have held longer…

As the name implies, the iShares Lehman 20+ Year Treasury Bond Fund holds longer dated bonds. That means the share price of this fund will be more sensitive to factors that cause yields to rise and prices to drop. In fact, for every percentage point rise in interest rates, TLT's price should drop approximately 13%.

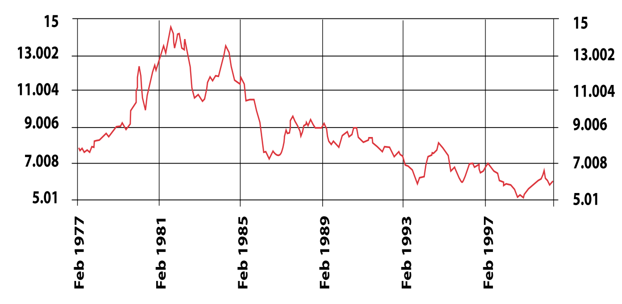
The 30-year note is currently yielding just under 5%, and the ten-year note is just under 4%. The national average for a 30-year mortgage is approximately 5.9%. A one- or two-point move for interest rates would in no way be dramatic (see chart). And it would be worth a minimum of 25%.

But what's even better about this exchange-traded bond fund is that there are options available on it. That means you can leverage your investment and potentially make a triple-digit gain. The one problem with options is that a 1% or 2% move in bonds could take a year or longer. And most options strategies begin to lose their attractiveness with a longer time frame.

How to play

The safe, conservative way to enter this trade is simply to short the common shares of the iShares Lehman 20+ Year Treasury Bond Fund. This fund sold off sharply at the end of June after an equally sharp rally in May. It looks due for another rally. US$90 or above should be a good entry point.

If you prefer the leverage and potentially larger percentage gains of put options, you'll need to implement a more complex strategy. I recommend maintaining a TLT put option position that has two to three months until expiration and rolling it forward



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Time to sell!

If you're still holding on to **Check Point Software (CHKP:NASDAQ)**, liquidate your position. We got in back in June 2002 and since then the position is up 50%. *Sell above US$21*.

Our other Internet security play, **Entrust, Inc. (ENTU:NASDAQ)**, is moving as well. We're up over 34%! *Sell above US$4 for a 45% profit*.

We got in on **Vastera, Inc. (VAST:NASDAQ)** last year under US$3. Since then the stock has never looked back. We're up over 100%. Let's not be greedy. *Sell above US$6*.

Chicago Mercantile Exchange (CME:NYSE) has been on fire since its IPO in December 2002. If you got in on the recommendation, *sell above US$77 for a 120% profit*! ■

when the time until expiration gets below one or two months.

For instance, as I write this you can buy the September 91 TLT put option for around US$450 per contract. At the end of August, you'd simply sell that position and buy one with an October or November expiration, and so on.

This strategy will generate more commissions and fees, but it will keep you positioned for what's likely to be a multi-year move higher for interest rates.

Whichever vehicle you choose, this trade should be considered an investment and you should be prepared to stay in it for at least a year. ■

Keeping track of your health records... and on track for profits

Running the show in your local doctor's and dentist's offices, hospitals and pharmacies… the "behind-the-scenes" company poised for a breakout

Martin Denholm

It's about ten years now since former US president Bill Clinton attempted to find a "universal, affordable healthcare system" for the United States. I hardly have to tell you how that doomed experiment ended up!

But this is nothing new. As each US administration tries—and mostly fails—to realize that dream, the healthcare industry continues to wallow in a sea of under-investment, a severe shortage of medical staff and overpriced HMO's.

If you've paid a visit to the hospital recently, chances are you'll know exactly what I'm talking about. A few months ago, a friend of mine was rushed to hospital for an emergency appendectomy, but ended up sitting around for over an hour while the staff took her blood pressure, drew blood and asked the same questions multiple times. So much for emergencies. She then received the same hospital bill four times before her insurer eventually paid it.

Joe Consumer foots the bill

When a service like healthcare is so underfunded, it often has little choice but to pass the resulting sky-high costs on to the hapless consumer. In mid June, a study by the Health Affairs Journal showed that healthcare insurance premiums in America soared by 15% in 2002—the biggest increase in ten years. And overall healthcare costs are galloping along at three times the rate of inflation. A separate study by Hewitt Associates says this figure will increase to 18% in 2004 for HMO premiums. If you live in the Washington, D.C., metropolitan area, things are even worse, with the average rise next year set to be around 20%.

But enough doom and gloom! Thankfully, there are some companies out there that do help the healthcare industry to run as smoothly and painlessly as possible. So how about a way for you to actually profit from one of them?

Making big strides in a big industry

Quality Systems Inc. (QSII:NASDAQ) fits the bill. Based in Irvine, California, QSII is a relatively small company in the technology sector—specifically in the software industry. But just because the company only employs around 230 people, don't be fooled into thinking it's a small, inconsequential outfit. Quality Systems is a 20-year veteran of the American stock market, and for each one of its employees the company rakes in US$210,000 in revenues.

What does that say to you? To me, it says Quality Systems employs a bunch of pretty talented folks. These guys develop and distribute the software programs that essentially run thousands of medical offices across the United States.

And let's face it… the healthcare industry might be acting like a sick patient these days, but the fact remains that medical services are an essential part of life and will always be needed.

So we're talking about a lucrative industry. Imagine the millions of Americans who, right now, are being treated in hospitals or health clinics, checked out by their doctor or dentist, or simply picking up a prescription from the local pharmacy…

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Now imagine the company that manages to corner a large chunk of the market within this lucrative industry. Well, that's exactly what Quality Systems has done.

Winning all the marbles in the lucrative game of EMR

Through its NextGen Healthcare Information Systems subsidiary, Quality Systems is leading the way in providing automated software information systems for all these medical facilities. This is a vast area known as EMR (Electronic Medical Records), and includes elements like patient information and personal health records, appointment scheduling, referral information and treatment planning, billing, drug and prescription information, and insurance claim submission and processing.

There are obvious benefits to having a computerized system store a boatload of patient information like this. It's easier, tidier and faster. It helps companies lower cash-sucking administrative costs, too.

Through its tireless work over the last 25 years, Quality Systems has become a big player in the EMR field. In fact, it's better than that—the company is the market leader…

At May's annual Towards an Electronic Patient Record ("TEPR") Conference in San Antonio—one of the biggest healthcare IT gatherings in the world—Quality Systems and its NextGen EMR products scooped the first-place prize from the Medical Records Institute. This confirmed the company's sustained dominance in the field—it was the third straight year it took the top award. Just two weeks later, after a comprehensive eight-month study, AC Group—an IT research company—ranked NextGen's EMR software number one out of twenty EMR products. It also awarded the company its maximum five-star rating.

As you can see, Quality Systems has well and truly established itself as the market leader in the EMR field. If you need more proof, take a look at NextGen's website at www.nextgen.com and read the glowing reports from its many satisfied clients for yourself.

So next time you pay a visit your local doctor, dentist, hospital, or pharmacy, there's a good chance Quality Systems' software will be working behind the scenes to help you get the treatment you need.

Some happy number-crunching…

For the fiscal year ended March 31, QSII reported a 23% rise in revenues. The company raked in US$55 million overall—US$10 million more than the previous year. Notably, almost 40% of the increase was thanks to the strong performance of the NextGen EMR division.

For the investor, this means QSII has overall sales per share of US$8.57 and a healthy cash per share of US$5.92. Moreover, the current sales growth rate is 26% compared with the same quarter in 2002—more than double the industry average. Earnings per share over the last 12 months amount to US$1.10, and US$0.27 in the most recent quarter. Don't be put off because QSII's price-earnings ratio of 26 is slightly higher than the industry average. Instead, consider that, so far this calendar year, the EPS growth rate is 33.50% compared with the same point in 2002. It's expected to grow by US$0.30 per share by the third quarter this year—an annualized growth rate of 12%. And over the last five years, QSII's average earnings growth rate has been 43%—again, more than double the rate of its industry peers. This fiscal year it's expected to be 17.5%, while its rivals combined only reach 7%.

Remarkably, for a software company, Quality Systems has barely any debt. And here's the kicker: Based on a 34% annual rise in net income (to US$7 million), its enjoys a healthy 13% profit margin, while industry competitors are struggling to keep pace at a sorry minus 4%. And as the 16% return on equity shows, its management knows what to do with US$36 million in cash.

Huge upside potential

This is pretty impressive. Having achieved top recognition within the highly competitive, cutthroat world of EMR software, Quality Systems is extremely well placed—both financially and in terms of its glowing reputation—to build upon its success. This brings me to the company's tremendous upside potential…

Quality Systems is part of a growing business. Here's why: Even in this high-tech, computerized age with its warp-speed IT applications, Electronic Medical Records remains a vastly untapped industry. Would you believe that EMR currently covers less than 15% of the healthcare market? It's true. But it's growing rapidly—and that means there's a lot of room for some spectacular growth.

So it's worth jumping on your investment boogie board now and riding the sector's wave as high as it can go. Think about it: Who do you think healthcare companies are going to turn to when they decide it's time to upgrade their archaic paper filing systems into modern-day computerized versions? Yep… the market leader. I'm thinking Quality

Systems will be in a good position to take profitable advantage.

As I write, Quality Systems' stock (QSII:NASDAQ) is trading for US$27.50. Looking at its recent activity and what the chart indicators tell me, I suggest you try to buy between US$27.50 and US$28.50. Naturally, I'll keep you posted on important breaking news on *Taipan's* websites (www.247profits.com and www.taipanonline.com). ■

Texas tea has never tasted sweeter

KCS is taking the oil world by storm—up over 100% in two months!

Brad Colburn

That's right. Three months ago, in the April issue of *Taipan*, I wrote to you about **KCS Energy (KCS:NSYE)**. Here's the cap of that article, exactly as I wrote it:

"If history repeats itself, as it often does, KCS could find itself sitting on a black goldmine. KCS is selling for US$2.57 right now. Buy under US$3.50 and watch the gains well up."

Well, *Taipan* reader, US$2.57 was a long time ago. As I write this, KCS is sitting at a high of US$5.26. Just like one of its many freshly dug oil reserves, KCS has shot up 105%. That's Ripley's Believe-It-Or-Not level for some stocks.

But not for KCS.

KCS wrote at least a chapter of the book on hard-to-believe facts. Look at the span of time between February and December of 1992. You'll notice a price jump from US$12.00 to US$40.00. *233% in 10 months.*

Come back to 2003, and we have a triple-digit gain in three months. History has repeated itself, only in double-time this go round.

The war is over, let's enjoy the rally

There are already signs of an economic recovery, and—with Saddam booted out of his palaces—the recovery could take hold.

If you have KCS in your bag, you're better off than the next guy. You've got a head start on cementing a decent living for yourself. And I'll admit, even I didn't think KCS was going to improve this much.

Around the same time as I made the *Taipan* recommendation, I also told *Red Zone* and *Fear and Greed* readers about KCS.

Shortly after, I felt KCS had hit its peak. I didn't want to be too risky, so I sent out a sell advisory. But I felt that I could be a bit more adventurous with *Taipan* readers who were holding KCS.

Now, I'd like to briefly touch on why I originally recommended KCS. The process wasn't too involved, nor did it rely on a fancy mathematical system loaded with

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over, please…

numbers and figures it would take an extra issue to cover.

What I used was a mix of ideas and some good, old-fashioned research. I'll sweat blood until I find the right stock recommendation. KCS is that stock, and I'll take you through my thought process right now…

I'm a firm believer in exhausting every means when it comes to searching for something. Finding KCS was the "eureka moment" after days of poring over stock after meaningless and ultra-expensive stock.

The first thing I liked about KCS was the story. They dig oil wells and purchase the rights to future digs. Domestically. There's no going to Venezuela or the Middle East for emergency oil.

The second plus was the price movement. I took a look at the company's historical prices dating back to its IPO and noticed something: KCS had consistency. I mentioned the 233% jump before, and KCS kept it going until 1998.

In 1998 the price dropped off rapidly. KCS started the year at US$16.75 and sang *Auld Lange Syne* at US$3. Things got so bad for KCS, they hit a low of US$0.19 in June of 1999. It's hard to say exactly what the problem was. Company news certainly wasn't to blame.

KCS announced in June of 1999 that it had completed the sale of certain volumetric production payment assets in a transaction totaling US$21.9 million. Production received from the assets was 13.0 million cubic feet of gas and 310 barrels of condensate per day.

So what was the problem? Well, oil production was down. Nobody was willing to foot the bill. Sure, we were using gasoline like it was oxygen. But it wasn't until 2000 that people started worrying about oil reserves. 857 million barrels of oil from reserves were consumed from 1949 to 2000. Projections at the time saw oil production hitting its peak around the year 2007.

That's not close enough to be an immediate worry, but it's close enough for domestic oil companies to start kicking things into high gear.

So what's the deal with KCS?

You see, KCS has been riding the low end of the market for a while now. But things have begun to improve. It took a war to get the oil industry moving. Kind of convenient, don't you think?

Once things got cooking, they really got cooking. The entire month of May was one big volume spike for KCS. As May began and war tensions eased, KCS was trading at a volume of little more than 100,000 shares.

By the time America was comfortable with the Iraq situation, KCS investors had started to open up the wallets. Volume gradually increased until, on May 22, it hit 1,011,900. Not only has that been excellent for KCS, it's also the key to the second part of my recommendation approach.

What I've learned from some of the best investment minds is that volume is the key. The mantra in one corner of *Taipan* Headquarters is "volume leads price." KCS never really had standout volume during its peak years. The highest peak they had ever reached was 154,000 shares. Normal volume was close to 40,000.

KCS's volume spike sneaked up on me. It turns out that this surprise has been for the better.

I'd like you to hold KCS for the long haul. I feel they've only begun their second climb to the top. The next thing you know, you'll be out in Beverly Hills lounging around the cement pond with Ellie Mae.

While you're packing your bags, chew on this: KCS hasn't been my only successful recommendation. In my *Fear and Greed* e-letter, I usually make one or two recommendations a month with pretty good results. As I mentioned earlier, we sold KCS for a 13% profit, and we recently took 33% on a big-name pharmaceutical company.

And within the past two months, we've taken a 25% profit on a computer tech stock.

To see what *Fear and Greed* is all about, sign up for your free copy today: www.taipanonline.com/FNG/061303FNG.html.

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