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TAIPAN

FORESIGHT COURAGE PROFITS

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When insiders sell, you make money: How to "insure" your home equity against market adversity

J. Christoph Amberger
Group Publisher

What's up with the US real-estate market? Property values, depending on region, are growing at double-digit rates. But no matter where you look, there's a pundit predicting the imminent crash of the real-estate market. Will it crash, as the bears have oracled for four years straight now? Or will low inventories and mortgage rates continue to push prices up?

When it comes to making money, we at *Taipan* like to have our cake and eat it, too. Accordingly, our response to both questions is a resounding "yes." And our strategy for translating both the upside and downside potential of US real estate into cold, hard profits is by playing both sides.

Over the past couple of weeks, we've seen increasing signs of a top. A recent CNBC special report could officially mark the beginning of the biggest moneymaking opportunities of the year—the decline in the US housing market.

As you may remember, Bryan Bottarelli developed an original computer extrapolation model to forecast the future activity of the US housing market. We predicted that US real estate was likely to decline starting anywhere from July 22 to September 27, 2005.

Was this forecast correct? Looking at some recent interesting data, we think it is. Analyzing the insider selling patterns of the top homebuilder stocks, you'll notice some alarming numbers—ones that tell us our "House Hedge" strategy is right on track.

Taipans following this program have already taken their first 45% profit off the table, with two open positions still in play. See page 9 for more details. The entire strategy and how it works is outlined in our report, available at: www.taipanonline.com/htmlcode/members/alerts20050627.html —as a *Taipan* member, you get it free, no strings attached.

September Smackdown: Put some money in your pocket as *Taipan* plays the "healthy" versus the "unhealthy" picks

Martin Denholm
Executive Editor

It's that time of year again. As a big sports fan, I look forward to September more than most months. You've got the kickoff of the NFL football season, the culmination of the baseball season and the new NBA basketball season.

And this year there's something that nobody has had the chance to enjoy for a while—pro hockey. After the bitter lockout that forced the cancellation of the 2004-05 season, the puck will soon drop again in the NHL. And while the whole league knows it has much hard work ahead to win back the fans, I'm betting it will succeed. Ticket prices are likely to be slashed in a desperate effort to get fans—particularly families and kids—back to the arenas. There are several rule changes designed to make the game more exciting, and, with each team now forced to adhere to the new annual US$39 million salary cap, a huge rush of player movement.

Yep, it's a great time to be a sports fan. So strap on your pads. Lace up your skates. Shove on your helmet. Let's take to the field (or ice) for a look at a company poised to take advantage of the annual explosion of fall sports—*and make you some money in the process.*

Cramming down the concessions

When I look at **Aramark Corporation (RMK:NYSE)**, I think of two things.

As a Boston Red Sox fan, the first thing that springs to mind is that Aramark actually tried to buy the team when it was up for sale a few years ago. That bid failed. But the company kept its job as the facilities manager and concessionaire at Fenway Park—as well as serving in a similar capacity for many other sports teams.

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It would take me all day to list the stadiums and arenas that Aramark serves. Suffice it to say there's a pretty good chance that Aramark is responsible for supplying the food and drink at the games in your home town. Its venues include Fenway Park (Boston), Giants Stadium (New York), M&T Bank Stadium and Oriole Park at Camden Yards here in Baltimore, Staples Center (Los Angeles), MCI Center (Washington, DC) Wachovia Center and Citizens Bank Park (Philadelphia), Continental Airlines Arena (New Jersey), Pepsi Center and Coors Field (Denver), Minute Maid Park and Reliant Stadium (Houston). And that's just a few!

Aramark recently signed a five-year deal (with an option for five more) with the NFC champion Philadelphia Eagles, the company's hometown team, to provide the concessions at Lincoln Financial Field. In addition, it sealed a two-year deal (with a one-year extension option) with the new Washington Nationals baseball team to cater home games at RFK Stadium. This will net Aramark US$30 million each year.

Now consider this. Each of the 30 major-league baseball teams plays 81 home games a season. Each of the 30 hockey and basketball teams plays 41. The 32 pro football teams play eight home games a season. On top of that, you've got each sport's playoffs. Aramark also serves the Super Bowl, the MLB and NBA All-Star Games and the Final Four college basketball tournament (not to mention several college sports stadiums and arenas).

My point? Each game sees anywhere from 15,000 to 75,000 fans in attendance. And you can bet the vast majority of them buy food and drink at some point. Aramark also provides other services, like overall facility management, team retail operations, maintenance, cleanup of venues and employee uniforms. Think about it for a second. That's an absolute boatload of revenue.

For many companies, that would be more than enough. But Aramark does more. Much more.

Dynamic double play: Diversification and outsourcing

A large part of Aramark's investment appeal is its diversification across many parts of the service sector. Its 242,500 employees span 20 countries and work to provide companies with facility management, food and beverage support services, retail services, official uniforms and apparel, and public safety equipment.

Aramark has a massive 93% client retention rate. Any company that manages to generate that amount of repeat business is almost guaranteed to be successful

Outside the sports and entertainment world, Aramark also serves educational institutions, the health care sector, government and other businesses. And in a world where the outsourcing of services has become extremely popular, many companies turn to Aramark—and Aramark is only too happy to take profitable advantage.

For example, Aramark works for all 30 of the Dow Jones Industrial companies. It works for 80% of all the S&P 500 and Fortune 500 companies, as well as almost three quarters of the companies on Fortune's "Global 100" and "Best Companies to Work For" lists. Nine of Fortune's top ten "Most Admired Companies in America" and almost all of its "Global Most Admired" firms use Aramark's services. What does all this mean? Aramark is popular, its services are valued and in high demand from some of the best companies around.

That's what helped it notch up record sales of US$10.2 billion in 2004 (8% more than in 2003 and a huge ten times more than the average for its industry). That produced net income of US$274.6 million, compared to a relatively small US$79.3 million for its industry peers. That's 246% better! No wonder that, since 1998, Aramark has ranked among the top three most admired companies within its own industry—as judged by its rivals. Aramark ranked first in its industry in a Fortune 500 survey this year and was named among that publication's "Most Admired Companies" for 2005.

A major reason for such success is Aramark's massive 93% client retention rate. Any company that manages to generate that amount of repeat business is almost guaranteed to be successful. Aramark's 23% return-on-equity valuation is 6% higher than the average figure for its industry and proof that the management is a savvy group. Take a look at the résumé of chairman and CEO Joseph Neubauer and you'll see what I mean. A 26-year Aramark veteran, Neubauer has held both titles at the company since 1984. He's also held senior management positions at Pepsi and Chase Manhattan Bank and serves on the Board of Directors of Verizon, Wachovia and Federated Department Stores, among others.

Big man on campus

One of Aramark's most consistent and profitable revenue streams comes from the education sector. The company serves over 800 school districts, universities and colleges across America, dishing out 200 million meals to students and faculty members each year.

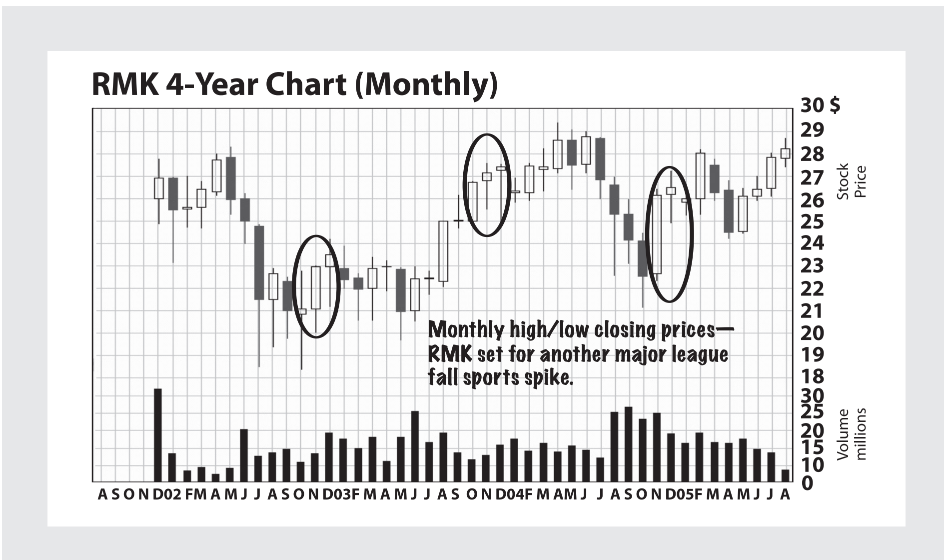
It recently signed a significant contract with Loch Haven University to provide residential, catering and retail services to its campus, a deal that will net US$25 million a year over five years with an option for two more. In addition, the University of Houston has hired Aramark to manage similar services at three of its campuses—a contract expected to produce US$15 million per year for five years with an option for another five.

Crime doesn't pay… or does it?

From education to corrections to health and retail, Aramark's fingerprints are all over the service sector. The Indiana Department of Corrections recently became the fifth US state to partner with Aramark, hiring it to provide food services at its 30 state locations—a ten-year deal worth US$250 million. Aramark now serves 450 correctional facilities across North America.

The company also serves 1,200 hospitals nationwide, including more than half the top 100 hospitals as ranked by Modern Healthcare.

It also operates a string of retail stores for various businesses, providing services like staffing the stores, choosing vendors and even selecting the goods. It is the second-largest uniform rental business in the US. Sears-Roebuck recently extended its existing agreement with Aramark to supply the uniforms for its automotive business. Add to that the three-year deal Aramark has to supply the catering at Chrysler's Auburn Hills headquarters and you have US$500 million in annual sales solely from the deals made with clients in the first half of this year.



Goal! Aramark scores lucrative World Cup contract

But Aramark's stamp is most clearly imprinted on the sports world. It recently had the honor of being the Master Concessionaire at the Confederations Cup soccer tournament in Germany, during which it beat its own expectations and sold almost one million drinks.

As a result of that triumph, Aramark is now set to reel in a much bigger fish, a contract with world soccer's governing body FIFA to provide the concessions at next year's World Cup. If you're not into soccer, let me tell you that it doesn't get any bigger than this. The World Cup is the most popular sporting competition on the planet and would represent a very lucrative deal for Aramark. The competition, taking place in Germany next summer, will span twelve cities and 64 games and will cater to the needs of three million fans over a four-week period. Early estimates put total sales at 30 million euros (US$37.1 million).

Fall season sports spike

Aramark's stated goal is to boost long-term "organic growth" (excluding mergers and acquisitions) by 6% to 8%. But since going public in 2001 it has managed to increase average annual sales by a tidy 11% and EPS by 15%.

It has achieved 8% growth through the first three quarters of this fiscal year ending October 1, 2005. On revenues of US$2.7 billion (compared with US$2.4 billion in Q1 2004), US$2.6 billion (US$2.5 billion in Q2 2004) and record third-quarter revenues of US$2.8 billion (an 8% rise over the US$2.6 billion from Q3 2004), sales are up 8% to US$8.2 billion so far this fiscal year. Net income has risen 10% to US$196.9 million compared with the same period in 2004. Operating margins in Aramark's Food & Support Services division alone soared 30 basis points. That equates to a hefty US$57 per share and puts Aramark on track to beat last year's record earnings of US$10.2 billion. The company expects full-year revenues to hit US$11 billion.

Over those three quarters, earnings per share also hit 38 cents (from 35 cents), 28 cents (from 24 cents) and 38 cents (from 33 cents). The company expects to post full-year EPS of US$1.52 to US$1.55.

The focus now, however, is to build on that strength in the crucial late summer and fall months. Take a look at Aramark's four-year chart and you'll see it's done so before. Note the spikes in the fall tying in with the start of the sports seasons.

With such solid growth and excellent progress in attracting and retaining major clients, I believe Aramark will be a US$35 stock by the end of its fiscal year 2006. Insiders are pretty confident of the company's future prospects, too, with insider ownership totaling 36.5% of shares.

So next time you're at the ballpark munching on a US$6 hot dog or downing a US$7 brew, think of Aramark. The company will also pay you an annual 22-cents per share dividend (0.8% yield) for your trouble.

Buy Aramark Corporation (RMK:NYSE) under US$28.50 and grab 20-25% profits by September 2006. ■

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Friends don't let friends drink wine during football: Make 109% on the NFL's most popular beer!

by Ann Sosnowski

What goes best with major-league sports? Hot wings and beer! And who's the official beer sponsor of the NFL? **Molson-Coors Brewing Co. (TAP:NYSE).**

A recent Gallup poll reported that of the 63% of Americans who drink alcohol, 36% drink wine and 36% drink beer. In addition, new diet crazes have dropped sales of non-light beers during a time when the beer industry posted lower profits in four out of the five years ending 2004.

Of course, the notion of a bunch of boisterous boys watching football with bottles of 1998 Chilean Merlot just doesn't jibe with me. The image of football-loving fellas delicately sipping Scotch on the rocks on a normal weekend day (when you can watch three four-hour football games) doesn't seem like a good idea either.

For football, beer is the beverage of choice.

Savvy marketing breeds stock momentum

That's where Molson-Coors comes in—it's the official beer sponsor of the NFL. And the company's doing a great job, releasing four new Coors Light products for the 2005-06 football season. With its marketing carefully nailed down, there's an excellent chance that TAP's stock will rise on football sales. In addition, the chart looks primed for a bounce:

Take a look at TAP's one-year chart. The day after second, quarter earnings missed estimates (but still showed a profit), TAP sustained support at the bottom of the long-term trend from June 2002 and the 200-week moving average. The stock has since continued to rise. In addition, the 20-week moving average is about to drop below the 10-week moving average—a very bullish indication.

The price-volume trend is slowly rising and momentum has inched back into positive territory and is also rising.

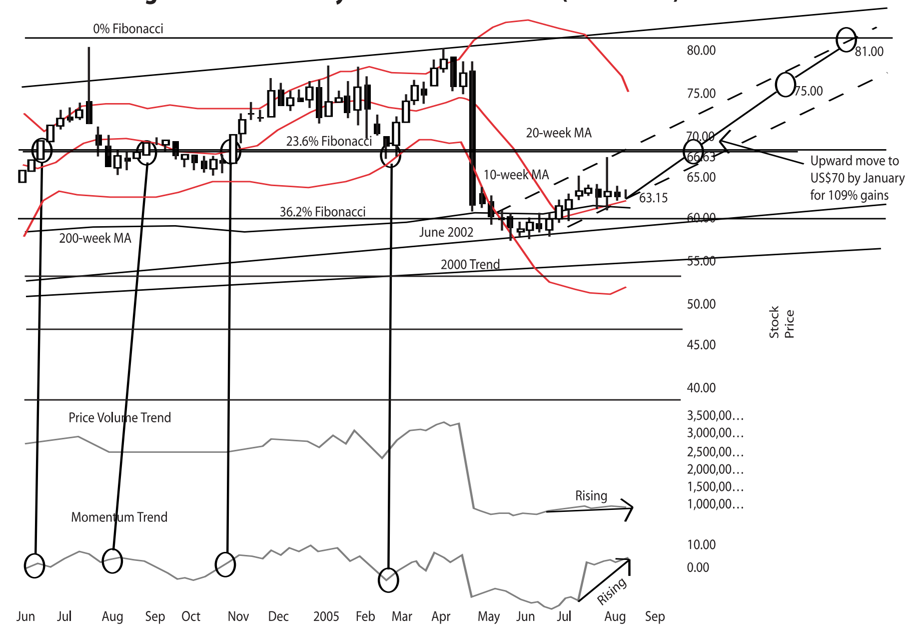
From a current price around US$63.15, I expect TAP to rise to the 23.6% Fibonacci retracement shown on the chart in four to eight weeks, making the stock worth US$68.63. As indicated by circles on the chart, this is the support line that TAP has bounced from four times, accompanied by rises in momentum. If it breaks past that price, we could see a rise to US$81.00 within the next six months.

I'll give you two ways to play this.

First, let's play the two-month bounce in stock price to US$68.63—a gain of around 9%. **Buy Molson-Coors (TAP:NYSE) under US$63.50.**

Second, I want to give you a more speculative position and allow some additional time for the move to pan out. **I recommend the TAP January '06 65 calls (TAP AM). Buy them at or under US$3.40.** An upward move to around US$70.00 would make these January contracts worth US$7.10, good for a 109% gain.

WaveStrength technical analysis of Molson-Coors (TAP:NYSE)



Revolutionary technology spearheading the fight against flu—your chance to cash in on another cyclical profit opportunity

by Brit Ryle and Abe Said

Brace yourself. In the history of *Taipan* there haven't been many showdowns like this—two investment services going toe-to-toe in an epic, no-holds-barred, winner-take-all investment death match.

In the red corner, weighing in with a US$6.8 billion biotech, there's *Red Zone Profits* veteran Ian "Coop" Cooper. And in the blue corner, weighing in with an US$800 million biotech, you've got the *Money-Flow Matrix Trader* team of Brit Ryle and the editor of *StockWatch*, Abe Said. Is two against one a fair fight? Who cares? We say: "Bring it on!"

We're going to give you two different strategies for playing the same event. We should have a winner by Christmas.

But before we get started, we'd like to wish Coop the best of luck. He's going to need it. Not only have we got the odds stacked in our favor, we've also selected a stock that's as close to a sure thing as we've ever seen.

There's a good chance you'll recognize the name of the stock when you hear it. You may have even made 74% on it when we recommended it back in October 2004. Or you may be holding a 62% gain on the stock right now , along with Abe's other *StockWatch* plays.

Each year it seems something interesting happens during flu season. Last time, Chiron's colossal failure allowed the majority of flu vaccines to become contaminated. Of course, the winning play last year was Chiron put options. Our *Money-Flow Matrix Trader* readers made 175% and 50% gains in a very short period of time with Chiron puts.

So we have accepted the challenge of finding the best play on the coming flu season.

The name of this revolutionary company is **Crucell NV (CRXL:NASDAQ)**.

Three reasons why you should buy this stock right now

First, Crucell owns PER.C6—one of the most advanced new drug technologies in the world. This new technology is unique because it's based on human cells—not lab mice or monkeys. *Soon, every major drug company will be using its technology, but you'll have the profitable luxury of owning it while it's still undervalued.*

Second, not only is Crucell licensing its successful human-cell drug testing technology, they're wisely using it for its own new-drug development. *By this time next year, Crucell could provide the United States with next-generation vaccines for flu, Ebola, malaria, and West Nile—a massive US$1.6 billion market.*

Third, Crucell could be responsible for reversing the fortunes of Merck. After the well-documented failure of Vioxx, Merck has decided to use Crucell's human-cell technology in its most promising new HIV drug. *The advanced testing could help Merck bring to market the first FDA-approved HIV vaccine… and Crucell could collect millions in royalties on Merck's sales in the process.*

PER.C6 is the primary reason that these companies and institutions are beating down Crucell's doors. Since its technology offers a safer, more efficient way to produce biopharmaceuticals, it's well placed to become the industry standard for the production of vaccines, monoclonal antibodies, therapeutic proteins and gene therapy vectors.

Don't believe me? Listen to what Drug Researcher.com says about Crucell's technology: "It […] has become an established industry standard—one that companies that need efficient production in mammalian cells cannot afford to ignore."

A "who's who" of partners

When a biotech has partners like the US National Institute of Health, the US Army, GlaxoSmithKline, Johnson & Johnson, Merck, Harvard Medical School, New York University, Aventis, DSM Biologics and Centocor, you know it's well on the way to hitting the big time.

Crucell has all these folks banging on its doors, dying to get a piece of the PER.C6 action.

GlaxoSmithKline's partnership with Crucell allows it to use PER.C6 technology to pursue development of its crucial gene therapy pipeline.

Vaxin Inc., an emerging biotechnology company, has a license agreement with Crucell to use PER.C6 technology in developing and commercializing its own line of vaccines. Under the terms of the agreement, Crucell will receive an up-front payment plus annual maintenance fees and royalties on future sales.

Another of Crucell's partners, Sanofi Pasteur, has received a US$97 million contract from the US Department of Health. Sanofi will be using PER.C6 to increase the avail-

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ability of flu vaccine for the upcoming flu season. Last year there was an extreme shortage of the flu vaccine. The increase in manufacturing capacity is also due to fear of a flu pandemic.

Crucell keeps it in-house

In addition to licensing its breakthrough human-cell technology to drug companies, Crucell is using its technology in-house to develop four major vaccines:

- A safer, more effective flu shot
- A West Nile vaccine
- An Ebola vaccine
- A malaria vaccine

All four are critical, much-needed drugs. And for Crucell investors interested in the bottom line, this quartet represents a market worth anywhere from US$18 million to US$150 million in revenue.

Let's talk about flu

Influenza is an extremely infectious respiratory disease that easily spreads from person to person. Each year approximately 20% of the world's population suffers from flu, with the severity of outbreaks varying greatly. The worst strains cause about 450,000 deaths each year.

That's bad enough. But the biggest danger occurs when the flu virus genetically mutates and creates a new strain against which the global community has no immunity.

The scientific community fears this scenario because it's the precursor to a pandemic. The worst occurrence ever recorded started in Spain, wiping out an estimated 50 million people between 1918 to 1920.

Public health officials and the scientific community agree that the world is long overdue for another pandemic influenza outbreak. Just imagine what might have happened if a pandemic had hit the United States last flu season when we had a vaccine shortage.

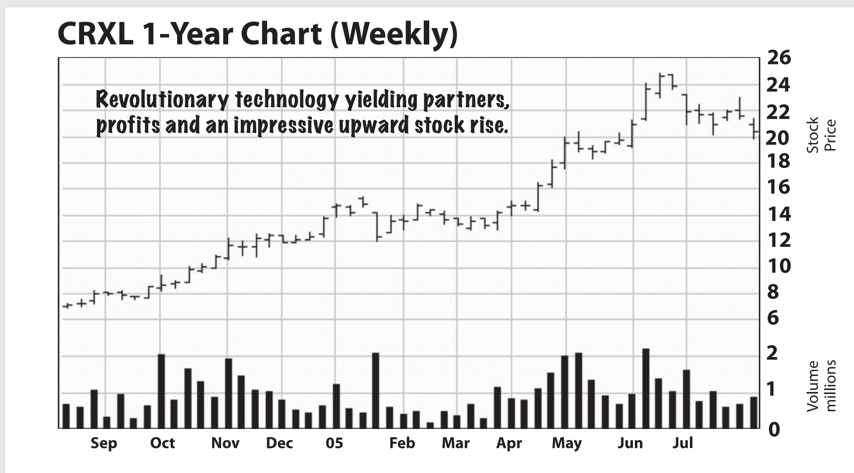
As it is, 48 millions Americans won't be able to obtain a flu shot this year, with 200,000 projected to land in the hospital and 36,000 dying as a result.

By 2010, the demand for influenza vaccines is expected to more than double. This will be driven by the risk of a flu pandemic, the world's aging population, and broader government vaccination programs.

Imagine 50 million people dying from a flu outbreak. Sadly, it could be just a matter of time.

With its PER.C6 technology, Crucell stands at the front line, ready to help forestall a possible disaster.

Going into this flu season, Crucell (CRXL:NASDAQ) is an extremely strong buy under US$22. ■



CYCLICAL PROFIT OPPORTUNITY - PART 2

As Chiron clambers back into vaccine action, ride the wave to US$45 for 23% profits

by Ian Cooper

Back in 2004, flu-vaccine maker **Chiron (CHIR:NASDAQ)** committed a number of major technical mistakes—a nightmare that allowed the majority of flu vaccines to become contaminated.

But readers of my *Extreme Volatility Speculator* investment service didn't care too much. In just five trading days, I guided them to 38% and 24% profits by playing Chiron on the short side. Today, Chiron is still the better play because it's chock full of value.

Yes, Chiron has endured its share of disappointments—from the announcement that something was wrong with its Fluvirin vaccine production, the recall of its entire vaccine supply and the suspension of its manufacturing license, to the rise of new competitors and the recent rather pathetic earnings release.

And sure, Chiron took a crushing hit after the shutdown of the its facility in Liverpool, England, stripped the company of US$14 million in facility costs, US$8 million in remediation payments and another US48 million in legal costs.

That's the bad news—and there's enough of it! But there is good news, too. Chiron is much more than a flu vaccine maker. The company's revenues are up 10% to US$419 million, with some of the biggest gains coming from the blood-testing division. And royalty and licensing fees rose 39% on the settlement of its recent dispute with Roche.

Why you should buy Chiron right now

The fact is, most of Chiron's poor performance over the past year has already been priced into the stock, including the company's widely expected poor second-quarter earnings. That leaves plenty of upside room for the stock. Chiron's blood-testing business and future US$175 million in royalties should make up for any bad news.

The key will lie with the Food & Drug Administration, which is presently conducting a full "Current Good Manufacturing Processes" inspection of the Liverpool facility. If Chiron gets a clean bill of health (and you can bet the company is pulling out all the stops to do it), it's likely to serve as a major catalyst for growth. In any event, with last year's disaster behind it, Chiron should be able to supply 18 million to 26 million doses of Fluvirin for the upcoming flu season, with a good chunk of that going to the US market. Success could easily help refill the bearish gap at about US$45.

Chiron (CHIR:NASDAQ) is a speculative buy under US$38.

BREAKAWAY WEALTH

Buy this maker of innovative insulin delivery system for under US$1 a share and look for short-term price target of 100% as stock breaks upwards to US$2

by William Colburn

The first thing most diabetics have to do when they wake each morning is give their body a hefty dose of insulin. This gets them over the "low" they built up while sleeping and kick-starts their day.

For some patients, the next injection may come as soon as breakfast. Before they can eat, these folks have to determine their blood sugar level and the amount and type of food they are planning to eat for breakfast. This involves drawing blood and placing it on a small handheld monitor that determines the body's exact glucose level. They then open a new syringe and load it with the exact amount of insulin required. Too little insulin and the body's blood sugar will soar. Too much and it could get dangerously low. An incorrect dosage can result in a pretty miserable series of side effects.

So what if a diabetic doesn't want the fuss of needles and syringes? Sadly, their only other choice, the insulin pump, isn't much better.

The pump requires users to keep a needle inserted in their body for several days at a time. The needle is attached to plastic tubing, which dispenses insulin from a computerized reservoir.

The good side? There's no syringe involved. The computer dis-

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penses a steady stream of insulin, with the user able to control the amount. Alas, this clumsy computerized system must be worn by users all the time and forces them to calculate the amount of food that they are planning to eat. Without accurate nutritional data, the computer will deliver inappropriate amounts of insulin. The results could be fatal.

Diabetes: A lifetime of tiresome, complicated and often painful treatment. That is, until now.

Revolutionary new product set to dominate the market

The lives of 150 million diabetics worldwide could be about to change dramatically for the better, thanks to a Canadian company that has spent the last decade developing a revolutionary new product. It is currently in the last stages of clinical trials and could hit the South American market later this year.

Generex Biotechnology (GNBT:NASDAQ) has come up with a technology that could forever end painful injections for diabetics. Instead, it painlessly delivers insulin by mouth. No painful shot, no bruised arm. Generex's new technology, RapidMist, will allow diabetics to throw out their syringes and pumps and start accurately and efficiently controlling their glucose levels using a device that resembles a simple asthma inhaler. One quick, painless treatment—set to become a reality very soon.

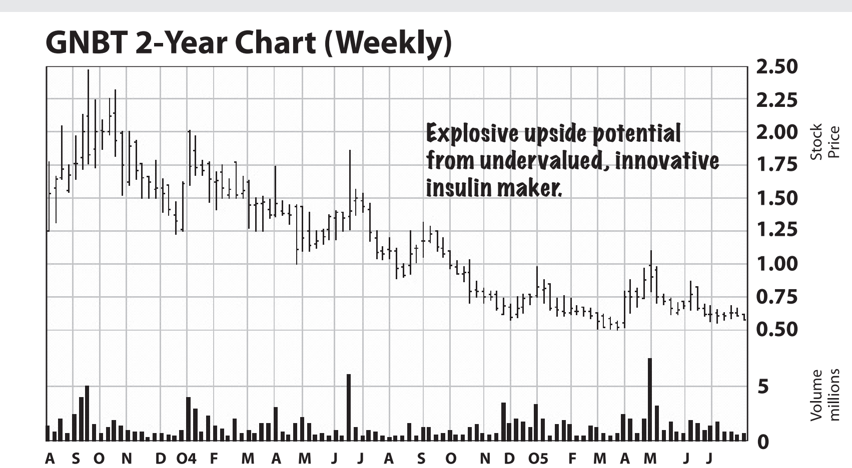
Because it works for shorter durations, the Oral-lyn product is an ideal drug to administer before a meal. It has been shown to dramatically lower the incidence of hypoglycemia (low blood sugar)—a common occurrence for those who incorrectly calculate their dosage. If Oral-lyn users accidentally administer too little insulin, they can simply take another puff from their inhaler.

Breakthrough technology… multiple applications

But the folks at Generex aren't stopping there. The RapidMist technology wasn't just developed for insulin. These folks have a wide array of medicines in their sights. In fact, the company currently has 18 patents, with 60 more pending approval.

Once it's available to millions of diabetics longing for a simpler form of insulin therapy, Generex is be poised to rake big profits. The potential from Oral-lyn alone is unbelievable. Given the huge demand for injectable medications in other forms, many economists estimate the market to be well over US$15 billion annually.

Some of the drugs the company is working to incorporate into its RapidMist system are morphine, fentanyl, heparin and flu vaccines. (Yep, yet another company making a flu vaccine! So much for Brit and Ian's "flu battle." I quite fancy surprising them both with Generex).



Imagine the profit potential when Generex corners the market on these drugs. Its share price certainly won't stay as low as it currently is. When Oral-lyn is introduced to the South American market, the mainstream media is going to swarm on it in the same way they did with Genentech when they realized its incredible potential. That stock launched from US$50 in mid March to US$90 recently.

I can already see the local news anchor heading down to the mall to line up for her annual flu shot. Except this time she won't be bending over for a shot in the rump. She'll be there to feature the technology that you and I knew about long before it ever made the six o'clock news.

But don't wait for Generex to make the evening news, because by then, it will be too late. As soon as Generex starts pulling in huge profits later this year, it will be popping up at the top of nearly every stock screen. Demand will be huge and Wall Street will already have its greedy paws on it. Get in on this now and by the time the broader market catches on your bank account will be stuffed with cash.

Take a look at GNBT's two-year chart. At its current price, it's obvious that investors have overlooked Generex's potential. It's for that very reason that it's grossly undervalued. The big investors haven't latched on to it yet, which is why now is the best time to buy shares at a perfect buying price—with nowhere to go but up.

My advice? Get in on GNBT before the crowd. You'll be glad you did. I have a short-term price target of US$2 on GNBT so **buy Generex Biotechnology (GNBT:NASDAQ) under US$2.**

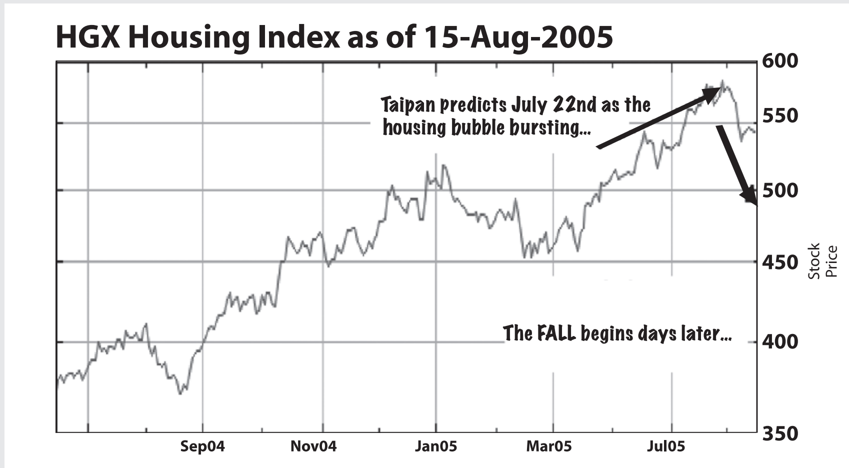
Signs of housing high: As insiders begin selling off *Taipan's* "House Hedge" strategy begins to pay dividends

by Bryan Bottarelli and Martin Denholm

With a 14% climb during the second quarter alone, building stocks jumped more than 23% over the first half of 2005.

But there are now some definite signs of a potential top in the US real-estate sector-—signs that offer you one of the best opportunities to make money in 2005.

For example, key insiders at the top American building companies have recently sold massive amounts of shares. That selling corresponded almost to the day with our predicted date for the beginning of the housing market decline.



On July 29, 2005, Juan L. Elek, director of Centex Corp. made a direct sale between US$74.05 and US$74.36 per share for a total of US$6,619,002. There was another direct sale that same day between US$74.37 and US$75.19 per share for a total of US$6,184,002.

A week before, on July 22, 2005 (our projected D-Day), Robert I. Toll, chief executive officer of Toll Brothers Inc made an indirect sale at US$57.125 per share for a total of US$38,462,262.

Only a day before, the record indicates a planned sale of US$56,000,000. And how about KB Home? On July 12, chairman Bruce Karatz made an indirect sale at US$80.24 per share for a total of US$54,518,724.

What's going on here? Why are top insiders at the best building companies selling US$6 million, US$38 million, and US$54 million worth of stock? In fact, insiders are now selling US$27 in stock for every US$1 they're buying! On August 17, homebuilder stocks were down 7.9% for the month—the biggest sector drop of any group. Could this be the sign of a top?

When insiders sell, it's time for you to move

We don't think this is a coincidence. Since insiders arguably know more about their own company than anyone else, and what they do with their shares is often a good barometer of how the stock is going to perform, we think this provides good evidence to suggest that the housing sector could be about to enter a period of weakness and that the bubble could pop at any moment.

This also means our "House Hedge" prediction is right on track and could make you a windfall in profits. *So now is the perfect time to get into our program—one that shows you how to make money no matter whether housing prices go up or down.*

Basing his strategy on the Philadelphia Housing Index (HGX), a basket of the 21 top builders in the US, Bryan has constructed a simple way to profit from any dramatic drop in the real-estate market, while also hedging against any upward move. We like to think of this as an insurance policy: Given America's demographics and the ongoing economic recovery, we believe that there still is healthy demand for residential real estate. But it's doubtful that even factors combined will continue to warrant 40% premiums on raw land.

Below you'll find our active recommendations for this play:

House Hedge Basket Update

Hedge #1: HGX August 555 call (HGX HK)

Alert send via email, June 27, 2005, 4:30 P.M.

over please...

Entry: June 28, 2005

Spread: US$5.40 to US$6.50

Buy recommendation: Under US$6.40

Official entry price: US$5.60

Exit: July 8, 2005

Price: US$11—a 45% gain, although you could also have bagged even higher gains around US$17 as the HGX Index raced upwards. However, this was our first sell point on these calls.

Position status: CLOSED

Hedge #2: HGX December 520 put (HGX XD)

Alert sent via email, June 27, 2005, 4:30 P.M.

Entry date: June 28, 2005

Spread: US$25.80 to US$27.70

Buy recommendation: Under US$32

Official entry price: US$27.30

Current price: US$27

Position status: OPEN/BUY

Hedge #3: HGX September 590 call (HGX IR)

Alert sent via email, July 18, 2005, 11:15 A.M.

Spread: US$8.50 to US$9.40

Buy recommendation: Under US$9.90

Official entry: US$9.40

Current price: US$1.20

Position status: OPEN/BUY

GLOBAL WEALTH

This undervalued Mexican gem is buying back shares, hiking its dividend—and ready to net you 65% profits in 6-8 months

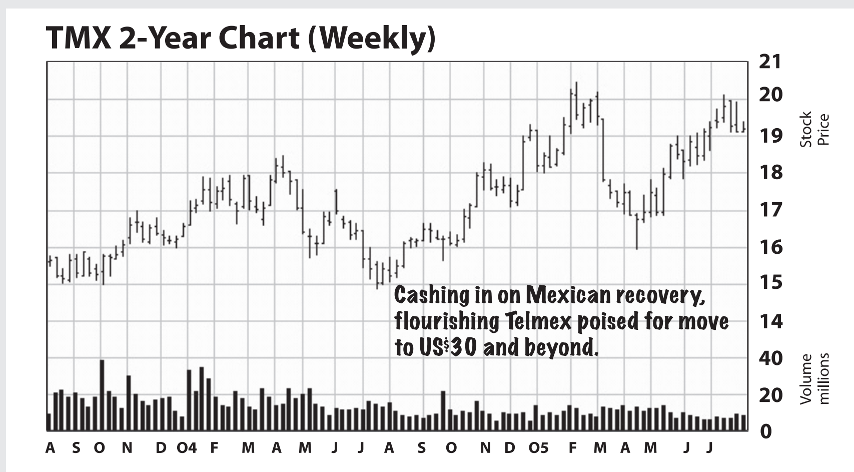
by Erin Beale

Overshadowed by foreign European giants and the Chinese powerhouse, Mexico has often felt like the redheaded stepchild of international investing—worthy, but passed over time and time again.

But while the herd still clamors for China and India, Mexico has quietly risen, demonstrated by the impressive climb of the benchmark IPC stock exchange over the past two years.

In 1994, Mexico was thrown into economic turmoil following the devaluation of its peso. The "tequila crisis" caused panicky investors to flee the country, even though Mexico had been newly named as a NAFTA member.

NAFTA opened Mexico's trade barriers in January 1994. As a result, imports surpassed exports and currency reserves rapidly diminished. To pay for these imports, Mexico borrowed from foreign investors—and had to repay these debts with interest. When the debts reached their apex and the Mexican government could not control the burgeoning supply of pesos, devaluation was the only way out.



Mexico's central bank devalued the peso by 13% on December 20, 1994. By the end of that month, the peso floated freely and in a four-month period lost a gut-wrenching 50% of its value. Today, one US dollar equals roughly 10.6 Mexican pesos.

Aftermath creates opportunity

Nearly eleven years after the crisis, the economy is again beckoning to investors. GDP growth hit a respectable 4% last year and is on track to add another 4% to 5% in 2005. Given the pricey euro and strengthening US dollar, vacationers and real-estate seekers alike are flocking to find deals.

Today, tourism is the third most important economic activity in the country, comprising more than 8% of the GDP. Over 5.2 million international tourists visited Mexico in the first quarter of this year – a 14.6% jump from 2004. In fact, an estimated 700,000 US and Canadian citizens now own vacation property in Mexico and spend a substantial part of the year there.

But Mexicans themselves are also becoming much better consumers, especially for things like retail and tech – which is where this month's Taipan pick comes into play.

Value in tech?

Three years after the bursting of the tech bubble, the concept of a value tech stock is not such an oxymoron. In fact, the consensus here at Taipan headquarters is that 2006 will be a big year for tech.

This month's play is the dominant fixed-line telecom provider in Mexico, with a growing base of Internet and data-transmission customers. Last year, the growing company completed a US$400 million purchase of MCI's holdings in Brazilian long-distance carrier Embratel, while also buying phone, Internet and data-transmission services from Chile and Argentina.

Telefonos de Mexico SA de CV (TMX:NYSE) was recently named as one of Business Week's "Top 100 Information Technology" stocks, as well as one of Fortune's "Top 40 Foreign Value" stocks. And for good reason. This is a solid, expanding company that is undervalued.

Previously a government-owned company, Telmex was privatized in 1990 and sold to a group of wealthy investors headed by multibillionaire Carlos Slim.

Mexican Internet users account for more than 81% of all Internet users in Central America. From 2000-2005, the number of Mexican Internet users has shot up 351.6%. But that's still a mere 11.8% of the population. There's still plenty of room for growth, especially as Wal-Mart increases its Mexican presence, selling computers dirt-cheap. That's why, though still dedicated to fixed-line telecom as a large chunk of its business, Telmex is expanding its interest in Internet technology.

A rampant second quarter underlines strength…with numbers that point to a huge gain to come

Trading for just eight times earnings, with forecast sales growth of 34% and healthy revenue growth of 18%, TMX should trade upwards of US$32—a 65% jump over its current price. And as tech, particularly telecom, begins to win over investors once again, I believe this figure could be reached in the next six to eight months.

On July 26, the company released Q2 earnings that blew analyst estimates out of the water. Net profit for the quarter leapt 42% thanks to new business in Chile and Brazil. Total profit clocked in at 6.53 billion pesos ($606 million), bettering expectations of 5.9 billion pesos.

What's more, Telmex is steadily repurchasing shares and just hiked its dividend payout to more than 2%. And shares underwent a bullish 2:1 stock split at the end of May.

Telefonos de Mexico SA de CV (TMX:NYSE) is a buy under US$19.75. ■

Quinsa racks up 43% gains in two months

Mexico isn't the only thriving country south of the US border. A similar revival is occurring in Argentina—one that's helping produce some sweet gains for another of my foreign picks, drinks manufacturer **Quinsa SA (LQU:NYSE)**, recommended in the July 2005 issue.

After reporting healthy sales growth last quarter, the company should continue to take advantage of improving economic conditions in Argentina. It's already well on pace to achieve its forecast 31% jump in earnings growth this year.

Quinsa hit a new 52-week high of US$36.24 on August 15. With shares currently at US$34.11, that's a 43% gain over our US$24.25 entry price just two months ago. Continue to hold. ■

TAIPAN

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TAIPAN CORE PORTFOLIO

STOCK RECOMMENDATIONS	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
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	$11.73	0.2%	$1.12 PER SHARE/9.7%	BUY UNDER $12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	$29.20	$33.69	15.4%	$1.82 PER SHARE/5.4%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	$27.80	$55.50	99.6%	$0.23 PER SHARE/0.4%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	$19.70	$28.32	23.3%	—	BUY UNDER $20
TECHNOLOGY PLAYS						
FARO TECHNOLOGIES (FARO)	5/1/05	$25.09	$22.14	-11.7%	—	BUY UNDER $25
SYMANTEC (SYMC)	5/3/05	$18.91	$21.20	12.1%	—	BUY UNDER $20
SINA CORP (SINA)	8/23/04	$20.10	$29.35	46%	—	HOLD AT CURRENT LEVELS
SOHU.COM INC (SOHU)	8/23/04	$15.64	$19	21.5%	—	HOLD AT CURRENT LEVELS
SPECIALTY POSITIONS						
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	$75.00	$71.27	-5%	$1.92 PER SHARE/2.7%	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	$68.85	$66.95	-2.7%	0.4%	BUY UNDER $69
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	$15.45	$18.82	21.8%	$2.70 PER SHARE/13.7%	BUY UNDER $17
SPACE DEV INC (SPDV.OB)	3/28/05	$1.77	$1.50	-15.2%	—	BUY AT CURRENT LEVELS

With Impac Mortgage Holdings under pressure, cash out for now

Given the recent drop in the homebuilders, you probably noticed that our favorite real-estate dividend play, **Impac Mortgage Holdings (IMH:NYSE),** has dropped, too.

As a result, the low stock price has created a rather artificial dividend yield of 22.8%, we issued an alert in the *247profits e-Dispatch* on Friday August 5 advising you to cash out on your profits in the stock as it traded for US$16.95. We've also temporarily removed it from the Core Portfolio.

However, given that we originally recommended the stock way back on August 1, 2001 at just US$7.20 and it hit a 52-week high of US$27.91 on September 23, 2004, you could have raked in profits as high as 287% had you held it from the start. And that's not even counting the regular generous dividend payments,

But with Impac currently under some market pressure and possible cuts in the dividend distribution looming, we'll kick back and be ready to buy back on the cheap before the next dividend announcement. ■