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Martin Denholm
Executive Editor

Fire up the lasers! Zap away sagging “Arschgeweih” with America’s fourth-best “hot growth” company, poised to hand you 25% gains by February 2006

It had been a long and brutal night at The Frog in the Barrel. The grog had been flowing faster than the Colorado River. My two best friends, Jack (Daniels) and Jim (Beam) were beginning to run dry. And my, my... the ladies were looking prettier by the moment as my beer goggles, with all their infinite power, magically turned Miss Piggy into Audrey Hepburn.

After the umpteenth bevvy, one of my genius friends turned to us and slurred, “Woo! Hey, let’s get tattoos!” Of course. It seemed so logical at the time—and a darn cool thing to do, too! I mean... what else are you going to do late at night, slightly smashed on a belly full of booze?

Fortunately, I somehow mustered up the good sense to decline the offer. Alas, that wasn’t the case for my poor friend Allison.

A few hours later after a good deal of pain, there it was. The dragon’s fury cast in all its glory. Yeah!

Um... no, not quite. Oh, dear. How was the poor gal going to explain this utterly ill-judged piece of youthful exuberance to her mother? And more to the point... how the heck was she going to get rid of those ugly “Arschgeweih” on her back? (I had to chuckle when *Taipan Group* publisher and native German Christoph Amberger told me this means “ass antlers.”)

Well, that’s where **Palomar Medical Technologies (PMTI:NASDAQ)** comes in handy. Founded in 1987, Massachusetts-based Palomar provides safe cosmetic aid for a variety of ailments and problems using the latest medical laser technology.

This includes tattoo removal using the newest Q-switched YAG 5 laser system, which beams pulses of light harmlessly through the skin and is absorbed by the tattoo ink. That light is then converted into heat, which

breaks down the ink to be destroyed by the body. As you can imagine, this strong heat energy can be a wee bit painful, but several treatments later, the tattoo fades away, with no damage to the skin.

A torrent of tattoos

If you’re anything like me, you’ve probably noticed that tattoos are a rapidly growing phenomenon in the US. Whether you like them or not, they’ve never been more popular. In fact, current statistics show that almost 40 million people across North America have a tattoo. That’s one in seven people. If you don’t know what I’m talking about, see how many you can spot next time you’re out and about.

Some actually look pretty cool. Others look downright ridiculous. But in any event, the stereotype associated with tattoos remains a negative one. You often hear people saying tattoos are basically body graffiti and people

who get tattoos are defacing themselves. Many prisoners have tattoos and in some Asian nations, tattoos are associated with criminality. In Japan, many sports clubs and gyms forbid members from showing tattoos.

Such stereotyping and prejudice is a little unfair, however. Many folks get tattoos simply for how they look, or for religious, cultural, or symbolic reasons to give them a sense of belonging or identification.

“Oh, dear... I think I’ve made a terrible mistake”

Nevertheless, Palomar makes a chunk of its money from the post-tattoo “oh, no—what have I done? What’s this monstrosity going to look like when I’m 60?” feeling. It’s a very common problem, with some estimates suggesting that 40-50% of people who get tattoos later

40 million people across North America have a tattoo... but estimates suggest 40-50% of people who get tattoos later want them removed.

regret them and want them removed. But because tattoos are designed to be permanent, the removal process can be difficult and expensive (not to mention more painful than actually getting the tattoo in the first place!). Prices vary, but generally range from several hundred dollars for a small tattoo to over US\$1,000 for larger ones.

Multiple removals = multiple profit opportunities

However, tattoo removal is just one of Palomar's specialties. When you look at the company, you can't help but feel confident about its future prospects.

That feeling can be summed up with this simple phrase: "Consistent, profitable repeat business." And for an investor, any phrase that includes the words "repeat business" is music to your ears.

For example...

Got some unsightly excess hair in unmentionable places (and even those you can mention) that needs removing?

Got a few wrinkles that need smoothing out?

Got a "pizza face"—one that should come with a side order of garlic bread? (This is the rather harsh insult for someone with bad acne.)

Been in the sun too much and have some skin damage from the ultraviolet rays? (Now that we're in August, this unfortunate affliction is sure to be an issue for countless Americans, which is good news for this company).

Palomar practices cosmetic treatment in all these fields, as well as the removal of benign lesions, treatment for varicose veins and deep tissue therapy for aching muscles and joints. That's the kind of diversification I like!

With cosmetic stigmas removed, Palomar races free

There used to be a stigma attached to companies that make

medical devices. The common consensus was that the research was too costly in relation to the end results, which were often disappointing or outright failures.

That's not the case with Palomar, however. The company recently attracted the likes of Gillette and Procter and Gamble, both of whom have now entered into business with Palomar (more on this in a moment). In addition, the company enjoyed its 12th straight quarter of profitability during the first quarter and, notably, remains debt-free, even as it develops new products.

There also used to be a stigma attached to cosmetic procedures. Folks didn't want to admit to having had work done on themselves, even though it might have been blatantly obvious! That's no longer the case now either—largely thanks to the publicity the industry has received from Hollywood's rich and famous celebrities trekking down to the local clinic every five minutes to have their face lifted, tummy tucked, or unsightly skin ailments treated. Cosmetic enhancements are now worn as a badge of honor, not embarrassment. It's that shift in thinking that is generating huge repeat business.

In fact, consumers have made Palomar's services so popular that over the past three years, sales have jumped by an average 45% per year. In 2004, the company raked in

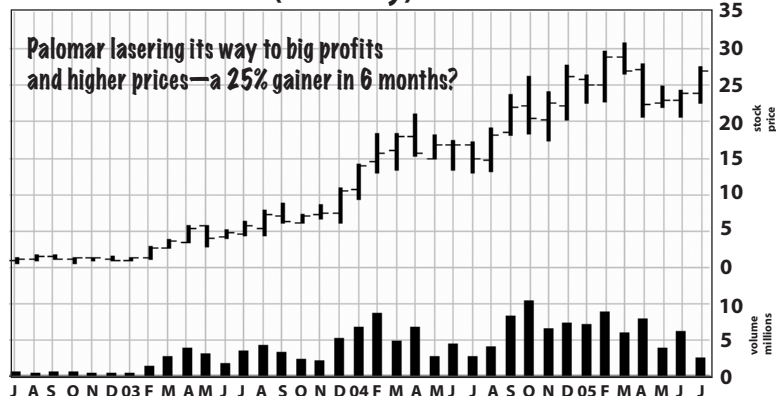
US\$54.3 million—a massive 56% increase over the US\$34.8 million posted in 2003. Take a look at the chart below to see how this has affected the company's stock. Now that's what I call a nice-looking uptrend!

While average first-quarter sales growth within Palomar's industry climbed 13.3%, Palomar's rocketed by 57.3% and produced revenues of US\$17 million—70% higher than the US\$10 million recorded in Q1 2004. In turn, that translated to a 191% surge in net income (US\$3.5 million, versus US\$1.2 million) and excellent year-over-year earnings growth of 171% (7 cents per share versus 19 cents per share). Over the last 12 months, revenues totaled US\$60.6 million—equivalent to US\$376,000 for each of its 161 employees. That's US\$104,000 higher than the average for its industry peers and US\$41,000 more than the overall S&P 500.

Those figures mean Palomar now has total cash reserves of US\$29.1 million (US\$1.73 per share) and sports a beefy 21.4% profit margin, compared with the industry average of 12.2%. Return on assets is a highly impressive 29.3%.

It wasn't always this rosy, however. For much of its existence, Palomar found the going pretty tough. Despite being a business that garners a sizeable chunk of its revenue from a culture in which an increasing number of folks are trying

PMTI 3-Year Chart (Monthly)



to reverse the aging process and look younger again, the industry is a pretty competitive one.

The power of the pulse

In the mid 1990's, realizing the sizeable growth potential of the business, Palomar decided to focus exclusively on laser-based cosmetic treatment. That meant downsizing considerably (from 650 employees to just 50), a loss of virtually all its annual revenue and shedding several of its non-cosmetic businesses.

But it worked. After much hard work and significant progress, in 1997 Palomar became the first company of its kind to be granted Food and Drug Administration approval for its laser-based hair removal system. Today, its flagship Lux device, launched in 2001, is the driving force within the industry—and the strategy of astute chairman/CEO Joseph Caruso and his management team has been handsomely rewarded with a stunning 50% return on equity. The industry average is just 13.3%.

Palomar's Lux laser uses "pulsed light" technology that shoots energy at the appropriate parts of affected skin. Naturally, not all symptoms are treated in the same way, so the machines have a variety of parts that use different combinations of this pulsed light, as well as different levels of durations and energy.

It's this flexibility that is so appealing to cosmetic doctors and clinics across the world. Why fork over US\$100,000 for different machines when you can just buy Palomar's base equipment for US\$82,000 and add significantly cheaper supplementary parts as needed later? Caruso says that a growing number of regular doctors are buying Palomar's laser products, which opens up a massive new market.

But here's the kicker: In an interview with Business Week, Caruso says that although less than 10% of the population knows anything about cosmetic laser treatments and less than 1% has ever tried it, the market still rakes in US\$8 billion per year.

Read that again. Talk about some huge upside potential!

Home is where the wrinkle treatment is

And Palomar is trying to realize that potential by partnering with some of the big boys. In 1993, Gillette came knocking on the door and both sides teamed up to develop a home-based hair removal system. Palomar's expertise in the

"Less than 10% of the population knows about cosmetic laser treatment and less than 1% has ever tried it... but the market still rakes in US\$8 billion per year."

laser treatment field, coupled with Gillette's track record, money, marketing prowess and expertise at cornering specific markets should make this a lucrative deal. If federal regulators approve the merger between Gillette and Procter and Gamble, that could be an additional boon, since P&G will add another dimension and bring its knowledge of the women's market into play.

That's not the end of Palomar's popularity with the major players. Johnson & Johnson also joined with Palomar in 2004 to manufacture other home-based laser products to treat wrinkles and acne.

So while there are a few competitors trying to muscle in on Palomar's market share, the company is responding to the threat and combating it by developing new products and hiring more sales staff. Collaborations with major players like Gillette and Johnson & Johnson are vitally important in this regard.

Palomar has clawed its way to the top and is today a multi-national company with bases in the US, Canada, Europe, Japan, Australia and Central and South America. It recently received some excellent PR when it was named fourth in Business Week's

annual "Top 100 Hot Growth Companies" list.

But there's no way it would have been able to achieve that were it not for its strategic decision to switch to lasers.

Palomar is cashing in on the baby boom—so why don't you?

The plan has already worked pretty well so far. But Palomar could be poised for greater success, given vast number of baby boomers wanting age-reversing treatments.

Demographic show that the US population of those aged 45 to 75 will grow by 35% over the next five years, versus 13% growth for the rest of the population. The percentage of the US population aged 65 and over is growing at four times the rate of the broader population and 80 million American citizens will reach "elderly" status by 2050—double today's figures. By that time, over 5% of the population could be 85 years or older. In addition, today's senior citizens have much more money than their parents. That gives them a chance to enjoy a better quality of life in their twilight year—and profit from their rising life expectancy.

You can do so by investing in Palomar, which is in a great position to take advantage of this market.

Based on the trend over the past few years, the chart, and the present state of the industry, I believe Palomar is primed for more solid growth. From a current stock price around US\$27, I think shares could trade for US\$33-35 by February 2006, giving you gains of around 25%.

And you know what? When you make money, why not celebrate by getting a tattoo? If you don't like it, I'm sure Palomar would be only too happy to remove it for you!

Buy Palomar Medical Technologies (PMTI:NASDAQ) under US\$27.50

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Cash in on the looming collapse of oil with this 40% undervalued Chinese company set for a US\$15 rise

by *Christian DeHaemer*

"China will use the most incomparable and advantageous labor force: the Chinese worker, who will be paid 5 cents, while our workers get five dollars or more. Our products will be evicted from the Chinese market; and then China will sell us its own products. Initially defensive, it will quickly become offensive, and we will organize its assault."

—Member of the French Parliament, 1899

Prophetic words indeed. More than a century later, we are still fighting the Chinese bogeyman. Not only have they taken good American jobs and abetted the evil empire of Wal-Mart, but now the godless heathens are buying up our companies. Qingdao Haier bought Maytag. China Huaneng Group bought OZGEN of Australia, Lenovo Group bought IBM's PC business, CNOOC made the high bid for Unocal. And that's just the short list. Listen to Lou Dobbs and he'll tell you that the great Chinese horde will storm across the oceans and sweep down the steppes of central Asia. Moscow will be put to the sword, Paris will be plundered, Rome sacked.

China goes for world domination...

The problem with all this fear mongering is that it obscures the reality. For example, some believe China will take over the world. After all, its economy is doing great. It is sucking up all of the world's resources and producing a mammoth amount of the world's goods. And it are doing it unfairly because China have an artificially low currency and a cheap work force.

According to the Economist, China will see GDP growth soar 9.4%

this year, aided by a 16.6% surge in industrial production. June saw the country post its third-highest monthly trade surplus ever—a grand total of US\$9.7 billion—an extraordinary leap from the US\$1.6 billion recorded in June 2004. The gains came

"Some believe China will take over the world... but the perception doesn't match the reality: the financial media have it wrong"

courtesy of a 30% surge in exports to US\$66 billion, while imports only rose 15% to US\$56.3 billion. That meant that through the first half of 2005, exports shot up 32.7% to US\$342.3 billion and imports climbed 14% to US\$302.7 billion. Over the past 12 months, China's trade balance is up US\$71 billion and its current account is up US\$68.7 billion. It also has US\$659.1 billion in foreign reserves.

...but it's the myth of the "yellow peril"

Impressive stuff. But if China's economy is booming and the country is set to dominate the globe, why isn't its stock market up? The Shanghai Composite index (SSEC) has slumped from 2,300 in 2001 to 1,046 today. The chart looks like it's in free fall. It seems the perception doesn't match the reality. Bottom line: the financial media in this country have it wrong.

Just look at the facts:

Between 1981 and 1991, annual global demand for oil grew 2.1%. Between 1991 and 2001, that figure sank to just 1.2% growth. But according to BP estimates, the figure shot up to 3.4% in 2002, 3.3% in 2003 and all the way up to 4.3% growth in 2004.

Now, brace yourself: between 2001 and 2004, China accounted for a massive 52% of this growth, as it geared up its energy demands to overcome the rolling blackouts that plagued the country at the time.

Clearly, China has driven the boom in energy prices. Between 1991 and 2001, China's oil demand grew by an average 7.6% per year. In 2002, it hit 6.9%, in 2003 it totaled 7.7% and in 2004 it roared up by 15.8%.

But that growth trend is slowing. Despite a massive 16.3% surge in industrial production over the first five months of 2005, China's oil imports declined by 1.2% year-over-year. That "sudden and mysterious slowdown," according to the New York Times, comes after China's oil usage swelled 11% in 2003 and 15.4% in 2004.

The United Nations Economic and Social Commission for Asia and the Pacific follows that news with a forecast for a slowing regional economy over the next 18 months. Morgan Stanley's Andy Xie also points to a coming slowdown based on the fact that crude demand is falling in China. PVM Oil Associates in Vienna notes a much heftier drop, citing customs figures that show a massive 45% slump in oil imports to China this year. Specifically, the group cites a drop in heating oil prices as a sign that supply fears for the coming winter are "...starting to melt away."

That news contributed to the OPEC oil cartel recently lowering its estimate

of oil demand for 2005 by 150,000 barrels per day. The group pointed to an economic slowdown in some global regions and a subsequent decline in Chinese consumption.

Speculation is driving this market

Meanwhile, oil prices averaged 46% higher over the first five months of the year and 50% higher during the first quarter on a year-over-year basis. The International Energy Agency (IEA) says, "There are signs that worldwide production capacity is starting to move ahead of demand for the year, but that oil prices are nevertheless staying high." In the words of IEA deputy executive director William C. Ramsay, "There are not the conditions out there right now that should lead to these kinds of prices."

Despite numbers that suggest a coming boom-to-bust scenario, oil prices continue to hover around the US\$60 level. This also comes as the dollar is up to US\$1.19 against the euro, compared to US\$1.35 in mid March. Logic would dictate that the price of oil should drop accordingly. But it hasn't.

The only way to explain this is that oil traders are engaging in some sharp price speculation. Speculators have put a large premium on future oil contracts at a time when supply is

	CNF Inc. (NYSE)	YELLOW ROADWAY (YELL:NASDAQ)
MARKET CAP (intraday)	US\$2.47B	US\$2.58B
FORWARD P/E (fye 12/31/06)	11.73	8.37
PEG RATIO (5-year expected)	0.81	0.56
PRICE/SALES (ttm)	0.64	0.37
PRICE/BOOK (mrq)	3.29	1.98

increasing, demand is diminishing and prices are in bubble mode. And where there is a mania, there is often a violent and dramatic reversal. This is a bubble looking for a pin—and that pin will be a sharp drop in China's crude imports.

The IEA continued, stating that it expects Chinese demand to pick up over the second half of 2005, but that if it doesn't, "world oil prices could take a heavy blow."

The aggressive way to play the looming collapse of oil

There are two ways to make money if oil falls—buy transports and sell oil. Transports make money when the economy is expanding and their costs are low. And the transport I like is **Yellow Roadway (YELL:NYSE)**. As you can see from the chart, Yellow just broke above three key moving averages.

Yellow also compares favorably to its chief competitor CNF Inc. (CNF:NYSE). Take a look at the table above to see how they are doing in

the current climate of high oil prices.

As you can see, the companies are similar in terms of market cap, but Yellow has a lower forward P/E, PEG ratio, price-to-sales and price-to-book. Going by P/E alone, Yellow is 40% undervalued. That would give you a short-term price of US\$70.20. Bear in mind that from 1997 to 1998, the price of oil fell from US\$27 to US\$15—and Yellow went from US\$10 to US\$30.

Buy Yellow (YELL:NASDAQ) below US\$55 as a play on falling oil prices. If oil prices stay high, a transport like Yellow should still continue to perform well, based on the expanding economy.

If you're a more aggressive trader who'd like to benefit from the medium-term collapse of oil, I suggest you pick up some Oil Services Holders (OIH) puts. Buy the January 2006 95 Puts (OIHMS) at or under US\$4 per contract.

Christian DeHaemer is a longtime Taipan editor and is also Editor in-Chief at the Red Zone Profits investment group. n

YELL 2-Month Chart (Daily)



"Speculators have put a large premium on oil contracts at a time when supply is increasing, demand is diminishing and prices are in bubble mode. And where there is mania, there is often a violent and dramatic reversal."

With August HGX call gains already in the bag, load up on December puts and September calls and scoop double-edged profits

by *Martin Denholm*

While the US markets continue to plod along during the summer months, we shun all talk of “summer doldrums” here at *Taipan*. Instead, the *Taipan* Summer Bull Market continues with a vengeance, as we watch more gains roll in from what has become a pretty successful hedge play on the US real-estate market.

If you’ve been reading *Taipan’s* email alerts since the end of June, you’ll probably be familiar with our “House Hedge” play—a way for you to profit from the short-term rise and long-term fall of the US housing market.

It’s the perfect play... and it’s working perfectly.

In case you don’t know, the creative genius behind “House Hedge” series is *Taipan* editor and *WaveStrength’s* chief options strategist, Bryan Bottarelli. Specifically, the plays recommend options investments on the Philadelphia Housing Index (HGX)—a basket of 21 of the market’s top housing stocks—and following the precise defensive strategy that Bryan suggests, you have a

chance to profit when the HGX goes UP in the short-term and DOWN in the long-term. And what could be better than that?

We started on June 27 with a recommendation to buy the HGX August 555 calls (HGX HK) and the HGX December 520 puts (HGX XD). Our official entry prices were US\$7.60 and US\$27.30, respectively.

We’ve since cashed out on the August calls for official gains between 45% and 78%. We’re still holding the December puts, which, although currently down as a result of the recent HGX strength, have the ability to shoot up dramatically whenever the index takes a tumble (as it did on Thursday, July 21, when the puts, gained 25%). That proves just how quickly these HGX Index options can move. And remember, they still have until December to fully materialize, so there’s nothing to worry about. This effectively maintains a short position in the market without cashing in any losses, as we maintain a longer-term downside bias.

The good news is that the current bid/ask price on those December 520 puts (HGX XD) is US\$18.70 to

US\$19.70. *This is great value.* So if you’re a latecomer to the party, you can still get in and wait for the real payoff when the HGX begins its fall - and our December puts explode just like our front-month calls.

For example, on Monday, July 18, we issued another play in order to continue profiting from the housing market’s strength and that of the HGX Index by recommending a buy on the HGX September 590 Calls (HGX IR) at or under US\$9.90. Within that week, those calls exploded to US\$15 for gains of 51%. And now that the HGX has declined slightly, you can buy more of these calls, too.

The “House Hedge” is a great example of *Taipan’s* Dynamic Market Theory in action—making profits wherever they are, regardless of what the broader market is doing and even whether the asset in question is going up or down.

Buy the December 520 puts (HGX XD) while they remain great value under US\$20.

Buy the September 590 calls (HGX IR) under US\$10. [n](#)

DYNAMIC WEALTH

Big screen = big gains: While Batman, Willy Wonka and Harry Potter light up the silver screen, let this cinematic innovator light up your portfolio

by *Alex Chinn*

The movie industry is changing fast. Theater owners continue to

blather about declining box office revenues, blaming everything from piracy and file sharing to the low relative cost of home theater

equipment for Hollywood’s current slump.

The problem is, these theater owners haven’t taken the “adapt or

perish" strategy that leaders in a rapidly evolving field ought to. Most movie theater chains are still delaying the switch to digital projection systems due to the high one-time cost and arguments with movie studios over who should foot the bill.

To make a long story short, digital projection systems would save the studios millions in the long haul by cutting out the cost of producing, distributing and maintaining film reels. It would also make the projected image much higher quality.

Traditional movie theaters just aren't as much of an event or attraction as they once were—and they aren't taking any steps to regain that allure! But that's not the case with this company.

Putting the thrill back into the theater

Meanwhile, **IMAX Corporation (IMAX:NASDAQ)** has been showing movies on its humongous screens for years, usually in museums and featuring 3-D children's movies or educational pictures.

IMAX shows its films on huge screens in pure digital video and audio. The video quality is comparable with high definition and the audio is roughly the equivalent of Dolby DTS. It shows exclusive documentary films made by respected directors such as James Cameron and often voiced by A-list stars. It also boasts the occasional film in 3-D, a format no other medium is engaged in.

More importantly, IMAX rolled out a method three years ago for converting any existing 35-mm film into a high-definition digital film capable of being projected on their huge screens. This enables them to convert and show the major blockbusters, which have become their biggest draws.

The first film ever to be released simultaneously in traditional and IMAX theaters was *The Matrix Revolutions*, which was a smash hit. The *Harry Potter* series has also received the IMAX treatment, and *The Polar Express* was transformed

into a 3-D IMAX production.

When moviegoers view blockbusters in IMAX format, they are offered a film-watching experience they truly could not recreate at home. And IMAX continues to be a very profitable medium. Just ask Batman!

"Traditional movie theaters just aren't as much of an event or attraction as they once were...but that's not the case with this company."

Big bucks from Batman and Wonka—with Harry set to follow

When it opened last month in both regular and IMAX format (at 55 theaters across North America and 18 more worldwide), *Batman Begins* was the top-grossing movie in the country on its first weekend. The film tallied approximately US\$48.75 million from 3,858 screens. That's an average of US\$12,478 a screen—more than triple any other film that week.

IMAX theaters saw capacity audiences as the film raked in almost US\$1.25 million in its opening weekend. That's a per-screen average of about US\$17,605—almost 40% more per screen!

The film notched up US\$1.45 million in revenue over the July 4 weekend alone - the best seven-day opening for any IMAX film. In less than five weeks, total IMAX worldwide revenues totaled US\$12.5 million.

Batman Begins isn't alone in boosting IMAX's bottom line. In its opening weekend (July 15-17), the remake of *Charlie and the Chocolate Factory* shattered IMAX records, raking in US\$2.2 million. With the film appearing at a record 65 IMAX theaters across North America—its biggest domestic release—the open-

ing translated to US\$34,000 per screen.

Talk about a great one-two punch! And with *Harry Potter and the Goblet of Fire* also set to launch in IMAX format on November 18, the dough should keep rolling in.

Big screens head east to cash in on Asian explosion

As of the end of 2004, there were 248 IMAX theaters operating worldwide. 125 of those were in the United States and 70 were in Europe or Canada. The company is expected to sign contracts for 40-45 new theaters this year and install about 35. IMAX sees about 57% of its revenues from installing and maintaining its theaters (with the remainder coming from the film profits and "theater operations" such as concessions).

That's why it is so significant that IMAX is scheduled to open 25 theaters in China by 2008. This expansion offers significant upside potential, since the company currently has little presence in Asia.

In addition, IMAX and Sathyam Cinemas, the largest theater group in India, just agreed to open two new IMAX screens there. It's the third deal of its kind between the two companies and brings the total number of Indian IMAX's to four. The first theater will open in March 2006, with the others following in 2007 and 2008. IMAX is well-placed to capitalize on India's rapidly growing economy and movie-loving culture, with a total of 11 IMAX theaters set to open there by 2008.

Running the rule over a few financials

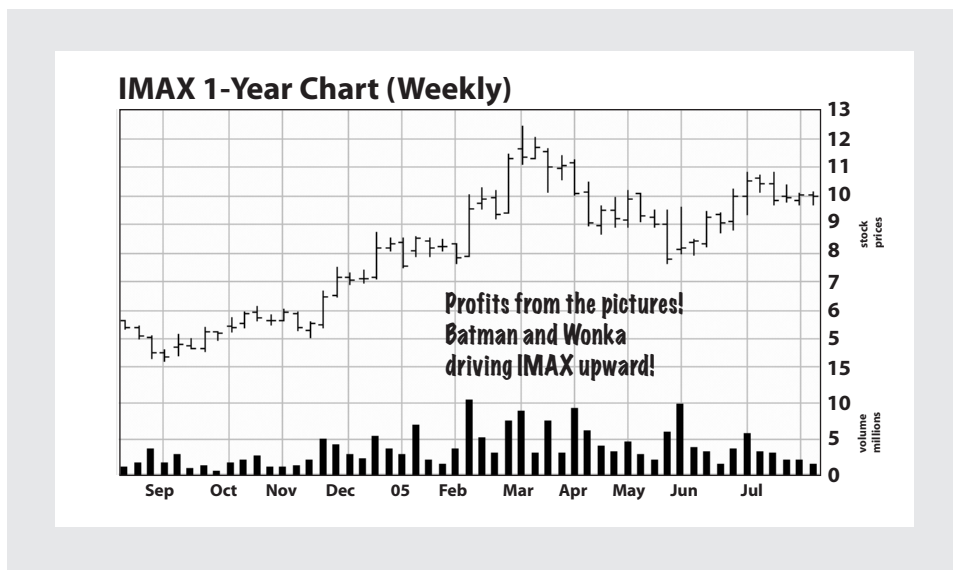
Taking a look at the numbers, the first one that leaps off the balance sheet is that net income jumped from US\$231,000 in 2003 to US\$10.25 million in 2004. Sure, 2003's numbers are a little skewed, largely due to a one-time loss on retirement of notes. But without that loss, net income for 2003 would have been around US\$5 million. So

if you discount the effects of that one-time hit, 2004 revenues shot up 105% over 2003.

Today, the company trades with a forward P/E ratio of 21.6 and a PEG of 1.1, suggesting you're getting pretty fair value for your investment bucks.

But what stands out is that this is one innovative cinema company that is actually adapting to the changing face of filmmaking. With the solid foundation already laid in the US, IMAX is now in a great position to continue growing its revenue and expanding into new global markets. There is simply no comparable product or competitor, so the company's penetration into Asia should be unimpeded.

As studio blockbusters pile up huge grosses, IMAX theaters will see more profit per screen than traditional theaters due to higher ticket



prices, more seating and digital projection systems (which eliminate the cost of film transportation and storage). Now that IMAX is showing several of the top Hollywood blockbusters each season, it's time to

grab that popcorn, kick back and watch the profits roll in.

**Buy IMAX Corporation
(IMAX:NASDAQ) under US\$11.**

Alex Chinn is an editor at the Red Zone Profits group. n

STRATEGIC WEALTH

Lending and spending: Cash in on America's vast culture of consumption with this leading, and undervalued creditor

by Andrew Snyder

It is no secret that most Americans love credit. It is a significant driving force behind this country's economy. Without bulky lines of credit, folks would be forced to spend within their means, and we all know that's no fun.

Currently, Americans are in debt up to their ears—US\$3 trillion worth of credit, to be specific. Most folks are using every bit of their allotted share. A recent study showed that the average household credit card balance was approximately US\$7,500. Because of these huge amounts of debt, Americans pay more than US\$65 billion in interest to banks each year.

Most lenders are making healthy profits, even though they're charging single-digit interest rates—pretty low by historical standards. Take a look at the automobile loan industry, for example. The average 36-month used car loan from Credit Acceptance Corp. (CACCE:NASDAQ) has a 7.02% interest rate attached. Even with that lower-than-usual rate, shares have soared by over 200% during the last two years. Imagine how much the company could have raked in with even higher interest rates.

But, there is one rapidly growing industry charging interest rates well into triple digits—the payday loan industry.

Payday? You bet!

The payday loan process is quite simple and ingenious. If a person needs a small, short-term loan, typically no more than US\$300, they simply go into their nearest loan center and fill out a short application.

In most states, the only requirements to get a loan are to have a valid driver's license, an active checking account, and a job. Once the application is accepted, the borrower writes a check to the lender for the amount of money requested plus the fee that the loan center charges, typically US\$40.

The check is postdated for the borrower's next payday in hopes that the borrower will have enough

cash to repay the debt when his next paycheck comes in. If there are still insufficient funds in the account on that date, the borrower can come back into the loan facility to take out another loan to cover the first. Bottom line: the lender is going to get its money back.

While the services these companies provide may not be the right answer for folks looking to get themselves out of a never-ending cycle of revolving debt, it is a great way for savvy investors to cash in on an industry that has customers paying those incredible triple-digit annual interest rates.

I know what you're thinking: With those kinds of rates, aren't customers hard to come by? You might think so. But fortunately for the payday loan industry, most Americans are impulsive and will gladly pay much more for something if they can just get their hands on it as soon as possible. And the kind of borrowers attracted to this form of lending are frequent customers. In fact, the average customer purchases 15 to 20 loans per year.

Last year, 15,000 payday loan sites extended customers over US\$25 billion in loans. That's why payday loan companies like **Advance America Cash Advance Centers (AEA:NYSE)** are able to charge those annual rates of nearly 400%. And it's because of this flawed mentality that

the payday loan industry is a US\$55 billion industry growing at more than 15% each year.

Hop on board with the leading lender

With over 2,400 loan centers in 34 states, AEA is the leading payday cash service and the company best poised to take advantage of this huge boom in short-term lending.

But the difference with AEA is that it's one of the few payday loan companies that does not sell franchises. This means more of the profits trickle down into the hands of investors. In most other payday loan corporations, franchisees take a big chunk of profits, with little cash ever making its way to investors.

This "investor first" management philosophy explains the company's fabulous 37% return-on-equity. At 13% its profit margin is healthy too. But even with a top-notch balance sheet, shares have remained undervalued. That alone makes AEA worth a closer look. But when you see its PEG ratio is an appetizing 0.83, compared to the S&P 500 average PEG of 1.54, it looks even better. Shares look to have plenty of room to grow.

If these numbers aren't enough to make you smile, the fact that it pays a nice dividend of US\$0.18 per share (1.1% yield) should. When you invest in AEA, don't spend that extra

income—just use it to purchase all the additional shares you can afford.

At its current price, AEA is a bargain. But it won't stay that way for long. It's already showing signs of taking off.

And this is a great time to get in. Earlier this year, the stock took a nasty hit amid rumors of tighter federal regulations in the, payday loan industry. But those rumors haven't panned out and the stock is bouncing back. Because the industry is designed for short-term lending, the federal government will continue to allow lenders to charge high interest rates.

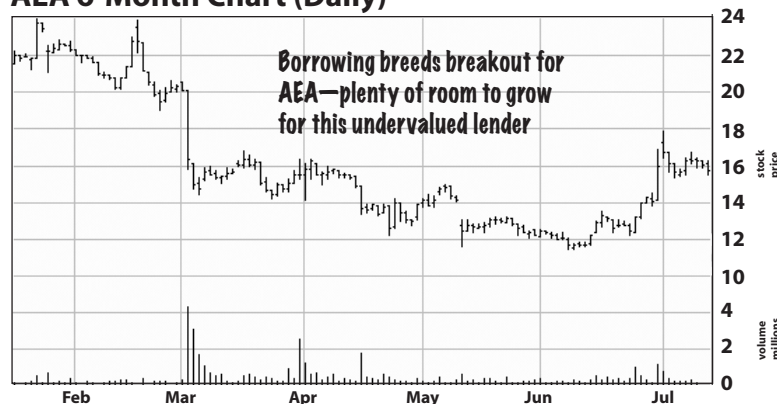
The fact that AEA's board of directors is loaded with political strongmen probably helped to sway the folks in Washington. The men sitting at the helm of AEA have a lot of friends on Capital Hill. The CEO, William Webster, was even an assistant to President Clinton.

Because the industry is allowed to charge such mind-boggling interest rates, AEA is a profit powerhouse that has only just started off along the road to realizing its incredible potential.

Buy Advance America Cash Advance Centers (AEA:NYSE) under US\$18.

Andrew Snyder is an editor at the Value Edge and Volume Spike Alerts and also writes the free daily e-letter, Fear and Greed. [n](#)

AEA 6-Month Chart (Daily)



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With another Fed rate hike, short-term yields remain the best option

It was no surprise to see the US Federal Reserve raise the overnight interest rate another 0.25% to 3.25% in late June. Its policy statement remained unchanged. While this Fed ritual has become rather tedious, its policy continues to bode well for savers looking for healthy, short-term CD yields. Longer-term rates of two to five years are a little more inconsistent, but with the Fed's statement unchanged, there's reason to believe it isn't done hiking rates yet. The bankers may well keep raising until the long-term rate moves up.

A recent Merrill Lynch survey of 300 global fund managers found that interest rates will reach 4% before the Fed stops raising.

So here's a rundown of some of the best short-term CD rates. Keep in mind that the national average interest rate for 3-month, 6-month and 1-year CD's is 2.28%, 2.79% and 3.49%, respectively. [n](#)

BANK	CD TERM	INTEREST RATE	ANNUAL % YIELD	MINIMUM DEPOSIT	INFO
FIRST BANK	1-MONTH	2.6%	2.63%	US\$1,000	866-822-8201
BEAL BANK	1-MONTH	2.48%	2.5%	US\$1,000	1-877-TRY-BEAL
EVERBANK	3-MONTH	3.41%	3.47%	US\$1,500	1-888-882-EVER
VIRTUAL BANK	3-MONTH	3.39%	3.45%	US\$1,000	1-877-998-BANK
GMAC BANK	3-MONTH	3.25%	3.3%	US\$500	1-866-2GMBANK
E*TRADE BANK	3-MONTH	3.25%	3.3%	US\$1,000	1-800-E-TRADE-1
BANK OF INTERNET	6-MONTH	3.76%	3.83%	US\$1,000	877-541-BOFI
BANK DIRECT	6-MONTH	3.74%	3.8%	US\$1,000	1-877-839-2737
GMAC BANK	6-MONTH	3.73%	3.8%	US\$500	SEE ABOVE
EVERBANK	6-MONTH	3.62%	3.69%	US\$1,500	SEE ABOVE
K-BANK	9-MONTH	2.96%	3%	US\$500	410-902-6670
GMAC BANK	1-YEAR	4.07%	4.15%	US\$500	SEE ABOVE
NEXITY BANK	1-YEAR	3.97%	4.05%	US\$1,000	1-877-738-6391
ING DIRECT	1-YEAR	3.9%	3.9%	NONE	1-800-ING-DIRECT
EVERBANK	1-YEAR	3.83%	3.9%	US\$1,500	SEE ABOVE
MET LIFE BANK	1-YEAR	3.83%	3.9%	US\$500	1-866-BANKMET

CORE PORTFOLIO

Taipan's summer bull market in full swing: profits and gains galore

41% gains taken on Parallel Petroleum

In the April 2005 issue of *Taipan*, Brad Colburn recommended you buy shares of **Parallel Petroleum (PLLL:NASDAQ)**, a company whose stock chart clearly showed a breakaway point.

Hopefully you bought under US\$7 as he suggested. Since then, the price activity in PLLL has exceeded expectations. Not only did this breakaway stock quickly soar past US\$7, it left it in the dust, scooting

past US\$9 after a second breakaway.

What fired PLLL's rise was its addition to the Russell 2000 and 3000 indices and this perfect storm has brewed nicely to produce a new 52-week high of US\$9.39 on July 22. From the original entry price of US\$6.60 on March 29, we sold at the July 22 close of US\$9.32 for a sweet 41% gain.

Chinese Internets zooming higher

Back in August of 2004, Chris

DeHaemer recommended that you invest in Chinese Internet companies. With the explosion of the Chinese economy over the past couple of years, there's barely been a sector left behind. Here's where our remaining Chinese Internet positions stand:

- **Netease (NTES:NASDAQ)** is up 61.5%...
- **SINA Corporation (SINA:NASDAQ)** is up 35.7%...
- **SOHU.com (SOHU:NASDAQ)** is up 33.7%.

But the gains shouldn't stop there.

According to a recent interview on TheStreet.com with Vincent Gao, managing director of the US\$432 million Salomon Brothers Small-Cap Growth Fund, Gao believes "These companies are similar to where US Internet companies were 3-4 years ago. The big risk with Chinese Internets is that the market is very young. Secondly, the spending power of the Chinese consumer and Internet penetration is very low. However, this also creates an opportunity. So in the long-term we anticipate 20% to 30% growth in these stocks."

In addition, China's recent move to revalue the yuan's peg to the US dollar from 8.28 yuan to 8.11 and float it against a basket of foreign currencies should continue to send these stocks higher, considering they rely heavily on the strength of the economy.

We don't recommend that you sell anytime soon. Sit tight and continue to hold all positions. Any latecomers to the party will simply line your pockets further.

IWO added to Core Portfolio

Speaking of small caps, we've decided to add the **iShares Russell 2000 Growth Index (IWO)** to the *Taipan* Core Portfolio. Basically, IWO tracks the Russell 2000 small-cap index and attempts to produce investment returns based on the price performance of that index. It invests in the Russell 2000 companies with the best growth forecast.

You may remember the IWO index from Bryan Bottarelli's special *Taipan* report: "America 1,300 Fastest-Growing Companies," first released back in late 2003. Well, with the economy showing steady improvement, led in no small part by small-cap stocks, and the IWO index on a strong uptrend, it's worth considering for an investment.

Impac Mortgage Holdings to adjust dividend?

If you're a long-time reader of *Taipan's* sister publication, the *247profits e-Dispatch*, you'll know all about our flagship REIT play, **Impac Mortgage Holdings (IMH:NYSE)**. It's been a tough few weeks for the stock following news that the company said it might need to adjust its dividend policy amid higher mortgage prepayments and lower margins.

Lower margins?! Impac's net profit margin is still a terrific 38%. Consequently, it was still able to pay a 75-cents-per-share second-quarter dividend (an annual rate of US\$3 per share and a dividend yield of 17%). The company has also increased its assets to US\$27 billion and first quarter revenues totaled US\$413 million, versus US\$147.7 million in Q1 2004—remarkably, almost half the total revenue for all of 2004. Earnings-per-share raced up 193% from US\$0.76 to US\$2.23.

However, "based on current trends, the company expects to re-evaluate its dividend policy during the third quarter." We don't think you have any reason to re-evaluate your IMH holdings, as the dividend payment isn't likely to be reduced by too much and is still a great benefit.

Brazilian steel: 11% profits and a 15% dividend yield

Elsewhere, our undervalued Brazilian steel company **Companhia Siderurgica Nacional (SID:NYSE)** also continues to perform strongly, having successfully navigated some volatility. Currently trading around US\$17.20, we're up over 11% on this position, but by now, you should also have received your US\$2.97 per share dividend that was announced on May 2 and paid on June 21. That's a yield of almost 15%! Continue to hold this cash cow.

Dawson up 23% in two months

First recommended on May 3 at US\$19.70, **Dawson Geophysical**

Company (DWSN:NASDAQ) has raced to a 23% gain in about two months. It's also presenting at the 2005 Oil & Gas Conference in Denver, CO. from August 7-11, which should provide some positive publicity, so there's no reason to sell anytime soon.

Bottoms up! Quinsa scoots to new 52-week high, producing 27% gains in one month

Good things to report from Erin Beale's July recommendation, Argentinean drinks company **Quinsa SA (LQU:NYSE)**,

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which produces beer in Argentina, Paraguay, Uruguay, Bolivia and Chile and soft drinks and mineral water in Argentina and Uruguay.

Although not a member of the Core Portfolio, Quinsa is definitely worth a mention.

Following a fiscal year that showed a 23% rise in net sales and a 60% rise in net income in 2004.

Quinsa has a forward P/E just under 10, and a low PEG ratio of 0.59. After reporting healthy volume sales growth last quarter, it's on track to post a forecasted 31% increase in earnings growth this year. And as the economic conditions in Argentina and its neighbors continue to improve, higher sales should follow. Quinsa recently hit a new 52-

week high of US\$31.10 - that's a 28.2% gain over our US\$24.25 entry price just last month. The company recently announced that it would be canceling some shares and consolidating classes, which is also good news. This tightens the float, and has much the same effect as a company buying back its shares. Continue to hold. [n](#)

TAIPAN CORE PORTFOLIO

STOCK RECOMMENDATIONS	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
IMPAC MORTGAGE HOLDINGS (IMH)	8/1/01	\$7.20	\$17.96	149.4%	\$3 PER SHARE/16.6%	BUY UNDER \$17
AMERICA FIRST APARTMENT INVESTORS (APRO)	10/1/04	\$11.58	\$12.16	5%	\$1 PER SHARE/8.3%	BUY BETWEEN \$11.50 AND \$12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	\$11.76	\$11.93	1.4%	\$1.12 PER SHARE/9.2%	BUY UNDER \$12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	\$29.20	\$35.21	20.6%	\$1.45 PER SHARE/4.1%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	\$27.80	\$49.70	78.8%	\$0.23 PER SHARE/0.5%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/2/05	\$19.70	\$24.29	23.3%	—	BUY UNDER \$20
TECHNOLOGY PLAYS						
FARO TECHNOLOGIES (FARO)	5/1/05	\$25.09	\$23.78	-5.2%	—	BUY UNDER \$25
SYMANTEC (SYMC)	5/2/05	\$18.91	\$23.57	24.6%	—	BUY UNDER \$20
SINA CORP (SINA)	8/23/04	\$20.10	\$27.28	35.7%	—	HOLD AT CURRENT LEVELS
SOHU.COM INC (SOHU)	8/23/04	\$15.64	\$20.92	33.7%	—	HOLD AT CURRENT LEVELS
SPECIALTY POSITIONS						
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	\$75.00	\$72.13	-3.8%	\$1.99 PER SHARE/2.6%	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	\$68.85	\$68.68	0.6%	0.4%	BUY UNDER \$69
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	\$15.45	\$17.24	11.6%	\$2.70 PER SHARE/14.6%	BUY UNDER \$17
SPACE DEV INC (SPDV.OB)	3/28/05	\$1.77	\$1.58	-10.7%	—	BUY AT CURRENT LEVELS